

DECENTRALIZATION SUPPORT PROGRAM

(EC-0204)

EXECUTIVE SUMMARY

Borrower and guarantor:	Government of Ecuador	
Executing agency:	Consejo Nacional de Modernización del Estado [National Council on Modernization of the State] (CONAM)	
Amount and source:	IDB (OC):	US\$4.8 million
	Local:	US\$1.2 million
	Total:	US\$6.0 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4.5 years
	Disbursement period:	4 years
	Interest rate:	variable (IFF)
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars, Single Currency Facility
Objectives:	<p>Through technical assistance and training, the program will support decentralization and the transfer of responsibilities to sectional governments in Ecuador. It will also support updating of the legal and financial framework for fiscal decentralization.</p> <p>The specific objectives of the operation are: (a) development of a legislative and institutional framework for decentralization; (b) support for implementing the annual decentralization plans approved by the government that put into effect the gradual transfer of powers to the sectional governments; (c) preparation of legislative reforms to consolidate the regulatory framework governing the country's subnational organization, financing for the sectional governments and local taxation into a single system; and (d) studies and proposals reached by consensus with interested sectors to entrench the reforms in subnational organization, giving special consideration to reforms of the autonomous regime and organization of districts for indigenous and Afro-Ecuadorian communities.</p>	

Description: The program consists of the four components described below.

Component 1. Support for implementation of decentralization (US\$3.3 million). This component will support: (a) the development and consolidation of the legislative and institutional framework for subnational organization and decentralization; (b) the transfer processes established in the first three annual decentralization plans; (c) strengthening of the ministries of the central and sectional governments involved in the negotiations for the effective transfer of powers; and (d) the establishment of coordination mechanisms for public policy formulation in the framework of the new institutional system created by decentralization.

Component 2. Support for fiscal decentralization (US\$450,000). The purpose of this component is to help refine the current subnational fiscal management model. Loan proceeds will be used to support the Ecuadorian government in the design of alternative formulae to improve the current framework and deepen fiscal decentralization in a prudent manner, maintaining macroeconomic balances and providing the funds and controls needed to enable the sectional governments to carry out their new functions adequately. This component will be developed jointly with the Ministry of Economic Affairs and Finance and includes: (a) studies to prepare alternative models for financing the sectional governments; (b) actions to strengthen the local tax administrations; (c) studies and proposals on the implementation of cofinancing mechanisms; and (d) design of information systems for decentralization and monitoring and control of the finance and performance of sectional governments.

Component 3. Studies (US\$380,000). The program will finance studies on the physical delimitation of special indigenous and Afro-Ecuadorian districts, with a view to generating technically grounded justified legislative proposals, arrived at by consensus with the interested parties.

The component will also finance the commissioning of studies aimed at deepening the process leading to autonomy in Ecuador, taking into account its impact on governance and fiscal management.

Component 4. Citizen communication and social participation (US\$640,000). This component will support the process of public information and citizen oversight to follow the progress of fiscal and administrative decentralization through: (a) monitoring of public opinion; (b) citizen communication activities; and (c) promotion of social participation.

**The Bank's
country and
sector strategy:**

The Bank's strategy in Ecuador gives priority to the following: (a) better governance and the quest for mechanisms to overcome political and regional fragmentation; (b) economic stabilization; (c) modernization of the public sector; (d) recovery and growth in physical and human capital; and (e) social and ethnic inclusion. A new subnational development strategy has recently been approved, based on the following intervention criteria: (a) cross-cutting basic institutional requirements in the transfer process to avoid undesirable inequity and disparities in delivery of the transferred services; (b) control of the fiscal impact; (c) priority development of the capacity of the sectional governments to meet the needs of the population in relevant sectors; (d) flexibility of the process of the devolution of powers, that must be adapted to the differences in capacity and will of the sectional governments; and (e) gradualism in the transfer of responsibilities for service delivery in terms of existing institutional capacity in the sectional governments. The Bank has assisted the Ecuadorian government and the executing agency with technical and financial support to implement the initial actions in the institutionalization and development of the decentralization process and the formation of a team of local specialists who have advised the government on the ramifications of the process. The specialists have cooperated with different ministries in organizing their own technical teams to undertake negotiations and reach agreements on the transfer of powers.

**Environmental
and social
review:**

Decentralization will lead to improvements in social equity, through greater efficiency and transparency in the allocation of fiscal resources and fairer distribution of them. Alternatives to the current rules governing subnational organization, local taxation and intergovernmental transfers will be studied, to find more effective and equitable fiscal solutions, linked to the differences in tax potential in local communities. The program will carry out activities with community leaders and civil society organizations to explain the scope of the decentralization reform and the new responsibilities of local communities once powers have actually been transferred. The studies on the physical boundaries of indigenous and Afro-Ecuadorian districts will channel the demands that have been embodied in the constitution but have not yet been met.

With respect to institutional systems for environmental management and protection, the program will finance actions to strengthen the Ministry of the Environment in the areas of regulatory functions and the development of standards and systems for monitoring and control of the environmental responsibilities that are transferred. It will strengthen the systems that evaluate the environmental capacity of the sectional governments and provide technical assistance to build it up.

The country has guidelines for environmental management and protection for the main urban and municipal services, that were developed with Bank support under the global credit program for municipal development.

Benefits:

The program will support an institutional and social process to comply with constitutional commitments and laws that were passed with broad popular and political consensus but which have not been implemented owing to the lack of an appropriate framework for governance and clear procedures for transferring powers. The program will promote the efficiency, transparency and equity of the distribution of public funds to the local levels and strengthen local decision making and accountability. It will also improve the legal and regulatory framework for subnational governments and fiscal decentralization in Ecuador and will provide a technically grounded reasoned response to the possibility of establishing special indigenous and Afro-Ecuadorian districts.

The program will be framed in a new strategy of fiscal discipline and accountability that will be applied to all levels of government, including the budget management of the sectional governments themselves. It is expected that the sectional tax reform and support for strengthening the municipal tax administrations will contribute positively to local financial autonomy.

Risks:

All decentralization processes are strongly conditioned by the political context. Therefore, an operation of this kind is subject to some uncertainty with regard to its final outcome. Like other major challenges facing the country, decentralization requires continued work on building political and institutional consensuses, which are indispensable for the feasibility of a proposal of this kind. However, the measure of success will be to inaugurate the process and make progress in transferring responsibilities, while ensuring that certain minimum criteria are complied with to provide continuity and the capacity to manage the services transferred. The country's fiscal precariousness is another important determining factor and therefore the plan must progress in step with the central and sectional governments' capacity to effectively comply with the

financial commitments made in each transfer negotiation. The results of the elections to be held within less than two years add uncertainty to the project execution period, and therefore a mid-term evaluation has been planned, when the new government takes office.

The program's execution is complex. To address this problem, quarterly reprogramming and semiannual evaluations of progress have been planned, to be performed by the Bank, the borrower and the executing agency, with support from international consultants. A complete timetable of activities has been prepared up to the mid-term evaluation, which will take place 18 months after the program begins. The timing and number of open calls for proposals and tender calls for services have been simplified to facilitate the launch of the program, its monitoring and Bank supervision.

**Special
contractual
clauses:**

The following are conditions precedent to the first disbursement:

- a. Establishment of the executing unit and appointment of the general coordinator and staff (see paragraph 3.3); and
- b. Selection, with the Bank's nonobjection, of the international consultants to take charge of advisory services for reprogramming targets and following up on the program (see paragraph 3.7).

Other special contractual obligations:

- a. Within the three months following the date of the first disbursement, the international consultants who will be in charge of advising on target reprogramming and program follow-up will have been hired.
- b. Within the six months following entry into force of the loan contract, the joint commissions in at least four ministries will have been set up (see paragraph 2.6).
- c. The executing agency will sign agreements with the Ministry of Economic Affairs and Finance (MEF), the Association of Ecuadorian Municipalities (AME), the Consortium of Provincial Councils of Ecuador (CONCOPE), the Council for the Development of Ecuador's Nationalities and Peoples (CODENPE) and the GTZ to assure their participation in the execution or supervision of specific program activities. The Bank will review the agreements and give its nonobjection prior to committing funding for the respective component or activity (see paragraph 3.4).

Poverty-targeting and social sector classification:	This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation does not qualify as a poverty-targeted investment (PTI).
Exceptions to Bank policy:	None
Procurement:	The thresholds applicable to Ecuador are US\$250,000 for the procurement of goods and services and US\$200,000 for consulting services. Procurements of goods and services with reference prices between US\$100,000 and US\$250,000 will be made under local competitive bidding and local shopping will be used under US\$100,000. Consulting services with reference prices under US\$200,000 will be based on prequalification of consulting firms and direct invitations to firms on the short list prepared by the executing agency.

I. FRAME OF REFERENCE

A. Recent economic situation

- 1.1 **Economic stabilization and renewed growth.** Ecuador has a population of about 13.5 million, a total area of 270,667 km² and an annual per capita GDP of US\$1,100. In the last two years, the government has embarked on a major reform process, whose cornerstone has been dollarization of the economy. As a result of the reforms, the country has recently returned to the path of economic growth and stabilization. GDP grew by 2.3% in 2000 and the rate is expected to rise to 5% in 2001. Inflation, which was slightly over 90% in 2000, has been gradually reduced and will fall to 20% this year. Although the external debt continues to be high as a percentage of GDP, interest payments have been less of a burden on the public purse, falling from 7.7% in 2000 to 6.8% in 2001.
- 1.2 **Progress in fiscal management and tax revenues.** Since the reforms began, the government's fiscal management has improved owing to an increase in tax and oil revenues and spending cuts. The government's primary surplus in 2000 was 9.1% of GDP and it is expected that in 2001 the country will comply with the fiscal deficit target of 0.3% agreed upon with the IMF. The national tax administration has made significant improvements in management and tax revenues now account for just over 13% of GDP, while their levels a few years ago were about 10%. National tax revenues for the present fiscal year have surpassed initial expectations by approximately US\$300 million.¹ Local tax collection in the country's main municipios has also risen as a result of the reassessment of urban and rural properties. At the end of this year, a municipal tax reform bill will be presented to congress, granting wider taxation powers to the municipios, consolidating and simplifying taxes, and establishing rules for more efficient management of municipal taxes.
- 1.3 **Fiscal accountability and discipline.** The country's authorities have taken steps to rationalize spending and fiscal discipline in the different levels and sectors of the public administration. With Bank assistance and funds earmarked for preparation of this program, new legislation has been completed that will soon introduce rules for fiscal accountability on all levels of government. The so-called Fiscal Discipline Act, which will be presented to Congress in the near future, will impose heavy spending restrictions on the national and lower levels of government. The bill prepared by the executive branch includes: (a) financial management parameters to regulate the budget management and results of public entities; (b) unification of the budget planning process; (c) revenue-generating conditions; (d) spending conditions; (e) control of debt with all creditors and an explicit ban on central

¹ The decision by the Constitutional Court overruling the increase in the VAT from 12% to 14% did not affect continued growth in tax revenues, through it introduces an element of uncertainty with respect to the sustainability of the increase over the medium and long terms.

government guarantees, debt condonement or bail-outs for the other levels of government; (f) publicity and information requirements to facilitate fiscal transparency; and (g) institutional and personal sanctions for failure to carry through on the law.

B. Social situation

- 1.4 In contrast with the progress made in the Ecuadorian economy, the country's social situation continues to be difficult and worrisome. Overcoming the crisis, bank failures and fiscal adjustments have imposed high immediate costs on the middle- and low-income population. Ten percent of the economically active population is unemployed and 50% is underemployed, chiefly in the informal sector. Sixty-five percent of Ecuadorians live below the poverty line, measured in terms of a basic consumer basket.²
- 1.5 The fiscal and banking crisis has had a sharp impact on family income, access to essential public goods and services and on the savings capacity of small savers.³ Furthermore, access by very poor families to services may become even worse as a result of the readjustment of public prices and school attendance may shrink owing to the need to supplement family income by sending young people out to work. The value of pensions and the health services provided by the government and social security continue to be equally precarious.

C. Decentralization in Ecuador

- 1.6 **Governance and decentralization.** Regional fragmentation is one of the main problems that have historically affected governance in Ecuador. The country has gone through a period of severe territorial tensions that date back to Independence. The split between the sierra and the coast lies at the heart of those tensions, which stem from historical and geographic factors as well as different economic and social realities. Far from easing with the consolidation of the national State, the tensions have worsened progressively owing to excessive centralization of decision-making in Quito, the country's capital, and the budgeting and management failures by government structures to respond adequately to subnational demands. These difficulties have increased since 1996, owing to successive episodes of economic and institutional instability.
- 1.7 **Decentralization as a challenge.** The reform of the country's subnational organization and decentralization of government decision-making are one of Ecuador's main political and institutional challenges. The current highly-centralized model has ceased to be viable and is incapable of channeling the expectations and

² Inter-American Development Bank, Ecuador, Economic Situation and Prospects, March 2001.

³ The fiscal cost of the banking crisis is 20% of the country's annual GDP, equivalent to four years of social spending.

demands of large sectors of the public, jeopardizing the political and institutional stability that is indispensable if the country is to continue along the path to vigorous and sustainable development.

- 1.8 Reform in the subnational organization of the State requires a comprehensive understanding of the political context if a channel for governance is to be designed to accommodate different interests and political outlooks. These considerations must also take account of the imbalances and economic and social inequalities between the different regions, which make gradual and progressive decentralization necessary. Only then will it be possible to create spaces for consensus able to bring about tangible and lasting changes. From this standpoint, the operation described in this proposal will help the country to build a framework for governance and make gradual progress in the decentralization of powers.

D. Constitutional and fiscal framework for decentralization in Ecuador

- 1.9 **The legal framework for subnational organization.** Ecuador is organized into 22 provinces and 215 municipios, known as sectional governments. Although decentralization has been repeatedly called for in Ecuador's political history, the most decisive steps in that direction are very recent ones. Constitutional amendments were passed in 1995 and 1996 that strengthened the role of the provincial and municipal governments in their civic responsibilities and the provision of certain public services. Decentralization entered a new stage in October 1997, in the wake of the passage of two laws: (a) the law on transfers of untied funds requires the central government to transfer 15% of the country's current income to the lower levels of government to finance their investment programs;⁴ and (b) the Special Decentralization Act establishes the powers to be transferred and requires that a start be made on the process, accompanied by equivalent transfers of funds. Implementation of these two laws suffered from a major time lag, since a start was made on gradually implementing the Fifteen Percent Law one year after it was passed, while the law requiring the transfer of powers has been regulated very recently and its implementation will only begin in November of this year.
- 1.10 **Constitutional requirements on the distribution of powers.** The 1998 Constitution reflected and expanded upon the laws mentioned above and Section XI establishes the basic rules governing subnational organization and the decentralization process. The constitution limits the responsibilities reserved for the central government to national defense and security, foreign policy and international relations, economic and tax policy and management of the foreign debt. **All the other powers are transferable to the sectional governments.**

⁴ This law will be referred to in this document as the "Fifteen Percent Law".

- 1.11 The constitution states that Ecuador is a country made up of units but does not establish a model for subnational organization. It enshrines the autonomy of the sectional governments which can, at any time, demand the powers that are not exclusively reserved for the national government. The singularity that marks the complexity of decentralization in Ecuador is that powers **must be transferred on request** to the lower levels of government, which makes it indispensable to establish an institutional framework for governance that ensures that transfers will be orderly.⁵
- 1.12 **Organization of the autonomous regime for lower levels of government.** The constitution states that the municipios and provinces enjoy their own legal system. Municipios are governed by municipal councils, the members of which are elected by direct vote every four years. The municipal councils are headed by the mayor, also directly elected for the same term. Each province is governed by a provincial council. One half plus one of the members are elected by popular vote and the remainder are named by the municipal councils in each province. The provincial councils are headed by the provincial governor who is also elected by popular vote for a four-year term. The sectional governments are highly corporatist and vertical in their organization and the transfer of responsibilities will pose major challenges for their structure, which must rapidly be made more horizontal, by service sectors and through management and public information systems that most lack today.
- 1.13 **Transfer payments and own income of the sectional governments.** The income of the provincial and municipal governments comes from: (a) a share of central government revenues, through automatic transfers, of not less than 15% of total current income; and (b) taxes and fees collected directly by them. Since the Fifteen Percent Law was passed, the government has been increasing the transfer payments in each annual budget, with the figure for this year reaching 13% (US\$505 million). However, there are laws on the books that preassign funds and introduce distortions into tax-sharing arrangements that violate the principles of equity and solidarity sought through decentralization.
- 1.14 Despite the progress in fiscal decentralization, Ecuador continues to be highly centralized with respect to public income and spending. The central government still accounts for 83% of consolidated spending, while the sectional governments spend 10% and the other levels of the public sector the remaining 7%. Decentralization will gradually increase the importance and fiscal weight of the sectional governments and the issues that must still be solved in the fiscal architecture of decentralization are chiefly related to the introduction of new

⁵ A complete interpretation of the constitutional text must give consideration to **decentralization as a process**, which is the basic idea behind the model fashioned by the framers. The central idea of graduality does not obviate the need to provide a complementary legal framework that spells out the functions and responsibilities of the lower levels of government in the autonomous regime in greater detail to prevent overlapping or unnecessary duplication of responsibilities, as established in Article 230 of the Constitution.

legislation on transfers to those governments, that includes technical criteria for transparency and considers the responsibilities shouldered, equity and fiscal effort, among other aspects.

- 1.15 **Main local taxation problems.** The sectional governments finance somewhat less than 50% of their spending through their own taxes. Local tax administrations suffer from outdated tax bases, inadequate collection and settlement systems and the lack of auditing programs, all of which leads to high tax evasion and a weak public culture of tax payment. In the fiscal field, the lower levels of government lack information systems for comprehensive, consolidated, reliable and timely monitoring. This institutional weakness translates into widely-spaced, poor quality information, which is further aggravated by the fact that there are no public institutions that compile, verify and process that information.⁶

E. Legal regime governing administrative decentralization

- 1.16 **Rules regulating the decentralization process.** Administrative decentralization of responsibilities to the sectional governments is based on the constitution, the Special Decentralization Act passed in 1997 and the regulations of that act, which have recently been approved by the government. The constitution determines which responsibilities can be transferred, establishes the obligation to transfer powers and resources progressively to the sectional governments and stipulates that decentralization will be compulsory when a sectional government requests it.
- 1.17 **Institutionalization of the regulatory framework for decentralization.** The Law on Modernization of the State passed in 1993 charges the Consejo Nacional de Modernización del Estado [National Council on Modernization of the State (CONAM)] with the functions of “monitoring, coordinating and controlling decentralization” in Ecuador. In 2000, the government established the National Decentralization Commission, with CONAM acting as the technical secretariat. Since it was established, the commission has made considerable progress in its mandate, particularly the drafting of the Special Decentralization Act Regulations and the first annual decentralization plan, whose implementation will begin in 2002. The Ministry of Economic Affairs and Finance (MEF), with Bank assistance, has also made considerable progress in preparing a program that includes the establishment in the ministry of a sectional finance support office, which will enhance financial and fiscal monitoring and control of the provincial and municipal governments by the central government.⁷

⁶ At present, the Ministry of Economic Affairs and Finance receives the budgets of most of the sectional governments each year, but much of that information is lost when processed (National Accounts) and the quality of the data is not carefully examined. The Banco Central and the Banco del Estado also compile sectional financial information but do not use it for very specific purposes.

⁷ The operation mentioned in this paragraph is the program to strengthen the Ministry of Economic Affairs and Finance (EC-0198) which is being processed in parallel to the operation presented here.

- 1.18 **Special Decentralization Act Regulations.** The Special Decentralization Act Regulations are indispensable for the legal architecture of decentralization, since they establish the provisions needed to make the 1997 act and the 1998 constitutional mandate operational. Apart from providing a more concrete expression of political will for decentralization, the regulations contain rules to govern the process: (a) they regulate the form and contents of agreements transferring responsibilities between the central and sectional governments; (b) they establish the Comisión Nacional de Competencias [National Commission on Jurisdiction] (CNC) to resolve any disputes that may arise in the devolution process. The CNC is a joint commission, composed of a delegate representing the country's president, who chairs it, and two representatives of the sectional governments – one from the Confederation of Provincial Councils of Ecuador (CONCOPE) and the other from the Association of Ecuadorian Municipalities (AME).
- 1.19 **Regulation of transfer processes.** The regulations of the act ratify the principle that responsibilities will be transferred on request and establish that requests must be responded to within no more than 30 days. The deadlines for formalizing agreements may not exceed 90 days. The regulations also require specific mechanisms to be organized for negotiating the transfers, based on the establishment of joint commissions in each sector, composed of representatives of central government ministries and the sectional governments that request powers. They also establish criteria for deciding on the feasibility of the transfers, including the need to evaluate the institutional capacity of sectional governments to receive and manage the responsibilities they have requested. The regulations establish that government officials who impede the transfer process from proceeding normally may be sanctioned as provided in regulatory texts.
- 1.20 **Rules for the transfer of fiscal resources.** Under the country's law, the fiscal principle underlying the decentralization of powers is that services will be transferred to the sectional governments based on historical operating costs, in accordance with the allocations for current expenditures made by the central government in the current fiscal year. The agreements may not contain commitments regarding future central government funding that do not reflect the historical costs of the services, and future investments in the transferred services will be financed by the sectional governments themselves with funds from the Fifteen Percent Law and own local tax revenues. Transfer agreements will contain specific clauses on the cost of services, based on the fiscal principle in question.
- 1.21 **Regulation of services.** The Special Decentralization Act Regulations establish that the transfer agreements will include a clause establishing the elements of general policy-making, coordination and control to be retained by the ministry, thereby giving priority to the sectoral nature of regulating public services. With support from programs to be financed by multilateral lending agencies, including the IDB, in the coming years the ministries will adjust their regulatory mechanisms, based on

cooperation between the different levels of government, establishing standards and guidelines for supervision and control over the responsibilities transferred.

- 1.22 **Agreements on the transfer of powers.** The legal mechanism for the transfer of powers will be agreements between the pertinent ministries and sectional governments. The agreements will have legal force and will include: (a) the areas of responsibility transferred; (b) a detailed inventory of the material, human and financial resources that will have to be transferred to exercise the new powers and an enumeration of the rights and duties transferred with them; (c) the administrative effects of the transfers; (d) the term within which the sectional governments will begin to exercise the functions; (e) if pertinent, the conditions to make the transfers effective; and (f) the supervisory and policy-setting authority that will remain with the central level.
- 1.23 **Annual decentralization plans.** The Special Decentralization Act of 1997 states that the executive branch is required to prepare decentralization plans each year. The annual plans are approved by the executive branch, based on the recommendations made by the National Decentralization Commission through its technical secretariat and respond to four basic questions: (a) what to decentralize, identifying the powers to be decentralized in each sector; (b) whom to decentralize to, respecting the decision-making power of the sectional governments regarding whether they wish to take over the functions eligible for decentralization; (c) what resources are required, which implies a definition of the cost of the decentralized services and the sources of income to be decentralized; and (d) how and when to decentralize, which presupposes the definition of negotiating systems, timetables and the signature of agreements. The first annual plan has been prepared with Bank assistance and forms part of the present program.
- 1.24 The first annual decentralization plan was prepared with assistance from the Bank and is part of this program's execution plan. The sequence of actions in the plan will focus first on establishing and implementing the institutional systems and mechanisms ordered in the regulations to ensure governance and the existence of suitable rules and procedures for transferring responsibilities. In the first year, support will be given for the initial transfers to provincial governments in sectors that already have formal strategies and preliminary agreements (tourism, the environment, roads and agriculture) and institution-building activities in the ministries involved to boost their capacity to regulate and monitor the areas transferred. Special attention will also be paid to education and health care, given the interest expressed in them by some local governments. Priority will be given to programs to expand schools in urban areas, initial actions to transfer secondary education to the provinces and the transfer of primary and mother and child care to the municipios – the latter ordered under a special law of 1998.
- 1.25 During the first year, studies will be conducted and completed to make improvements in the regulatory framework for fiscal decentralization and the

system for inter-governmental transfers. An information plan for local leaders will be launched and a start will be made on studies on the establishment of leagues of municipalities and the creation of new special indigenous and Afro-Ecuadorian districts.

- 1.26 **Leagues of municipalities and provinces.** The uniform legal system masks the fact that the provinces and municipios are very different with regard to traditions, will and effective capacity for decentralization. Roughly 30 to 40 municipalities and about one half of the provincial councils will be in a position to effectively take over the main services during the first stage of the process. Therefore, the program will promote and measure the impact of the establishment of leagues of municipalities, as permitted by the constitution, to enable sectional governments with limited capacity to manage services to shoulder their new responsibilities without detriment to the continuity and quality of public services. The plans, which have already been prepared by some ministries, make special provisions to transfer services to leagues of municipalities for the purpose of steering requests and subsequent transfer agreements.
- 1.27 **Indigenous and Afro-Ecuadorian districts.** The 1998 Constitution approves the creation of indigenous and Afro-Ecuadorian districts. According to it, the districts are political-administrative divisions, with their own government bodies, comparable to the sectional governments. They are to take the form of a delimited area, in the same terms as a province, canton or parish. Establishing their boundaries will require specific studies that take account of location, cultural homogeneity, environmental and economic factors that condition productive activities and other elements to identify common settlement and cultural patterns.

F. Government strategy

- 1.28 **Recent developments.** The government has taken the first concrete steps to begin transferring powers, by signing agreements with 22 provincial councils on roads, the environment, tourism and irrigation and with 34 municipal governments for the transfer of other specific responsibilities for tourism management. The Ministries of Tourism and the Environment have already prepared detailed strategies for transferring the powers, the Ministry of Public Works is completing a master plan to identify the sections of the road network to be transferred in stage one, and the Ministries of Education and Health, which have received requests for the transfer of responsibilities for the management of schools and health centers from some municipios, are finalizing their strategies for decentralization and reform of institutional and financial management, for an orderly process that will not affect the conceptual and operational unity of those services.
- 1.29 **Fiscal incentives for decentralization.** The central government's fiscal incentives to speed up decentralization are not inconsiderable. Since the Fifteen Percent Law came into effect, the sectional governments have begun to receive national funds,

estimated as US\$505 million in 2001, although they have not yet been transferred responsibilities for managing services. Decentralization will gradually rectify this imbalance, with the gradual transfer of powers to the provincial and municipal governments, as required in the country's legal framework.

G. Bank country strategy and support for decentralization

- 1.30 The Bank's strategy in Ecuador gives priority to the following: (a) better governance and the quest for mechanisms to overcome political and regional fragmentation; (b) economic stabilization; (c) modernization of the public sector; (d) recovery and growth in physical and human capital; and (e) social and ethnic inclusion. A new subnational development strategy has recently been approved, based on the following intervention criteria: (a) cross-cutting basic institutional requirements in the transfer process to avoid inequity and undesirable disparities in delivery of the transferred services; (b) control of the fiscal impact; (c) priority development of the capacity of the sectional governments to meet the needs of the population in relevant sectors; (d) flexibility in the process of the devolution of powers, that must be adapted to the differences in capacity and will of the sectional governments; and (e) gradualism in the transfer of responsibilities for service delivery in function of existing institutional capacity in the sectional governments. The Bank has assisted the Ecuadorian government and the executing agency with technical and financial support to implement the initial actions in the institutionalization and development of the decentralization process and the formation of a team of local specialists who have advised the government on the ramifications of the process. The specialists have cooperated with different ministries in organizing their own technical teams to undertake negotiations and reach agreements on the transfer of powers.

H. Design of the program

- 1.31 Decentralization in Ecuador is a complex process that will take at least 10 years. The main purpose of the program presented in this proposal, which will last for just three years, is to **put into operation the institutional framework for governance and the procedures to be used to facilitate agreements for the transfer of powers, based on fiscal accountability.**
- 1.32 The model chosen by the country to transfer powers is agreements between the central government ministries that transfer them and the sectional governments that request them, sector by sector. The program will support this process in its first and most critical stage, when it will be necessary to establish and operate this institutional framework to ensure control over the process, for the success of the initial actions for decentralization. Although there are uncertainties and risks owing to the very nature of the process, it is expected that the proposed program will make considerable headway in decentralizing responsibilities in the roads, irrigation and

agriculture sectors, tourism, environmental management and protection, education and health care.

- 1.33 One important requisite for decentralization to be a success is that it must not jeopardize the country's fiscal situation. Therefore, the transfer agreements will require: (a) that the funds transferred to the sectional governments for their new responsibilities may not be more than the central government's current spending in the same area; and (b) that when the agreements come into effect, investments in the transferred responsibilities will be financed under the Fifteen Percent Law and with the sectional governments' own income. As a result, the costs of services will not increase and the risk of duplication of spending will be eliminated. The agreements will also state that, except for loans from multilateral banks, the central government will not be responsible for new loans taken in future by the sectional governments, which must be guaranteed with local resources or labor liabilities generated after the respective transfer agreement has come into effect.
- 1.34 **Technical cooperation to support the first steps in decentralization and studies in the fields of education and health care.** Given the importance of the institutional process that was launched in Ecuador with approval of the Special Decentralization Act Regulations and the formalization of agreements with provincial and some municipal governments for the transfer of certain responsibilities and the need to support this process from the outset, the Bank is processing a nonreimbursable technical-cooperation program from the Fund for Special Operations to support: (a) the initial and most critical actions in the process, focusing on the preparation of complementary legal and administrative rules, the regulations governing the CNC and the joint commissions in each sector; (b) strengthening of CONAM's technical team and technical support for the first transfers of responsibilities; and (c) the preparation of administrative procedures and actions to facilitate transfers of responsibilities in the fields of health and education, where decentralization is more complex and it is indispensable to consult with social stakeholders to ensure its viability. The Bank's technical cooperation will make it possible to begin decentralization activities in an orderly fashion and will facilitate the negotiations and agreements on transfers included in successive annual decentralization plans. Strengthening of CONAM will help to continue building institutional capacity that will later be used in developing and executing the program.
- 1.35 **Impact of the decentralization support program on programs approved and in the pipeline.** Since there are Bank programs currently under way or in preparation that include decentralization in sectors such as sanitation, roads, land titling and citizen security, the proposed program will coordinate its action plans with those programs, giving priority to transfers of responsibilities that will support their execution.

II. THE PROGRAM

A. Objectives

- 2.1 The program will provide technical assistance and training to support decentralization and the transfer of responsibilities to the sectional governments of Ecuador and updating of the legal and financial framework for fiscal decentralization.
- 2.2 The specific objectives of the operation are: (a) development of a legislative and institutional framework for decentralization; (b) support for implementing the annual decentralization plans approved by the government that put into effect the gradual transfer of responsibilities to the sectional governments; (c) preparation of legislative reforms to consolidate the regulatory framework for the country's subnational organization, financing for the sectional governments and local taxation into a single regime; and (d) studies and proposals reached by consensus with interested sectors to entrench the reforms in subnational organization, with special consideration to reforms of the autonomous regime for the lower levels of government and organization of districts for indigenous and Afro-Ecuadorian communities.
- 2.3 **Expected results.** By the end of the project, the following results are anticipated: (a) an institutional framework in operation for the decentralization of powers under the current process and future processes of different kinds; (b) the transfer of responsibilities to sectional governments under the first three annual decentralization plans in certain areas such as roads, irrigation and agriculture, tourism, environmental management and protection, education and health care; (c) better preparedness and capacity in the three levels of government to deal with the consequences of decentralization; (d) studies and proposals for amending existing legislation on decentralization to rationalize and integrate the country's subnational organization, the fiscal capacity of the sectional governments and the effective materialization and institutional sustainability of the framework initially developed by the proposed program for governance of the decentralization process; and (e) the existence of a technical foundation to support future decentralization in Ecuador.

B. Description

1. Component 1. Support for the implementation of decentralization (US\$3.3 million)

- 2.4 This component will support: (a) the development and consolidation of the legislative and institutional framework for subnational organization and decentralization; (b) the transfer processes envisaged in the first three annual

decentralization plans; (c) strengthening for the central and sectional government ministries involved in negotiations for the effective transfer of powers; and (d) establishment of coordination mechanisms for public policy formulation under the new institutional framework for decentralization.

- 2.5 The component will finance consulting, technical assistance and training activities in the following subcomponents.
- 2.6 **Support for the development and consolidation of the legislative and institutional framework for decentralization.** The regulatory framework for decentralization in Ecuador has been developed but is scattered among various laws and regulations that must be unified. It is also necessary to study the institutions that regulate the process and its monitoring and supervision in order to make existing mechanisms and procedures more solid. During the first year, the program will finance the preparation of draft reforms relating to the legislative framework for subnational organization to consolidate and rationalize the scattered legal frameworks into a new legislative framework that will include the following: (a) a precise definition of the responsibilities of each level of government, to overcome the fragmentation between general and sector laws; (b) final regulation of the procedures and mechanisms that govern the decentralization process and which are envisaged in the Regulations of the Decentralization Act, i.e. the joint commissions, the National Commission on Jurisdiction (CNC) and the transfer agreements; and (c) mechanisms to strengthen the institutionalization of the decentralization process in the central government, including, if deemed advisable, the identification of a specific agency to guide and oversee the process. The program will also finance technical assistance to support the Office of the Comptroller General of the Republic, which is responsible for fiscal control of the sectional governments. The establishment of joint commissions in at least four ministries, within six months of entry into force of the contract, will be a condition of the Bank's loan.
- 2.7 **Support for execution of the annual decentralization plans.** Technical assistance and training will be financed to support the process of negotiating the agreements between the central and sectional governments. The activities include: (a) preparation of technical studies on the administrative, fiscal and legal measures needed to make headway in negotiating the transfers in different sectors; (b) support for the work of the joint commissions that will operate in each sector to negotiate the agreements; (c) technical assistance after the transfers to support the sectional governments in organizing the services; (d) training for central and sectional government employees in negotiations; and (e) joint workshops for officials involved in the process from the different governments. Financing will also be provided for studies to evaluate the timing for the establishment of municipal leagues in the event they can offer advantages in the efficiency and effectiveness with which responsibilities are managed.

- 2.8 The sectors involved in the transfer of responsibilities and services will be determined each year in the annual decentralization plan. The actions already identified in the proposed program's plan of execution indicate that the first stage of the process will involve the environmental, tourism, rural and urban roads and agriculture sectors, where agreements have already been signed with provincial and municipal councils, and the education and health care sectors where some responsibilities have already been decentralized and some sectional governments have shown marked interest.
- 2.9 **Support for the establishment and functioning of sector conferences.** The program will finance initial support for the establishment and operation of national sector conferences composed of representatives of the central and sectional governments, to coordinate and cooperate in the formulation and execution of public policies on each level of government.
- 2.10 Technical assistance will be financed to support: (a) the organization and functioning of the sector conferences; (b) studies to evaluate the situation in each sector; and (c) access to databanks and sharing of sectoral information that produce integrated and reliable knowledge on the operation of the sectors.
- 2.11 **Strengthening the operating capacity of the sectional governments.** The operation will finance technical assistance and training for institution-building in the sector governments to facilitate an effective take-over of the responsibilities transferred. This subcomponent includes: (a) technical assistance to support the reorganization of the sectional governments to shoulder the responsibilities; (b) the establishment of policy and technical teams with expertise in the new responsibilities; (c) and the development of the work methods needed to carry out the new responsibilities and produce indicators to monitor those that have been transferred under the new institutional arrangement. Funding will be provided to produce operating and maintenance manuals for the services, including indicators for monitoring and control and the design of databases. Technical consultation areas or groups will be established in the ministries to support operational management of the transferred services.
- 2.12 **Support for strengthening the central ministries in performing their leadership responsibilities.** This subcomponent will provide technical assistance and training for the ministries with respect to the leadership responsibilities they retain. The financing includes: (a) studies to evaluate and supplement the design of the criteria for reorganizing the central government ministries and units that transfer responsibilities and for the establishment and development of the new units that will carry out lead functions; and (b) the design of training plans and programs for managers in the ministries to provide them with skills tailored to the roles they will be called upon to play in a decentralized context. The proposed program will finance joint training for managers and sector programs for technical and administrative staff.

2. Component 2. Support for fiscal decentralization (US\$450,000)

- 2.13 The objective of this component is to support studies to improve the existing subnational fiscal management model. The studies and proposals on a new framework for fiscal decentralization will be carried out during the first 12 months of the program. This component will be carried out jointly with the Ministry of Economic Affairs and Finance and will include the following aspects.
- 2.14 **Studies on alternatives for financing the sectional governments.** The objective is to prepare alternatives to the existing legislation on unconditional transfers, in order to unify the laws currently on the books and steer the transfer system toward a model that considers the need to compensate for vertical and horizontal imbalances.
- 2.15 Loan proceeds will be used to contract studies to design alternatives for a transfer system that integrates the funds assigned from the central level to the sectional governments and defines distribution criteria that promote equity among them and efficiency in the provision of the decentralized services. The studies on alternative financing formulae for the sectional governments will propose changes to the current transfer model, which is only based on historical costs, and make recommendations that take account of products and the standard costs of delivering services. In this context, studies will also be conducted to ensure a transparent and equitable distribution of oil and nonoil revenues to local communities, including indigenous and Afro-Ecuadorian communities.
- 2.16 **Strengthening the local tax administrations.** The objective of this subcomponent is to support the development of local financial autonomy through actions to strengthen the local tax administrations, with special stress on the municipios with the largest tax bases. The work will be coordinated with the MEF through the Internal Revenue Service of Ecuador (SRI), which has experience and installed capacity to provide advisory services and to monitor and control the plan. Local consulting services will also be financed to support program execution and monitoring, complementing the work of the SRI.
- 2.17 The strengthening includes: (a) a review of bylaws; (b) recommendations to improve local tax information systems and collection offices; (c) the design of training programs for the staff of the collection services; and (d) public information activities.
- 2.18 **Mechanisms for cofinancing investments.** The loan will finance a study on new and the central government to cofinance investments and public services mechanisms for the sectional and central governments, similar to those that exists in other countries. The study will consider different handling for exclusive and concurrent responsibilities and these mechanisms will not duplicate the allocation of resources with respect to the transferred responsibilities.

- 2.19 **Information fiscal decentralization.** The program will finance studies to design integrated national and sectional information modules for the decentralization (in the fiscal, sector, and social areas). Two modules have been identified.
- a. **Module for transfers to sectional governments:** This module must make transfers of resources from the central government to the sectional governments viable through instruments and/or mechanisms that ensure that the transfers are made predictably, automatically, and transparently, and are integrated with existing national and sectional systems.
 - b. **Module for evaluating the sectional governments' performance in terms of transferred responsibilities:** The purpose of this module is to provide relevant and specific information (sector and social indicators) on how sectional governments are performing in terms of transferred responsibilities.
- 2.20 In addition, the Bank's financing will support training and development workshops on the implementation, use, and maintenance of the systems.
- 2.21 The studies for the design of the first module will be developed by CONAM and will subsequently be used by the MEF, in coordination with the Integrated Financial Management System (SIGEF) and the existing sectional systems. The second module will be implemented in CONAM's Decentralization Unit, which will be in charge of providing periodic reports evaluating the process to the National Decentralization Commission, pursuant to the regulations and the National Decentralization Plan. The terms of reference for the studies on the design of the sectional financial information system to be set up by the MEF must contain linkage with the citizen communication activities to be financed by the program, so that the information on sectional finances is accessible to the public.

3. Component 3. Studies (US\$380,000)

- 2.22 The program will finance consulting services to conduct studies on the physical boundaries of the special indigenous and Afro-Ecuadorian districts, modeling alternatives for their location, boundaries, governance, exercise of powers and fiscal resources. The results will serve as technical inputs for subsequent discussion of legislative proposals for the boundaries of the new districts and will include recommendations on their gradual implementation and the advisory services needed to organize those governments in a manner that is consistent with Ecuador's legal and financial system. CONAM will develop this subcomponent in coordination

with the Council for the Development of Ecuador's Nationalities and Peoples (CODENPE).⁸

- 2.23 The program will conduct studies aimed at deepening the process leading to autonomy in Ecuador, taking into account its impact on governance and the country's fiscal management. The reports will be remitted to government authorities for discussion and subsequent dissemination among interested sectors.

4. Component 4. Citizen communication and social participation (US\$640,000)

- 2.24 The objective of this component is to support the process of public communication and citizen oversight that will follow the progress of fiscal and administrative decentralization.
- 2.25 **Monitoring public opinion.** The program will finance: (a) research and studies on the opinions of the main social sectors with a direct interest in the institutional reforms; and (b) studies to monitor public opinion, to track reactions to public debates on the process and the results achieved by the program.
- 2.26 **Citizen communication.** The program will finance technical assistance, training and support for a public communications and information plan, including the creation of a Web page for the program, in order to build consensus and awareness of the process of transferring powers and resources to the sectional governments. This subcomponent will finance work/discussion seminars for officials and civil society leaders, to be organized by AME and CONCOPE.
- 2.27 **Social participation.** The program will finance provincial and municipal workshops and other alternative activities and instruments to promote participation by society in the process of assuming responsibilities. The agenda of the workshops will focus on the following topics: (a) promotion of mechanisms for social participation in local decision-making; (b) strengthening the mechanisms for public information and accountability; (c) citizen oversight; (d) participative budgeting; (e) local taxes and municipal financial autonomy; (f) the exercise of collective rights and access to justice and other essential services for communities suffering from social exclusion; (g) local environmental management; (h) procedures for managing local public services; and (i) proposals for training programs for local leaders. The social participation activities will be organized and implemented with support from the GTZ, which has carried out similar activities for a long time in

⁸ The studies on the boundaries of the special districts will be performed for the following indigenous and Afro-Ecuadorian peoples: Shuar, Achuar, Shiwia, Huaorani, Siona, Secoya, Cofán, Záparo, Chachi, Tsachila, Epera, Awa; the Kichwa peoples of Saraguro, Cañari, Puruhá, Waranka, Panzaleo, Chibuleo, Salasaca, Quito, Cayambi, Caranqui, Natabuela, Otavalo and the Kichwas of Amazonía and Manta-Huancavilca; and three Afro-Ecuadorian communities.

Ecuador and has steadily cooperated and followed up with the Bank in preparing the proposed program.

5. Costs and disbursements

- 2.28 The estimated cost of the project is US\$6 million and the Bank loan will provide US\$4.8 million from the Ordinary Capital, as shown in Table II-1.

Table II-1 TOTAL COST OF THE DECENTRALIZATION SUPPORT PROGRAM (in thousands of U.S. dollar equivalent)				
	IDB	GOE	TOTAL	%
1. ADMINISTRATION, EVALUATION AND FOLLOW-UP	602.0	327.0	929.0	15.4
1.1. Executing unit	229.0	306.0	535.0	
1.2. Evaluation and follow-up	298.0	21.0	319.0	
1.3. External auditing	75.0	-	75.0	
2. DIRECT COSTS	3,958.0	818.0	4,776.0	79.6
2.1 Support for implementation of decentralization	2,912.5	396.0	3,308.5	55.1
2.1.1 Studies and technical assistance	2,559.0	-	2,559.0	
2.1.2 Training and dissemination	58.0	196.0	254.0	
2.1.3 Publications and materials	-	200.0	200.0	
2.1.4 Equipment and software	295.5	-	295.5	
2.2 Support for fiscal decentralization	449.0	-	449.0	7.5
2.2.1 Studies and technical assistance	449.0	-	449.0	
2.3 Studies	378.0	-	378.0	6.3
2.3.1 Studies and technical assistance	378.0	-	378.0	
2.4 Citizen communication and social participation	218.5	422.0	640.5	10.7
2.4.1 Studies and technical assistance	218.5	422.0	640.5	
SUBTOTAL	4,560.0	1,145.0	5,705.0	95.0
3. FINANCIAL COSTS	240.0	55.0	295.0	5.0
3.1 Interest	192.0	-	192.0	
3.2 Credit fee	-	55.0	55.0	
3.3 Inspection and supervision	48.0	-	48.0	
TOTAL	4,800.0	1,200.0	6,000.0	100.0
% BY SOURCE	80.0	20.0	100.0	

6. Execution and disbursement period

- 2.29 The program will be executed in 42 months and disbursements will be made over four years.

7. Bank financing

- 2.30 The Bank loan of US\$4.8 million will come from the Ordinary Capital, at the interest rate charged by the Intermediate Financing Facility. Table II-2 shows the terms and conditions.

Table II-2	
TERMS AND CONDITIONS OF THE LOAN	
Source :	Ordinary Capital
Amount :	US\$4.8 million
Periods:	
Amortization :	25 years
Grace :	4.5 years
Disbursement :	4 years
Interest rate :	Variable (IFF)
Inspection and supervision :	1%
Credit fee :	0.7.5% on the undisbursed balance
Currency :	U.S. dollars, Single Currency Facility

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Ecuador and the executing agency will be the Consejo Nacional de Modernización del Estado [National Council on Modernization of the State] (CONAM). Under the Law on Modernization of the State, CONAM is responsible for planning, directing, executing and evaluating the decentralization process. It acts as the technical secretariat of the National Decentralization Commission and is responsible for technical studies to support the commission's work. It is expressly empowered to establish commissions and contract advisors. The contracts for staff and consulting services to execute the proposed program will be for limited services and times, for the specific purposes of the activities financed by it.
- 3.2 **Executing unit.** An executing unit will be established to implement the program, which will be attached to the CONAM's State Decentralization and Structure Unit, where the basic elements and inputs for preparing this operation were developed. The executing unit will be composed of a general coordinator, an administrative financial specialist, an expert in procurement, an expert in decentralization and a secretary. The executing unit's main activities will be: (a) technical, administrative and logistical support for the joint sector commissions; (b) liaison with the Bank and preparation of program follow-up reports; (c) coordination with other participants to develop the program; and (d) administration of procurement of goods and services and contracting of consultants. The executing unit's functions are to ensure that the joint commissions where the negotiations and agreements will be concluded have technical assistance, training and technical decision-making capacity to back the transfers of powers and to determine the regulatory responsibilities to be reserved for each central government ministry. The Bank's earlier technical and financial support to begin institutionalizing the decentralization process and establish a team of local specialists made it possible to provide initial training for professionals and local consultants in CONAM and in the ministries and it is expected that the council's institutional capacity and experience will be drawn on when selecting the executing unit's personnel.
- 3.3 The executing unit will have the following responsibilities, in addition to the functions mentioned above: (a) opening and maintaining specific, separate bank accounts for the loan proceeds and the local counterpart; (b) preparing and presenting disbursement requests and justifications of the use of funds and the semiannual reports on the revolving fund to the Bank's satisfaction; (c) developing and implementing accounting, financial and internal auditing systems for managing the program's funds; (d) maintaining a file of the documentation supporting disbursements; and (e) preparing and presenting the program's annual financial statements, duly certified by external auditors. **The establishment of the executing**

unit, including the appointment of the general coordinator and its staff, will be a condition precedent to the first disbursement.

- 3.4 **Agreements.** The executing agency will sign agreements with the Ministry of Economic Affairs and Finance, AME, CONCOPE, CODENPE and the GTZ to assure their participation in the execution or supervision of the specific activities assigned to them under the program. The Bank will review the agreements and give its nonobjection prior to committing funds for the respective component or activity.
- 3.5 **Execution plan and quarterly programming reviews.** Activities will be programmed through the execution plan. The first plan has been prepared and agreed upon with the executing agency as part of program preparation and includes all the decentralization activities planned until the mid-term evaluation, covering the first and part of the second annual decentralization plans. The terms of reference for all these activities have been completed and are available in the technical files.
- 3.6 **Reprogramming.** The execution plan will be updated each calendar quarter. The executing agency, with assistance from international consultants, will examine and report to the National Decentralization Commission and the Bank on the following at the end of each quarter: (a) the results for the quarter; (b) a breakdown of the activities to be performed in the new period; (c) the changes in goals in each quarter over the programming time frame, by sector and group of activities; (d) the incorporation of new sectors; (e) compliance with strategic plans; (f) reports on the activities of the joint commissions; (g) changes in compliance indicators; (h) progress in the studies and proposals on fiscal decentralization, special districts and autonomous regimes; (i) public consultations and information; and (j) quarterly execution timetable and disbursements and contracts, with the respective costs and terms of reference. The reports will be presented to the National Decentralization Commission and the Bank within 30 days after the end of each quarter.
- 3.7 The reports on progress and obstacles in achieving the goals for each quarter will be studied by the commission and sent to the joint commissions and senior ministerial officials, including the ministers, for information, comments and clearance, as established in the Special Decentralization Act Regulations. The National Decentralization Commission may require more detailed explanations and information from the joint commissions and officials from the executive branch in order to determine whether changes or shortfalls have or could have a substantially negative impact on execution of the annual decentralization plans and the program financed by the Bank. The quarterly reprogrammings will also be examined and approved by the National Decentralization Commission and will include recommendations to improve the processes and procedures used in each sector for the negotiations and transfer agreements. **The selection, to the Bank's satisfaction, of the international consultants in charge of monitoring and reprogramming the program's targets will be a condition precedent to the first**

disbursement. The executing agency will hire these consultants within 90 days of the first disbursement of the loan.

B. Eligible costs

- 3.8 Consulting and training services.** The consulting and technical assistance services will be contracted by the executing unit, with the consent of the respective joint commission or national or sectional agency involved in the execution or supervision of the services. Three international bids and five local bids (including the selection of the auditing firm) are anticipated during the entire program to contract consulting firms by area or sector of expertise, plus the contracting of 68 person/months of local and international consultants. The services will include the organization and development of the training activities. Terms of reference are available for all the international and local consulting services for the program.
- 3.9 Dissemination and public information.** Social communications and dissemination activities will be contracted with specialized local firms and with national and regional communications media. The studies to permanently monitor public opinion about decentralization and the program's activities will be contracted with firms specializing in social research and marketing. The seminars and workshops to inform about the process will be organized and developed with support from AME, CONCOPE and the GTZ.
- 3.10 Publications.** The guides and manuals to be used in the program will be procured through local bidding or price shopping.

C. Disbursements and revolving fund

- 3.11** A revolving fund of up to 5% of Bank financing will be established for program disbursements. Semiannual reports will be presented on the status of the fund within 60 days after the end of each six-month period.

D. Execution and disbursement periods

- 3.12** The program will be executed in 42 months and the disbursement period will be 48 months.

Table III-1 DISBURSEMENT SCHEDULE (in US\$ thousands)						
SOURCE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL	%
IDB	1,299.0	1,360.7	1,490.6	649.7	4,800	80
Local	337.7	354.7	380.2	127.4	1,200	20
TOTAL	1,636.7	1,715.4	1,870.8	777.1	6,000	100
%/year	27.3%	28.6%	31.2%	12.9%	100.0	

E. Procurement

- 3.13 All services and goods for the program will be selected and contracted in accordance with Bank procedures. International competitive bidding will be used to procure goods costing more than US\$250,000 equivalent and for consulting contracts over US\$200,000. Local competitive bidding will be used for goods and services with reference prices between US\$100,000 and US\$250,000. Local shopping will be used for goods and services costing less. Consulting services with reference prices of under US\$200,000 will be contracted through the prequalification of consulting firms and direct invitations to the prequalified firms appearing on the short list prepared by the executing agency. The program will not finance works (see Annex III-1, Procurement plan).
- 3.14 All procurements and contracts during the first six months of the program will be reviewed and approved in advance. After that time, if procurements are found to be in accordance with the Bank's policies, practices and procedures, in the terms and conditions established in Annexes B and C of the loan contract, the Bank's Country Office in Ecuador, in consultation with the Procurement Policy and Coordination Office, may consider adopting ex post reviews. In that event, the ex post reviews will be performed by sampling for contracts with individual consultant involving less than US\$30,000 and with consulting firms involving less than US\$100,000, and for equipment involving amounts up to US\$250,000 equivalent. If the ex post reviews of the documentation and procurement procedures applied to the selection and contracting of consulting services and procurement processes are determined to be inconsistent with Bank policies, the activities will not be financed with loan proceeds. Furthermore, in that situation, the Bank may adopt ex ante reviews or establish ex post reviews for different amounts.

F. Evaluations

- 3.15 The borrower, through the executing agency, and the Bank will hold evaluation and follow-up meeting to evaluate technical quality and progress toward program goals, based on the goals and indicators established in the logical framework (Annex III-2) and the information compiled for the quarterly reprogrammings and for the meetings themselves.
- 3.16 Semiannual monitoring meetings will be held, plus a meeting at the end of the final quarter of the fourth year of the program. The first meeting will review and update the annual goals and indicators to measure progress in and the impact of transferring responsibilities to the provinces and municipios that join the program during the first year. The meetings in the second year will also review progress in the plans for ministerial reorganization and the studies on reforms to the legal framework for subnational organization and fiscal decentralization. The meetings in the second and third years will review progress in the studies on the new indigenous and Afro-Ecuadorian districts. The final meeting will evaluate the results to obtain

information that can serve as the basis for future development of the decentralization process.

- 3.17 The quarterly reports on program monitoring and the reports by the entities that cooperate in the execution or supervision of the different components will be used for the semiannual meetings and the information compiled by the executing unit will be analyzed to determine the program's internal efficiency and effectiveness.
- 3.18 **Mid-term evaluation.** This evaluation will be performed 18 months after the program begins, coinciding with the first semiannual evaluation in the second year. It will examine the development and results of the technical assistance and training to implement the institutional and financial framework for decentralization, with special stress on the following: (a) achievements in developing the institutional framework for decentralization, including the functioning of the National Decentralization Commission, the CNC, and the joint commissions in each sector; (b) pace of compliance with the regulations governing the transfer of responsibilities, compliance with goals and main obstacles; (c) functioning of the execution plan and the program's executing unit; (d) changes in the framework and institutions regulating decentralization; (e) compliance with the program's fiscal principles and criteria for fiscal accountability and discipline; (f) strengthening of the central and sectional government ministries involved in negotiations for the effective transfer of responsibilities; (g) establishment and operation of coordination mechanisms for public policy formulation; (h) results of the support and strengthening of the sectional governments in taxation and management of the services and responsibilities transferred; (i) conclusions of the studies on alternative models of financing for sectional governments and transfers to local communities; (j) lessons learned by other countries that have undertaken similar reforms, particularly with respect to leagues of municipalities and provinces; and (k) studies on public opinion, development of the citizen communication campaign and actions to support social participation. The mid-term evaluation will be particularly important, since it will take place shortly after the new government takes office. The results of the evaluation and the subsequent action plans will be examined and agreed upon with the new authorities.

G. Ex post evaluation

- 3.19 The government felt that an ex post evaluation of the program was necessary, to be performed one year after its completion. This evaluation will study the program's institutional and socioeconomic impact, strengthen methodologies and enable institutions that participate in the decentralization process to develop their own instruments and evaluation capacity, for better use of the resources assigned to the process. The ex post evaluation will pay special attention to the following aspects: (a) project objectives and design, with particular reference to the targets related to the framework for governance and the operation the institutions that regulate and monitor the decentralization process; (b) design of the execution mechanisms, with

special stress on an analysis of the technical assistance mechanisms that support the transfers of powers and the strengthening of the regulatory capacity of central government institutions; (c) the fiscal impact, with stress on the impact on government spending in the sectors whose responsibilities have been transferred; (d) impact on sectional government finances and compliance with fiscal accountability and discipline requirements; and (e) progress in systems for citizen oversight and public information. During the program, information will be compiled for the ex post evaluation through the program evaluation and follow-up system and the periodic and final reports.

3.20 The borrower, through the executing agency, will present the following to the Bank for approval:

- a. Within three months after the loan contract becomes effective: (i) initial basic data; and (ii) a description of the procedure to be used to compile and process the annual data to be compared with the initial basic data to evaluate the project results.
- b. After the end of the first year of the project and up to the third year after the final disbursement, the comparative annual data mentioned in the preceding point.
- c. Eighteen months after the project begins, a mid-term evaluation report, based on the methodology and guidelines approved by the Bank in the initial report mentioned in point (a).

H. Auditing and control

3.21 The borrower will present the audited financial statements of the program annually, within 120 days after the close of the accounting year. The financial statements will be audited by an independent firm acceptable to the Bank.

IV. FEASIBILITY AND RISKS

A. Feasibility

- 4.1 The proposed program involves institutional actions that respond to explicit demands by the Ecuadorian society as a whole. The main incentives come from: (a) the interest of the provincial and municipal governments in obtaining and exercising the powers that are their responsibility according to the constitution; and (b) the fiscal incentive provided by the central government, which is currently transferring funds to the sectional governments although the effective transfer of powers has not yet taken place. The development and functioning of the institutional mechanism to govern this process is crucially important to ensure the success of the initial actions for decentralization and lend credibility to the process and the players involved in the agreements.
- 4.2 The proposed program has developed a detailed action plan and a system for monitoring and oversight that will permit lessons to be learned from the process.

B. Sustainability

- 4.3 The sustainability of decentralization is based on the incentives generated by the process itself and the strength of the framework for governing this process of institutional change and the possibility of making corrections during it, since it will be gradual and progressive. The fiscal discipline and the principles of accountability on which the program rests strengthen sustainability and create positive incentives to ensure that demands for better services will be financed by expanding the local tax base. Decentralization will also bring benefits in terms of efficiency, transparency and equity in the subnational distribution of financial resources.

C. Fiscal impact

- 4.4 The program will be framed in a new strategy of fiscal accountability that will be applicable to all levels of government, including the sectional governments. The transfers will be based on current operating costs and, after the transfers, investments that are now included in the central government's budget will be paid for from transfers under the Fifteen Percent Law and local tax resources. The tax reform and strengthening for local tax administrations are also expected to have a positive effect on local financial autonomy.

D. Social and environmental impact

- 4.5 The program will promote parliamentary debate and passage of new legislation on subnational organization, local taxation and inter-governmental transfers that will provide equitable fiscal solutions linked to the differences between local

communities in potential taxation capacity. The program will carry out activities with the participation of community leaders and civil society organizations to explain the scope of the decentralization reforms and the new responsibilities to be assumed by the local communities after the effective transfer of powers. The studies on the boundaries of the indigenous and Afro-Ecuadorian districts will channel demands embodied in the constitution that have still not been met.

- 4.6 As for the institutional systems for environmental management and protection, the program will finance strengthening for the Ministry of the Environment in regulation and the development of standards, systems for control and monitoring of the environmental responsibilities that are transferred and systems for evaluating the environmental capacity of the sectional governments. It will also provide technical assistance for building up the environmental capacity of those governments.
- 4.7 The country has environmental management and protection manuals for the main urban and municipal services, which were developed with Bank support under the global credit program for municipal development.

E. Risks

- 4.8 All decentralization processes are strongly conditioned by the political context. Therefore, an operation of this kind is subject to some uncertainty with regard to its final outcome. Like other major challenges facing the country, decentralization requires continued work on building political and institutional consensuses, which are indispensable for the feasibility of a proposal of this kind. However, the measure of success will be to inaugurate the process and make progress in transferring responsibilities, while ensuring that certain minimum criteria are complied with to provide continuity and the capacity to manage the services transferred. The country's fiscal precariousness is another important determining factor and therefore the plan must progress in step with the central and sectional governments' capacity to effectively comply with the financial commitments made in each transfer negotiation. The results of the elections to be held within less than two years add uncertainty to the project execution period, and therefore a mid-term evaluation has been planned, when the new government takes office.
- 4.9 The proposed program is complex. The following measures are intended to address this problem: (a) the program will follow a sequence of actions reflected in the successive annual decentralization plans that will permit decentralization to take place gradually and progressively, beginning with the establishment and consolidation of the regulatory and normative framework and the operation of institutions, arrangements and mechanisms to ensure governance and adequate monitoring and follow-up of the process; and (b) the program must be flexible, which is ensured through quarterly reprogrammings and semiannual evaluations of progress, which, with support from international consultants, will evaluate progress

and difficulties in achieving the proposed goals and measures to correct shortcomings. A complete timetable of activities has been prepared up to the mid-term evaluation and the scheduling and number of bids has been simplified to facilitate the start up of the program, its monitoring and Bank supervision. The Bank's technical and financial support prior to the proposed operation has created sufficient institutional capacity in the executing agency to enable it to responsibly undertake program execution.

PROCUREMENT TABLE

COMPONENTS AND ACTIVITIES	UNITS	AMOUNT (US\$000)	TYPE OF TENDER	ESTIMATED DATE (SEMESTER)
1. Support for administrative decentralization				
Local consulting firm (1 bid)	7	911.0	LOC	I/02-II/03
International consulting firm (1 bid)	5	1,768.0	IOC	II/02-I/04
International consultant (5 m/h)	2	80.0	ICP	II/02
Local consultant (18 p/m)	2	54.0	LCP	I/02
Publication	1	200.0	LCB	II/03-I/05
Software	1	295.5	ICB	II/02-I/04
2. Support for fiscal decentralization				
International consulting firm (1 bid)	1	440.0	IOC	I/02-II/03
Local consultant (3 p/m)	1	9.0	LCP	I/02
3. Studies				
Local consulting firm (1 bid)	1	60.0	LOC	II/03
International consulting firm (1 bid)	1	318.0	IOC	I/02-II/04
4. Citizen communication and participation				
Local consulting firm (2 bids)	4	577.0	LOC	I/02-II/03
Local consultant (21 p/m)	2	63.5	LCP	I/02
5. Monitoring of the annual plans				
Local consulting firm (1 bid)	2	96.0	LOC	I/03-II/05
International consultant (19 p/m)	2	288.0	ICP	I/02-II/05
Local consultant (3 p/m)	2	10.0	LS	I/02
6. Executing unit				
Local consultant (Executing unit personnel)	5	450.0	LCP	I/02-II/05
Equipment	1	25.0	LS	II/02
Other costs	--	60.0	LS	II/02-II/04
TOTAL	--	5,705.0	--	

ICB = International competitive bidding for amounts over US\$350,000
ICP = International call for proposals
IOC = International open call for proposals for amounts over US\$200,000
LCB = Local competitive bidding for amounts under US\$350,000
LCP = Local call for proposals
LOC = Local open call for proposals for amounts under US\$200,000
LS = Local shopping

**LOGICAL FRAMEWORK
DECENTRALIZATION SUPPORT PROGRAM
(EC-0204)**

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>process of decentralization and powers to Ecuador's sectional and to update the legal and framework for fiscal on.</p>	<p>The institutional framework for the decentralization process is organized and continuously operating to respond to requests from sectional governments for transfers of powers.</p> <p>The sectional governments fully, efficiently and responsibly exercise the transferred powers.</p> <p>The new institutional and financial framework for decentralization is formulated based on the lessons learned from the program.</p>	<p>Publications and reports by the National Decentralization Commission.</p> <p>Follow-up reports by CONAM and the inter-governmental sector commissions.</p> <p>Reports by the Ministry of Economic Affairs and Finance.</p> <p>Reports by the Office of the Comptroller General.</p> <p>Reports on the final evaluation of the program.</p>	<p>The country's socio-political and institutional frameworks permit activities to be carried out.</p> <p>The decentralization process in Ecuador is consolidated, based on a clear division of powers and responsibilities, speed, efficiency and a high degree of public citizen participation.</p> <p>Decentralization is a priority for political parties and civil society.</p> <p>The sectional governments manage their finances responsibly and with fiscal discipline.</p> <p>The Ministry of Economic Affairs and Finance has implemented an information system to monitor subnational financial management.</p>
<p>and autonomous management of sectional governments is ensured through: (a) implementation of the institutional framework called for in the regulations on decentralization and in the legislation to create a framework of governance for the sectional governments; (b) support for the annual decentralization process to progressively transfer powers to</p>	<p>The institutional framework for the transfer of powers has been organized and operates suitably.</p> <p>Three annual decentralization plans are executed.</p> <p>The responsibilities transferred in the sector agreements are fully exercised with adequate service levels by the sectional governments, based on the</p>	<p>Reports by the National Decentralization Commission.</p> <p>Reports by the sectional governments.</p> <p>Reports by the Ministry of Economic Affairs and Finance and CONAM on compliance with the indicators for fiscal accountability in the sector governments that have been given new powers.</p>	<p>There is continuity in the central government's institutional policies for decentralization and in the provincial governments and municipalities that participate in the process.</p> <p>The political-institutional agreements developed under the first decentralization plan allow for progress to be made in delegating responsibilities and powers to the provinces and municipalities.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>governments; (c) the final responsibilities to interested governments, building their management those responsibilities; improvements in the financial and organization of the on system.</p>	<p>management indicators agreed on for the transfers.</p> <p>Reports on compliance with the responsibilities established in the Fiscal Discipline Act.</p> <p>Studies are completed on reforms in the fiscal and financial regime governing decentralization.</p>	<p>Evaluation and follow-up reports on the program, with comments on changes in the decentralization of critical decisions for the functioning of the transferred responsibilities indicate improvements in autonomy, financing, coverage and quality, and extent of community participation.</p>	<p>The incentives encourage participation in decentralization programs.</p> <p>There is a parliamentary consensus on the elimination of preallocations, equitable and transparent distribution of royalties.</p>
<p>al framework has been to effectively decentralize the various kinds of the current process and of different kinds.</p> <p>been made in transferring responsibilities to sectional governments in areas of social sectors, roads, tourism and management and protection.</p> <p>of government are better have the capacity to deal with the challenges of the decentralization of</p> <p>been completed on the rationalization of the organization of the country, the of the sectional governments have materialized and sustainability of the framework developed by the program for the decentralization process.</p> <p>use has been established to monitor progress in decentralization in</p>	<p>Three annual decentralization plans are carried out in accordance with the program.</p> <p>Agreements are reached on the transfer of responsibilities based on the goals established for each sector in the annual decentralization plans.</p> <p>The technical assistance and training plans for the sectional governments that signed agreements result in improvements in their capacity to manage the transferred services.</p> <p>The studies on reforms to be made in the institutional and financial framework for decentralization are completed.</p>	<p>Reports by the National Decentralization Commission.</p> <p>Program follow-up reports.</p> <p>Reports by the sectional governments on the goals and results of the transfer of powers.</p>	<p>The National Decentralization Commission and the National Commission on the Environment (CNC) maintain continuity in the leadership of the decentralization program.</p> <p>The technical capacity of the sectional governments to monitor the transfer of responsibilities has been strengthened.</p> <p>Institutions directly involved and stakeholders use the monitoring reports to disseminate program information.</p> <p>The mass media facilitate understanding of the changes and community participation.</p> <p>The sectional governments implement the recommendations in the consultations and the agreements on transfers.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>nal mechanisms envisaged in s to the Decentralization Act efficiently.</p> <p>ettles claims and disputes n negotiation of the transfers ns failure to comply with ts and actions that impede the</p> <p>cal Secretariat of the CNC is d.</p> <p>of the Comptroller General is d.</p>	<p>Commissions have been established and other institutions have been included in the Regulations of the Special Decentralization Act.</p> <p>The CNC resolves disputes and claims arising during the negotiations efficiently and fairly.</p> <p>The Technical Secretariat of the CNC presents periodic reports on progress in decentralization.</p> <p>The Office of the Comptroller General conducts special studies on fiscal and financial content linked to the decentralization process.</p>	<p>Program follow-up reports on the functioning of the institutional mechanisms that support the program.</p> <p>Documents produced by the Technical Secretariat of the CNC on processes implemented, disputes settled and execution of the transfer agreements.</p> <p>Documents produced by the Office of the Comptroller General on the fiscal consequences of decentralization.</p> <p>Follow-up and evaluation reports on the impact of the changes in institutional and administrative management of services, with respect to coverage and quality.</p>	<p>Complementary regulations and have been designed and the nation inter-governmental commissions and report on the decentralization have been duly established.</p>
<p>upport the annual on plans have been carried out.</p>	<p>Twelve prior studies needed for the negotiations are performed.</p> <p>Seven months of negotiations are held with technical support and 30-40 negotiators trained.</p> <p>Studies on leagues of provinces and municipalities are conducted.</p> <p>Seven workshops on decentralization experiences in other countries are carried out.</p>	<p>Reports by the program follow-up system on:</p> <ul style="list-style-type: none"> - Prior studies conducted. - Number of people attending the training courses. - Evaluation of the courses. - Number of workshops held. - Studies on leagues completed. 	<p>Training methods in negotiation agreements on decentralization responsibilities are available.</p>

DESCRIPTIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>mechanisms for coordination, and control have been developed and operating.</p>	<p>Seven technical secretariats for the sector conferences are established and operating.</p> <p>Seven studies evaluating the situation in each sector and proposals for compensatory or corrective measures are conducted.</p> <p>Seven sector databanks and information systems are developed.</p>	<p>Program follow-up and evaluation reports to establish technical secretariats and sector conferences.</p> <p>Studies conducted.</p> <p>Sector databanks operating and used for the program.</p>	<p>The ministries and sector agencies ensure continuity in supporting the operation of sector conferences.</p>
<p>Managerial capacity of the sectional governments that receive new responsibilities is strengthened.</p>	<p>Between 30 and 40 sectional governments are reorganized to take over the transferred responsibilities.</p> <p>Between 300 and 400 policy and technical officials are trained in the new responsibilities.</p> <p>Seven manuals and working methods necessary to take over the new responsibilities are produced.</p>	<p>Program follow-up and evaluation reports on increases in the use of the new management instruments, the quality of local governments and the responsibilities of managers and supervisors for managing the new areas.</p> <p>Operating manuals on the transferred responsibilities.</p>	<p>Training methods in the exercise of responsibilities are available.</p>
<p>Government ministries are able to perform their oversight functions.</p>	<p>The conceptual plan for the reorganization of the ministries is completed in year one of the program.</p> <p>The design of training plans and programs for ministry managers is completed in year one of the program.</p>	<p>Program follow-up reports.</p> <p>Studies completed.</p> <p>Proposal on the design of training plans and programs for managers.</p>	
<p>Proposals to reform the regulatory framework for decentralization are completed.</p>	<p>Studies to introduce reforms to improve the regulatory framework for subnational organization are completed in year one of the program.</p> <p>Studies on possible reforms to the Special Decentralization Act Regulations are developed and proposals are made to the executive branch before the mid-term program evaluation.</p>	<p>Program follow-up reports.</p> <p>Texts of draft legislation.</p> <p>Reports by the National Decentralization Commission.</p>	<p>Political-institutional agreement and progress to be made in drafting laws, texts and regulations.</p>

RATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ectional government financing formulae have been developed.	<p>Studies on alternatives for new formulae are completed in year one of the program.</p> <p>New formula for the allocation of oil and nonoil royalties is proposed to the government at a technical meeting held 15 months after the program begins.</p>	<p>Studies completed and presented prior to the first annual program evaluation.</p> <p>Studies on new formula presented at program's mid-term evaluation.</p>	
n local tax reform has been Congress.	<p>New tax law for the sectional governments, establishing the taxes assigned to each level, tax powers and a tax code are completed in year one of the program.</p> <p>Implementation of the technical assistance program in about 10 sectional governments has begun in the second and third years of the program.</p>	<p>Program follow-up reports.</p> <p>Completed studies on draft legislation for tax reform in the sectional government.</p> <p>Legal texts.</p> <p>Statistics on local tax collection published by the MEF.</p>	<p>Political-institutional agreement progress to be made in drafting sectional government tax reform.</p> <p>The sectional governments are in the technical assistance program strengthen local tax administration.</p>
w mechanisms for cofinancing	<p>Studies on the distribution of oil royalties are completed in year one of the program.</p>	<p>Studies completed and presented at the first annual program evaluation.</p>	
ion system to support fiscal on has been organized and is in	<p>The follow-up and evaluation system on fiscal decentralization is organized and operating continuously in the MEF 15 months after the program begins.</p> <p>Statistics on transferred responsibilities are obtained continuously after the second year of the program.</p> <p>Indicators on the quality of local management of services are available at the end of the second year of the program.</p>	<p>Document establishing the strategic information plan and country-wide system standards.</p> <p>Program follow-up reports contain new indicators for monitoring decentralization processes, indicate increased use of information for decision making and monitoring the results in all the institutional players in the system.</p>	

OPERATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>entrench the decentralization process has been completed.</p>	<p>Instruments for promoting dialogue among the social actors to facilitate agreements on objectives and responsibilities are operating.</p> <p>The study and models for indigenous districts are completed 18 months after the program begins.</p> <p>The studies on autonomous processes are completed 18 months after the program begins.</p>	<p>Program follow-up reports.</p> <p>Studies completed and presented to the government and the Bank.</p>	<p>There is political will among the social actors to participate in agreements to entrench the negotiation process.</p> <p>Political-institutional agreement on progress to be made in the studies and proposals that arise from them.</p>
<p>Participation and public opinion surveys are being conducted.</p>	<p>Research and monitoring of public opinion is completed.</p> <p>The national multimedia campaign is completed.</p> <p>Special events are carried out to promote discussion on decentralization and the best management approaches.</p>	<p>Baselines to monitor changes in public opinion established in the first six months of the program.</p> <p>Program follow-up reports, describing the materials produced and events held.</p> <p>Documents produced for the evaluation and follow-up meetings, indicating the impact of the materials and events on program development.</p> <p>List of participants.</p> <p>Program follow-up reports containing an analysis of the impact of the social communications activities on the extent of participation in the transferred responsibilities.</p> <p>Lists and reports on events.</p>	<p>There is growing interest by the social and institutional players in participation.</p>

RATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>o and evaluation system has ed and is in operation.</p>	<p>Fourteen quarterly reports on project monitoring and reprogramming.</p> <p>Eight semiannual reports following up on the goals established for the program.</p> <p>Indicators and baselines for ex post evaluation of the program are agreed on at the first semiannual follow-up meeting.</p> <p>Reports for the evaluation and follow-up meetings, containing an analysis of processes, results and impact.</p> <p>Results and good practices are evaluated in the last quarter of year four of the program.</p>	<p>Reports by the Decentralization Commission.</p> <p>Documents from CONAM's Decentralization Unit.</p> <p>Quarterly reports on reprogramming and semiannual program follow-up reports, containing information on processes, goals planned and achieved and corrective measures to achieve the program's ultimate goals.</p> <p>Documents containing program indicators.</p> <p>Document evaluating results and good practices prepared for the final program follow-up and evaluation meeting.</p>	<p>Timely and useful information is on the sectional governments.</p>

PROPOSED RESOLUTION

ECUADOR. LOAN ____/OC-EC TO THE REPUBLIC OF ECUADOR
DESCENTRALIZATION SUPPORT PROGRAM

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 Republic of Ecuador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the decentralization support program. Such financing will be for the amount of up to four million eight hundred thousand dollars of the United States of America (US\$4,800,000) 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" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

ECUADOR. PAYMENT OF INTEREST ON LOAN ____/OC-EC
TO THE REPUBLIC OF ECUADOR
DESCENTRALIZATION SUPPORT PROGRAM

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 Republic of Ecuador, as Borrower, and to adopt other pertinent measures to use the resources of the Account to pay the interest due by the Borrower on outstanding balances of up to four million eight hundred thousand dollars of the United States of America (US\$4.800,000) of the loan authorized by Resolution DE-__/__, 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.