

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

SUPPORT FOR THE UNIVERSALIZATION OF BASIC EDUCATION

(EC-L1018)

LOAN PROPOSAL

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Annex I Logical framework

Proposed resolution

Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/res/externallink_list.cfm?language=en&parid=1&item1id=1&detail=Box1#b1
Status of loans in execution and loans approved	http://ops.iadb.org/approvals/pdfs/ECen.pdf
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=EC&L=EN
Information available in the SCL/SCL files	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1148704
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1222233

ABBREVIATIONS

CEREPS	Special Account for Productive and Social Revitalization
FSO	Fund for Special Operations
GDP	Gross domestic product
ICB	International competitive bidding
MEF	Ministry of Economy and Finance
NCB	National competitive bidding
OC	Ordinary capital
PAE	School meals program
RFP	Request for proposals
SBD	Standard bidding documents
SGAF	General Administrative and Financial Undersecretariat
SINEC	National System of Educational Statistics
UNDP	United Nations Development Programme
UNE	National Teachers Union
UNESCO	United Nations Educational, Scientific, and Cultural Organization

PROJECT SUMMARY

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Financial Terms and Conditions ¹						
Borrower: Republic of Ecuador Executing agency: Ministry of Education				OC financing ¹	Parallel financing Concessional lending framework ¹	
					OC	FSO
Source ³	Amount (in US\$ million)	%	Amortization period:	25 years	30 years	40 years
OC financing	246.4	83.5	Grace period: ²	3.5 years	5.5 years	40 years
Parallel financing – Concessional lending framework	47.6	16.2	Disbursement period:	42 months from the effective date of the contract.		
OC financing (80%)	38.1		Interest rate:	Adjustable	Adjustable	0.25%
FSO financing (20%)	9.5		Inspection and supervision fee	0% ⁴	0% ⁴	N/A
Local	1.0	0.3	Credit fee	0.25% ⁵	0.25% ⁵	N/A
Total financing	295.0	100.0	Currency:	US dollars from the Single Currency Facility	USD	USD
Project at a glance						
Project objective: The general objective of the program is to support the strategy for universalization of 10 years of basic education, with an emphasis on border, rural, and poor urban areas, by improving the quality, equity, and internal efficiency of educational processes. In the medium term, the program would support the government in its efforts to improve educational quality and management through the APRENDO tests, school census, and the opening of comprehensive and full-cycle basic education schools. The program will have two main components: (i) equitable expansion of basic education coverage; and (ii) improvement of educational quality and management. The program is aligned with the country's strategies for the education sector. Specifically, the program supports the policies of the Ten-year Education Plan, including universalization of basic education; improvement in educational quality and equity, and implementation of a national assessment and social accountability system for the education sector; renewal of the teaching profession; and annual increases in education spending as a percentage of gross domestic product (GDP). The Bank will monitor the country's efforts within the coordinated institutional and budgetary framework already put in place by the government, ensuring that the objectives and targets of the Ten-year Plan are met in a timely, efficient, and high-quality manner.						
Special contractual conditions: In addition to the general conditions precedent to the first disbursement, the contract will include the following special conditions for disbursements: (i) application of the program's Operating Regulations; (ii) contracting of the technical-operations audit before the program's second disbursement, and as a condition for each subsequent disbursement, verification through the technical-operations audit of expenditures incurred; (iii) presentation and acceptance by the Bank of an instrument to regulate the Millennium Schools will be a condition precedent to the first disbursement of resources for that subcomponent; and (iv) the contracting of consulting services for the final evaluation before disbursement of more than 75% of the loan resources (see paragraph 3.33)						
Exceptions to Bank policies: None.						
Project consistent with country strategy: Yes [X] No []						
Project qualifies as: SEQ [X] PTI [X] Sector [X] Geographic [] Headcount []						

Procurement: In accordance with the provisions of the Policies for the Procurement of Works and Goods Financed by the IDB (GN-2349-7) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-7), the procedures set out in national legislation may also apply to procurement for the present program if consistent with the Bank's policies (see paragraphs 3.15 - 3.19).

Verified by ESR on: The project concept document was reviewed by CESI on 1 December 2006 (meeting 46-06). The project report was verified by the ESR Office on 1 October 2007 (see paragraph 4.9).

- ¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document for Ordinary Capital financing are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations.
- ² If the disbursement period is longer, the grace period will be equivalent to the disbursement period.
- ³ The percentages of Ordinary Capital (OC) and Special Operations Fund (FSO) resources with respect to total financing will be as follows: (i) for Nicaragua and Guyana: 50% OC and 50% FSO; (ii) for Bolivia and Honduras: 70% OC and 30% FSO; and (iii) for Ecuador, El Salvador, Guatemala, Paraguay, and Suriname: 80% OC and 20% FSO.
- ⁴ With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount, divided by the number of six-month periods included in the original disbursement period.
- ⁵ In no case will the credit fee exceed 0.75%.

I. FRAME OF REFERENCE

A. The education sector

- 1.1 **Structure of the system.** Basic education is a 10-year cycle of mandatory and public schooling (see Table I-1). There are two different academic years, one running from March to December for the Coastal school system, and the other from September to June for the Sierra school system. In all, the basic education system serves approximately 2.3 million children.

Table I-1
Structure of Ecuador's educational system

Level	Equivalent phases	Age
Early childhood education	Early childhood education and development programs	0 to 5 years
Basic education	Preschool (first year of basic education)	5 years
	Primary (second through seventh year of basic education)	6 to 11 years
	Middle school (eighth through tenth year of basic education)	12 to 14 years
Upper secondary	High school	15 to 17 years
Higher education	Universities, institutes, etc.	17 years and older

- 1.2 **Financing.** Ecuador has had one of the lowest levels of social spending in the region, particularly in the area of education. In 2006, educational spending amounted to 2.8% of GDP, compared to the Latin American average of approximately 4.5%. This low level of spending has had a clear impact on the coverage of educational services, human resources development, and the timely supply of educational inputs, leading to a decline in educational quality and management.
- 1.3 **Coverage and equity.** In terms of age groups enrolled in basic education, the biggest problem is found in the early and later grades. At the national level, just 60% of all children aged 5 are enrolled in the first year of basic education (preschool). This means that 4 in 10 children do not attend any type of school. The situation is much more serious in rural areas, where half of preschool-aged children do not attend school.
- 1.4 Recent data show that while the net enrollment rate for primary school is 90%, the enrollment rate for middle and high school is just 45%, with more than half a million children outside the educational system.

Table I-2
Coverage of educational services

Level/age	Population	Enrolled	Unenrolled	% unenrolled
First year of basic education (5 years)	262,860	165,728	97,132	37.0
Primary (6-11 years)	1,639,528	1,482,861	156,667	9.6
Middle and high school (12-17 years)	1,556,383	1,053,138	503,245	32.3
Total	3,458,771	2,701,727	757,044	21.9

Sources: SIISE-INEC-SINEC, taken from: Bulletin No. 2, Social Contract for Education, December 2004.

- 1.5 In terms of access to education, the gap between men and women has nearly closed. Nonetheless, there are sharp regional disparities. Enrollment rates in rural, indigenous, and urban poor areas are far below the national averages (see Table I-3).

- 1.6 The number and placement of teachers are key factors affecting basic education coverage.

There are essentially two main problems. First, many teachers are not where they should be. In other words, they are in urban areas instead of rural, indigenous, and border areas where demand for education is on the rise. Second, institutional and political difficulties have prevented the reassignment of teachers from urban areas to rural and border areas in order to meet that demand. There are currently some 115,000 teachers working in public schools,¹ which is a student-teacher ratio of approximately 20 to 1. However, that average student-teacher ratio is deceiving, given the poor distribution of teachers and the shortage of teachers in poor and rural areas. While central urban schools have a sufficient number of teachers, the net result is that there are still shortages in schools located in border, rural, indigenous, and remote areas. Based on requests for teacher assignments, a shortage of 8,000 teachers was estimated in 2006, mainly in the aforementioned regions. Nearly 5,000 schools were also estimated to have closed due to a lack of teachers.

- 1.7 This situation is due to the central Ministry of Education's limited control over management of its teachers. Until 2007, teachers were assigned to schools at the sole discretion of the Provincial Education Offices. When teachers requested or were transferred to another school, they retained their appointment and budget appropriation,² which made it very difficult, if not impossible, for the original school to replace the teacher, given the fiscal constraints at the national level in this

Table I-3
Net enrollment in %

	Primary school	Middle and high school
Urban	93	56
Rural	87	29
White	92	54
Indigenous	85	22
Black	83	31

Source: Technical Secretariat of the Social Front

¹ Known as government schools.

² In Ecuador, each teaching post has its own budget appropriation.

area. Teachers have also frequently changed schools on their own, typically moving from rural to urban areas.

- 1.8 One factor that aggravates the situation is the low teacher retirement rate. The average age of teachers is around 50 years, and more than 6,500 teachers (approximately 6% of the total) have already met the minimum requirements to retire. Nonetheless, they choose to continue working due to a lack of incentives, since the retirement pension is significantly less than their monthly salary. In the last decade and until 2007, there have been no new budget appropriations for teachers. Accordingly, new teachers have not been incorporated into the educational system.
- 1.9 On the demand side, one factor that has limited access to education, particularly in rural areas, is the enrollment contribution that schools have been charging parents. That annual contribution of US\$25 was used to defray various expenses, including electricity and water charges. Despite being voluntary, the contribution became a condition for enrollment in the school. Together with additional expenses for the purchase of textbooks, school supplies, uniforms, and food, it is estimated that the private cost of public education rose to US\$100/student per year in rural areas, and US\$85/student per year in urban areas. Considering that families in the first quintile have incomes of approximately US\$279/month, the cost of education has represented a significant expense for them and, therefore, a barrier to access.
- 1.10 **Quality.** Academic achievement has been poor, particularly in rural areas. The National System of Measurement of Academic Achievement (SNMLA) created in 1995 administered various achievement tests in math and language to students in the third, seventh, and tenth years of basic education (APRENDO tests). Due to a lack of budgetary appropriations and certain institutional obstacles, those achievement tests have not been administered nationwide since 2000; however, the results of the tests given between 1996 and 2000 showed a clear decline in performance.
- 1.11 Teaching materials and school textbooks are important components of the student learning process. Nonetheless, inefficiencies in the information system and distribution channels, and the Ministry of Education's limited budget have meant that until 2007 at least 30% of children and youths enrolled in early childhood and basic education—particularly in rural and outlying areas—did not have the necessary textbooks.
- 1.12 **Institutional capacity and management.** An institutional diagnostic³ conducted in 2006 concluded that the Ministry of Education's current structure must be strengthened to respond to the challenges of the educational system. Specifically, the Ministry lacks timely information about its educational institutions to aid it in decision making for all its levels, projects, and units, as well as the educational

³ Aguilera, Patricio. Consulting Report for the IDB, 2006.

community at large. The National System of Educational Statistics (SINEC) currently gathers and processes information from educational institutions on an annual basis. However, because of difficulties in the process, data included in the official publications are two years out of date and not always reliable.

B. Country strategy and actions in the sector

- 1.13 **Institutional and political context.** The main development objectives for education in Ecuador are defined in the **Ten-year Education Plan 2006-2015**, which highlights eight priority policies.⁴ The Ten-year Plan is a strategic management tool designed with the purpose of maintaining a set of pedagogical and administrative strategies for a period of 10 years, in order to provide institutional guidance for the processes of modernizing the educational system, transforming or reforming it, and achieving quality improvement and equity targets in the education sector. The plan was developed in consultation with the main stakeholders from the sector and was endorsed by the Ecuadorian people in a referendum held on 26 November 2006 on the occasion of the presidential elections. In that process, the Ecuadorians expressed their desire to elevate the Ten-year Education Plan to the category of State policy.
- 1.14 Based on the outcome of the November 2006 referendum, the government is enacting the necessary laws and reforms to ensure that the education sector macrofiscal ceiling permits compliance with the targets of the Ten-year Plan. This would guaranty sufficient resources starting in 2008 to finance the necessary programs and projects to achieve those targets. Specifically, it would ensure a 5% annual increase in educational spending as a percentage of GDP through 2012, or of up to at least 6% of GDP. It will also promote the implementation of programs and projects under the Ten-year Plan at the national level and with regional equity, giving preference to rural, poor urban, indigenous, Afro-Ecuadorian, and less-developed areas.
- 1.15 At the same time, the Ministry of Economy and Finance (MEF) has established: (i) a capital preservation project,⁵ which is one of the instruments selected by the Government of Ecuador to channel more resources to the sector; and (ii) the Special Account for Productive and Social Revitalization (CEREPS), a source of extraordinary fiscal resources from the State derived from surplus oil revenues that

⁴ Those policies are: (i) universalization of early childhood education for children aged 0 to 5; (ii) universalization of basic general education (first through tenth grades); (iii) increase in high school enrollment up to at least 75% of the corresponding age group; (iv) eradication of illiteracy and strengthening of adult continuing education; (v) improvement of the physical infrastructure and supply of equipment for schools; (vi) improvement in the quality and equity of education, and implementation of a national assessment and social accountability system for the education sector; (vii) renewal of the teaching profession, and improvement in their initial education, ongoing training, working conditions, and quality of life; and (viii) 0.5% annual increase in educational spending as a percentage of GDP through 2012, or of up to at least 6% of GDP.

⁵ Project for Capital Preservation via Amortization of the Public Debt, Debt Restructuring, and Social Sustainability to be Executed during 2006-2010, hereinafter “capital preservation project”.

can be used to finance social investments. The Law⁶ stipulates that 15% of resources from the special CEREPS account must be channeled through the Ministry of Education for social investment projects that respond to established priorities. Accordingly, for the 2008-2010 period, in addition to the regular budget of the Ministry of Education (US\$1.330 billion in 2007), approximately US\$200 million must be allocated annually from CEREPS resources to further the policies and programs of the Ten-year Education Plan.

- 1.16 In recent months, the National Congress of Ecuador has been working and collaborating with the Ministry of Education to determine the type of instruments and/or laws necessary to comply with the targets of the Ten-year Plan, and to sustainably increase educational spending, up to at least 6% of GDP by 2012. All of these initiatives clearly indicate the government's commitment to the sector. First, the Ministry of Education's annual budget has been increased and, second, that budget is supplemented with additional CEREPS resources (see Table I-4). The final outcome will be a substantial increase in resources allocated to education, and a greater percentage of the budget earmarked for the most vulnerable sectors.

Table I-4
Projected increase in educational spending 2007-2012 (in US\$ millions)

Year	Ministry of Education budget	CEREPS resources	Total	GDP*	% GDP
2007	1,330.7	200.0	1,530.7	43,971	3.5%
2008	1,636.8	200.0	1,836.8	46,420	4.0%
2009	1,996.8	200.0	2,196.8	49,006	4.5%
2010	2,396.2	200.0	2,596.2	51,735	5.0%
2011	2,995.3		2,995.3	54,617	5.5%
2012	3,444.6		3,444.6	57,659	6.0%

* Estimates from the IDB Country Department Andean Group (CAN/CAN).

- 1.17 Increases in educational spending are set out in the Ten-year Plan, which was ratified by the Ecuadorian people, thus confirming its priority and ensuring its medium- and long-term sustainability. Fully consistent with this strategic approach for the sector agreed with the people, the MEF has specified that the priority actions are to be executed through coordinated financing from both the central government for investment spending, and multilateral organizations for recognition of that expense, thus underpinning the capital preservation project.
- 1.18 **Universalization of basic education**—one of the eight policies of the Ten-year Education Plan—is one of the country's fundamental needs. This policy purports to offer quality education with an inclusive and equity focus to all children, so that they can fully develop their skills and become participating and creative citizens.

⁶ Fiscal Responsibility, Stabilization, and Transparency Act (Official Registry No. 69 of 27 July 2005).

- 1.19 To achieve the objectives of universalization of basic education, a series of complementary strategies have been introduced that include: (i) retirement incentives for teachers and voluntary severance for night school teachers;⁷ (ii) doubling of budget appropriations⁸ and assignment of teachers to rural, border, and poor urban areas; (iii) hiring of new teachers, ensuring quality through a register of eligible candidates; (iv) elimination of barriers to entry to the educational system through a free textbook campaign and replacement of the voluntary contribution of US\$25 from parents to schools; and (v) the supply of infrastructure,⁹ textbooks, and materials.
- 1.20 **Teacher supply and assignment.** In response to the problem of teacher assignments, the government has designed a mechanism known as *expansion of coverage* in order to increase budget appropriations for basic education teachers. A retirement incentive has also been created that will reduce the number of teachers of retirement age (those with 30 years of service and more than 60 years old),¹⁰ as well as an incentive for voluntary severance for night school teachers, of which there is excess supply. The fiscal space from the released budget appropriations will be used to hire young teachers (in approximately a 2 to 1 ratio) given the lower salary cost (zero years-of-service payment) at lower seniority levels on the national pay scale. All of these regulations are found in Executive Order 1563 of 2006, which also prevents teachers from moving freely within the system, thus ensuring sustained teacher coverage in rural and poor areas.
- 1.21 In parallel with the above, the government has launched two programs to encourage employment in difficult areas: (i) a monthly financial incentive of up to 10% of salary for teachers in border and rural areas; and (ii) a housing construction program for teachers in one-room schools.
- 1.22 After nearly one year in operation, the retirement incentives program to expand basic education coverage is producing favorable results, helping to improve services for children aged 5 to 14 in areas where there is a greater incidence of poverty. In fact, during the 2006-2007 period, 1,206 night school teachers and 3,137 regular teachers received voluntary severance and retirement payments,

⁷ The government is trying to reduce the number of night school teachers in the country because there is both an excess supply and a corresponding lack of demand from students for night classes.

⁸ The doubling of appropriations is a process whereby for every teacher that retires, two new line items are created with the released funds.

⁹ In 2007, the Ministry of Education invested US\$80 million in the construction and refurbishment of 1,189 school infrastructure works. This investment expanded supply in areas where there is unmet demand, e.g. the first, eighth, ninth, and tenth years of basic education in rural areas.

¹⁰ Executive Order 1563 of June 2007 amended the Regulations to the Law on the Teaching Profession and Seniority Listing for the National Cadre of Teachers, increasing the retirement incentive for eligible teachers from five minimum salaries to US\$12,000. This is not considered to be early retirement because the eligible teachers are more than 60 years old and have completed more than 30 years of service. Because those teachers account for a minimal percentage of public officials, their retirement will not put additional pressures on the pension fund.

respectively, pursuant to Executive Order 1563.¹¹ Through the process of doubling budget appropriations, 4,927 new line items for teachers were created, under which 1,900 new teachers have already been appointed. Most of those were assigned to teach the first year of basic education in rural, indigenous, and border areas. Appointments for the remaining budget appropriations are in process, there being a normal lapse between the process of retirement and the hiring of new teachers. Recently appointed teachers hold a university degree¹² and were selected through a prequalification process. It is important to note that most are not new to the profession, but instead have been working in the system for several years on a contract basis.

- 1.23 The retirement of approximately 2,000 teachers per year is expected to be an ongoing, long-term process that will permit the incremental appointment of an additional 12,000 teachers to the educational system by 2012. This strategy will permit and accelerate the absorption of more than half a million children who are currently outside the educational system, thus improving equity in education. The addition of these teachers, together with the incorporation of children currently outside the system, will result in a highly acceptable ratio of 23 students per teacher nationwide.
- 1.24 **Increase in demand.** Demand for educational services in rural and poor areas has been increasing rapidly due to various government initiatives. Today, more than one million Ecuadorian families receive the Human Development Bond, which is an economic subsidy paid to families in the lowest income quintiles contingent upon their accessing education and health services and investing in their human capital.¹³ Distribution of the bond has generated growing demand for educational services, particularly in rural areas. Consequently, for these efforts to be successful in the long term, the increase in demand for space in schools must be accompanied by a corresponding increase in school infrastructure and the number of teachers.
- 1.25 For its part, the Ministry of Education is also stimulating demand through a free textbook campaign and replacement of the voluntary contribution of US\$25 paid by

¹¹ The incentive is US\$12,000 per retired teacher and US\$16,000 per teacher taking voluntary severance in the case of night school teachers.

¹² The training of basic education teachers begins at pedagogical institutions. The training programs last three years, with two years of theory and classroom study, and one year of rural practicum.

¹³ This program is carried out by the Ministry of Economic and Social Inclusion. A recent study of the program revealed that the bond has had a large and positive impact on school enrollment of around 10%, and a large and negative impact (17%) on child labor.

- parents to schools. For the 2007-2008 academic year, the Ministry of Education has launched a program to supply free textbooks to children in the first through the tenth years of basic general education. Those texts have been selected through a national call for proposals in which various pedagogical committees were organized to ensure the quality of content.
- 1.26 Likewise, starting in 2006, as part of its program for the universalization of basic education, and with a view to eliminating barriers to entering the educational system, the government prohibited schools from charging parents the enrollment contribution of US\$25 and decided to cover the fee with resources from the State. Those resources have been added to the Ministry of Education's regular budget, which demonstrates the high priority that is being given to education and reverses the historical trend of limited spending in the sector. According to the Ministry of Education, elimination of the contribution combined with the supply of free textbooks, as well as public relations initiatives, has resulted in a substantial increase in enrollment in basic education in certain cases, e.g. more than 100% in the first year of basic education for Guayas and Manabí.
- 1.27 **Quality.** One initiative inspired by the work of the United Nations Educational, Scientific, and Cultural Organization (UNESCO) to improve the equity and quality of basic education is the construction and supply of equipment for 32 Millennium Schools. Strategically located in poor areas, these schools will offer the complete education cycle, from the first year of basic education to completion of high school. They will have an innovative design tailored to each location, as well as a new management model that incorporates technology and respect for cultural identity. The Millennium Schools will also provide their services to the community, promoting implementation of adult literacy and popular education programs.
- 1.28 In 2007, as part of efforts to achieve the targets of the Ten-year Plan, the Ministry of Education is administering APRENDO 2007 tests in two basic curriculum areas, i.e. math and language and communications, to a sample (representative sample at the provincial level) of students in the third, seventh, and tenth years of basic education. In all, 1,133 primary schools and 684 middle schools have been selected from 22 provinces in the country, for a total of approximately 100,000 students. In addition to measuring the academic achievement of students, the APRENDO tests should serve as a decision-making tool for authorities in the Ministry and for the dissemination of results and accountability to civil society.¹⁴
- 1.29 **Management.** In order to improve educational system governance, the Ministry of Education is taking the necessary steps to implement an online information system

¹⁴ Additionally, in order to develop a culture of assessment, Ecuador participated in the Latin American Laboratory for Assessment of the Quality of Education (LLECE) in 1999 and is participating in its new round.

that automates and integrates all processes executed in the different areas, including statistical, financial, human resources, administrative, etc. One key component of this process will be the school census, whereby a master file of educational institutions will be created. That system will be a tool for generating and administering information in a timely and organized manner, and will be a fundamental source of support in decision making by authorities in the education sector. The analysis of data collected will be used in annual planning and programming exercises by the Ministry of Education, helping ensure that educational institutions are prepared at the beginning of each academic year with the resources and educational inputs to meet student demands.

- 1.30 **Pending challenges.** As shown, Ecuador is making a great effort to address and overcome its challenges in education. The government is aware, however, that there are still important challenges that must be addressed in the medium and long term, once the groundwork has been laid to support the required changes. In particular, there is a need to develop a new system of initial teacher training that focuses on the development of competencies in the pedagogical areas of management, organization, and use of curriculum to promote academic excellence. Another area that warrants attention is whether a mandatory retirement age should be set for teachers in order to ensure continual renewal of the profession. Both cases are already on the Ministry's agenda and progress is expected to be made to the extent permitted by the political and institutional environment.

C. Bank's strategy in the sector

- 1.31 The priority area of the Bank's strategy with Ecuador (GN-2338-1) is to encourage social development and the protection of the most vulnerable. For the education sector, the strategy notes that the Bank will promote: (i) an efficient redirection of spending towards basic and high school education programs; (ii) assignment of resources based on the number of children and type of school; and (iii) improvements in the quality of basic education.
- 1.32 **Bank's experience and lessons learned.** The Bank has been closely tied to Ecuador's education sector in the last two decades. The most recent project supported the creation of autonomous school networks in rural areas through the *Basic Education Improvement* investment loan (1142/OC-EC), also known as *Redes Amigas*. Between 2003 and 2006, the *Social Sector Reform Program* sector loan (1466/OC-EC) helped develop a formula for transparency and relevance in the territorial assignment of teachers and the targeting of vulnerable sectors with educational resources, which will be applied to this program.

D. Program strategy

- 1.33 The proposed program is aligned with the country's strategies and policies in education, which are steadily moving forward. Specifically, the program assists the government's policies in five areas: (i) the program's activities reinforce the change of direction in teacher assignment policies, supporting a teacher distribution based on the number of students, as well as criteria such as poverty and rurality, to

- address the growing demand for educational services in rural, indigenous, and border areas; (ii) the need is emphasized of increasing educational spending in general and channeling more resources to vulnerable population groups, thus eliminating barriers to access; (iii) the program supports the government's objectives of ensuring more efficient and effective spending in the sector; (iv) development is encouraged of a culture of learning assessment and accountability in educational achievement; and (v) the program complements actions to strengthen demand for education (Human Development Bond). In this way, the program assists Ecuador in implementing the most important strategies in the education sector, facilitating an ongoing dialogue between the country and the Bank, and laying the necessary groundwork to deepen reforms in the near future.
- 1.34 Proposed for this operation is an investment loan structure that is innovative, in both its financing structure and the activities to be undertaken. The government has indicated that it will finance the program activities with investment resources from CEREPS and the Ministry of Education general budget. Accordingly, the Bank funding s will be used to defray education expenditures incurred by the Ministry of Education to meet program targets and activities. The program value-added comes from ensuring that the proposed interventions are characterized by quality and equity, promoting discipline in the institutional and budgetary framework, and underpinning the institutionalization of a culture of accountability that is effectively applied to the management and process of teaching. The program supports policies that are known to help improve education, e.g. the distribution of quality textbooks and introduction of a learning assessment system. While important, these measures should be supplemented with institutional adjustments and deeper interventions in certain areas in a later phase. In this context, this operation allows the Bank to monitor this process. All of the program's activities rest on the Ten-year Plan and attainment of the outcomes defined in the logical framework. This financing structure and framework is similar to that of the *Universal Health Insurance Program* (1754/OC-EC) loan approved in June 2006.
- 1.35 As is frequently the case, the strategies proposed to improve the quality and equity of education mean that there is broad-based agreement. For that reason, the Bank's support through this Universalization of Basic Education Program will ensure the continuity of educational policies in a sector that has traditionally been affected by frequent changes that make timely delivery of a service with equity and quality difficult, and will underpin the capital preservation policy being implemented by the MEF. It will also undertake actions to strengthen the institutionality of the Ministry of Education as the lead agency of the Ecuadorian education system. Feedback is concurrently obtained for these processes through the findings of the technical-operations audit and the final evaluation, which will verify the quality of spending and measure the impact of investment on improvement in educational indicators.

E. Coordination with other cooperation agencies

- 1.36 Under the coordination of the Ministry of Education and the MEF, international cooperation supports various aspects of the education sector. The participation of the Andean Development Corporation (US\$70 million) is mainly focused on school infrastructure, with an emphasis on the first year of basic education. The European Union is supporting the eradication of illiteracy and the strengthening of alternative education to close the education gap with 42 million euros (nonreimbursable resources) for the distribution of textbooks to youths and adults, as well as other related activities. The *Deutsche Gesellschaft für Technische Zusammenarbeit* (German Development Corporation) (GTZ) and the United Nations Children's Fund (UNICEF) are participating in financing and technical support for bilingual intercultural education, as well as the International Plan and World Vision. The World Bank has contributed to basic education with studies and technical assistance, and the United Nations Development Programme (UNDP) supports the administration of several projects.

II. THE PROGRAM

A. Objectives and description

- 2.1 The general objective of the program is to support the strategy for universalization of 10 years of basic education, with an emphasis on border, rural, and poor urban areas, by improving the quality, equity, and internal efficiency of educational processes.
- 2.2 The program supports the policies of the Ten-year Education Plan 2006-2015 and the government's efforts at channeling more resources to the sector through CEREPS funds and other fiscal resources. It is also aligned with the capital preservation project being implemented by the MEF. The Bank will monitor the country's efforts within this coordinated institutional and budgetary framework, ensuring that the program's objectives and targets are attained in a timely and efficient manner, with an optimum level of quality.

B. Structure of the program

- 2.3 The program will have two main components: (i) expansion of basic education coverage with equity; and (ii) improvement in educational quality and management, to be implemented over a period of three years. A summary of the expected outcomes by the end of the program is presented in Table II-1 (see logical framework in Annex I for a complete list of indicators and targets).

Table II-1
Selected indicators by the end of the program

Component	Indicator
Expansion of basic education coverage with equity	<ul style="list-style-type: none"> ▪ Coverage of the first year of basic education increases from 74% in 2005 to 85%. ▪ The net enrollment rate for basic education increases from 90.8% in 2006 to 94.0%. ▪ The gap between gross enrollment rates by grade in rural areas compared to rates in urban areas drops by 10% with respect to the 2005 baseline.

	<ul style="list-style-type: none"> At least two-thirds of teachers hired have been assigned to rural, indigenous, and border areas.
Improvement in educational quality and management	<ul style="list-style-type: none"> Gathering, analysis, and dissemination of the results of the school census. APRENDO tests administered to all students, as well as analysis and dissemination of the results.

1. Component I: Expansion of basic education coverage with equity (US\$253.5 million)

- 2.4 The specific objectives of this component are: (i) universalization of basic education in rural, border, and poor urban areas, with priority for the first year of basic education; (ii) increase in the number of teachers, improving their geographical distribution in favor of poor, indigenous, and Afro-Ecuadorian students; (iii) ensure the timely supply of high-quality educational inputs to first through tenth grade students; and (iv) ensure that new teachers have the necessary training and inputs to fulfill their duties.

a. Incentives for voluntary teacher severance and retirement

- 2.5 The program will support the creation of new budget appropriations for teachers in rural, border, poor urban, indigenous, and Afro-Ecuadorian areas by providing incentives for voluntary teacher severance and retirement, primarily in urban areas. The activities to be financed in this subcomponent are fundamental components of the Ten-year Education Plan since they will lead to renewal of the teaching profession, more efficient management of key human resources in the sector, and the supply of more equitable educational services.
- 2.6 In order to implement the program of retirement incentives and of doubling sustainable budget appropriations, the government conducts national campaigns to disseminate information on the retirement incentive and to attract replacement teachers to specified areas. All eligible teachers are called to apply, the list of candidates is drawn up and analyzed, and a register is created of teachers eligible for retirement and willing to take the incentive program in accordance with ministerial resolutions and decrees in effect. This mechanism frees up funds and doubles the number of new teachers since retirement-age teachers are generally above the tenth category, while new hires enter in the fifth category.¹⁵ Retired teachers are replaced with funding from the released budget appropriations, and the scope and distribution of the new budget line items is defined for the surplus based on the criteria of an assignment formula,¹⁶ which favors rural, indigenous, and

¹⁵ The difference in salary between the fifth and tenth categories is approximately US\$400.

¹⁶ The resource allocation formula comprises two phases. In the first phase, resources are distributed among the provinces, assigning more weight to the index of unmet basic needs and the net enrollment rate for the primary level. In the second phase, resources are distributed among the cantons of each province, according to the percentage of people of indigenous and Afro-Ecuadorian descent, the percentage of children outside the school system, and giving priority to the first year of basic education followed by the eighth and tenth years of basic education.

border areas. Priority is also given to the first year of basic education (one year of preprimary education). In order to safeguard the equitable allocation of resources, Executive Order 1563 of 2006 prevents teachers from moving freely within the system.

- 2.7 Once the released budget appropriations are available, the hiring process starts using a register of candidates that defines the technical selection parameters for eligible teachers in accordance with the Regulations to the Law on the Teaching Profession and Seniority Listing for the National Cadre of Teachers currently in effect. All teachers that wish to participate in the selection process for the register of eligible candidates must hold a university degree and submit the required documentation. Each of the participants is rated and the most highly qualified are included on a list of eligible candidates at the canton level. New teachers are hired using the released budget appropriations based on the canton list and a prequalification process.

b. In-service training for new teachers

- 2.8 The purpose of this subcomponent is to improve the quality of the technical pedagogical work of the new teachers, strengthening their skills and competencies. Specifically, the subcomponent is expected to define and implement a new modality of professional development that will improve classroom teaching practices in order to serve a diverse student population with learning challenges. Given that the activities of this subcomponent will complement efforts to hire more teachers, at least 10,000 new teachers are expected to be trained by the end of 2009.
- 2.9 The new training module will promote a process of critical, creative, and active learning that integrates theory and practice in a difficult environment characterized by poverty, multiethnicity, and rurality, among other factors. The subcomponent is geared toward encouraging innovative and participatory work strategies and the use of information and communications technologies as a means to access the world of knowledge. In addition to updating knowledge, the training program will emphasize the development of communication, leadership, and classroom management skills, among others. The implementation strategy will include mechanisms for monitoring and supervising new teachers in the classroom, in order to ensure that they apply appropriate methodologies and pedagogies, and permit any necessary changes to the module.

c. School textbooks and teaching materials

- 2.10 Based on the principle of free education corresponding to the policy of universalization of 10 years of basic education, the program will support the printing and distribution of quality school textbooks for all students enrolled in the Spanish and bilingual systems. The textbooks for the Spanish system are a collection of 35 titles (*Vitrinas Pedagógicas*), which were selected through a national call for proposals by a technical pedagogical committee headed by the Ministry of Education with the supervision of UNESCO. For the bilingual system, the textbook series is *Kukayu Pedagógico*. All the textbooks are accompanied by

supplementary teacher guides. Specific training on the appropriate use of the texts is also given by coordinators and multiplier agents in each province, for a total of eight hours per text per teacher.

- 2.11 In 2007, a total of 4,266,343 textbooks have been printed and distributed to 1,197,905 students in the first through the tenth years of basic education in the Spanish Coastal system; 3,767,274 textbooks to 1,063,781 students in the Spanish Mountain system; and 365,351 textbooks to 86,741 students in the bilingual system. This represents significant progress given that nearly all students enrolled have received the required textbooks. In all, more than two million students are expected to benefit each year during the 2007-2009 period.

d. Replacement of school resources corresponding to the enrollment contribution

- 2.12 Through Ministerial Resolution No.145 of 26 April 2007, the government ordered the transfer of fiscal economic resources to public schools offering the first through the seventh grades of basic education, in order to replace the voluntary economic contribution that was paid by parents. The financing of the enrollment contribution is expected to permit inclusion in the school system of more children from low-income families, particularly those that live in rural and indigenous areas. Therefore, the program transfers will contribute to the efforts of the Ten-year Plan for the universalization of basic education and elimination of barriers to access, promoting the efficient and transparent use of funds at the local level.
- 2.13 Approximately US\$25 per head of household will be transferred to each school. In accordance with the Ministerial Resolution, up to a maximum of 80% of resources can be used to finance consumer goods and services, such as preventive maintenance, teaching materials, teachers for special subjects, etc. At least 20% of resources must be allocated to finance long-lived assets (e.g. laboratory equipment, school furniture, etc.). The efficient use of resources is the responsibility of the principals of the executing units,¹⁷ and the principals of schools on the receiving end of those resources. In this regard, the Ministerial Resolution requires accounting on the use of resources in order to develop a culture of assessment in civil society.

2. Component II: Improvement in educational quality and management (US\$40.5 million)

- 2.14 As an adjunct to the expansion of educational services, the Ten-year Plan underscores the need to improve the quality and equity of education, and to implement a national assessment and accountability system for the education sector. This institutional policy framework is balanced with an equally coordinated budgetary framework, thus fostering the transformation and innovation of educational management.

¹⁷ An executing unit is an educational institution that coordinates the activities of a group of nearby schools. In general, it is the institution with the greatest capacity in a region and offers 10 years of basic education.

a. Millennium Schools

- 2.15 The creation of Millennium Schools as models of public education forms an integral part of the government's response to improve education in Ecuador. Specifically, the goal is to: (i) implement an educational model that responds to local and national needs with adequate pedagogical resources and infrastructure and effective teachers, supporting the teaching-learning process with information technologies and linking various stakeholders; and (ii) increase enrollment in the areas of the Millennium Schools through an educational system that spans 15 years, from early childhood education to completion of high school, and that serves the school-age population and offers educational activities that target the entire community.
- 2.16 The program will support the construction, maintenance, and supply of equipment for 32 Millennium Schools throughout the country. In 2007, contracts have been signed to build units in the parishes of Cuenca (Azuay), Zumbahua (Cotopaxi), San Lorenzo (Esmeraldas), and Guayaquil (Guayas). The remaining contracts are expected to be signed and carried out in 2008. The most important criteria for the location of these units include: (i) areas with schools through the seventh grade of basic education, but no nearby schools offering the eighth through the tenth grades; (ii) areas where there are a minimum of 25 students completing the seventh grade of basic education each year; and (iii) rural, border, and poor urban areas.
- 2.17 The instrument that will regulate this model and define the details of the implementation, monitoring, and evaluation strategies is in an advanced stage. **Presentation and acceptance by the Bank of the aforementioned instrument will be a condition precedent to disbursement of the resources for this component.**

b. APRENDO tests

- 2.18 The specific objectives of the APRENDO tests are to: (i) measure the mastery of fundamental language and communication and math skills as an indicator of the quality of basic education; (ii) provide the educational system with feedback in the form of test results; and (iii) research the factors associated with educational achievement.
- 2.19 As mentioned above, in 2007 the Ministry of Education is administering APRENDO 2007 tests in two basic curriculum areas, i.e. math and language, to nearly 100,000 students in the third, seventh, and tenth years of basic education. The sample of schools selected from the Coastal and Mountain systems was prepared by the National Polytechnic School, fulfilling the requirement of provincial and national representativity.
- 2.20 In order to ensure the quality of the testing process, the Ministry of Education—through the National Planning Office, which is responsible for the creation and implementation of the “National Assessment and Accountability System”—has informed teachers from the establishments selected for the sample about the type of

test designed for the APRENDO 2007 operative. The tests are administered with the support of university students from around the country that are enrolled in the final year of Education and Psychology programs.¹⁸ A university will capture the data, analyze the results, and issue three reports: (i) report on the Sierra operative; (ii) report on the Coastal operative; and (iii) a final report with the national analysis by system and by province. The Ministry of Education will disseminate the results of the tests through various means and mechanisms of communication.

- 2.21 The results will allow the Ministry of Education to propose strategies to improve the quality of education, by strengthening initial teacher education and professional development, as well as curriculum redesign in the corresponding areas. Based on the 2007 experience, testing is expected to be institutionalized, alternating between testing a sample and total numbers each year. To that end, the program will support APRENDO testing on a sample basis for this year, testing of all students in the third, seventh, and tenth years of basic education in 2008, and testing on a sample basis again in 2009.

c. School census

- 2.22 In order to strengthen current initiatives to establish a system of integrated online information, the program will support the Ministry of Education in conducting a school census to help define educational policy and facilitate decision making for all levels, projects, and units of the Ministry of Education, as well as the educational community at large.
- 2.23 Based on current indicators and SINEC data, a census form will be designed, validated, and modified to survey all educational institutions in the country at the level of early childhood, basic, and high school education. The census form will be completed manually by field personnel in direct interviews with the principals of each school. Data captured during the interviews will subsequently be typed on the corresponding application, validated, and, finally, processed in a master file of all schools. The master file will be the basis for building the information system of the Ministry of Education, supported by information technologies and with preference for the use of open code. Likewise, the system will allow data to be continually updated.
- 2.24 The subcomponent's activities include consulting assignments and technical assistance for the planning and logistics of all processes, the development of instruments, trial run and completion of the census in the field, data processing, procurement of the necessary technology, and analysis and dissemination of information.

¹⁸ Since the academic year in the Sierra system runs from September to June and the Coastal system runs from March to December, in the former case, the tests were administered in June of this year, while in the latter case, the tests will be administered in December 2007.

C. Cost and financing

- 2.25 The total cost of the program is estimated at US\$295 million, of which US\$294 million will be in funding from the Bank for financing of expenses that have been recognized, and one million in local counterpart funding. Of the total Bank financing, US\$9.5 million will come from the FSO and US\$38.1 million from the Ordinary Capital (parallel financing); the remainder will come from the Ordinary Capital (see Table II-2).

Table II-2
Cost table (in US\$000s)

Category	IDB ¹	Counterpart	Total	%
Component I. Expansion of basic education coverage with equity	<u>253,518</u>	-	<u>253,518</u>	85.9%
a. Incentive for voluntary teacher severance and retirement	105,372	-	105,372	
b. In-service training for new teachers	4,000	-	4,000	
c. School textbooks and teaching materials	61,385	-	61,385	
d. Replacement of school resources for the enrollment contribution	82,761	-	82,761	
Component II. Improvement in educational quality and management	<u>40,482</u>	-	<u>40,482</u>	13.7%
a. Millennium Schools	27,200	-	27,200	
b. APRENDO tests	8,982	-	8,982	
c. School census	4,300	-	4,300	
Administration, evaluation, and audit	-	<u>1,000</u>	<u>1,000</u>	0.3%
a. Technical-operations audit	-	200	200	
b. Audit of financial statements	-	150	150	
c. Final evaluation	-	400	400	
d. Technical assistance - implementation	-	250	250	
Total	<u>294,000</u>	<u>1,000</u>	<u>295,000</u>	100.0%
	99.7%	0.3%		

¹ Recognition by the Bank will be subject to completion of the activities in each category up to the amounts indicated, notwithstanding any agreements on changes between those categories during the program.

- 2.26 The resources allocated to administer and manage the program will finance the following activities: (i) final program evaluation; (ii) financial audit; (iii) technical-operations audit; and (iv) technical support for the General Administrative and Financial Undersecretariat (SGAF) of the Ministry of Education, which will be responsible for program management. These activities will be charged to the local counterpart.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The Republic of Ecuador will be the borrower and the Ministry of Education will be the executing agency, in coordination with the MEF.

B. Program execution and management

- 3.2 To manage the program, the Ministry of Education will assign the SGAF responsibility for coordination. The SGAF will assume such coordination responsibility with the support of a team of three people, which will be financed with local counterpart funding: (i) a technical coordinator; (ii) a financial specialist; and (iii) a project assistant. The SGAF will be responsible for the technical and administrative monitoring of the program, preparation of semiannual reports, disbursement requests, and associated reports, as well as legal, financial, and accounting considerations.
- 3.3 **General disbursement mechanisms.** The following procedure will be used to process the disbursements in May and November of each year:¹⁹ (i) the SGAF will: (a) complete a report on the progress of the program and performance of each component in accordance with the activities described in Chapter II and the Bank's requirements; (b) send that report to the MEF, which will prepare a disbursement request for the amounts actually executed, and will forward it to the Bank for its no objection; and (ii) the Bank will analyze the disbursement request and grant its no objection based on the technical monitoring reports from the external audit firm contracted to conduct the technical-operations audit (see paragraph 3.23) and on data taken from the Ministry of Education internal information systems.
- 3.4 Once the disbursement request is approved, the Bank will proceed to disburse the corresponding amount to the account opened by the MEF for such purposes. Following is a description of the guidelines governing each component, for determining disbursement amounts and milestones that will trigger recognition.²⁰
- 3.5 **Operating Regulations.** The program will be governed by the Operating Regulations, which are being prepared and will take effect before the first disbursement.

1. Component I: Expansion of basic education coverage with equity

a. Incentives for teacher severance and retirement

- 3.6 For this activity, the Ministry of Education will present evidence of payment (payrolls of transfers to teachers and budget execution) of teacher retirement incentives. The Bank will recognize 80% of that amount when the Ministry of Education presents evidence of the decision to double the budget appropriations. The remaining 20% will be recognized once the personnel action forms for teacher appointments under the doubled budget appropriations have been presented, in accordance with the procedures established by the Ministry of Education and described in paragraphs 2.5 - 2.7.

¹⁹ Those periods were selected to correspond to the different academic years in the Coastal and Sierra regions.

²⁰ This financing and disbursement framework is similar to the one used for the *Universal Health Insurance* (1754/OC-EC) loan approved in June 2006.

b. In-service training for new teachers

- 3.7 For this activity, the Ministry of Education will present evidence of expenditures incurred to train new teachers. Those expenses may be recognized once a group of at least 1,000 teachers has been trained.

c. School textbooks and teaching materials

- 3.8 For this activity, the Ministry of Education will present evidence of the costs of copyright, printing, and distribution of school textbooks through: (i) a copy of the agreements signed with each executing agency (prefectures and municipios, among others), and proof of transfers from the Ministry of Education to those entities; and (ii) a copy of reports from executing agencies indicating the hiring procedures followed and payments made for copyright, printing, and distribution.²¹ Expenses for this subcomponent will be recognized once the actual distribution of textbooks to students has been certified.
- 3.9 When the Ministry of Education has paid to publish textbooks, those expenses will be recognized upon submittal of the following: copies of contracts for copyright rights and payment transfers, copy of the actual transfer of resources from the Ministry of Education to the National Office of School Services, the framework agreement, and the pro forma. In the case of distribution expenses, the distribution agreement for the school meal program (PAE) will be presented, as well as evidence of transfers from the Ministry of Education to the PAE.

d. Replacement of school resources for the enrollment contribution

- 3.10 The Ministry of Education will present evidence of amounts actually transferred for schools through the executing units (school networks, high schools, and Provincial Offices). Those expenses may be recognized once the following have been certified: (i) the transfer of resources to the executing units; and (ii) the use of the resources by the schools. Only item (i) above will be certified in 2007.

2. Component II: Improvement in educational quality and management

a. Millennium Schools

- 3.11 For this activity, the Bank will recognize the actual costs of construction, maintenance, and outfitting of the Millennium Schools. To that end, the Ministry of Education will present information on the hiring procedures and the corresponding physical and financial executions. The Bank will recognize those expenses once the final delivery-acceptance form has been issued and approved for each Millennium School.

b. APRENDO tests

- 3.12 For this activity, the Ministry of Education will present evidence of expenses incurred to administer the tests. Those expenses may be recognized: (i) starting in

²¹ In the event that the PAE handles distribution, proof of expenses incurred will be presented.

2008, once the results of the first sample taken in 2007 have been published;
(ii) starting in 2009, once the results of the 2008 national test have been published;
and (iii) in 2010, once the results of the 2009 sample have been published.

c. School census

- 3.13 For this activity, which will be carried out in the framework of the cooperation agreement between the Ministry of Education and the UNDP, the Ministry will present proof of expenses incurred to conduct the census. The Bank will recognize those expenses once all information gathered during the census has been properly processed and validated in the master file of all the country's educational institutions.

3. Administration, evaluations, and audits

- 3.14 This component will be implemented by the Ministry of Education in accordance with the Bank's regulations for evaluations and audits.

C. Procurement of works, goods, and services

- 3.15 In accordance with the provisions of the Policies for the Procurement of Works and Goods Financed by the IDB (GN-2349-7) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-7), the procedures set out in national legislation may also apply to procurement for the present program if consistent with the Bank's policies. The procurement plan for the first 18 months of the program is attached.
- 3.16 When national competitive bidding (NCB) procedures are used, individuals or legal entities will be allowed to participate and goods may be procured from the Bank's member countries without restriction.
- 3.17 In the case of procurement for Millennium Schools in amount of US\$1.2 million or less in the framework of the education sector emergency declared in Executive Orders 188 and 323 of March and May 2007, respectively, the force account method may be used as specified in the Procurement Policies.
- 3.18 Given the special nature of the procurement for the present program, the price comparison, single-source selection, or force account methods may be used for the procurement, printing, and/or distribution of school textbooks and teaching materials for the education sector, as specified in the Procurement Policies.
- 3.19 Consulting services will be procured in accordance with the consulting services policies .
- 3.20 **Bank review.** The Bank will apply the ex post review procedure as specified in documents GN-2349-7 and GN-2350-7.

D. Execution period and disbursement calendar

- 3.21 The execution and disbursement periods are expected to be approximately 3 years and 3.5 years, respectively, with the following disbursement timetable.

Table III-1
Disbursement timetable (in US\$000s)

Source	Year 1	Year 2	Year 3	Year 4	Total
IDB	92,325	99,052	102,623	-	294,000
Counterpart	16	248	249	487	1,000
Total	92,341	99,300	102,872	487	295,000
%	31.3%	33.7%	34.9%	0.1%	100%

E. Monitoring and evaluation

- 3.22 System of supervision of implementation and monitoring of compliance with targets.** The program will adopt the supervision and monitoring mechanisms developed by the Bank's Country Office in Ecuador, which tie together the design phase with the implementation phase and the different supervision mechanisms. The program execution plan will be developed by the executing agency and validated during the launch workshop, taking into consideration the project report, logical framework, and Operating Regulations, and the results of the risk analysis, which will contain a multiyear schedule showing the sequence of activities and the necessary resources to achieve the expected outputs and outcomes.
- 3.23 Technical-operations audit.** In order to verify the procedures applied, expenses incurred and amounts requested, and progress and compliance with the program milestones defined in the logical framework, the Ministry of Education will hire an external firm for technical monitoring that will prepare periodic reports. **Presentation of those reports with verification of completion of activities and expenses will be a condition precedent to disbursements to the MEF for recognition of expenses incurred for each component, except for the first disbursement.** In the latter case, the Bank will review the reports sent by the MEF and will proceed to make the corresponding disbursements. Together with the analysis of the second request, the firm conducting this audit will analyze the first request and proceed to make the necessary adjustments, if any. **Hiring of this firm in accordance with the terms of reference in the program's Operating Regulations will be a condition precedent to the second disbursement.**
- 3.24 Financial audit.** During the program, the executing agency will present the program's annual audited financial statements. The external audit will be performed by a firm of independent auditors acceptable to the Bank, as specified in documents AF-100 and AF-300, and based on the terms of reference previously approved by the Bank (documents AF-400 and AF-500). The program's annual audited financial statements will be presented within 120 days after the end of each fiscal year (starting with the fiscal year in which the program begins), and the program's closing audit reports will be presented within 120 days after the final disbursement. The procedures established in the external audit procurement guidelines (AF-200) will be followed for the selection and contracting of the audit firm. The costs of the

- program external audit will form part of the program and will be financed with the local counterpart resources.
- 3.25 **Accounting.** The cumulative amounts of expenses or investments reflected in the periodic accounting execution reports (as part of the disbursement request) will consider solely and exclusively eligible expenses that have been previously agreed with the Bank. The Ministry of Education will retain the originals and/or copies of contracts, requests, invoices, receipts, payment vouchers, supplier certificates, and any other document necessary to corroborate the information provided in the reports presented to the Bank. Documentation must be properly identified and filed, and is to be made available upon request to authorized Bank officials and the external auditors for review.
- 3.26 **Reports.** During the program, the Ministry of Education will present the Bank with semiannual progress reports within 30 days following the disbursement request periods mentioned in paragraph 3.3. The reports will include information on progress made and problems encountered during the respective period. In December of each calendar year of the program, the executing agency will also present an annual work plan to the Bank for approval, in accordance with previously agreed guidelines.
- 3.27 **Evaluation.** The baseline for the logical framework indicators has already been compiled based on existing sources in the Ministry of Education. Once 75% of the loan resources have been disbursed, an independent firm will be contracted to perform the final program evaluation, in accordance with the terms of reference included in the program's Operating Regulations. The methodology to be applied will be a combination of a process and an impact evaluation. The evaluation will: (i) analyze attainment of the objectives of each of the program's components and subcomponents; (ii) verify compliance and/or departures from the proposed targets in terms of purpose and components in the logical framework; (iii) analyze the program's sustainability; and (iv) identify the main lessons learned. Contracting of this firm will be a condition precedent to disbursement of more than 75% of the loan resources.
- 3.28 The purpose of the final program evaluation will be to examine its processes and early impacts, particularly: (i) the effectiveness of the process of selection and appointment of new teachers in order to increase the supply of basic education services in rural, border, and poor urban areas; (ii) the increase in educational spending in accordance with the objective of the Ten-year Plan of reaching 6% of GDP by 2012; (iii) the use and effectiveness of resources earmarked for the education sector, including resources transferred to schools to replace the US\$25 enrollment contribution; and (iv) APRENDO testing, dissemination of results, and their use in decision making.
- 3.29 The evaluation will also analyze: (i) the profile and competencies of new teachers; (ii) the effectiveness of training activities geared toward strengthening teacher performance in the classroom; (iii) the quality and use of school textbooks and

accompanying teacher guides; (iv) improvement of the Ministry of Education's information system as a result of the census of educational institutions and creation of the master file; (v) the impact of interventions financed by the program on student learning; (vi) the increase in coverage in year one of basic education on the second year repetition rate; (vii) parent satisfaction with the available schools in their area; and (viii) changes in coverage and completion rates for basic education by geographic area and ethnic group. Given that the Millennium Schools will have only just begun to operate by the end of the program, a baseline will be established to evaluate the effectiveness of the educational quality and management model in the future compared to regular primary, middle, and high schools.

- 3.30 The evaluation will also examine the operating effectiveness of the program's innovative financing mechanism from two perspectives: leadership by the Ministry of Education in implementing a program that is based on the institutional framework of the Ten-year Plan and has clearly defined targets; and the extent to which the program protects sector spending and the expense recognition mechanism.
- 3.31 Data collected as part of the program evaluations could serve as a direct input for the ex post evaluation, if carried out by the government or the Bank's Office of Evaluation and Oversight. The government agrees to compile and make available any information necessary to prepare the project completion report, in accordance with the Bank's policy (OP-305).

F. Retroactive financing and advance funding

- 3.32 It is recommended the Bank's Board of Executive Directors approve retroactive recognition of expenses in an amount of up to US\$100 million as chargeable to the loan resources for expenses incurred by the borrower for the activities listed in the program cost table (technical files) and that meet requirements that are substantially similar to those established in the loan contract, provided such expenses have been incurred within 18 months prior to signature of the loan contract²². The resources will be disbursed to the MEF once the general eligibility conditions have been met.

G. Special conditions precedent to disbursement

- 3.33 In addition to the general conditions precedent to the first disbursement, the contract will include four special disbursement conditions: (i) enforcement of the program's Operating Regulations prior to the first disbursement; (ii) contracting of the technical-operations audit before the program's second disbursement, and as a condition for each subsequent disbursement, verification by the technical-operations audit of expenditures incurred; (iii) presentation to and acceptance by the Bank of the instrument that regulates the Millennium Schools will be a condition precedent to disbursement of resources for that subcomponent; and (iv) the

²² As the proposed program entered the Bank's pipeline in 2005, expenses incurred up to 18 months prior to approval may be recognized.

contracting of consulting services for the final evaluation before disbursement of more than 75% of the loan resources.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 The institutional analysis completed as part of preparation of this program identified weaknesses and strengths, both in the organization and project execution, which were taken into consideration in designing this operation.
- 4.2 First, scaling of the program is compatible with implementation capacity. Through *Redes Amigas*, the Ministry of Education has gained considerable experience with external lending operations. Second, most of the members of the technical teams, senior staff, and personnel from the Ministry of Education have continued in their roles, despite the change of government in early 2007. This relative stability in both the structure and policies and programs of the Ministry of Education will be beneficial to implementation of the proposed program. The Ministry's leadership and track record in the conceptualization and negotiation of the Ten-year Plan with stakeholders from various sectors, and later with the retirement incentive, contributed to its staying power in the new administration.
- 4.3 Finally, the Ministry of Education has already begun to take the necessary measures to overcome its weaknesses within a coordinated policy and financing framework. In this context, the Ministry analyzed the subsystem of educational institutions for the comprehensive information system and, as a result, has created a manual of procedures related to the management of educational institutions, data modeling, and other important inputs to initiate the subsystem construction phase. For all of these reasons, the Ministry of Education is considered to have the capacity to execute this program.

B. Socioeconomic feasibility

- 4.4 Although there are serious gaps in preschool education coverage in urban areas, the situation is even worse in rural, indigenous, and Afro-Ecuadorian areas characterized by high rates of poverty. In those areas, less than 50% of children have access to early childhood education before entering the second year of basic education. The program will have a positive social impact in this area, since the reassignment of budget appropriations for teachers will help improve coverage for the first year of basic education. According to studies, poor children stand to gain the most from high-quality preschool education.²³
- 4.5 In terms of external efficiency of the program, there is a steady increase in educational returns over time. While in the early 1990s an additional year of schooling resulted in a 7% increase in hourly wages, by the end of the decade, an

²³ James Heckman and Flavio Cunha, *Investing in our Young People*, 15 November 2006.

additional year of schooling increased income by 9%. Although more recent data is not available, it is expected that the positive trend has at least been maintained.

C. Financial feasibility

- 4.6 The government is using resources from CEREPS and the general budget of the Ministry of Education to finance the activities under this program. CEREPS resources, a source of extraordinary fiscal resources from the State derived from surplus oil revenues that can be used to finance social investments, have continued to accumulate during 2007. From January to July, US\$1.956 billion was received, which was added to the US\$1.341 billion corresponding to the 2006 balance. Between January and July, disbursements amounted to US\$1.930 billion, leaving a balance of US\$1.366 billion.
- 4.7 Ministry of Education studies indicate that the policy of retirement incentives is fiscally sustainable, even if all teachers eligible for retirement choose to accept the incentive. In effect, through this policy, the cost of salaries can be reduced starting in 2011, which would return the system to sustainability, even if the 8,000 teachers required to replace retired teachers are gradually hired.
- 4.8 All activities supported by the program are key pieces of the Ten-year Plan, through which the government is committed to increasing educational spending by up to 6% of GDP by 2012. Except for incentives for teacher retirement, the financing of all other activities is already included in the Ministry of Education's annual budget. This helps ensure the medium- and long-term sustainability of spending in the sector.

D. Environmental and social strategy

- 4.9 The program is not expected to have any adverse environmental impacts and has been classified as category "C". The Ministry of Education and the corresponding municipalities will define detailed regulations for measures that must be followed to identify and mitigate the environmental and social impacts of construction of the Millennium Schools. The environmental guidelines to be developed, which will be mandatory for completion of the works, will include aspects related to waste management, contingency and monitoring plans, etc. The guidelines will be part of the terms and conditions for procurement of the works and will define the mandatory actions and local legislation that contractors must observe to ensure that environmental impacts are identified and properly managed.

E. Benefits and beneficiaries

- 4.10 The main beneficiaries of the program will be children enrolled in basic education. The outcome expected by the end of the program is that the country will have greater education coverage nationwide. Educational institutions will have high-quality textbooks and a teaching body that meet the demographic and pedagogical needs of each school. Most schools will also have at least one specialized teacher for the first year of basic education (preschool level). This focus on improving

educational inputs is expected to translate into better student performance on learning assessment tests.

- 4.11 Administrative problems in the education sector have resulted in poor assignment of teachers, while fiscal constraints have prevented the problems from being resolved by increasing budget appropriations. The Ministry of Education and the MEF have acknowledged that simply increasing the number of teachers will not fix the current flaws in the human resources management system. The solution requires the appropriate placement of teachers in areas and schools where there continues to be unmet demand or where demand has worsened due to the arbitrary movement of teachers to areas or schools with greater demand. Two elements ensure that the country is making headway in overcoming these problems: (i) an interministerial agreement that was recently signed by the MEF and the Ministry of Education, which highlights the criteria to be applied to ensure an appropriate and equitable distribution of teachers based on demand; and (ii) approval of an executive order creating an incentive for teacher retirement and the criteria for hiring new teachers.
- 4.12 A direct effect of the program will be greater education coverage, particularly in border, rural, indigenous, and Afro-Ecuadorian regions. It is estimated that two-thirds of the new budget appropriations for teachers will be used to give access to children in areas where schools have been closed due to a lack of teachers, and that the remaining 33% of budget appropriations will be used to expand the coverage of the first year of basic education. Accordingly, the program will help the country achieve the Millennium Development Goal in education over the next five years.
- 4.13 One important element for the human resources strategy of the Ministry of Education to satisfy demand is the existence of efficient procedures and reliable information for decision making and management of the system. Here, the program invests in tools and mechanisms that provide timely information on the performance of the education system, which will facilitate the effective targeting of school interventions. APRENDO testing and the school census are key among these.
- 4.14 In Ecuador, 12% of the population represents 14 nationalities and indigenous peoples, and education is coordinated through the National Office of Bilingual Intercultural Education. In accordance with the Bank's operations policy OP-765, the program offers socioculturally appropriate solutions to improve the availability and quality of social services with an intercultural perspective and the training of indigenous professionals and staff. In this way, the program supports the multiethnic and multicultural character of the State of Ecuador with distribution of bilingual and culturally appropriate texts, the reassignment of released budget appropriations for teachers to indigenous areas, as well as the appointment of teachers that speak the mother tongue of their students, where possible.
- 4.15 **SEQ and PTI classification.** This operation qualifies as a social equity enhancing program as described in the key objectives contained in the report on the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies

as a poverty-targeted investment (PTI). The program does not specify explicit performance indicators to measure poverty reduction and social equity enhancement. However, the program automatically qualifies as a PTI because it supports the basic education sector (GN-1964-3). Likewise, a large proportion of the resources target the poorest communities in border, rural, indigenous, and Afro-Ecuadorian areas.

F. Risks

- 4.16 Ecuador is affected by the same management problems in its education sector as the other countries in the region. Pressures from the National Teachers Union (UNE) are particularly strong. The UNE could oppose the retirement incentive, application of the formula, and/or APREND0 testing. In order to mitigate these risks, the Ministry of Education maintains an ongoing dialogue with representatives from the UNE to discuss these issues. So far, there has been no significant opposition to any of these activities. Moreover, the teacher severance fund—a body with close ties to the UNE—actively participates in operational procedures to register teachers that wish to retire. In general, there appears to be an agreement that application of objective criteria is better than ongoing political negotiations.
- 4.17 In spite of efforts to improve teacher assignments through the program of financial incentives, there is still no mandatory age for teacher retirement. The Ministry of Education is aware that resolution of this problem is fundamental to ongoing renewal of the teaching profession. Accordingly, this issue appears on its agenda and a solution is being sought that is acceptable to all parties involved.
- 4.18 The Ten-year Plan presents a coordinated framework for educational policies and programs with a sector view in the medium term. However, its successful implementation requires sustained leadership by senior ministry management. Consequently, even if there are future changes in the management team at the Ministry of Education, the national consensus and support of the Ecuadorian people should ensure the continuity of the policies and activities under the Plan.

SUPPORT FOR THE UNIVERSALIZATION OF BASIC EDUCATION (EC-L1018)
LOGICAL FRAMEWORK

Narrative summary	Indicators	Means of verification	Important assumptions
Goal			
<p>More equitable basic education in Ecuador in terms of access and learning.</p>	<p>By five years after the end of the program, the country achieves universalization of basic education (by 2015).</p> <p>The gap between average learning assessment results for students in the third, seventh, and tenth years of basic education that attend primary and middle schools in rural areas compared to urban areas decreases by 5% with respect to the baseline for tests administered in 2007 in language and communication and math.</p> <p>By three years after the end of the program, annual educational spending increases to at least 6% of GDP.</p>	<p>SINEC data.</p> <p>APRENDO testing results.</p>	<p>There is sustained support for the educational policies of the Ten-year Plan.</p> <p>Executive Order 1563 remains in effect, which prevents teachers from moving freely within the school system, or is replaced by another equivalent legal framework.</p>
Purpose			
<p>To help implement the government's strategy of universalization of 10 years of basic education under conditions of quality and equity, with an emphasis on border, rural, and poor urban areas.</p>	<p>By the end of the program:</p> <p>The net enrollment rate for basic education increases from 90.8% in 2006 to 94.0% (approximate increase of 81,000 children).</p> <p>Coverage for the first year of basic education increases from 74% in 2005 to 85% (approximate increase of 24,000 children).</p> <p>At least two-thirds of teachers hired as a result of the process of doubling teacher posts have been assigned to rural, indigenous, and border areas.</p> <p>The gap between gross enrollment rates by grade in rural areas compared to rates in urban areas decreases by 10% with respect to the 2005 baseline:</p> <p><i>Urban-rural gap (difference between the two rates)</i></p> <p>1st grade: 60%</p> <p>2nd grade: No gap</p>	<p>SINEC data.</p> <p>Results of the school census.</p>	<p>Sufficient and timely funding is provided by the MEF.</p> <p>The Ministry of Education fulfills its planning and lead agency functions effectively and efficiently with the support of technical and human resources, as well as the instruments developed under the program.</p>

Narrative summary	Indicators	Means of verification	Important assumptions
	3rd grade: 3% 4th grade: 8% 5th grade: 10% 6th grade: 12% 7th grade: 13% 8th grade: 73% 9th grade: 64% 10th grade: 60%		
Components			
1. Expansion of basic education coverage with equity			
Additional teachers are appointed and incorporated into the educational system.	1.1 The resolution to double budget appropriations for at least 3,900 additional teachers is approved during the first year of the program.	MEF resolution to approve the doubling of budget appropriations.	The Ministry of Education appropriates the technical and human resources required to support implementation of the program's activities.
	1.2 At least 1,900 teachers are appointed and incorporated into the educational system in the first year and are assigned based on established legal criteria.	Teacher personnel action forms.	
	1.3 By the end of the program, at least 6,000 additional teachers are incrementally appointed and incorporated into the educational system, and are assigned based on established legal criteria.	Final report. Technical-operations audit report.	The different units responsible for carrying out the program are effectively articulated and coordinated.
Learning resources are appropriate and used.	1.4 School textbooks are distributed annually to all students enrolled in the first through the tenth grades of the government basic education system within the first 20 days of classes (April-Coast, September-Mountains/Amazon).	Technical-operations audit report. Agreements signed with executing agencies. Copy of proof of payments for reproduction rights, and printing and distribution of textbooks.	The stability of the counterpart's technical team and mechanisms for the socialization and dissemination of information is maintained.

Narrative summary	Indicators	Means of verification	Important assumptions
	1.5 Economic resources are transferred to the executing agencies in each province during the first quarter of the fiscal year to replace the voluntary contribution of US\$25 that was being paid by parents.	Certification of amounts transferred from the MEF to executing units.	Funding from the MEF is adequate, timely, and responds to the plans and needs of the Ministry of Education.
Program for professional teacher development is implemented.	1.6 Starting in the second year of the program, 80% of executing agencies report annually on the use of resources (US\$25 contribution) by schools.	Report from executing agencies.	
	1.7 Annual training is given to all teachers on the use of teacher guides accompanying textbooks.	Report from the Universalization of Basic Education Unit of the Ministry of Education.	
	1.8 Training is given to new teachers appointed in accordance with Chapter II of the program within 12 months of starting work.	Technical-operations audit report.	
2. Improvement in educational quality and management			
An innovative education model is implemented.	2.1 Agreements for the construction of four Millennium Schools are signed during the first year of the program and 20 additional agreements are signed by the end of the second year of the program.	Signed agreements.	The Ministry of Education has an operations manual that is effective for construction and operation of the Millennium Schools.
	2.2 By the end of the third year, at least three Millennium Schools are operating in accordance with the regulations stipulated in the Ministry Resolution.	Technical-operations audit report. Final evaluation.	Funding from the MEF is adequate, timely, and responds to the plans and needs of the Ministry of Education.
Learning assessments are used as an input for teaching practices and decision making by the Ministry of Education.	2.3 During the first year of the program, a sample of APRENDO tests in language and communication and math are administered to 70,000 children in the third, seventh, and tenth years of basic education.	System reports. National Educational Planning Office.	
	2.4 APRENDO tests are administered to all students in the third, seventh, and tenth years of basic education, and in	System reports. National Educational Planning	

Narrative summary	Indicators	Means of verification	Important assumptions
	the Spanish and bilingual systems in the second year of the program.	Office.	
	2.5 A plan is developed to use and disseminate the APREND0 testing results in the second year of the program, which must be linked to the quality assessment and measurement system.	Semiannual report.	
The information system is strengthened.	2.6 The results of the APREND0 tests administered nationwide are analyzed and disseminated before the end of the program.	Technical-operations audit report. Final evaluation.	The UNDP selects and hires the technical team in a timely manner.
	2.7 A technical team is hired to support the development of instruments and planning for the school census during the first year of the program.	Signed contract.	Authorities, teachers, and students from the educational institutions surveyed participate actively in the school census.
	2.8 All data obtained from the school census is processed, analyzed, and disseminated before the end of the program.	Technical-operations audit reports. Final evaluation report.	

Note: Indicators related to the distribution of textbooks, didactic materials, and teacher training refer only to government schools, i.e. public schools.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/07

Ecuador. Loan ____/BL-EC and ____/OC-EC to the Republic of Ecuador
Support for the Universalization of Basic Education

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, 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 a program to support the universalization of basic education.
2. The financing mentioned in paragraph 1 above will be for an amount of up to US\$294,000,000, and will be composed of:
 - (i) A financing under the concessional lending framework of up to the amount of US\$47,600,000, from which (i) up to the amount of US\$38,100,000 will be granted from the resources of the Single Currency Facility of the Bank's Ordinary Capital and (ii) up to the amount of US\$9,500,000 will be granted from the resources of the Bank's Fund for Special Operations; and
 - (ii) A financing for the amount of up to US\$246,400,000 will be granted from the resources of the Single Currency Facility of the Bank's Ordinary Capital.
3. Such financings will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.

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EC-L1018