

MODERNIZATION OF THE WATER SUPPLY AND SANITATION SECTOR

(TC-95-03-38-6)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Consejo Nacional de Modernización del Estado
[National Council for the Modernization of Government] (CONAM)

BENEFICIARIES: Agencies associated with the water supply and sanitation sector, service users and the private sector.

OBJECTIVES: The project's general objective is to support Ecuadorian government's plans to modernize the water supply and sanitation sector and thereby lay the necessary groundwork for increasing the share of private investment. Its specific objectives are to: (i) support government efforts to design and implement a new legal, institutional and regulatory framework for this sector; (ii) furnish the new regulatory agency with the necessary tools to make the sector more efficient by fostering private-sector participation; (iii) develop mechanisms and furnish necessary assistance to start up the sector regulatory agency, clearly delineating its functions and responsibilities under the law and corresponding regulations.

DESCRIPTION: The program calls for execution of the following three subprograms (see the project summary in Annex I):

Subprogram I: Establishment of a legal, regulatory and institutional framework to foster private investment in the water supply and basic sanitation sector through the drafting, passage and publication of legislation for modernization of the water and sanitation sector and the establishment of an agency for sector-wide regulation, monitoring and oversight. This subprogram includes the holding of a seminar to brief interested sector agencies on the import of the proposed legislation and, in this way, make any and all necessary changes prior to introducing a final version of the bill in the Legislative Assembly.

Subprogram II: This subprogram includes the framing of a rate policy for countrywide water supply and sanitation services, the development of economic cost

calculation methods and guidelines for rate setting by local governments, and the establishment of guidelines for granting concessions to the private sector.

Subprogram III: Startup and strengthening of a sector-wide regulatory, monitoring and oversight agency. This subprogram includes implementation of the following activities: (i) design of an institutional and organizational structure and internal procedures for the regulatory agency; (ii) design and development of a sector-wide information system; (iii) preparation of a procedural handbook for the enforcement of sanctions for statutory violations by service providers; (iv) procurement of computer equipment; and (v) development and implementation of a training program for the regulatory agency staff.

FINANCING: Modality: Grant from Facility I, Technical Cooperation.
Beneficiary: US\$ 180,000
MIF: US\$ 920,000
Total: US\$1,100,000

SCHEDULE OF EXECUTION: Execution period: 24 months, in two phases
Disbursement period: 27 months

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of April 27, 1995, classified this as a Category II operation.

SPECIAL CONTRACTUAL CONDITIONS: In addition to the general contractual conditions applicable to this operation, the following special conditions must be included:

- a. As conditions precedent to the first disbursement of MIF resources, the executing agency must furnish the Bank with evidence of the following: (i) the hiring of a program coordinator; and (ii) the submission of an action plan for program execution.
- b. The executing agency must furnish the Bank with evidence of the entry into force of the water supply and sanitation sector modernization law before hiring the consulting firm under subprogram III and procuring the equipment envisioned thereunder.

I. COUNTRY ELIGIBILITY

- 1.1 On September 7, 1994, the Donors Committee declared Ecuador eligible for all modalities of financing under the Multilateral Investment Fund.

II. FRAME OF REFERENCE

A. General framework

- 2.1 The government has set in motion a State modernization and structural reform process seeking to improve living conditions for the Ecuadorian people and temper the social impact of falling incomes and high unemployment rates by boosting productivity, deconcentrating and decentralizing responsibilities, streamlining procedures, reducing government bureaucracy, internationalizing the economy, breaking up monopolies and promoting free competition, and by increasing and strengthening private investment in key sectors of the economy previously reserved for government.
- 2.2 In furtherance of these objectives, the National Congress issued the law on state modernization, privatizations and the operation of public utilities by private enterprises on December 31, 1993, and established the Consejo Nacional de Modernización del Estado [National Council for the Modernization of Government] (CONAM) as an administrative agency attached to the Office of the Ecuadorian President and in charge of administering, coordinating and overseeing the procedures established under the aforesaid legislation. The main thrust of the government modernization program is to privatize infrastructure sectors (water and sewerage, power, telecommunications and transportation), leaving the public sector in charge of regulating private-sector operations and ensuring that they are consistent with long-term planning.
- 2.3 Insofar as possible, the transition process for the privatization of public utilities should include the following five phases: (a) framing of a strategy for promoting private investment in each of these sectors; (b) establishment of a legal framework for private investment in these sectors; (c) design and implementation of an appropriate institutional framework for long-term planning, the granting of concessions and the regulation of privately operated utility companies in these sectors; (d) establishment of a regulatory agency; and (e) sector restructuring, including the privatization and realignment of government enterprises to fit the new framework and the attraction of new private enterprises into these sectors.
- 2.4 Both the IDB and the World Bank have been supporting the modernization program in the infrastructure sector. The IDB is

supporting the country's efforts to establish private concessions for the operation of various port, highway and airport facilities via the MIF. The Bank is also bolstering Ecuador's efforts to establish private concessions for various services through sector lending and investment projects. The World Bank, in turn, has been supporting similar efforts in the power and telecommunications sectors. The proposed program seeks to assist in this process by supporting the water supply and basic sanitation sector through the development of a regulatory framework fostering participation by the private sector.

B. Water supply and sanitation sector

- 2.5 According to 1990 national census data, on the average, only 61% of the Ecuadorian population has access to water service and only 53% has access to sewerage service. Coverage rates for urban water and sewerage service are 78% and 70% respectively, compared with only 39% and 31% respectively in rural areas, which leaves over four million people without water service and more than five million people without sanitary sewerage service. These indicators place Ecuador among the Latin American countries with the lowest coverage rates for these essential services.
- 2.6 With the exception of a handful of cities, most communities do not have regular, round-the-clock service. Water losses range from 40% to a critical level of 62% in Guayaquil. Water rates are inordinately low and do not even cover operating costs. Only half of total invoice value is recovered due to faulty business management. The unnecessarily large bureaucracies created by utility companies foster low levels of worker productivity (with an average of nine employees for each 1,000 connections in major cities). Added to this is the poor quality of delivered water and the pollution of water sources, which help perpetuate Ecuador's high morbidity and mortality rates. According to surveys conducted by the Ministry of Health, among the 10 leading causes of death, 35% stem from gastrointestinal diseases.
- 2.7 In Ecuador, the operation of water supply and sanitation services has traditionally been the responsibility of the public sector, characterized by a number of agencies with overlapping, redundant functions and the lack of a sector regulatory body. The leading agencies in this sector include the **Secretaría General de Planificación** [General Planning Department], which frames development and investment policy for all sectors of the economy; the **Subsecretaría de Saneamiento Ambiental** [Office of the Undersecretary for Environmental Sanitation] (SSA) attached to the Ministry of Urban Development and Housing, which took over the functions of the dismantled Instituto Ecuatoriano de Obras Sanitarias [Ecuadorian Sanitary Works Authority] and is in charge of sector planning, setting technical design, construction and water quality standards, and furnishing local governments with technical assistance and

advisory services; the Instituto Ecuatoriano de Recursos Hidráulicos [Ecuadorian Water Resources Authority] (INERHI), which is in charge of awarding licenses for the development of water resources; the Ministry of Public Health, which has traditionally served as the regulatory agency for this sector as far as the quality of delivered water is concerned and as an operator of water supply systems, primarily in rural areas; and the Banco del Estado [government development bank] (BEDE), one of the sector lending agencies. In addition to these agencies, there are local governments, responsible for ensuring water and sanitation service delivery and for setting rates; municipal (or provincial) water and sewerage companies; provincial councils; boards operating and managing water supply systems in small communities; the Fondo de Inversión Social de Emergencia [Emergency Social Investment Fund] (FISE), which invests in sanitary facilities for the poorest areas of the country; the Fondo para el Desarrollo Regional Amazónico [Amazon Region Development Fund], which finances water supply and sanitation projects in this part of the country; and the Fondo de Desarrollo Seccional [Sector Development Fund] (FODESEC), which makes transfers to cover operating deficits incurred by municipal utility companies.

- 2.8 The government is aware of the serious situation in this sector, embodied in low service coverage rates, poor water quality, system operation and maintenance problems, high water loss ratios, low recovery of service operating costs, inadequate metering systems, extensive political interference, a lack of accounting data and weak interagency coordination as a result of the current lack of a well-organized institutional framework.

C. Sector modernization strategy

- 2.9 In an endeavor to remedy the aforesaid weaknesses, the current administration is in the process of mounting a sector reform program as part of its efforts to modernize government. The goal of this reform program is to reorganize the sector, letting in the private sector as a way to improve service coverage and quality, reserving regulatory, monitoring and oversight responsibilities for the public sector.
- 2.10 The temporary Commission for the Modernization of the Water Supply and Sanitation Sector, established specifically for this purpose under Executive Order 2718 enacted on May 17, 1995, is composed of the Minister of Urban Development and Housing, the Executive Director of CONAM, who chairs the commission, the General Manager of the BEDE, and the President of the Asociación de Municipalidades Ecuatorianas [Ecuadorian Association of Local Governments] (AME). The Commission will frame proposed legislation for modernizing the water and sanitation sector with the following main thrusts: (a) definition of sector regulation, monitoring and oversight functions; (b) allocation of national, provincial and local

government responsibilities; (c) scope of and arrangements for private sector participation; (d) rate schedule principles ensuring that rates set by local governments are consistent with principles of economic efficiency and financial viability; (e) service quality standards and criteria affording adequate protection of consumer rights; (f) roles of cabinet ministries and other sector agencies; and (g) improvements in sector management.

III. THE PROJECT

A. Objectives

- 3.1 The objective of the project is to support Ecuadorian government plans to modernize the water supply and sanitation sector to lay the necessary groundwork for increasing the share of private investment.

B. Description

- 3.2 The program design establishes three subprograms with the following specific activities.

1. Subprogram I - Legal, regulatory and institutional framework

- 3.3 The specific objective of this subprogram is to assist the government in the design and implementation of a new legal, institutional and regulatory framework for the water and sanitation sector to promote private investment in this sector. The expected outputs from this subprogram include: (i) the design and drafting of proposed legislation for modernizing the water and sanitation sector; (ii) its introduction in the National Congress for purposes of adoption; (iii) the design and enactment of complementary standards and regulations required at the sector-wide level to foster participation by the private sector; and (iv) a proposal for organization and startup of a regulatory agency, including mechanisms for ensuring its future viability.
- 3.4 To achieve the proposed objective, the services of individual consultants with experience in designing legal and regulatory frameworks for the water and sanitation sector will be retained to establish a legal, regulatory and institutional framework for this sector.

a. Drafting of the water supply and sanitation sector modernization law and issuing of regulations to the following ends: (i) to put the sector in order and boost agency administrative and operational efficiency; (ii) to promote private initiative; (iii) to strengthen the rate policy; (iv) to delineate national, provincial and local government responsibilities; (v) to clearly

define the functions of cabinet ministries and other agencies operating in this sector to coordinate and fortify their actions; (vi) to set service quality and basic consumer protection standards; and (vii) to establish an independent technical agency with administrative and budget autonomy and sector-wide regulatory functions and for the monitoring and oversight of service providers. This will require the services of consultants with experience in economic regulation and the modernization of government. Moreover, the regulations issued under the law will establish: (i) procedures for granting concessions to the private sector; (ii) the responsibilities and rights of service users; (iii) the responsibilities and rights of service providers; and (iv) local oversight and monitoring authorities.

b. Conduct of information seminars on the proposed legislation. It is important to conduct a series of seminars for interested agencies involved in this sector, to provide information on the import of the proposed legislation and, in this way, make any and all necessary changes prior to introducing a final version of the bill in the National Congress. These seminars would include presentations by international speakers describing similar experiences in other countries and could be held in Guayaquil, Quito and Cuenca.

c. Processing, passage and publication of the law. The bill's introduction in the National Congress, as well as the passage and publication of the resulting law will be accomplished with local resources through a coordinated effort involving all agencies operating in this sector, such as the Office of the Undersecretary for Environmental Sanitation, the BEDE, local governments, utility companies, etc. The services of attorneys with experience in legislative procedures and in the regulation of public utilities will be retained for purposes of this activity.

2. Subprogram II - Rate policy, quality criteria and standards, and guidelines for granting concessions to the private sector

- 3.5 The objective of this subprogram is to furnish the regulatory agency with the necessary tools to help boost sector efficiency by fostering participation by the private sector. This will require retaining the services of individual consultants specializing in this area. The subprogram II proposed activities are described below.

a. Design of a rate policy, costs and rate setting guidelines for Ecuadorian water supply and sanitation services. The goal of this activity is to help the new regulatory agency set up an efficient pricing or rate policy, methods for establishing cost functions, and corresponding rate setting guidelines in line with technical and physical system characteristics in this sector. The consultants will need to devise a methodology and furnish advisory

assistance for the use of these methods and for making any necessary adjustments. This activity should include the development of computer-based rate setting models as a frame of reference.

b. Development of methods for setting standards and criteria for regulating service quality. The output in this case is the development of methods and criteria for setting standards for evaluating the quality of service delivery. The goal is to standardize service quality at the nationwide level.

c. Guidelines for granting concessions to the private sector. This activity involves the development of sample guidelines for the prequalification and qualification of private enterprises seeking concessions. Guidelines for the drafting of related contracts should include mechanisms for the valuation, conveyance and receipt of assets. A database will be set up with records of water and sewerage companies being privately operated under long-term concessions. The law should confer on the new regulatory agency the authority to set terms and conditions for the award of concessions for the operation of public utility companies. This activity will require consultants with experience in the privatization of government enterprises.

3. Subprogram III - Startup and strengthening of the sector regulatory agency

3.6 The objective of this subprogram is to establish mechanisms and furnish support needed to start up the sector regulatory agency and clearly delineate its functions and obligations under the law and corresponding regulations issued thereunder. Implementation of this component will involve the hiring of a specialized consulting firm.

3.7 Startup of the regulatory agency will cover the following phases: (i) establishment of the Commission for the Modernization of the Water Supply and Sanitation Sector to bolster efforts to set up a regulatory framework and regulatory agency; (ii) establishment of the technical working group; (iii) passage of the modernization law and issuance of regulations thereunder; (iv) establishment of the regulatory agency based on the above-mentioned working group; and (v) strengthening of the regulatory agency in line with its authority under the law. The Commission will be dismantled once the regulatory agency is in place.

a. Design of an institutional and organizational structure and of operating, technical and administrative procedures for the regulatory agency. This phase will focus on establishing staffing requirements, job breakdowns and descriptions, an annual operating budget and required staff regulations. The consulting firm will furnish staff members with on-the-job training in organization and

methods and prepare operating and procedural handbooks for internal use in line with corresponding regulations and with the authority conferred under the law. Different financing mechanisms will be explored to ensure the viability of the regulatory agency within the corresponding legislative framework.

b. **Information system.** The system to be developed and implemented under this subprogram will include databases for information management and the use of computer-based models. This activity includes the design of indicators and models for evaluating the operations of State-owned service providers.

c. **Procedural handbook for the imposition of sanctions on service providers.** A series of handbooks will be developed in regard to sanctions imposable on service providers for statutory violations or noncompliance with required operations indicators.

d. **Hardware and software.** This activity involves the procurement of eight computers (486 DX4, 16 MB of RAM, 420 MB hard disk, fax/modem card, 14" color monitor), four laser printers, one copier, a server, uninterrupted power supply, and all necessary connections and software for the network and stand-alone systems.

e. **Manpower training.** A training program will be developed and conducted for regulatory agency personnel to familiarize them with the use of information systems and models.

C. Cost and financing

- 3.8 The estimated aggregate program cost is US\$1,100,000, of which the MIF is being asked to finance US\$920,000. CONAM will contribute the equivalent of US\$180,000 as local counterpart funding. A summary of costs by subprogram is furnished in the following table (see the detailed budget in Annex II).

Consolidated budget (in U.S. dollars)			
CATEGORIES	MIF	LOCAL CONTRIBUTION	TOTAL
A. Subprogram I	70,040	24,800	94,840
a. Framing of legislation and corresponding regulations	70,040	0	70,040
b. Information seminars on proposed legislation	0	19,000	19,000
c. Passage of the bill into law	0	5,800	5,800
B. Subprogram II	199,920	0	199,920
a. Rate policy, costs and guidelines	66,640	0	66,640
b. Quality criteria and standards	66,640	0	66,640
c. Guidelines for the granting of private concessions	66,640	0	66,640
C. Subprogram III	232,000	34,400	266,400
a. Preparation of in-house handbooks	34,400	0	34,400
b. Information system	68,800	0	68,800
c. Procedures for operators	68,800	0	68,800
d. Computer equipment	60,000	0	60,000
e. Manpower training	0	34,400	34,400
D. General support	333,000	111,600	444,600
General coordinator	108,000	0	108,000
Technical group	225,000	45,000	270,000
Support staff	0	43,200	43,200
Leasing of office space	0	14,400	14,400
Communications, etc.	0	9,000	9,000
SUBTOTAL	834,960	170,800	1,005,760
E. Contingencies	85,040	9,200	94,240
TOTAL	920,000	180,000	1,100,000

3.9 Subprogram I costs cover consultants hired to draft and gain passage of the proposed legislation and to conduct information seminars on the corresponding bill. Subprogram II costs cover the consultants hired to work on activities geared to the implementation of a sector-wide rate policy based on economic costs, the standards and criteria for service delivery quality, and the drafting and publication of concession guidelines. Costs associated with subprogram III include the startup and strengthening of the regulatory agency with the advisory assistance of a consulting firm. General support includes the cost of a project coordinator,

the technical working group, support staff, the leasing of office space and other minor costs.

- 3.10 The MIF grant would finance all costs associated with retaining the consulting firm and individual consultants, with the following exceptions, which would be funded by the local contribution: the cost of information seminars and of hiring one of the local consultants for subprogram I, the subprogram III manpower training subcomponent, and the cost of one technical working group member. The grant would also finance the procurement of equipment and part of the contingency allowance. The local contribution would also finance the cost of the support staff, the leasing of office space and part of the contingency allowance.

D. Organization and execution

1. Organization

- 3.11 The program will be executed by the National Council for the Modernization of Government (CONAM) (see the implementation plan in Annex IV) via the recently established Commission for the Modernization of the Water Supply and Sanitation Sector and its technical working group. The technical working group will consist of experts working under the supervision of the project coordinator to support the new regulatory agency. In principle, and as the water supply and sanitation sector modernization law will establish, certain members of this technical group will be joining the regulatory agency staff. The entire process will be supervised directly by CONAM via the Commission.

2. Timetable for execution

- 3.12 The program will be executed in two phases, over a period of 24 months, with a 27-month disbursement period. The first phase consists of the concurrent implementation of subprograms I and II or, in other words, the drafting of the water supply and sanitation sector modernization law and its regulations and corresponding efforts to set a pricing rate policy and to establish quality criteria and standards and concession guidelines. Once the law has been passed, the next step is to retain the services of a consulting firm to carry out the second phase of the program for the startup and strengthening of the regulatory agency. The timetable for execution is presented in Annex III.

E. Disbursements

- 3.13 The technical cooperation funds will be used in accordance with Bank procedures. A revolving fund may be set up at the request of the executing agency for the equivalent of 10% of the funding.
- 3.14 The executing agency will furnish evidence of compliance with the following conditions to the Bank's satisfaction prior to the first

disbursement of the Bank's contribution: (a) the hiring of a project coordinator; and (b) submission of an action plan for program execution. The consulting firm for subprogram III will be hired as soon as the water supply and sanitation sector modernization law enters into force.

F. Monitoring and follow-up

- 3.15 Officials attached to the division in charge of this sector at the Bank will make regular trips to Ecuador to round out supervision efforts by the Bank's Country Office. The executing agency will be required to draw up quarterly progress reports for submission to the Bank, containing the following information: (i) progress in drafting and processing the proposed legislation and in the hiring of local experts for the technical working group; (ii) problems encountered in securing the bill's passage by the National Congress; (iii) progress in the implementation of each proposed activity; (iv) an executive summary of findings and recommendations from studies performed by consultants financed with MIF resources; and (v) recommendations for reallocating resources among cost items without altering the financing conditions or increasing the amount of financing and, where applicable, for rescheduling program activities due to problems encountered in setting up a sector agency with regulatory, monitoring and oversight functions. Implementation of these recommendations will be subject to their approval by the MIF office and the project team. Likewise, the executing agency will submit its final report within three months from the project completion date summarizing all activities conducted, achievements, the main recommendations emerging from the studies, and measures taken for purposes of their implementation.

IV. FEASIBILITY AND RISKS

- 4.1 The main project beneficiaries are current users of these essential services, in the sense that they would be getting better quality service and potential users, by providing access to these services through increased coverage and the more efficient management of utility companies. The establishment of a sound rate system and improvements in the management of public utilities should strengthen government finance. Moreover, the participation of private enterprises in all sector activities should help develop entrepreneurship in the management of sector affairs. The creation and startup of a regulatory, monitoring and oversight agency will help put this sector in order and lay the foundation for private investment under different types of arrangements, primarily through concessions.
- 4.2 Among the risks posed by this operation is possible opposition to the establishment of a regulatory, monitoring and oversight agency,

which could delay passage of the water supply and sanitation sector modernization law. To allay such risks, it is important for the Ecuadorian Association of Local Governments to be represented on the Commission for the Modernization of the Water Supply and Sanitation Sector. Accordingly, program activities associated with the startup of this agency should commence as soon as its establishment is approved by Congress. Subprogram II activities such as the design of a nationwide rate policy (activity 2(b)) and the development of guidelines for the granting of concessions to the private sector by local governments (activity 2(c)) pose no risk whatsoever since, in the event of any problems with the passage of the law, the government could always issue an executive order implementing resulting policies and procedures. It is worth reiterating that subprogram III, the object of which is to start up and strengthen the sector regulatory agency established under the water supply and sanitation sector modernization law, will not be undertaken until the law has entered into effect.

V. COMPLIANCE WITH ELIGIBILITY CRITERIA

A. General project eligibility criteria

- 5.1 The proposed funding for restructuring the Ecuadorian water supply and sanitation sector and setting up a regulatory, monitoring and oversight agency is consistent with the overall purpose of the MIF, which is to help strengthen investment and foster the expansion of the private sector as the basis for boosting the country's economic and social development efforts.

B. Project eligibility criteria

- 5.2 The proposal meets the financing criteria established under Article 3, Section 2(c) and (d), of the Agreement Establishing the Multilateral Investment Fund, which provides for the extension of financing to governments for the funding of advisory services for the establishment and strengthening of regulatory agencies creating an auspicious climate for private investment by setting "clear ground rules" and eliminating constraints hindering or restricting participation by the private sector.

VI. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 6.1 The Bank's strategy for Ecuador is geared to consolidating the government modernization program under way in this country with emphasis on two key issues: (i) private sector growth; and (ii) poverty alleviation. The proposed program endeavors to establish a well-organized institutional framework for the water

supply and sanitation sector, create an awareness of the need for recovering service costs, and fill an obvious void, namely the lack of a regulatory, monitoring and oversight agency to boost sector efficiency and thereby improve services and expand service coverage to reach low-income households and to create an auspicious climate for private investment.

VII. AVAILABILITY OF MIF RESOURCES

- 7.1 Modality of financing. Partial financing of the project is to be provided in the form of a grant, based on the following considerations: (i) the Donors Committee declared Ecuador eligible for all MIF financing modalities on September 7, 1994; (ii) Section III of the country eligibility memorandum contains full particulars with respect to Ecuador's compliance with eligibility criteria for securing a country grant; (iii) the proposed project will have an important catalytic impact on investment flows, as required by the provisions of Article 3, Section 5(a), of the Agreement Establishing the Multilateral Investment Fund in furtherance of its goal of laying the necessary groundwork for the expansion of the private sector through two channels: (a) direct investment in the water supply and sanitation sector; and (b) improved service delivery conditions to bolster activities in other sectors of the economy. The soundness of these criteria was confirmed by the Donors Committee at its March 30, 1994, meeting (MIF/GN-23). Inasmuch as the envisioned activities are not government revenue-producing activities, there is no provision for contingent cost recovery.

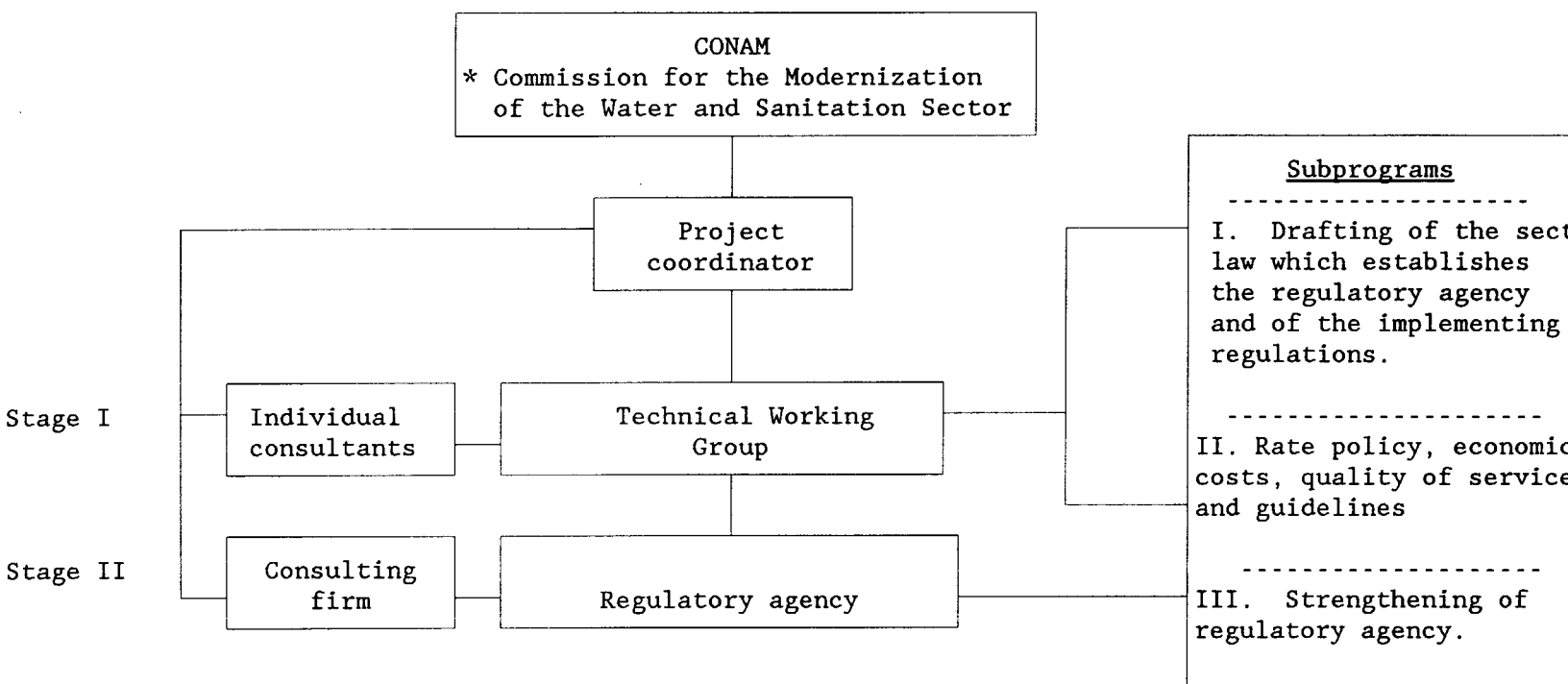
EXPECTED RESULTS

MIF - FACILITY I - ECUADOR: MODERNIZATION OF THE WATER AND SANITATION SECTOR		
General objective of the project: To increase the sector's efficiency by promoting the necessary private investments that would yield increased coverage and quality of these services.		
Specific objective of the project: To design and implement a new legal, institutional and regulatory framework that will create the necessary conditions for increasing private sector participation.		
Project	Activities	Expected results
I. Establishment of a new legal, institutional and regulatory framework.	Consulting that will establish an adequate institutional framework that clearly defines responsibilities from the different institutions that operate in the sector, specially in the design of regulation and drafting of the new legislation.	Institutional framework done in 4 months. New legislation presented in 5 months and approved in approximately 8 months.
	Seminars to promote legislative changes.	Seminars done in approximately 3 months.
II. Complementary activities required to support and implement the new legal and institutional framework. These activities will be implemented by the Comisión de Agua Potable, in coordination with the Technical Working Group.	Consulting for the design of rate policies, economic costs and rate guidelines for the water and sanitation services.	Rate policy established in 6 months.
	Consulting for the establishment of norms and criteria necessary for effective quality control of these services.	Criteria and standards in regard to quality of services. Length of consulting approximately 5 months.
	Consulting to support the Commission in the development of concession guidelines with the private sector and the definition of a clear strategy to follow.	Guidelines for the concession with the private sector. Length of consulting approximately 4 months.
III. Institutional strengthening of the regulatory agency (dependent on the definition provided by the new legislation under subprogram I).	Establishment of the regulatory agency (internal manuals and operating procedures).	Internal manuals and operational procedures. Length of consulting approximately 3 months.
	Office automation design, development and implementation.	Information systems developed and implemented in approximately 4 months.
	Design of procedures for organizations responsible for providing these services.	Guidelines for organizations responsible for providing these services, specially in the areas of sanctions and other related regulations. Length: approximately 4 months.
	Acquisition of hardware and software.	Hardware and software acquired and installed during execution of subprogram III. Length 1 month.
	Human resource training for the agency's professional staff.	Human resource training. 7 months.

ECUADOR (TC-95-03-38-6): MODERNIZATION OF THE WATER AND SANITATION SECTOR
COST ESTIMATE
(In US\$)

DESCRIPTION	CONSULTANTS			TICKETS		P. DIEM	OVH	OTHER	MIF	LOCAL
SUBPROGRAMS	Qty.	Mo.	Subt.	Qty.	Subt.					
regulatory and institutional framework			55,000		3,200	26,640	0	10,000	70,040	24,800
Establishment of legal and regulatory framework			41,000		2,400	26,640	0		70,040	0
national consultants	2	3	36,000	1	2,000	26,640	0			
national consultants	1	2	5,000	2	400	0	0			
seminars			9,000		0	0	0	10,000	0	19,000
seminars (includes 3 international speakers)	3	0.5	9,000	0	0		0	10,000		
Process for approval of legislation			5,000		800	0	0	0	0	5,800
national consultants	1	2	5,000	4	800	0				
regulatory policies, quality of services and guidelines			108,000		12,000	79,920	0	0	199,920	0
regulatory policies, economic costs, quality of services and guidelines			36,000		4,000	26,640	0	0	66,640	0
national consultants	2	3	36,000	2	4,000	26,640	0	0		
regulatory policies and norms for quality assurance			36,000		4,000	26,640	0	0	66,640	0
national consultants	2	3	36,000	2	4,000	26,640	0	0		
regulatory policies for sector concession guidelines			36,000		4,000	26,640	0	0	66,640	0
national consultants	2	3	36,000	2	4,000	26,640	0	0		
Strengthening of regulatory agency			108,000		12,000	0	86,400	60,000	232,000	34,400
Preparation of internal handbooks			18,000		2,000	0	14,400	0	34,400	0
national consultants	1	3	18,000	1	2,000	0	14,400	0		
Information systems			36,000		4,000		28,800	0	68,800	0
national consultants	2	3	36,000	2	4,000	0	28,800	0		
Procedures for sector operators			36,000		4,000	0	28,800	0	68,800	0
national consultants	2	3	36,000	2	4,000	0	28,800	0		
Computer automation			0		0	0	0	60,000	60,000	0
Software								50,000		
Hardware								10,000		
Personnel training			18,000		2,000	0	14,400	0	0	34,400
national consultants	1	3	18,000	1	2,000	0	14,400			
Technical support			378,000		0	0	0	66,600	333,000	111,600
Coordinator	1	18	108,000	0	0	0	0		108,000	
Technical Working Group	6	18	270,000	0	0	0	0		225,000	45,000
Support personnel								43,200		43,200
Leasing								14,400		14,400
Communication and others								9,000		9,000
Total			649,000		27,200	106,560	86,400	136,600	834,960	170,800
Agencies									85,040	9,200
TOTAL			649,000		27,200	106,560	86,400	136,600	920,000	180,000

[illegible]



EXECUTION SCHEME

Comprised of the Executive Director of CONAM, the Minister of Housing and Urban Development, the General Manager of Banco del Estado and the President of the Association of Municipalities.

Note: Subprogram III is subject to the adoption of the law. It is expected that the Technical Working Group will be part of the regulatory agency.

PROPOSED RESOLUTION

ECUADOR. NONREIMBURSABLE TECHNICAL COOPERATION FOR
THE PROGRAM FOR THE MODERNIZATION OF THE POTABLE WATER AND SANITATION SECTOR

The Donors Committee of the Multilateral Investment Fund

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 Multilateral Investment Fund, to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the Proposal Memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation with the Consejo Nacional de Modernización del Estado (CONAM) for a Program for the Modernization of the Potable Water and Sanitation Sector.

2. That up to the sum of US\$920,000 is authorized for the purposes of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.