

RURAL AUTONOMOUS SCHOOL NETWORK PROGRAM

(EC-0125)

EXECUTIVE SUMMARY

BORROWER AND: Republic of Ecuador
GUARANTOR:

EXECUTING AGENCY: Ministry of Education (MEC), through the Program Coordination Unit (PCU)

AMOUNT AND SOURCE: IDB: US\$40 million (OC/IFF)
US\$ 5 million (OC)
Local counterpart funding: US\$ 5 million
Total: US\$50 million

FINANCIAL Amortization period: 25 years
TERMS AND Disbursement period: 4 years
CONDITIONS: Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: Single Currency Facility, in dollars

OBJECTIVES: The program objectives are to: (i) grant autonomy to approximately 20% of rural schools to manage their own resources, with greater involvement by parents and community members in school administration; and (ii) improve teaching conditions in rural basic education (primary and lower secondary education) within the areas of influence of targeted schools.

DESCRIPTION: **The program.** The basic guiding principles for this program are as follows:

1. The focal point of education policy is educational institutions and, in the case of rural education, school networks.
2. The networking of rural schools breaks through their traditional isolation and acts as a vehicle for ensuring access to education.
3. Autonomous school networks make school management more efficient and help improve quality and the management of diversity in rural education.

4. Autonomy requires an appropriate incentive system and resource allocation mechanism that reinforces it.
5. The empowerment of parents and communities in school decision-making processes is the most effective way of ensuring accountability at the local level.

The program objectives will be achieved through the following components:

Support for the autonomy-building process for rural school networks: (a) **Developing the capacity for participatory, autonomous management in the networks.** The following activities will be carried out: (i) design of instruments to support network administrative and educational management; (ii) training of Educational Support Units (UAEs), including regional NGOs, universities, etc., to strengthen school network management; (iii) network advisory services by UAEs; (iv) procurement of goods and services. (b) **Institutional adjustment of the MEC and provincial education offices.** The program will strengthen the respective MEC offices and provincial offices by training personnel and procuring equipment to improve the education planning system; and update the sector statistical and financial information system.

Improvement of teaching conditions in school networks. (a) **Project financing for school networks.** The program will finance some 120 projects prepared by school networks using participatory methods, designed to resolve problems with their physical infrastructure, supplies of teaching materials, teacher training, etc. (b) **Teacher incentives.** Teachers will be given two types of monetary (nonwage) performance-based incentives. The first, for which most of the funding will be used, will pay all teachers with perfect attendance records a fixed monetary bonus (US\$25 per month). The second incentive is designed to encourage teachers to help make significant improvements in the academic environment.

Monitoring and evaluation. The program will include a mechanism for monitoring and evaluating the reforms to be instituted in the rural education system, particularly in matters pertaining to autonomous school management. The services of an outside

institution will be hired to ensure the objectivity of this activity.

**ROLE OF THE
PROJECT IN THE
BANK'S COUNTRY AND
SECTOR STRATEGY:**

The strategy agreed on by the government and the Bank is designed to make incremental, controlled changes in the management model for educational institutions in rural areas and the resource allocation system. The strategy is based on: (i) the institutional restructuring of the rural education system through the establishment of school networks; (ii) the transfer of administrative functions and responsibilities to school networks; (iii) the allocation of budgets to school networks based on objective indicators; and (iv) the implementation of mechanisms for educational administrators accountability to parents and the community. These reforms are to be instituted in a small group of rural school networks, subject to continuous monitoring and any necessary adjustments. Program outputs will be used for demonstration purposes, to encourage other rural schools and networks throughout the country to move quickly to voluntarily embrace the new autonomous school administration system. To support its expansion, upon completion of the mid-term program review, depending on its findings (see paragraph 3.23), the Bank would support preparation of a second phase, the cost and duration of which would be determined in due course.

**ENVIRONMENTAL AND
SOCIAL IMPACT
REVIEW:**

The program activities will have no adverse impact on the environment.

BENEFITS:

The delegation of authority essential to their autonomous management will place rural school networks in a better position to meet their educational objectives. Greater autonomy will facilitate the adaptation of educational content and practices to cultural factors in the local environment. The program will set in motion the process of reforming the current incentive system, giving teachers and administrators incentives to use available resources more efficiently, rewarding teachers for effective performance and personal initiative, moving from the current financing mechanism based on the cost of educational inputs to a services-based mechanism under the new school network resource allocation system, and reducing current favoritism in the administration of rural education, providing all major stakeholders with incentives to improve the quality of education. The program will benefit 20% of rural schools, reaching approximately 150,000 students, 5,900 teachers and

2,400 schools. It will improve educational opportunities for the very poor and for low-income groups, and will boost enrollment figures among these segments of the population.

RISKS:

There may be some resistance to the new education management model on the part of certain groups of teachers and teacher organizations. However, this resistance should be mitigated by the following factors: (a) the program will grant teachers direct incentives and improve their working conditions; and (b) the empowerment of parents and communities and the inclusion of NGOs in efforts to bolster school networks will create new stakeholders in the education sector, thereby changing the terms of the public debate on education. Furthermore, existing weaknesses in the capability of the MEC to guide, support and monitor the autonomy-building process will be addressed by strengthening the Planning Office and provincial education offices.

**SPECIAL
CONTRACTUAL
CLAUSES:**

The conditions precedent to the first disbursement are as follows: (a) through an agreement entered into with the Ministry of Finance, the MEC must legally establish a mechanism for the allocation of resources to the networks to finance payroll and operations, and the mechanism must be fully implemented in the program networks upon execution of the year 2000 budget (paragraph 2.6); (b) the PCU must be established and its staff appointed (paragraph 3.4); (c) a call for proposals must be published initiating the hiring process for an outside evaluation agency, (paragraph 3.11); and (d) the Operating Regulations must enter into force (paragraph 3.13).

**POVERTY TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

The program automatically qualifies as a poverty-targeted investment (PTI) because it supports basic education (GN-1964-3). In addition, it is geographically targeted to the poorest communities in rural areas. Since the program targets low-income groups, the 90/10 matrix is being used (see paragraph 4.12).

**EXCEPTIONS TO BANK
POLICY:**

None

PROCUREMENTS:

The procedures agreed upon by the Bank and the country on September 15, 1992 will be followed for the procurement of goods and services and the awarding of construction contracts under the program. It is recommended that procurement of goods and services in amounts equal to or greater than the

equivalent of US\$250,000 be carried out through international competitive bidding. For procurement in amounts between US\$25,000 and US\$250,000 the provisions of the above-mentioned letter of agreement will be applied. Procurement below US\$25,000 will be carried out through direct contracting, without any need for prior nonobjection, subject only to an ex post review. In the case of works, the threshold for international competitive bidding is US\$1 million. Contracts for works valued at between US\$60,000 and US\$1 million will be awarded through local bidding, as specified in the letter of agreement. Minor works in amounts under US\$60,000 may be performed on force account by network school boards. Detailed procurement procedures are included in the respective PCU manuals. Procurement of consulting services will be carried out in accordance with Bank procedures.

I. FRAME OF REFERENCE

A. Macroeconomic conditions

- 1.1 The Ecuadorian economy continued to decline in 1998, seriously weakened by the combination of a natural disaster, the El Niño phenomenon, and an external shock, the drop in oil prices, in a political climate dominated by the presidential and congressional elections. All these factors helped generate a fiscal deficit and balance of payments deficit estimated at 7% and 8% of GDP, respectively. The previous administration's economic policy was unable to turn around the downward slide in the economy. Inflation continued to rise, reaching an annual rate of 34% by the time the new administration took office. On September 14, 1998, the Central Bank raised the exchange rate band by 15%, pushing the devaluation of the sucre to an annual rate of 48%.
- 1.2 One of the priorities of the new administration inducted into office on August 10, 1998 is to restore economic stability by boosting tax revenues, restructuring the State apparatus, reducing its ownership interest in government enterprises, and better targeting subsidies. This process is already under way, with the elimination of general subsidies on gas, electric power and diesel consumption, which are being replaced by a system of monthly allowances of 100,000 sucres for needy mothers and 50,000 sucres for the elderly. The net impact of these measures should be to reduce the fiscal deficit by 1.6% of GDP. The new administration has begun talks with the International Monetary Fund and hopes to reach an agreement by the first quarter of 1999 at the latest.

B. Education in Ecuador

- 1.3 Efforts mounted by Ecuador over the past few decades have laid the necessary groundwork for providing access to schooling for children in rural areas. However, large numbers of students in these areas do not complete basic education. Rural education remains highly inefficient and poor in quality. This situation is a product of the traditional management model, among other factors. The major obstacles to the advancement of rural education are the centralist educational administration system, the lack of incentives for teachers and administrators to strive for quality and efficiency, the school resource allocation system based on factors other than performance, and the lack of mechanisms ensuring accountability to parents and communities.

1. Structure, size and coverage of the education sector

- 1.4 Ecuador's education system is divided into three levels: ten years of compulsory basic education, consisting of one year of preschool, six years of primary school, and three years of lower secondary education; three years of comprehensive upper secondary education;

and a higher education level. The two first levels come by the authority of the Ministry of Education and Culture (MEC), while higher education is administered by universities governed by a regulatory framework granting them a high degree of autonomy.

- 1.5 Ecuador's education system has approximately 155,000 children at the preschool level, 1.9 million at the primary school level, 900,000 students at the lower and upper secondary education levels and 220,000 students at the higher education level. There are 9,980 preschool teachers, 74,600 primary school teachers and 72,000 secondary school teachers. The State is the largest basic and secondary education service provider. Enrollment rates in the public school system are 61% at the preschool level, 80% at the primary education level and 74% at the secondary education level (Annex I-1).
- 1.6 Basic enrollment indicators at the primary education level are slightly above regional averages for Latin America. The net enrollment rate in primary education is 89%, while gross enrollment rates in secondary and higher education are 50% and 16.5% respectively. The average level of schooling for the population is 7.1 years. The illiteracy rate, at approximately 10.4%, is moving steadily downwards as a result of the increase in enrollment figures observed over the past few years (Annex I-2).
- 1.7 Internal efficiency is low. Only 67 out of every 100 children entering school complete primary education, and only 20 complete that level without repeating any grade. Primary school pupils take an average of 8.5 years to complete the six years of schooling at this level and, by the end of this period, all are overage.

2. Education administration

- 1.8 The education system is administered by the MEC, which is divided into three decision-making levels with different territorial jurisdictions. The central level is in charge of policy-making and sector planning; provincial education offices carry out regional administrative duties such as appointing and transferring teachers and providing technical support to individual schools; and the local level consists of primary and secondary schools. Schools in certain urban and rural areas are organized into networks of approximately 20 schools.

3. Sector financing

- 1.9 The large share of public spending on education in Ecuador compared with other countries in the region in the 1970s and early 1980s subsequently shrank from 4.2% to 3.1% of GDP during the period between 1987 and 1997. Education spending as a share of total

national budget expenditures dropped from 23.4% in 1985 to 17% in 1994, and 12.7% in 1997. 1/

- 1.10 Over the period from 1995 to 1997, 92% of budget expenditures were used to finance personnel costs, 2.5% to finance recurrent expenses, 2% for supplies and materials, 1% for furnishings and the remaining 2.5% for real property public works and transfers to the Comptroller's Office. Expenditures on personnel accounted for 99% of total spending at the preschool and primary education levels, with the remaining 1% divided among all other applications. The country spends US\$186 (in 1990 dollars) a year on each primary school pupil, US\$341 per student at the secondary school level and US\$589 at the university level, which is a mere third of average spending for Latin American and Caribbean nations at each of these levels. 2/

C. Rural education

- 1.11 The rural education system serves approximately 30,000 preschool-age children with 1,800 teachers, 800,000 primary school pupils with 32,000 teachers and 115,000 secondary school students with 13,800 teachers. Rural students account for 19%, 43% and 13% of enrollment at the preschool, primary and secondary education levels, respectively.
- 1.12 There are major disparities in education indicators between rural and urban areas. At the primary school level, the repeater rate is 15.2% in rural areas, compared with 9.7% in cities, while the rural dropout rate is 34%, compared with 17% for urban areas. Accordingly, only 36 out of every 100 children entering school in rural areas finish primary school. The net enrollment rate in rural areas is 87.7%, compared with 90.2% in urban areas. At the secondary school level, space in rural schools is extremely limited, and the enrollment rate is only 29%, compared with 65% in urban areas. As a result, the rural population has an average of only 4.8 years of schooling (with indigenous groups having an even lower average of 3.7 years), compared with 8.3 years for the urban population. 3/ (Annex I-2).
- 1.13 Schools in rural areas have been organized into **networks** due to the large numbers of educational institutions (over 15,000 schools) established as a result of the low population density in these areas. Half of the schools are one-teacher schools offering only

1/ Ministry of Finance, Statistical Reports of the Central Bank of Ecuador, 1985-1997.

2/ IDB, Report on Economic and Social Progress in Latin America (IPES), 1996.

3/ These figures are from the Technical Secretariat for Social Action, "Agenda Social del Ecuador 1998-2007," Quito, January 1998.

the first few grades of primary education. School networks are made up of a group of approximately 20 schools located in areas with similar socioeconomic and cultural characteristics. Each network has a "Matrix Educational Center" (CEM), or a nuclear school providing educational support for teachers at other schools in the network. The network system is a strategy for resolving problems caused by the isolation of small, one-teacher, incomplete schools and offering students a geographically accessible school facility at which they can complete their basic education.

- 1.14 Most of the schools are administered by MEC provincial offices. Approximately 12% of schools are located in indigenous communities. Since 1988, these schools have been run by the National Office of Bilingual Intercultural Education (DINEIB).

1. Problems in rural basic education in Ecuador

- 1.15 While there are still some remote areas in which children are denied access to a basic education due to a lack of school facilities, enrollment is no longer the main problem in rural education in Ecuador. The major problems in this area now have to do with low internal school efficiency and poor quality of basic education. These problems are interrelated: poor quality instruction is the decisive factor in repetition and one of the causes for students to drop out. The poor quality of education is the result of several different factors, such as underqualified teachers, shortages of educational materials and inadequate infrastructure. However, first and foremost, it is a product of the institutional organization and administration of the rural school system.

- a. Poor quality instruction

- 1.16 Poor quality instruction is a major problem that must be addressed. Performance evaluation tests in language and mathematics (at the second, sixth and ninth grade levels of basic education) show that the lowest scores were obtained by students in rural areas. In language skills, children in rural areas on average are not developing the basic reading comprehension skills established in curriculum planning objectives as essential for formal learning. The average scores obtained by rural students on language tests administered at the second and sixth grade levels were approximately 40% below the scores obtained by students in urban private schools and around 15% below those obtained by students in urban public schools. The scores of rural students at the ninth grade level were 20% below the scores obtained by students attending private schools in urban areas. The mathematics tests showed that students in rural areas were not successfully mastering the skills established in the curriculum. Their average test scores in math were 23%, 31% and 28% below those of students in urban private schools at the second, sixth and ninth grade levels, respectively. Disparities in the mathematics scores obtained by

rural students and students in urban public schools were somewhat smaller: 11% at the second and sixth grade levels, with no difference in test scores at the ninth grade level. 4/

- 1.17 The quality of rural education is affected by the following input-related factors. Teachers are underqualified and have little or no experience. The vast majority of primary school teachers do not have a university education and a large percentage (over 30%) have only a secondary school diploma (see the project technical files). This problem is compounded by the fact that the actual school day is no more than three and a half hours long and by a high rate of teacher absenteeism. With less than 1% of the school budget allocated to the purchase of textbooks and teaching aids, most schools lack instructional materials. The school infrastructure is in extremely poor condition and obsolete: half of all classrooms in rural areas need to be rehabilitated or replaced, 60% of rural school facilities are without running water, and 80% have no sanitary facilities or latrines. 5/
- 1.18 Educational content and teaching methods are outdated and, in many cases, are inappropriate for the local environment and culture. Moreover, the MEC institutional information system lacks the indicators necessary to measure educational quality and efficiency and the characteristics of the teaching staff to gradually remedy these problems.
- 1.19 In addition to the aforementioned problems, education in indigenous communities is hampered by language and cultural barriers, and by a system unable to adapt its education package to the needs of indigenous children. Since the late 1980s, indigenous education has been handled by a separate MEC unit which has given it special treatment, with mixed results. Indigenous communities are playing an active role in shaping educational content and educational organization and management, while the MEC continues to appoint supervisors, principals and teachers in most bilingual schools. While there are a number of pioneering programs for the production of educational materials in Quechua, there is still a need to better train the teachers serving these communities and to tailor the curriculum to their special needs.

b. Problems in the organization and administration of rural education

- 1.20 The disincentives produced by the structure of the educational administration system have led administrators to ignore the need to use available resources more efficiently and teachers to be

4/ See "Aprendo, Sistema Nacional de Medición de Logros Académicos. Primera Prueba Nacional, 1996," MEC, EB-PRODEC, Quito, March 1998.

5/ Figures from the Basic Education Improvement Program (PROMECEB), July 1998.

unconcerned with improving educational quality, and have precluded any accountability to parents and communities.

- 1.21 Schools or school networks have little autonomy and no control over their financial, human or physical resources. In general, school principals lack the specialized training and qualifications required to carry out their duties (less than 35% have a postsecondary education) and the means with which to discharge their responsibilities. Teachers are appointed by provincial education offices through a lengthy, bureaucratic process which can take anywhere from three to 12 months, with few objective criteria, without consulting interested schools, and without any involvement by primary school principals. The general perception is that postings are made based on favoritism and connections. There are no mechanisms for evaluating school principals or teachers.
- 1.22 Efforts by provincial offices to consolidate information (on enrollment, internal efficiency, teachers, quality, use of funding) and furnish technical and educational assistance to schools and school networks are weak. In addition, there are a number of unnecessary bureaucratic procedures which in most cases hamper performance and local initiatives to improve education. Moreover, central MEC headquarters and provincial education offices share certain areas of responsibility but with unclear boundaries, leading to ongoing conflicts.
- 1.23 The MEC is neglecting a number of essential system functions such as long-term planning while, at the same time, still inefficiently maintaining certain decision-making functions at the central level which should be decentralized. It also lacks necessary instruments for discharging its basic policy-making, evaluation and general inspection functions and providing advisory services to provincial and local authorities.
- 1.24 Aside from recent experiments limited to a small group of schools, parents and communities have had no real involvement in the management of rural education. In many cases, local, community-based initiatives are thwarted by control procedures established at the central level. School administrators are not accountable for their actions to service recipients.

c. Resource allocation

- 1.25 Public funds for rural education are allocated among regions and educational institutions according to previous spending levels, with increases approved for wage hikes and inflation. There is no assessment of school or teacher performance or any analyses of costs generated by real needs. The resource allocation system is based solely on payroll costs, with no provisions for taking into account actual needs or performance. The teacher compensation system does not reward initiative or responsibility, and does not

induce teachers to make a special effort or encourage schools to operate more efficiently.

- 1.26 In brief, the incentive system associated with the administration of rural education is inadequate. It is not designed to enhance quality or performance or to foster accountability. Limited school autonomy precludes efficient use of scarce resources and leads to indifference on the part of teachers and school principals towards performance. The centralized, payroll-based appropriations system serves as an incentive for increasing staffing regardless of the quality of education or enrollment. The monitoring system is inefficient, and there are no incentives for parents or communities to hold administrators accountable or for the latter to be accountable.

D. Recent education development programs

- 1.27 The government has mounted a number of efforts to improve this situation and institute reforms, with the assistance of the Bank and other multilateral agencies. The Bank's PROMECEB program and the World Bank's EB-PRODEC program, respectively targeting basic education in rural and poor urban areas, have sought to organize a new, locally-based school management system through school networks. UNICEF is conducting demonstration projects in a group of schools designed to improve school management. The World Bank project also includes the development of a performance assessment and evaluation system for nationwide use.
- 1.28 The PROMECEB program, which is scheduled to be completed by November 1998, organized part of the rural education system into networks, financed training activities and supplies of instructional materials, and funded investments to upgrade the physical infrastructure and equipment of CEMs. Noteworthy in the last phase of the program implementation is the hiring of outside institutions to provide teacher training, with better results than those produced by the centralized training given by the MEC. The program also confirmed the existence of large numbers of local or regional NGOs capable of conducting such training activities.
- 1.29 However, the program made no tangible progress in decentralization or in reform of the MEC for purposes of strengthening its operations due to high turnover in its management and the political crisis in recent years. Moreover, while the program's main objectives were valid, its implementation structure was overly centralized, causing delays in the execution of its various components and a low disbursement level (particularly in the first few years) and unduly large administrative expenses. One of the main weaknesses in the PROMECEB program was its creation of a high-cost, inefficient executing unit at the beginning of its implementation with a staff of almost 250, including a number of MEC officials who replicated bureaucratic working procedures.

- 1.30 **Lessons learned.** An international consulting firm was hired to evaluate the PROMECEB program. Relevant findings were incorporated into the design of the proposed program, including the following: (i) the school networks have great potential to resolve current problems in the administration of rural education, but adjustments need to be made in their size, avoid concentrating activities at the central school level, and they should be given greater flexibility and autonomy in the use of their resources; (ii) the most active networks are those in which parents and communities not only assist in the upgrading and maintenance of school infrastructure, but also oversee teacher performance and take part in academic activities, as in the case of a number of school networks in areas with indigenous populations; (iii) the leadership skills displayed by network school principals and their good relations with families and communities are crucial to the successful operation of the local education system; (iv) teacher training and improvement activities are more effective when designed with the participation of the teaching staff and conducted in the schools by NGOs with community connections; (v) the experiments with the transfer of resources to school networks for civil works, carried out during the final phase of the program, produced better results in terms of the efficient performance and quality of the works than the traditional, centralized, PCU-based hiring system; and (vi) the lack of an appropriate monitoring and evaluation mechanism seriously jeopardized the achievement of the program's main objectives.

E. Government education policy and the joint Bank and country strategy

1. Education policy

- 1.31 The MEC has formulated guidelines for future action based on consultations with different segments of Ecuadorian society. The main focus of these guidelines is consistent with the findings from a nationwide consultative process in which education was identified as a priority area for Ecuadorian society. As part of this process, the Bank organized a meeting in Washington in December 1997 with the participation of representatives of different sectors of Ecuadorian society (church groups, business associations, the military, indigenous groups, government, NGOs and trade unions), designed to forge a consensus on necessary reforms in the education sector. These guidelines have been incorporated into the new administration's social policy.
- 1.32 The main objective of these guidelines is to make education a national development priority. The focus will be on strengthening basic education, to achieve universal education within the next 10 years and to improve educational quality. The basic tenets of these guidelines are as follows: (i) an emphasis on improving the quality of education; (ii) an approach centered on educational processes and outcomes rather than on inputs;

(iii) decentralization of the education system, restructuring its administration from the bottom up; (iv) the mobilization and involvement of social stakeholders in the formulation of education policy and in education management; and (v) adjustment of the institutional framework (the MEC and its provincial offices) for implementation of this strategy.

2. Joint Bank and country strategy

- 1.33 The Government of Ecuador and the Bank have agreed on a strategy for making incremental, controlled changes in the resource allocation system and school administration and management model based on the aforementioned guidelines, taking into account any political and institutional constraints. This approach will help improve the quality of instruction, promote more efficient use of resources and improve equity. With the World Bank currently conducting a project designed to improve education in urban areas, the IDB will focus its efforts on rural areas in the country.
- 1.34 The strategy agreed upon is based on the following components:
(i) pursue institutional reform efforts in the rural education system through the establishment or restructuring of school networks, appropriately sizing them so as to guarantee basic education for all school-age children in their areas of influence;
(ii) transfer as many resource management and administrative functions and responsibilities as possible from the MEC and its provincial offices directly to rural school networks;
(iii) establish a budget allocation system for school networks based on objective indicators; (iv) establish procedures for holding education administrators accountable to parents and communities; (v) transfer resources directly to school networks for implementation of local education development plans; and (vi) provide technical assistance to school networks through NGOs or local consulting firms, as the most effective means of supporting school autonomy and improving the quality of education.
- 1.35 The strategy calls for these reforms to be instituted in a small, controlled group of rural school networks to ensure that they are monitored on a continuous basis and to make any necessary adjustments in the different components. The outputs produced by these reforms will be used for demonstration purposes, to encourage other rural schools and school networks throughout the country to voluntarily embrace the new autonomous school administration system. To support its expansion, upon completion of the mid-term program review and depending on its findings (see paragraph 3.23), the Bank will provide assistance for preparation of a second phase, the cost and duration of which would be determined in due course.
- 1.36 While the new strategy would benefit a number of school networks served by PROMECEB, the proposed operation differs from that program, both in its approach and its implementation process. PROMECEB emphasized physical infrastructure and a centralized

implementation structure, while the new strategy will pursue reforms in the administration of rural education by fostering the autonomous management of school networks and decentralizing budget execution to the school level.

II. THE PROGRAM

A. Objectives

- 2.1 The program objectives are to: (i) grant autonomy to approximately 20% of rural schools to manage their own resources, with greater involvement by parents and community members in school administration; and (ii) improve teaching conditions in rural basic education (primary and lower secondary education) in the areas of influence of the targeted schools.

B. Guiding principles

- 2.2 The guiding principles for this program are as follows:
- a. The focal point of education policy is educational institutions and, in the case of rural education, school networks.
 - b. Organizing rural schools into networks breaks through their traditional isolation and acts as a vehicle for ensuring school-age children a good-quality basic education.
 - c. Autonomous school networks make school management more efficient, promote a rapprochement between administrators and service recipients and lay the necessary groundwork for making sustainable improvements in the quality of instruction and the management of diversity in rural education in Ecuador.
 - d. Autonomy requires an appropriate incentive system and a financial resource allocation mechanism that reinforces it. The incentive system is designed to induce school administrators to improve efficiency, encourage parents to hold them accountable for their actions and reward teachers for effective performance and a commitment to quality. The resource allocation system should be predictable, transparent and linked to needs, costs and performance.
 - e. The empowerment of parents and communities to participate in school decision-making processes is the most effective way of ensuring accountability at the local level and of involving the community in educational activities.
 - f. The program implementation mechanism should foster local-level decision-making and autonomous school management.
 - g. Reform processes are dynamic and require a flexible implementation strategy allowing for adjustments based on independent monitoring and evaluation systems.

C. Description of program components

- 2.3 The program provides for a series of activities designed to foster autonomy and promote or increase participation by parents and communities in approximately 120 rural school networks consisting of some 2,400 educational institutions, representing 20% of the nation's rural schools (see Logical Framework, Annex II-1). Participation in the program is voluntary.
- 2.4 The **special regulations for autonomous school networks** are a crucial ingredient for institution of the reforms proposed under the program. Under these regulations, the Ministry of Education grants school networks administrative autonomy, gives parents and communities a majority on network school boards, and expands the duties and responsibilities of the boards (see Annex II-2). The school board is vested with broad administrative and educational decision-making powers, dismisses and hires school principals, teachers and administrative personnel through competitive examination processes, independently manages network finances, approves educational development projects and procures goods and services directly from suppliers. These regulations entered into force on September 22, 1998.
- 2.5 Network autonomy is defined as: (i) the authority to select, appoint, evaluate and sanction school principals, teachers and administrative personnel; and (ii) flexibility in the management of financial resources for operating expenses and capital expenditures. Greater parent and community participation in local educational management is ensured by improving their representation on network school boards, on which they will have a majority.
- 2.6 In an agreement with the Ministry of Finance, the MEC will legally establish the mechanism for the allocation of resources to the networks to finance payroll and operations. The allotment for each network will be set according to student enrollment, taking into account considerations of equity. The mechanism must be fully implemented in the program networks for execution of the year 2000 budget. Evidence that the agreement has been entered into will be a condition precedent to the first disbursement. 6/
- 2.7 In addition, the supplementary resources provided by the community to the networks will be collected and administered directly by each network, by means of a special account.

6/ During the first year of program execution, the Ministry of Finance and the Ministry of Education will make any budgetary amendments necessary to ensure that the resources allocated to the networks attached to the program during that fiscal year closely follow the allocation formula that will be fully enforced beginning in the year 2000.

- 2.8 The program will strengthen the organizational capacity of school networks to exercise autonomy and participatory management and will provide financing for their educational development projects. The program will have three components: support for the school autonomy-building process; improvement of teaching conditions in school networks; and monitoring and evaluation.

1. Support for the autonomy-building process for rural school networks (US\$6 million)

- 2.9 This component is designed, first, to build or strengthen school or school network management capacity to successfully manage their resources and, secondly, to consolidate active parent and community participation in school affairs. This will be accomplished through the following activities:

a. Building participatory, autonomous management capacity in school networks (US\$4.75 million)

- 2.10 The legal transfer of authority to school networks and greater parent and community participation on network school boards will be paralleled by efforts to strengthen their participatory, autonomous management capacity.
- 2.11 Consulting services will be retained to: (i) design instruments to support network educational and administrative management (human resource management, planning, information, auditing, accounting, educational planning and other systems); and (ii) train and certify approximately 60 Educational Support Units (UAEs) such as regional or local NGOs, regional universities and consulting firms with experience in local education administration. Training activities will address areas such as school management, community participation and local educational planning, and the use of program designed instruments to bolster autonomous school management.
- 2.12 The school networks will directly hire the services of approximately 30 of the 60 certified UAEs to carry out the following activities: (i) parent and community training to promote and strengthen their participation in this process; (ii) training for school principals, teachers and administrative personnel in the school network in school administration, planning, use of basic education statistics, budget management, etc.; and (iii) network monitoring and advisory services to build capacity for management and the design and implementation of educational development projects. It is estimated that each school network will require an average of 11 man-months of advisory and training services from UAEs over the course of the four-year program implementation period. Intensive advisory services furnished by UAEs will be needed at the beginning of the program implementation process to consolidate the autonomy-building process, declining in later years of program implementation.

- 2.13 These activities will be complemented by the procurement of equipment (computers, copiers, etc.) and goods (software, etc.) necessary for autonomous network management. The PCU will transfer the funding needed to finance these activities and monitor their performance.
- b. Institutional reform of the MEC and provincial education offices (US\$1.25 million)
- 2.14 Adjustments will need to be made in certain units at the central MEC office and in provincial offices, to create the necessary institutional conditions for the autonomous operation of rural school networks.
- 2.15 The MEC's operational responsibilities to the autonomous school networks will be to confirm their technical feasibility from the standpoint of their location, size and enrollment, allocate financing for personnel expenses and overhead, and monitor the use of the funding allocated and its impact on local education.
- 2.16 The program will strengthen the current capacity of the respective MEC offices to discharge their new responsibilities. Consulting services will be retained to: (i) improve the education planning system, particularly as concerns the allocation of resources to educational institutions and management and impact evaluation; (ii) update the statistical and financial information system in the sector to develop a reliable instrument for resource allocation to school networks; and (iii) train office staff. In addition, computer hardware and software will be procured to support these activities.
- 2.17 Provincial education offices will be called upon to play a new role under the proposed program, centering their efforts on furnishing educational advisory services and monitoring academic performance. This requires strengthening their capacity to discharge these functions, redirecting the efforts of their staffs and of supervisory personnel in particular into the promotion of new teaching methods, curriculum development and quality evaluation activities. The services of contractors will be retained to provide training for management, supervisory and technical personnel in provincial education offices, and appropriate equipment will be procured to support the performance of these new functions.
- 2.18 Envisioned reforms under the proposed program require the forging of a broad-based consensus. To this end, consulting services will be retained to carry out activities designed to disseminate the program's goals and accomplishments and organize workshops and meetings to ensure that government officials, teachers, unions, school principals, parents, communities, civil society and the productive sector agree on the benefits of school autonomy and active parent and community participation.

- 2.19 Moreover, outside contractors will be hired to conduct studies on school management, resource allocation and sector-wide institutional reforms to lay the groundwork for the future expansion of the reforms.

2. Improvement of teaching conditions in school networks
(US\$34.75 million)

- 2.20 This component will finance two types of activities: autonomous school network projects and incentives to improve teacher performance in school networks participating in the program.

a. Financing for school network projects (US\$30.45 million)

- 2.21 Certain conditions must be met in order for autonomous school management to become a reality. The program will finance approximately 120 projects for participating school networks designed to resolve problems with their physical infrastructure, equipment, supplies of educational materials, teacher training, etc. Assessments of local educational needs and actual project design processes should be participatory endeavors involving parents, the local community, teachers and principals. To this end, the school networks will be supported by advisory services furnished by UAEs. In addition to improving teaching conditions in these networks, the projects will help define their distinguishing features and also create a physical space in which autonomy and community participation can be exercised. Though project priorities and components will be shaped by participating school networks, only those goods and services listed on the options menu will be financed under the program (see Table 1), subject to all corresponding specifications and restrictions. Ten such projects for the strengthening of 10 school networks were designed as part of the program preparation process using the methods described above. These projects helped verify stakeholder participation and assess financing needs.
- 2.22 Given the large proportion of the country's indigenous population living in rural areas, at least a fourth of the projects to be financed under the program will benefit school networks serving indigenous communities. Furthermore, in order to adequately address the cultural values and development needs of these communities, a special effort will be made to train teachers in bilingual intercultural institutions, develop teaching methods better suited to these cultures and produce educational materials in native languages.
- 2.23 According to program preparatory work and cost analyses, it was established that a minimum of 30% of the funding for each project is to be used to finance items designed to strengthen instruction, such as teacher training, textbooks, school libraries, educational materials, etc. This will help better integrate the different activities to be conducted under these projects and maximize

benefits strengthening the quality of education. The maximum amount eligible for program financing is US\$89 per student per year in Spanish-language schools and US\$107 in bilingual schools. The project implementation period may not exceed two years. Based on these figures, the average value of project financing for each school network is estimated at US\$250,000.

TABLE 1			
OPTIONS MENU AND CONDITIONS FOR NETWORK PROJECT FINANCING			
ACTIVITIES	REQUIREMENTS AND CONDITIONS	FINANCING CAPS	OBSERVATIONS
I. Education strengthening subprojects			
(a) Teacher training			
Remedial and advanced training	Submission of training requirements	Up to US\$200 per teacher	The network will furnish the PCU with course and teacher information.
In-service training	Submission of an in-service training proposal	Up to US\$50 per teacher/day and US\$500 per teacher	The network must justify project costs
(b) Educational materials			
<u>Pupils</u> Purchase of books Purchase of notebooks	One book per subject area per child and one notebook per child	US\$2.40 per book; US\$2.80 per native-language book; US\$1.00 per notebook	
<u>Teachers</u> Purchase of handbooks	One handbook/teacher/subject area	US\$3.50 per handbook	
<u>School</u> Provision of one basic library	Up to 150 titles per school from an extensive list	A maximum of US\$2,000 for each school facility	The PCU will distribute a list of recommended titles and prices
<u>School</u> Basic materials	Maps, basic teaching materials, TV, VCR and tape recorder	US\$1,000 per school	Must have electric power
<u>School</u> Teaching aids	Overhead projector, video cassette recorder, slide projector, computer, printer	US\$2,000 per school	The school must have basic materials
II. Infrastructure and equipment upgrading subprojects			
(a) Infrastructure			
<u>School</u> Water supply	Feasible project meeting technical eligibility criteria	Up to US\$1,500 per school, including preparation and supervision	(1)
<u>School</u> Sanitation	Feasible project meeting technical eligibility criteria	Up to US\$1,500 per school, including preparation and supervision	(1)
<u>School</u> Electric power	Submission of a project approved by the respective power company	Up to US\$1,500 per school, including preparation and supervision	Must have previously resolved any water supply and sanitation problems

TABLE 1			
OPTIONS MENU AND CONDITIONS FOR NETWORK PROJECT FINANCING			
<u>School</u> Construction expansion and replacement of classrooms	Approval of new classrooms for schools with a ratio of less than one classroom per teacher; approval of expansion projects for schools with a ratio of less than 1.33 square meters of space per student	Up to US\$6,000 per new classroom, including preparation and supervision	Must have previously resolved any water supply and sanitation problems (1)
<u>School</u> Outside repairs; fences, school yards	Submission of a project	Up to US\$1,000 per school, including preparation and supervision	Must have previously resolved any water supply and sanitation problems
(b) Equipment			
<u>School</u> Basic furnishing for students, teachers and classrooms	Submission of a list of targeted schools; Submission of an itemized list of shortages	Up to US\$2,000 per school	(1)
<u>Network</u> Office equipment	Submission of a network-wide inventory; Submission of an itemized list of shortages	Up to US\$2,000 per network	(1)
III. Participatory management support subprojects			
<u>Network</u> Management training Additional technical assistance for autonomous management	A maximum of 50 course-hours per trainee	US\$50 per trainee and up to US\$5,000 per year for additional technical assistance	
<u>Network</u> Support for administrative management	Submission of requirements for materials to support participatory management	US\$3,000 per year	
(1) The technical specifications are appended to the Operating Regulations.			

2.24 Projects submitted by school networks will be reviewed by the PCU to verify their compliance with the activities, conditionalities and financing ceilings indicated in the options menu.

b. Teacher incentives (US\$4.3 million)

2.25 Successful transition from a centralized school administration system to a participatory, autonomous one and from a resource allocation system based on factors other than performance to a system which rewards achievement and performance will require the support of teaching personnel. To this end, the program includes provisions both for improving working conditions for rural teachers by providing better training, better teaching materials and more appropriate school environments under projects to be carried out at the school network level, and for establishing teacher incentives paying monetary (nonwage) bonuses to teachers who effectively

perform their duties and who undertake educational or school initiatives helping to strengthen local education.

- 2.26 Two types of incentives have been designed for this purpose. The first, for which most of the funding will be used, will pay teachers with perfect attendance records a fixed monetary bonus (equivalent to US\$25 a month). This will have number of positive effects: it will supplement the salaries of teachers in rural school networks; reduce teacher absenteeism, which is one of the most negative factors affecting rural schools and a determining factor in the poor quality and low promotion rate in rural education; and represent a first step towards tying resource allocation to teacher performance.
- 2.27 The second type of incentive is designed to encourage teacher behavior consistent with the education strengthening components of educational development project to help improve the academic environment in network schools, such as innovative teaching practices improving student achievement or motivating them to learn, initiatives that boost student retention rates, student activities with a positive impact on the school environment, etc. This bonus will be awarded once a year to a single teacher in each school network. It will be up to the school board in each school network to set criteria for the awarding of this bonus and to select the winning teacher. The amount of each such bonus will be US\$1,200 equivalent, or approximately 40% of a teacher's annual salary.

3. Monitoring and evaluation (US\$750,000)

- 2.28 The program will institute reforms based on the transfer of functions to educational institutions, which have traditionally played an extremely limited role in the school administration process, and on community participation in decision-making processes which, until now had been the sole province of the State. The objective of this component is to monitor and evaluate the implementation of the reforms in rural education on an ongoing basis and, more specifically, such factors as network autonomy for the management of human, financial and physical resources, majority participation by parents and the community in school management, the direct execution by school networks of their own investment projects, teacher incentives rewarding performance, accountability of teachers and principals in school networks to parents and local communities, the provision of technical assistance to school networks through institutions outside the MEC, and resource allocation to school networks based on objective criteria.
- 2.29 The services of an independent institution outside the program, preferably a prestigious academic institution with experience in the education sector, will be hired to ensure the impartiality of monitoring and evaluation activities. Reports will be presented by the evaluating institution at six-month intervals. Report

recommendations will be used as guidelines for making periodic adjustments in the program and for the design of a second stage of the program to expand the reforms.

- 2.30 A series of indicators have been identified for program monitoring and impact evaluation. A sample of these indicators is presented in the following table for illustrative purposes.

Table 2 MONITORING INDICATORS (1)					
INDICATOR	BASELINE	GOAL FOR YEAR 1	GOAL FOR YEAR 2	GOAL FOR YEAR 3	GOAL FOR YEAR 4
Networks covered by the Special Regulations	3	15	70	130	150
Bilingual networks covered by the Special Regulations	1	4	15	25	30
Networks covered by the Special Regulations with additional financing	0	5	10	20	35
Networks with ongoing projects	0	15	45	60	0
Networks with completed projects (2)	0	0	15	60	120
Teacher attendance rate in program networks	70	80	85	90	90
Number of program networks with an operational new information system	0	10	40	80	120
Percentage of students in program networks completing primary school	36	36	36	40	50
(1) Indicators are measured at the end of the year.					
(2) A "completed project" is a project whose final report has been submitted to the PCU.					

D. Cost and financing

- 2.31 The total cost of the program is US\$50 million, of which US\$45 million (90%) will be contributed by the Bank loan and US\$5 million (10%) by the local counterpart contribution. The US\$45 million Bank contribution will be in United States dollars from the Bank's ordinary capital, under Single Currency Facility, of which amount US\$40 million will be subsidized by the Intermediate Financing Facility. Table 3 presents a cost breakdown by component, cost category, and source of funding.

Table 3					
COSTS (in thousands of US\$)					
CATEGORY	CONTRIBUTION			TOTAL	%
	LOCAL	IDB			
		OC/IFF	OC		
ADMINISTRATION	1,000	1,850	-	2,850	5.7
COST OF ACTIVITIES	-	36,550	4,950	41,500	83.0
Component 1: Support for autonomy of rural school networks	-	6,000	-	6,000	12.0
- Development of a capacity for autonomous, participatory management	-	4,750	-	4,750	9.5
- Institutional adjustment of the MEC and provincial offices	-	1,250	-	1,250	2.5
Component 2: Upgrading of teaching conditions in the networks	-	29,800	4,950	34,750	69.5
- Financing for network projects	-	25,500	4,950	30,450	59.3
- Incentives for teachers	-	4,300	-	4,300	8.6
- Individual	-	3,800	-	3,800	7.6
- Special	-	500	-	500	1.0
Component 3: Monitoring and evaluation	-	750	-	750	1.5
UNALLOCATED	-	1,200	-	1,200	2.4
- Contingencies	-	1,200	-	1,200	2.4
SUBTOTAL	1,000	39,600	4,950	45,550	91.0
FINANCE CHARGES	4,000	400	50	4,450	8.9
- Interest	3,400	-	-	3,400	6.8
- Credit fee	600	-	-	600	1.2
- Inspection and supervision	-	400	50	450	0.9
TOTAL	5,000	40,000	5,000	50,000	100.0

2.32 The Bank loan will be subject to the following terms and conditions:

Table 4	
TERMS AND CONDITIONS OF THE LOANS	
Amortization period	25 years
Disbursement period	4 years
Interest rate	variable
Inspection and supervision	1%
Credit fee	0.75%
Currency	United States dollars, under the Single Currency Facility

III. PROGRAM IMPLEMENTATION

A. General strategy

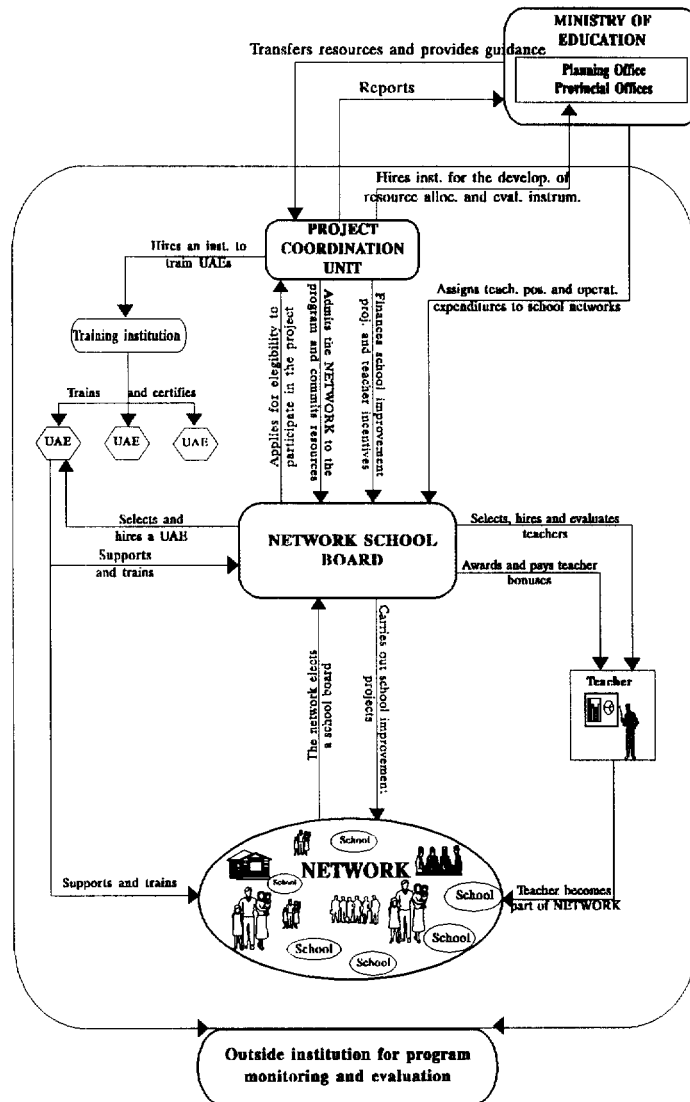
- 3.1 The program implementation mechanism is designed to foster immediate autonomy and participation by parents and community members in the school administration process. Accordingly, program implementation will be highly decentralized. The PCU will concentrate on coordinating and monitoring program activities, which will mostly be conducted under the authority of network school boards with a majority of parents and community members. Consequently, the preparation and implementation of projects designed to strengthen the school networks will involve a high degree of participation by teachers, parents and the community, and will be demand-driven, which means that program-financed activities will genuinely reflect local needs and priorities and will strengthen the community's sense of project ownership.
- 3.2 Moreover, to ensure effective support for school networks, technical assistance services will be furnished by regional or local NGOs, universities or consulting firms with experience in education administration, to be selected and hired directly by each school network with financing provided by the PCU. Lastly, since this is basically a reform program, an independent monitoring and evaluation system is essential to adjust program activities according to their ongoing performance. The general program implementation mechanism is outlined in Figure 3.1.

B. Borrower and executing agency

- 3.3 The proposed loan will be extended to the Republic of Ecuador. The executing agency will be the Ministry of Education and Culture, through the Program Coordination Unit (PCU), which will report directly to the Minister of Education. At the local level, network school boards will operate as subexecuting agencies in charge of implementing their own school improvement projects.

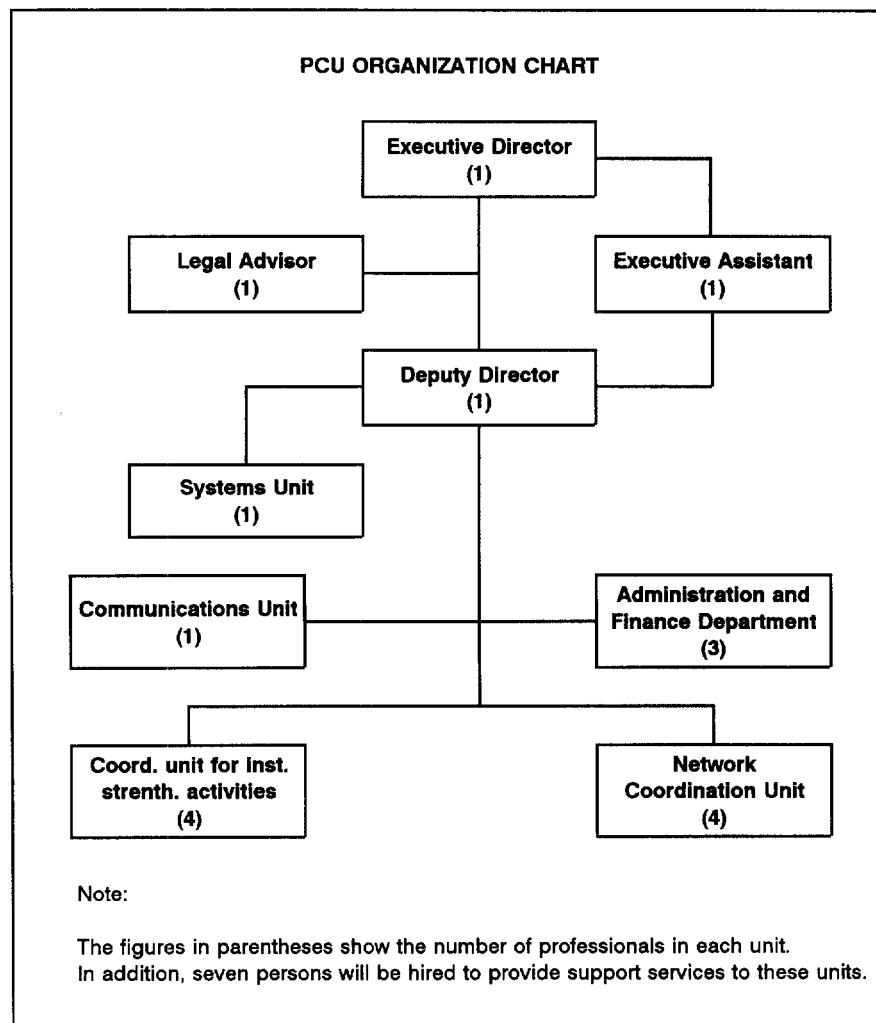
FIGURE 3-1

GENERAL PROJECT IMPLEMENTATION MECHANISM



- 3.4 The design of the PCU takes into account the program implementation strategy which, as discussed earlier, is highly decentralized. Accordingly, its role will basically be to select, support, supervise and evaluate the activities to be conducted by school networks and to ensure coordination with the MEC and the Bank. The PCU will have a 22-person staff, including 15 professionals and seven support staff. Responsibility for program implementation will lie with the executive staff of the PCU, supported by the unit's management and professional staffs. An organization chart for the PCU is presented in Figure 3-2.

FIGURE 3-2



- 3.5 In order to achieve and maintain the high level of professional and managerial quality required by the program, the training and experience of PCU management and professional staff must be consistent with the duties they will perform, as stipulated in the

Operating Regulations. Appointments to professional and management staff positions will require nonobjection by the Bank. Salary levels will be in line with Bank pay scales for Ecuador. Moreover, any changes in the organizational structure or functions of the PCU will be jointly agreed upon with the Bank. Establishment and staffing of the PCU is a condition precedent to the first disbursement.

C. Program implementation

1. Component for development of participatory, autonomous school network management capacity

- 3.6 The PCU will encourage school networks in rural areas to voluntarily participate in the program. In order for a school network to do so, it must: (a) file an application for admittance, signed by a majority of parents and community members; (b) form a school board consisting of three parents, three teachers and one community member; and (c) have launched the process of selecting or ratifying the appointment of a chairman, in accordance with the special regulations for the management of school networks issued by the Minister of Education.
- 3.7 Upon their admittance to the program, the school networks will be provided with technical assistance to strengthen their participatory, autonomous management capacity. The PCU will engage in two types of activities in the provision of technical assistance to participating networks: (a) it will procure consulting services for the development of autonomous management instruments; and (b) it will retain the services of three nationwide training institutions to train and certify UAEs interested in furnishing network advisory services. Network school boards will directly select and enter into contracts with certified UAEs for the provision of advisory services. ^{1/} There are presently 379 domestic NGOs involved in the education sector, from which those best positioned to furnish advisory services to school networks will be selected. Moreover, the PCU will be in charge of conducting institutional strengthening activities for units at MEC headquarters and in provincial education offices involved in the program.

^{1/} UAEs may be universities, NGOs, consulting firms, etc.

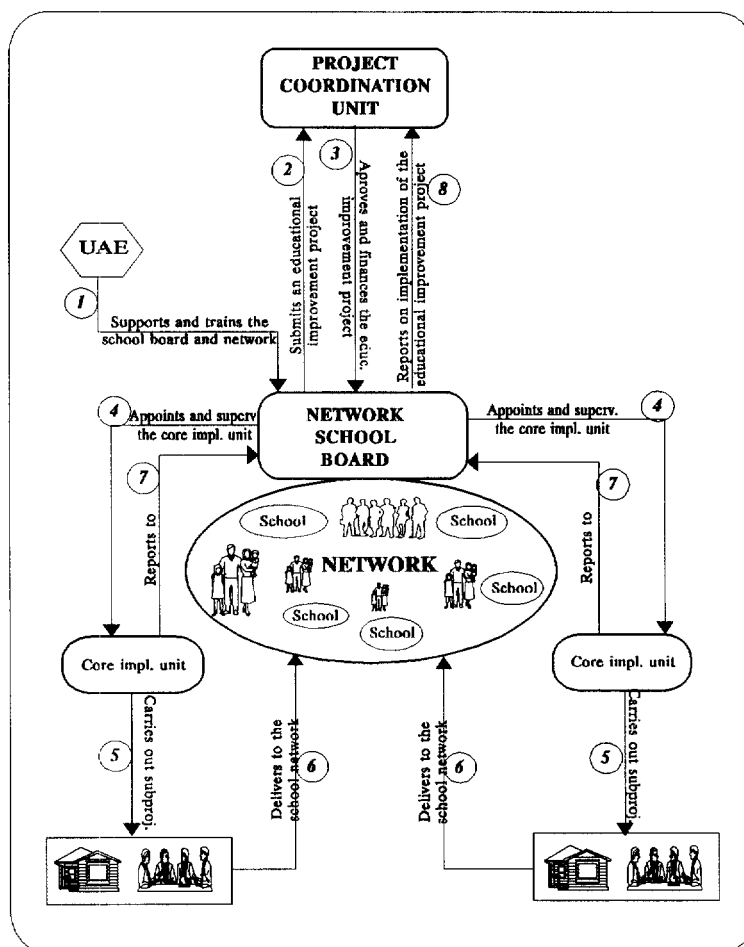
2. Component to improve teaching conditions in school networks

a. Educational improvement projects

- 3.8 The technical assistance furnished by UAEs to participating school networks will strengthen their management and equip them to prepare and submit educational improvement projects to the PCU. The following three types of subprojects may be funded: (a) infrastructure and equipment, such as school or classroom construction or rehabilitation, water supply, basic sanitation, desks, etc.; (b) educational improvement, such as training courses, in-service training, textbooks, libraries, etc.; and (c) support for school management. Each project is reviewed by the PCU to verify that the proposed activities are included on the options menu and meet respective eligibility criteria. Responsibility for project implementation will lie with the network school board, which will be supported by core implementing units with a maximum of five members selected from among teachers, parents, and community members, depending on the type of project and the particular skills needed. Appointments to core implementing units will need to be ratified by a majority of parents in the beneficiary schools.
- 3.9 Once the project has been approved, the PCU commits funding to the network in question to finance the activities scheduled to be conducted during that year, and agrees on a schedule for transfer of the resources. For project initiation, the network must select the core implementing units. Each core implementing unit will be responsible for procuring goods and services, for the awarding of construction contracts, and for the execution of works for each subproject, and will be required to report periodically to the community and the network school board on the progress in the respective subproject.
- 3.10 The program Operating Regulations contain detailed information on eligible activities under each subproject and the respective conditions and prerequisites. Since the country has no prior experience with the use of this type of project implementation mechanism in its education sector, the options menu and subproject cost ceilings will be periodically reviewed by the PCU and the Bank. The implementation mechanism for this component is outlined in Figure 3-3.

FIGURE 3-3

**EDUCATIONAL IMPROVEMENT PROJECTS
IMPLEMENTATION CYCLE**



SEQUENCE OF ACTIVITIES

- ① The network school board hires an education support unit (UAE).
- ② The network school board, with the support of the UAE, prepares an educational improvement project and submits it to the Program Coordination Unit (PCU).
- ③ The PCU reviews, and if appropriate, approves the project and grants the financing.
- ④ The network school board appoints core executing units and supervises subproject implementation.
- ⑤ The core executing units implement the subprojects.
- ⑥ The core executing units deliver the subprojects to the network.
- ⑦ The core executing units report to the network school board.
- ⑧ The network school board reports to the PCU.

b. Distribution of teacher bonuses

- 3.11 The PCU will make quarterly transfers of funding to school networks for the payment of bonuses to teachers with perfect attendance records. Each school will forward its monthly attendance sheets to the office of the chairman of the school board. All teachers with a perfect attendance record for the month in question according to these attendance sheets receive a bonus.
- 3.12 The PCU will send each school network the allotted funding for the yearly bonus at the end of the school year. Each network school board will set its own criteria for awarding the special bonus. The program Operating Regulations contain detailed information on implementation of this subcomponent.

3. Monitoring and evaluation component

- 3.13 In addition to routine project monitoring by the Bank and PCU, an outside institution will monitor and evaluate the reforms to be carried out under the program, on an ongoing basis. The institution may be a university, a high-level consulting firm, an NGO or a group of NGOs. The evaluation process will focus on program management in general and, more specifically, on the progress in reform efforts for development of school network autonomy and its outcome. As a condition precedent to the first disbursement, the bidding process for the selection of an evaluation agency is to be initiated, with the publication of a call for proposals. Monitoring reports and recommendations made as a result of the evaluation process will be reviewed by the executing agency and the Bank at regular monitoring sessions.

D. Operating Regulations

- 3.14 Program implementation will be governed by Operating Regulations stipulating the rules, regulations and procedures to be followed for the execution of each program component and establishing the duties and obligations of the executing agency and subexecuting agencies. The main provisions of these regulations and its appendices concern the content and scope of each component and the eligibility criteria for admittance of school networks to the program and for project financing with program resources (see the Operating Regulations in the project technical files).

E. Financial management

- 3.15 The use of all program resources will be subject to Bank regulations and policies, as well as to the procedures and guidelines established in the program Operating Regulations. Entry into force of the Operating Regulations will be a condition precedent to the first disbursement.

F. Financial control

- 3.16 Itemized accounting records will be kept for all costs and expenditures recognized for each subproject, along with aggregate accounts for the program as a whole.
- 3.17 Given the large number of projects to be conducted at the school network level, it is recommended that supporting documentation for disbursement purposes be reviewed through random sampling at PCU offices. Accordingly, advances of Bank funds for the projects will be justified upon presentation of a list of all outlays made and expenditures recognized during the period in question. The PCU will keep complete records and files on each cost-generating operation. All supporting documentation such as subproject approval forms, briefs, receipts, reports, inspections, etc. will be duly filed by the PCU to the satisfaction of the Bank and made available both to the Bank and to the outside auditors for any reviews that may be necessary.

G. Implementation schedule

- 3.18 Program resources will be committed over a period of three and a half years from the effective date of the loan contract and disbursed within a maximum period of four years from the same date. The decentralized implementation mechanism for program activities and the experience of the members of the professional staff of the project preparation unit are factors that should help ensure its completion by the end of the program implementation period. Moreover, implementation of the first-year activities is assured by the 10 plans already prepared that were used as samples for the program. Commitment of funding is defined as the signature of a financing agreement by the PCU and the network school board for an educational improvement plan. The difference between the commitment and disbursement periods is adequate to allow for the completion of projects for which contracts have been let six months before the program completion date.

H. Procurement procedures

- 3.19 Procurement of goods and services and the awarding of construction contracts will be carried out in accordance with the procedures agreed upon by the Bank and the country on September 15, 1992. It is recommended that procurement of goods and services in amounts equal to or greater than the equivalent of US\$250,000 be carried out through international competitive bidding. Procurement in amounts between US\$25,000 and US\$250,000 will be carried out as stipulated in the above-mentioned letter of agreement. Procurement in amounts under US\$25,000 will be carried out through direct contracting, without need for prior nonobjection, subject only to an ex post review. In the case of works, the threshold for international competitive bidding will be US\$1 million. For works in amounts between US\$60,000 and US\$1 million local competitive

bidding will be required, as stipulated in the letter of agreement. Small works in amounts under US\$60,000 may be carried out on force account by network school boards (see Annex III-1). Detailed procurement procedures are included in the respective PCU manuals. Consulting services will be hired in accordance with Bank procedures, as set forth in Annex C to the loan contract.

- 3.20 The timetable for program implementation presented below is based on current demand, on the implementation capacity of the PCU and the school networks, and the availability of counterpart funds.

ESTIMATED DISBURSEMENT SCHEDULE				
YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
20%	23%	36%	21%	100%

I. Advance of funds

- 3.21 In light of the expected pace of program implementation, it is recommended that an advance of funds be granted for the equivalent of 5% of the amount of the loan.

J. Maintenance of works and equipment

- 3.22 The works executed under the program and the equipment procured will be maintained according to generally accepted technical standards. In addition, within the first quarter of every calendar year for the first five years after the first disbursement of the loan, the following documentation will be submitted to the Bank: (i) an annual plan for operation and maintenance of the school network works, and (ii) a detailed report on operation and maintenance of the school network works during the previous year.

K. Inspection and supervision

- 3.23 The Bank may establish such inspection procedures as it deems necessary to ensure that the program is properly executed, and the PCU and the school networks will provide all necessary cooperation for the optimal achievement of this goal. The sum of US\$450,000 will be set aside from the loan proceeds for deposit into the Bank's accounts for purposes of general inspection and supervision.

L. Outside auditing

- 3.24 The financial statements of the program and the PCU will be audited by a firm of independent auditors acceptable to the Bank. The statements must be presented within 120 days after the close of the government fiscal year (December 31) throughout the program

implementation period, beginning with the audit for calendar year 1999, in accordance with terms of reference acceptable to the Bank.

M. Monitoring, evaluations and progress reports

1. Monitoring meetings and evaluations

- 3.25 The PCU and the Bank will hold monitoring meetings at which program performance will be reviewed from the institutional as well as the operational standpoint. Two annual meetings will be held in year 1, followed by annual meetings in years 2, 3 and 4, on dates to be jointly scheduled by the Bank and the PCU. These meetings will be used to review progress in the institution of the reforms, the role of UAEs, the decentralized implementation mechanism, and the options menu for school network projects. Where necessary, appropriate measures will be taken to ensure the program's smooth operation based on the findings of the review.

2. Mid-term evaluation

- 3.26 The PCU and the Bank will conduct a mid-term program evaluation once 50% of the loan proceeds have been committed.
- 3.27 The review will include at least an analysis of the institutional performance of the PCU and the network school boards, and a representative sample of program-financed subprojects. Should the review reveal any significant deficiencies in program implementation, the Bank may decline to authorize the commitment of any additional program resources until appropriate corrective measures have been taken to ensure that the program continues to be properly executed.

3. Progress reports

- 3.28 The PCU will submit semiannual progress reports to the Bank throughout the program implementation period supplying detailed information on the works financed and networks and schools served by the program and on the procedures followed in the use of loan proceeds, along with the reports and recommendations submitted by the outside firm responsible for ongoing program monitoring and evaluation.

N. Ex post program evaluation

- 3.29 There are no plans to conduct an ex post program evaluation. However, the information compiled during the annual monitoring meetings and in the mid-term review and ongoing program evaluation process will include indicators and benchmarks allowing for an ex post evaluation if the Bank should decide to conduct one.

IV. BENEFITS, FEASIBILITY AND RISKS

A. Program benefits

- 4.1 School autonomy is an effective strategy for addressing the variety of different conditions found in the country's rural areas. For the first time in the nation's history, schools in rural areas will be given the leading role they deserve to play in the country's education system, as educational service production units. The school network system breaks through the traditional isolation of rural schools and establishes a cost-efficient mechanism for ensuring a basic education for all school-age children in the area of influence of each school network. The delegation of authority essential to their autonomous management will put rural school networks in a better position to attain their educational objectives. Greater autonomy will make school networks better able to tailor educational content and practices to prevailing cultural, ethnic and linguistic factors in the local environment.
- 4.2 The program will set in motion the process of reforming the current incentive system in the country's rural public education system. Principals and teachers in autonomous school networks will be given incentives to use available resources more efficiently. The payment of bonuses for teacher attendance and innovation is a first step towards establishing a system of compensation rewarding effective performance and individual initiative. The participation of parents and community members on network school boards should effectively foster accountability on the part of administrators and teachers to educational service recipients. Their accountability to parents and the community should motivate administrators and teachers to strive to improve educational quality. The transfer of authority for the selection, appointment and supervision of teachers, school principals and administrators from provincial education offices to school networks and the involvement of parents and communities in school management should help depoliticize the administration of public education in rural areas.
- 4.3 The institution of a new resource allocation system for funding school networks based on such criteria as enrollment and teacher-pupil ratio by type of school and poverty rate will lay the foundation for transforming the traditional financing mechanism based on the cost of educational inputs into a service-based mechanism. This should create a much more predictable and transparent system, strengthening autonomy and creating incentives for school administrators to boost enrollment and improve student retention at all levels of schooling.
- 4.4 The combined effects of the various activities for organizational restructuring, strengthening of participatory, autonomous management and improvements in teaching conditions achieved through

the implementation of projects submitted by school networks will enhance the quality of education in all the school networks served by the program. A number of empirical studies have shown that the organizational structure of schools and their degree of autonomy have a significant impact on student academic achievement.

- 4.5 The program will help reconfigure the roles and areas of responsibility of the different administrative levels of the public education system in Ecuador. Under the program, the MEC will be responsible for national policies and standards, the allocation of funding to school networks based on objective criteria and performance monitoring and evaluation. The provincial education offices will focus their efforts on the collection and management of regional education data, monitoring and evaluation of student academic performance and the provision of educational assistance to school networks. The school networks will be charge of administering all their resources, with sufficient flexibility to better address specific needs in local education.
- 4.6 The design of educational improvement projects at the school network level by parents, teachers and communities, and the execution of works and procurement of services by core implementing units and school boards will help strengthen local educational management capacity, generate a high degree of project approval in the local community and strengthen ties between school networks and the communities they serve.
- 4.7 The program will benefit 20% of rural education, reaching approximately 150,000 students, 5,900 teachers and 2,400 schools. It will improve educational opportunities in areas with high poverty rates and for low-income groups, and will increase schooling for these segments of the population. It will thus help promote equity and improve social conditions and income-earning opportunities for these groups.

B. Feasibility

- 4.8 The proposed program methodology and conceptual framework was validated through workshops and seminars attended by national and international experts. Other workshops held at the school network level were attended by teachers, parents, and principal of affiliated schools. The PROMECEB evaluation identified weaknesses and strengths in program organization and operations, which were taken into account in the design of the proposed operation.
- 4.9 The scale of the program is in line with program implementation capacity. The MEC gained considerable experience in the execution of external credit operations and has consolidated a highly efficient team of professionals specializing in the management of these types of programs through implementation of the PROMECEB program, especially with the strengthening of its implementing unit in the past two years. Part of this team will constitute the core

staff of the PCU. Moreover, the design of the program implementation mechanism, which includes a coordinating unit with few line functions, focusing mainly on coordination, and the decentralization of many of the activities at the school network level will facilitate program implementation. Lastly, the three program components are mutually complementary and reinforcing, strengthening both the governing agencies with policy-making and enforcement responsibilities and the agencies involved in education, as well as monitoring mechanisms providing ongoing information on program implementation.

- 4.10 Ten development plans were formulated with the participation of teachers, parents, and community members in 10 school networks. They were used to establish a parameter of common needs, based on which needs could be assessed for training activities, infrastructure rehabilitation, equipment and instructional materials. The plans will be part of the activities to be carried out upon the first disbursement of the loan.

C. Analysis of beneficiaries

- 4.11 The program qualifies as a social program given the type of investments to be made, according to the Eighth Replenishment document. It also meets the poverty-targeting criteria.
- 4.12 The program automatically qualifies as poverty-targeted investment (PTI) because it supports basic education (GN-1964-3). In addition, it is geographically targeted to the poorest communities in rural areas. Since the program targets low-income groups, the 90/10 matrix is being applied for program funding.
- 4.13 According to "Geography of Poverty" data, approximately 54.7% of Ecuador's population is currently living in poverty. The percentage is even higher in rural areas (74.7%), and the incidence highest among children, who represent the target population of this program. Academic performance declines with increasing marginalization. Moreover, gender parity should improve with the availability of instructional materials and methods designed to transmit values.

D. Environmental assessment

- 4.14 The program will not have any significant environmental impact. In general, the infrastructure rehabilitation works are small-scale and will include all necessary provisions to prevent or mitigate any significant potential impact on the environment.

E. Program risks

- 4.15 There may be some resistance to the new educational administration model from certain groups of teachers and teacher organizations. However, this opposition will be mitigated by the following

factors: (a) the program provides teachers with direct incentives, improves their working conditions and gives them greater freedom in conducting their teaching activities; and (b) by allowing parents and communities to participate more in school management and establishing links between school networks and NGOs and technical assistance providers, the program will create new stakeholders in the education sector, which will change both the terms and the content of the public debate on education in Ecuador.

- 4.16 To address current weaknesses in the capability of the MEC to guide, support and, oversee the autonomy-building process in general, the program will strengthen the technical capacity of the Planning Office through the provision of technical assistance and training and the design of computer systems and software. During the first phase of the program, certain functions which the MEC is incapable of performing at this stage will be discharged by PCU staff. The PCU will gradually transfer these activities to MEC offices. Moreover, the responsibility for furnishing supporting services to school networks will be transferred to outside institutions specially trained for this purpose (NGOs, local universities or technical assistance providers), thereby facilitating program implementation.
- 4.17 A certain amount of opposition to the program is to be expected, as it transfers responsibility for functions currently performed by MEC provincial offices to rural school networks. To minimize this risk, the offices will receive technical and institutional strengthening to safeguard their leading role in furnishing educational assistance to individual schools and school networks, and in the operation of educational information and quality evaluation systems.

ECUADOR
RURAL AUTONOMOUS SCHOOL NETWORK PROGRAM (EC-0125)
Schools, teachers and students, by area
1996-1997

	SCHOOLS			TEACHERS			STUDENTS		
	Public	Private	Total	Public	Private	Total	Public	Private	
	2,096	1,627	3,723	4,080	5,900	9,980	96,809	59,963	
	1,101	1,438	2,539	2,854	5,313	8,167	71,396	54,976	
	995	189	1,184	1,226	587	1,813	25,413	4,987	
	14,535	2,832	17,367	55,629	18,972	74,601	1,514,032	374,140	1
	2,525	1,939	4,464	26,525	16,091	42,616	765,258	320,977	1
	12,010	893	12,903	29,104	2,881	31,985	748,774	53,163	
NDARY	1,954	1,190	3,144	51,562	20,537	72,099	660,840	234,871	
	1,056	1,052	2,108	39,734	18,546	58,280	560,832	219,420	
	898	138	1,036	11,828	1,991	13,819	100,008	15,451	
	18,585	5,649	24,234	111,271	45,409	156,680	2,271,681	668,974	2
	4,682	4,429	9,111	69,113	39,950	109,063	1,397,486	595,373	1
	13,903	1,220	15,123	42,158	5,459	47,617	874,195	73,601	

ional Education Statistics, 1996-1997

ECUADOR
RURAL AUTONOMOUS SCHOOL NETWORK PROGRAM (EC-0125)
Basic education sector indicators, 1997

	URBAN	RURAL	NATIONWIDE
	6.0	17.9	35.8
rate in primary education (%)	90.2	87.7	89.0
rate in secondary education (%)	64.7	28.9	49.6
nt rate in higher education (%)			16.5
of schooling (in years)	8.3	4.8	7.1
(%)	9.7	15.2	12.6
(%)	16.8	33.8	19.0
iture per student: in 1990 U.S. dollars (1)			
ary			189.0
ndary			341.0
ersity			589.0

Technical Secretariat for Social Action, Ecuador Social Agenda 1998-2007, January 1998
Report on Economic and Social Progress in Latin America, 1996

RURAL AUTONOMOUS SCHOOL NETWORK PROGRAM
(EC-0125)
LOGICAL FRAMEWORK

OBJECTIVE DESCRIPTION (SD)	VERIFIABLE INDICATORS (VI)	MEANS OF VERIFICATION (MOV)	KEY ASSUMPTIONS (KA)
Sustained improvements in the education level in rural areas through an autonomous management system.	1.1 50% of students in participating networks finish primary school. 1.2 90% teacher attendance rate in network schools.	1.1 MEC statistical yearbook and medium- and long-term evaluation 1.2 Idem	<ul style="list-style-type: none"> The Ministry adheres to its school autonomy and community participation policy.
Improvement of teaching conditions at the primary education level in the school networks created by the program and institutional reforms.	1.1 Approximately 20% of rural school networks are granted autonomy. 1.2 120 networks administer their own budgets and have a strategic plan, with a high degree of parent participation. 1.3 120 program-financed education plans are successfully implemented. 1.4 The Planning Office is strengthened. 1.5 Provincial education offices are strengthened to furnish appropriate technical and educational assistance.	1.1 Internal and outside monitoring system 1.2 Outside monitoring system and UAE reports 1.3 Idem 1.4 Consultants' reports and outside monitoring system 1.5 Idem	<ul style="list-style-type: none"> The Ministry assigns high priority to the autonomous development of school networks. Community organizations are active and support the program.
Approval of an action plan for the development of NGOs.	1.1 Preparation and approval of an action plan.	1.1 Document	<ul style="list-style-type: none"> The community and other stakeholders are actively involved in the school community development process.
Implementation of administrative, financial and institutional management systems for school networks.	2.1 Design and implementation of a management system, including a financial management and auditing system and an autonomous education management system.	2.1 Internal and outside monitoring system	<ul style="list-style-type: none"> The provincial offices play a full role in the program.

STRATEGY DESCRIPTION (SD)	VERIFIABLE INDICATORS (VI)	MEANS OF VERIFICATION (MOV)	KEY ASSUMPTIONS (KA)
of NGOs to support school	3.1 Training of 60 supporting NGOs.	3.1 Records of trained NGOs	<ul style="list-style-type: none"> ○ The DINEIB is involved in the developing school autonomy. ○ The necessary measures are according to program outputs recommendations.
NGOs to support school	4.1 Signature of 120 contracts with supporting NGOs.	4.1 Signed contracts	
on of instruction manuals.	5.1 Preparation and availability of 41 models (management guidelines and instructions).	5.1 Signed consulting service contracts	
and distribution of supporting for school networks and n of training courses.	6.1 Distribution of 212,000 copies of supporting materials.	6.1 Documentation on delivery of materials	
of school network, provincial MEC personnel.	7.1 Conduct of 127 training courses with 6,500 participants.	7.1 Participant registration	
of the performance-based allocation system.	8.1 Reports by UAEs.	8.1 Internal and outside monitoring system	
g and evaluation of the of the reform process carried	9.1 Completion of eight semiannual evaluation reports. 9.2 11,200 surveys conducted. 9.3 840 interviews conducted. 9.4 280 focus groups held.	9.1 Outside monitoring system 9.2 Idem 9.3 Idem 9.4 Idem	
on of preinvestment studies and	10.1 Hiring of consultants.	10.1 Reports produced	

ACTIVITY DESCRIPTION (SD)	VERIFIABLE INDICATORS (VI)	MEANS OF VERIFICATION (MOV)	KEY ASSUMPTIONS (K)
Development of the action plan	1.1 Program budget and training plan	1.1 Financial statements and progress reports	<ul style="list-style-type: none"> There is an adequate number of interested parties participating in the program. There are no disputes delaying bidding procedures. Contractors observe established deadlines and cost ceilings. Counterpart funds are made available as dictated by the program implementation schedule.
Implementation	1.2 Progress report	1.2 Idem	
Procurement of consulting services for work	2.1 Program budget and signed contracts	2.1 Consultants' report	
Implementation	2.2 Progress reports	2.2 Financial statements and progress reports	
Training organizations	3.1 Program budget and executed contracts	3.1 Financial statements and progress reports	
Implementation	3.2 Reports and list of participants	3.2 Financial statements and reports	
UAEs to support school	4.1 Program budget and executed contracts	4.1 UAE reports	
Procurement of consulting services for work	5.1 Program budget and executed contracts	5.1 Consultants' reports	
Training organizations	6.1 Program budget and executed contracts	6.1 Financial statements and progress reports	
Implementation	6.2 Distribution schedule	6.2 Delivery receipts	
Procurement of training services	7.1 Course reports and list of participants	7.1 Financial statements and reports	
Procurement of consulting services	8.1 Program budget and executed contracts	8.1 Internal and outside monitoring system	
Procurement of contracts and bidding	9.1 Bank-approved bidding conditions and contracts	9.1 Financial statements	
Procurement of contracts	9.2 Program budget and certificate of contract award	9.2 Progress reports	
Consultants	10.1 Executed consultant contracts	10.1 Consultants' reports	

ESTIMATED PROCUREMENT PLAN

Item	Total cost	% of Financing		Unit	Quantity	Contracts		Estimated start date
	(US\$000)	IDB	Local			No.	Method	
Consulting services								
Development and studies (CF)	755	100	0	consultant/months	67	12	4 SH, 8 DC	I/99
Assistance for planning (IC)	238	100	0	consultant/months	19	2	2 SH	I/99
Assistance for the MEC (IC)	344	100	0	consultant/months	161	9	1 SH, 8 DC	I/99
school networks (CF)	273	100	0	number of courses	120	120	120 DC	II/99
UAEs (CF)	69	100	0	number of courses	2	2	2 SH	II/99
the MEC (IC)	120	100	0	number of courses	5	5	5 DC	II/99
Assistance for the networks (CF)	3,312	100	0	consultant months	1,440	120	120 SH	I/99
teachers (CF)	2,000	90	10	teachers trained	6,500	240	240 SH	II/99
monitoring of the program (CF)	750	100	0	months	48	1	1 ICB	I/99
Equipment and materials								
and printers	352	100	0	number of items	286	2	2 LCB	II/99
s for school and educational nt	464	100	0	number of guidebooks	212,000	7	5 SH, 2 DC	II/99
room furnishings	3,000	90	10	number of schools	1,440	120	120 SH	II/99
ation textbooks	1,680	90	10	set of textbooks	140,000	120	120 SH	II/99
y for each classroom	2,534	90	10	number of libraries	7,920	120	120 SH	II/99
each school	3,600	90	10	number of libraries	2,400	120	120 SH	II/99
e classroom materials	2,640	90	10	set per school	2,400	120	120 SH	II/99
Construction								
on or replacement of	8,760	90	10	number of classrooms	1,460	1,460	1,460 FA	II/99
ly	1,650	90	10	number of schools	1,100	1,100	1,110 FA	II/99
disposal system	1,650	90	10	number of schools	1,100	1,100	1,110 FA	II/99
ver	1,650	90	10	number of schools	1,100	1,100	1,110 FA	II/99

Consulting firm; DC = Direct contracting; FA = Force account; IC = Individual consultant; I = first half [of year indicated]; ICB = International competitive bidding; II = second half [of year indicated]; LCB = Local competitive bidding; SH = Shopping;

PROPOSED RESOLUTION

ECUADOR. PARTIAL PAYMENT OF INTEREST ON LOAN ____/OC-EC TO
THE REPUBLICA DEL ECUADOR

(Program for the Autonomous Rural Schools Network)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "Account", to enter into such contract or contracts as may be necessary with the República del Ecuador, as Borrower, and to adopt other pertinent measures to use the resources of the Account to pay a part of the interest due by the Borrower on outstanding balances of up to forty million United States of America dollars (US\$40,000,000) of the loan authorized by Resolution DE-____/98, in accordance with the provisions set forth in Document FN-263-2, as amended, approved by the Board of Executive Directors on December 21, 1983.

PROPOSED RESOLUTION

ECUADOR. LOAN ____/OC-EC TO THE REPUBLICA DEL ECUADOR

(Program for the Autonomous Rural Schools Network)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República del Ecuador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program for the Autonomous Rural Schools Network. Such financing will be for the amount of up to forty five million United States of America dollars (US\$45,000,000), from the Single Currency Facility of the ordinary capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" set forth in the Executive Summary of the Loan Proposal.