

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

ECUADOR

DEEPENING OF FINANCIAL SERVICES IN RURAL AREAS

(EC-M1009)

DONORS MEMORANDUM

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INFORMATION AVAILABLE IN THE TECHNICAL FILES OF RE3/FI3

Operational manual for the program

IPC, “Ecuador: Desarrollo del Sector Financiero Rural”, mimeo, 2000

Nieder, Frank, “Deepening Ecuadorian Financial Markets in Rural Areas,” Working Paper, 2001

Gonzales-Vega, Claudio, “Una Estrategia para la Profundización de Servicios Financieros Rurales en los Países Andinos y del Caribe”, 2001

ABBREVIATIONS

CESI	Committee on Environment and Social Impact
IIC	Inter-American Investment Corporation
MIF	Multilateral Investment Fund
NGO	Non Governmental Organization
PPMR	Project Performance Monitoring Report
PRI	Private Sector Department (IDB)
SWISSCONTACT	Swiss Foundation for Technical Cooperation

DEEPENING OF FINANCIAL SERVICES IN RURAL AREAS

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I. EXECUTIVE SUMMARY

Beneficiary	Ecuador
Executing Agency:	Swiss Foundation for Technical Cooperation (SWISSCONTACT)
Targeted Beneficiaries:	The program's beneficiaries would be an estimated 10,000 rural enterprises and households in rural areas that would increase their access to financial services.
Financing:	Modality: Grant – Small Enterprise Development Facility (III-A) MIF: US\$2,048,000 Local: <u>US\$1,366,000</u> Total: US\$3,414,000
Objectives and Description:	The objective of the program is to improve the access to financial services of enterprises located in rural areas. To achieve this objective the program would establish a matching-grant fund, with competitive access based on transparent selection criteria, which would partially finance (i) the projects of regulated financial institutions to establish or expand their provision of financial services in rural areas; and (ii) institutional strengthening programs designed to upgrade the capabilities and allow for the regularization of currently non-regulated savings and credit cooperatives based in rural areas.
Execution Timetable:	Execution Period: 36 months Disbursement Period: 42 months
Special contractual conditions:	Prior to first disbursement, the executing agency will have (i) appointed the program manager, and the advisors for components 1 and 2; and (ii) approved the model contracts for participating financial institutions under Components 1 and 2 in accordance with terms and conditions agreed to with the Bank.
Environmental and Social review:	The Committee on Environment and Social Impact (CESI) reviewed this project document in its meeting (TRG 44-04), held on November 12, 2004, where it was agreed that MIF guidelines for the strengthening of financial institutions are the appropriate framework for assuring the project's social and environmental viability.
Coordination with other Official Development Finance Institutions:	During the analysis no similar programs financed by other official development finance institutions were identified.

II. BACKGROUND

A. Access to Rural Finance

- 2.1 Rural enterprises and households have much more limited access to financial services than their urban counterparts. National statistics indicate that only 6% of rural households had an outstanding credit from a formal or informal institution, compared to 15% of urban households. Moreover, only 1% of rural households have credits with a bank or *financiera*, compared to 6% of urban households.¹
- 2.2 Access for rural enterprises is better than that of households but still tightly constrained. A geographically limited survey of rural enterprises conducted in 2000 indicates that less than 30% percent received credits from formal financial institutions in the previous two-year period.² However, over 40% were able to maintain deposits in a formal financial institution. In general access to financial services was better in the Sierra, than in the Coastal or Amazon regions, due largely to a more developed network of financial cooperatives operating in rural areas, and the greater importance of smaller enterprises in the rural Sierra economy, compared to the coast where more of the rural population depends on wage income.
- 2.3 The survey indicates, as expected, that the larger the enterprise the greater its access to credit from regulated institutions. Indeed, access to financial services for large-scale firms, greater than 100 employees, in rural areas was found not to be significantly different than for their counterparts in urban areas. Smaller enterprises, however, are forced to rely more on informal and non-regulated institutions for credits, which tends to constrain loan amounts and, in the case of informal lenders, increase effective interest rates. Reflecting a perceived greater risk for agricultural activities, the survey also indicated that access to credit was worse for medium-sized enterprises that were devoted exclusively to agricultural production, than for smaller enterprises in other sectors. This difficult access to financial services increases costs and delays rural enterprises efforts to expand production and increase their productivity. As such it poses an important obstacle to increased economic growth in rural areas, as well as to increased household incomes and reductions in rural poverty. Over 70% of rural households have income below the poverty line.
- 2.4 **Financial Institutions.** Currently, savings and credit cooperatives are the most important source of financial services in rural areas. The thirty savings and credit cooperatives regulated by the Superintendent of Banks are expanding their services, while in more remote areas non-regulated savings and credit cooperatives are the principal providers of financial services. However, as non-regulated institutions the range of services they can legally provide is constrained, and their technical capabilities are limited. The largest commercial bank in the country dominates the banking market

¹ EC, Encuesta de Vida, 1999. Excludes loans from family or friends.

² IPC, "Ecuador: Desarrollo del Sector Financiero Rural", 2000. The survey was limited to two rural provinces, one in the Sierra and the other in Coast. The sample was not selected with rigorous statistical methods, and therefore the results are indicative rather than conclusive.

for rural financial services. Nevertheless, most of the smaller banks with a specialization in microfinance are establishing rural financial service programs, and various larger commercial banks have indicated a strong interest in entering or expanding their presence in this market segment.

B. Reasons for limited rural financial services

- 2.5 A host of factors limit the incentives for, and the feasibility of, providing financial services in rural areas.³ Most importantly, the combination of poor quality infrastructure and the remoteness of rural areas impose high costs of communication with and physical access to clients. In addition, the most underserved segments of the rural market are comprised of smaller enterprises and lower-income households. Unless specialized technologies are utilized, the transaction costs per value of operation are much higher, requiring institutions to charge interest rates and fees that can make the credit no longer viable for the borrower. In addition, lending to agriculture activities is considered to be particularly risky due to their vulnerability to adverse climatic events and volatile prices. However, new technologies can be adapted that have proven effective in reducing the risks and costs of rural lending imposed by the remoteness and the smaller sized operations of rural lending. One of the purposes of the proposed program is to encourage private financial institutions to adapt and implement these financial technologies.
- 2.6 Finally, direct state intervention in rural financial services tends to be highly subsidized and creates unfair competition to private financial institutions, while indirect state intervention via the legal and regulatory environment often constrains interest rate levels below sustainable levels, limits competition unnecessarily, or increases the costs of enforcing credit contracts. However, in Ecuador most of the state imposed obstacles have been reduced significantly. The role and market presence of the state-owned first-tier agricultural bank has been reduced sharply, so that it now has less than 2% of banking assets, and no longer poses a source of significant unfair competition. The most binding of interest rate and other financial service costs restrictions have been lifted, allowing financial institutions to charge rates that reflect actual costs and risks. Finally, the Superintendent of Banks, with Bank assistance, has issued clear entry and exit rules for regulated savings and credit cooperatives, which facilitates the regulatory upgrading of non-regulated institutions.

C. Program Strategy and Rationale

- 2.7 Lessons learned from previous experiences to expand the provision of financial services to underserved segments of the market indicate that they will be both more efficient and sustainable, when private financial institutions provide the services. Second, programs work best when participating financial institutions compete for support based on transparent criteria and contribute a significant portion of the project costs. These elements help ensure that program resources are directed to the most motivated institutions and to most promising projects. Third, participating financial institutions should face significant financial incentives to meet the objectives of the program to

³ For an overview of the obstacles to sustainable rural financial services, see Gonzales-Vega, Claudio, "Una Estrategia para la Profundización de Servicios Financieros Rurales en los Países Andinos y del Caribe," 2001.

expand financial services. Fourth, the entity that administers the program should be specialized in the services that are to be provided. Finally, the objectives and the success of such programs should be defined in terms of measurable improvements in the access to and quality of financial services. The program has been designed to incorporate these lessons learned, and provides an innovative second-tier mechanism to promote the provision of financial services in rural areas by private financial institutions. If proven successful the program mechanism can be adopted to expand services to other underserved market segments such as small and medium scale enterprises.

D. Relationship to other Bank supported efforts

- 2.8 The MIF is supporting different methodologies and targeting different market segments to promote the provision of rural financial services in Ecuador. While this program focuses on regulated financial institutions and the regulatory upgrading of rurally-based savings and credit cooperatives, and uses a competitive demand driven executing mechanism managed by a specialized NGO, other recent MIF projects, focus exclusively on non-regulated rural financial institutions (EC-M1006), using a regulated financial cooperative, CODESAROLLO as the executing agency to manage a credit line, or directly supporting an individual innovative non-regulated savings and loan cooperative, Jardin Azuayo, (TC-0203032.). Finally, by promoting the development of new financial products and financial strategies by participating financial institutions, the program should also facilitate possible future MIF and IIC credit operations with these institutions to expand the provision of these services to smaller enterprises in rural areas.

III. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives

- 3.1 The general objective of the program is to improve the access of rurally based medium, small and micro enterprises to financial services. The purpose of the program are twofold: (i) to increase the number of regulated financial institutions that provide financial services in rural areas; and (ii) to expand the level, scope and effectiveness of financial services offered by private financial institutions in rural areas.

B. Description

- 3.2 The program would establish a matching grant mechanism that would partially finance the costs of (i) projects of regulated financial institutions to establish or expand their provision of financial services in rural areas; and (ii) institutional strengthening programs of currently non-regulated savings and loan cooperatives to facilitate their regularization by the Superintendent of Banks, and upgrade their technical capabilities and provision of financial services. Detailed Operating Regulations have been prepared that specify program operating mechanisms, eligibility and selection criteria, as well as the role and responsibilities of participating institutions.
- 3.3 Access to the resources of the matching grant mechanism by eligible financial institutions would be competitive, based on transparent selection criteria, and the program establishes other strong financial incentives for the participating financial institutions to meet the program's objectives. The program is also demand-driven and would support a broad

range of types of assistance, largely defined by the specific needs and priorities of the participating financial institutions. This is a significant change from most Bank/MIF financial technology transfer projects, in which one financial institution is selected and a specific and limited packet of assistance is defined. The focus on the incentive structure as well as the flexible, demand-driven and competitive second-tier financing mechanisms are innovative features of the proposed program, and have been included to incorporate lessons learned from other financial service deepening efforts.

3.4 **Component 1. Regulated Financial Institutions. (MIF: US\$ 900,000; Counterpart US\$900,000).** Regulated institutions would become eligible to participate in the program by submitting project proposals to establish, expand or improve financial services in rural areas. To ensure a high level of interest in the program and to ensure that there is sufficient competition for financing by potentially eligible institutions, a range of promotional activities will be conducted by the Executing Agency, including the conduct of workshops, direct meetings with potential participants, as well as the development of promotional materials. Several regulated financial institutions, primarily regulated cooperatives, specialized small and micro finance banks, as well one larger commercial bank expressed interest in participating in the program. Projects would be selected via a competitive process in which points would be allocated based on the degree to which the proposed project meets the following three criteria:

- effectiveness of the project in terms of measurable goals to increase the level of services in targeted rural areas relative to the amount of support requested from the Program;
- commitment to the project, as defined by the percentage of costs, above a minimum of 50%, to be paid by the financial institution; and
- need for the project, as indicated by the percentage of expected beneficiaries (new clients of the institution) that do not have access to financial services of a regulated financial institution in the municipality or other local jurisdiction where they reside.

3.5 The matching grant resources would finance up to 50% of the costs of selected projects. Operating costs would not be eligible for support. Activities that would be eligible for financing include: (i) Market or feasibility studies; (ii) technical assistance for the design and implementation of new financial products or systems; (iii) upgrading of management information and communication systems (not to exceed 30% of the total project costs, and of which MIF could finance up to 70%); (iv) training of staff and clients; and (v) the marketing of new products.

3.6 The maximum level of support from matching grant resources is US\$200,000 per project, and it is expected that approximately 5 regulated financial institutions will be selected from about 10 eligible institutions that are expected to present projects for consideration.⁴

⁴ The US\$200,000 maximum was determined based on local financial institutions estimates of the cost of developing and implementing new rural financial products and technologies as well as the need to ensure a minimum number of beneficiaries.

Examples of the types of project that could be supported include the extension of a bank's network in rural areas, the development and provision of specialized financial products for rural areas, the development and application of specialized instruments, such as credit scoring technologies, as well as the extension of services through other intermediaries.

- 3.7 Selected institutions would enter into performance-based-contracts to meet quantitative targets for the expansion of financial services. The contracts would specify targets for increasing services in the rural project area. In particular, contracts would include performance criteria for: (1) the increased amount of services, (2) the number of new clients for all services, and (3) the number of new credit clients. In the event that targets are not fully met, participating financial institutions would have to repay a proportion of the support received from the program within one year at a market interest rate. The proportion to be repaid would be determined by the percentage shortfall of meeting these performance targets, and repaid funds would be used to finance other projects.
- 3.8 **Component 2. Upgrading of Non-regulated Savings and Credit Cooperatives. (MIF: US\$850,000; Counterpart US\$364,000).** Under this component, the matching grant fund would provide up to 70% of the costs of institutional strengthening programs for currently non-regulated savings and credit cooperatives with a concentration of activities in rural areas and that have formally requested to become a financial intermediary regulated by the Superintendency of Banks under the criteria established by Decree 2132. The maximum level of support for this component is US\$150,000, which, based on other similar programs, is sufficient to upgrade and prepare a motivated savings and credit cooperative to become regulated. It is expected that between 6-8 individual or groups of cooperatives will participate in this component. The institutional strengthening programs would have the objective of upgrading the institution to meet the criteria and measures required by the Superintendency of Banks as specified in a plan (Plan de Adecuación) in order to become regulated under its jurisdiction. This window is designed to build-on and improve the effectiveness of the network of the non-regulated savings and credit cooperatives based in rural areas, by assisting the most capable to become professional managed and regulated institutions that can provide a full range of financial services to their clients.
- 3.9 Projects would be selected via a competitive process in which points would be allocated based on the degree to which the cooperative meets the following criteria: (i) institutional and financial capacity of the cooperative to meet the regulation criteria, as measured by an evaluation using Swisscontact's tested methodology; (ii) commitment, as defined by the percentage of costs of the institutional strengthening, above a minimum of 30%, to be paid by the financial institution; (iii) need, as indicated by the percentage of the cooperative's clients that reside in municipalities or other local jurisdiction without the services of a regulated financial institution; and (iv) additional points in the selection process would be given to joint projects that combine several cooperatives.
- 3.10 A previously approved non-reimbursable Technical Cooperation (ATN/JF-6620-EC) financed the diagnostics of 10 eligible cooperatives and also assisted in the design of their institutional strengthening plans for possible support from this Program. The

participation of these cooperatives in this preparatory phase indicates the strong interest of these rurally based cooperatives to upgrade their status and participate in the Program. These 10 institutions would form the core of the initial group of savings and loan cooperatives to compete for participation in the program. Participating institutions in this component would also enter into legal agreements with the Program committing them to implement the approved institutional strengthening plans. These agreements would include annual performance benchmarks to indicate progress in meeting their objective and goals, including those related to the (i) capitalization and (ii) financial reporting requirements of the Superintendent of Banks for savings and credit cooperatives. Failure to meet these benchmarks in a timely manner would lead to a temporary suspension of disbursements to the institution, and repeated failure would lead to termination of Program support.

IV. COST AND FINANCING

- 4.1 The total estimated cost of the program is US\$3,414,000, of which the MIF would finance US\$2,048,000 million or approximately 60%. The remainder would be financed by counterpart contributions by participating financial institutions (US\$1,264,000) and the executing agency (US\$102,000). The minimum counterpart contribution for regulated financial institutions, Component 1, would be 50% of the costs of the projects, of which at least half would be provided in cash. For participating non-regulated savings and credit cooperatives, Component 2, the minimum counterpart contribution would be 30% of the non-operating costs of the institutional strengthening projects, of which at least half would be provided in cash. The relatively high counterpart requirements for regulated financial institutions are included to ensure a high level of commitment and ownership to the proposed and selected projects. The lower counterpart requirements for Component 2 were incorporated due to the more limited resources of currently non-regulated savings and credit cooperatives.

**Budget by Activities
(US\$ Thousands)**

Component	MIF	Counterpart		Total
		Financial Institutions	Executing Agency	
1. Regulated Financial Institutions	900	900		1,800
2. Savings and Credit Cooperatives	850	364		1,214
Administration and Promotion	198		102	300
Evaluation and Audits	50			50
Contingencies	50			50
TOTAL	2,048 (60%)	1,264 (37%)	102(3%)	3,414

- 4.2 **Sustainability.** The benefits of the program should be sustained, given that the participating financial institutions are economically viable entities and will continue to implement the improvements in financial technologies and institutional capacities after program support ends. Moreover, it is expected that the program would have a demonstration effect such that other financial institutions will follow the innovations of

participating institutions with their own resources. Finally, given the executing agency's demonstrated commitment to Ecuador, it could seek other funding sources to continue the program.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

- 5.1 The Executing Agency will be the Swiss Foundation for Technical Cooperation, SWISSCONTACT, an international non-governmental organization established in accordance with the laws of Switzerland, through its Representation in Ecuador. Swisscontact, which was founded by leading representatives of the private sector and academia, with the goal of promoting the development and strengthening of small and medium scale enterprises in developing countries, has over fifteen years of continuous operation in Ecuador, operating under an agreement with the Ministry of Foreign Affairs. In Ecuador, it has focused on promoting financial services and vocational training for SMEs, and is viewed as a leading provider in Ecuador of financial technologies and institutional strengthening to savings and loans cooperatives and to financial institutions specializing in micro, small and medium scale enterprises, especially in rural areas. Swisscontact in Ecuador has a permanent staff of 17 and an annual budget of about US\$1.5 million. The combination of Swisscontact's technical expertise, extensive experience and knowledge of rural financial services in Ecuador, as well as its private sector orientation, make it an especially appropriate executing institution for this Program.

B. Execution mechanism

- 5.2 The executing agency would conduct promotional activities to encourage participation by eligible institutions, and administer and supervise access to this fund, including the review, evaluation and relative scoring of project proposals. It is expected that only one round of requests for proposals for each Component should be necessary to be conducted shortly after an initial round of promotional activities, around month 4 of program implementation. However, if there is not sufficient participation, a second request for proposals would be conducted no less than 6 months later. To execute the program, Swisscontact will contract a Program Manager, who would be responsible for the overall administration of the Program, and two Program Advisors, each responsible for supervising the development and execution of projects in Components 1 and Component 2 respectively. The Program Advisors would conduct numerous site visits of participating financial institutions to review presented projects, and also to supervise and monitor the execution of the projects, during which advice would be provided to facilitate execution and improve performance.
- 5.3 The executing agency would establish an internal committee, including the director of Swisscontact in Ecuador (who would chair the committee), the program manager and the advisors for Components 1 and 2, to evaluate and score proposals and determine their ranking and eventual access to Program funding. The MIF/Bank would subsequently provide a no-objection on the list of projects selected by Swisscontact, to verify that the mandated selection process was followed and that eligible activities are to be financed.

Swisscontact would provide documentation to the MIF/Bank that would include the project proposals, the scoring of the proposals by the committee, and approved level of financing. In addition, Swisscontact would be responsible for the provision of information for the conduct of evaluations of the Program, and for the closure of projects.

- 5.4 **Execution and disbursement periods.** Execution and disbursement periods of 36 and 42 months, respectively, are anticipated. A revolving fund will be set up for 20% of the MIF contribution, which will be disbursed and managed in a separate account. Disbursements of grant funds and the purchase of goods and the contracting of services will be done in accordance with Bank/MIF procurement procedures and policies. Participating financial institutions would contract directly the provision of goods and services for the implementation of their projects and institutional strengthening plans, under Bank/MIF procurement policies and procedures.
- 5.5 **Accounting and Financial Information.** Swisscontact maintains accounting, financial, internal control, and filing systems, which allow for the identification of sources and uses of funds of the program, and that comply with MIF requirements. In addition, it will open separate and specific bank accounts for the administration of the MIF's contribution, and for the local counterpart funds. Finally, Swisscontact will prepare and submit on an annual basis and within 90 days after the final disbursement, financial statements regarding the Bank's and counterpart contributions, which will be audited by independent auditors acceptable to the Bank.

VI. BENEFITS AND RISKS

A. Benefits

- 6.1 The benefits of the program are derived from the increased access to financial services from formal financial institutions of currently underserved firms and residents in rural areas. The benefits include: (i) lower transactions costs, especially in terms of transportation and time, to obtain financial services; (ii) lower fees and interest rates for financial services, compared to informally provided services; and (iii) direct benefits from access to financial services that previously were unavailable. The latter would include the facilitation of investments or expansion of working capital that would not have been possible without the improved access. It is expected that the institutional upgrading programs of savings and credit cooperatives would lead to at least a 20% additional increase in deposit and lending levels of participating institutions by the 3rd year of the project, which would not have taken place for 10 years without the Program. For regulated financial institutions, it is expected that the Program will result in an increased level of services equal to at least 3 times the level of Program support, i.e., US\$4.5 million, of which half is assumed to come from increased deposits and half from increased credit levels in rural areas.

B. Beneficiaries

- 6.2 Based on expected benefit levels, it is roughly estimated that the project would benefit approximately 6,000 rural households and firms, in terms of new depositors in participating financial institutions, and about 4,000 firms in terms of access to credits from participating institutions. Given the high incidence of poverty in rural areas, it is

expected that over half of the beneficiaries will be low-income households. Also, given the concentration of indigenous and afro-ecuadorian populations in rural areas, especially in the more remote zones to which the program gives greater weight, these groups should be active participants in the program as beneficiaries. As part of the promotional activities for the Program, information will be provided on measures to reduce cultural obstacles and facilitate reaching these communities. In addition, the evaluation will assess whether these groups tended to be excluded as clients of the participating financial institutions, and recommend measures, if necessary, to include them.

C. Risks

- 6.3 **Effective Demand.** Both groups of eligible financial institutions have expressed active interest in participating in this project. As such there are strong indications that there will be sufficient demand from eligible and qualified entities to utilize the program resources. However, the project's mechanisms effectiveness requires that there be active competition to participate in the program. Moreover, project benefits would be greater if several larger full-service banks, with their greater capacities, participate. To mitigate the risk of insufficient demand, a range of promotional activities will be conducted by the Executing Agency, as noted in paragraph 3.4.

VII. MONITORING AND EVALUATION

- 7.1 **Monitoring.** Swisscontact will prepare and submit to the Bank's Country Office project progress reports within thirty (30) days after the completion of each semester and a final report within 30 days from the final disbursement. These reports will summarize as well the results measured in terms of the indicators and benchmarks identified in the project's logical framework. The Country Office will also prepare an internal monitoring instrument (PPMR) based on the logical framework and with the support of the project team, will conduct annual reviews of the performance of the project to determine the degree of fulfillment of project objectives and to determine if any adjustments need to be made. As noted in the logical framework, quantitative performance targets of the financed projects will be set, when projects are selected.
- 7.2 **Evaluations.** An intermediate and a final evaluation of the project will be undertaken by external consultants to be contracted directly by the Bank with project funds. The mid-term evaluation will be prepared on the earlier of: (i) 18 months after first disbursement; or (ii) when 50% of the resources have been disbursed. A final evaluation will be conducted at the end of project execution or when 95% of the Bank's contribution has been disbursed. Evaluations will be facilitated by the requirement that participating financial institutions provide detailed baseline data on their level of services in rural areas, and periodically update this information during the project's execution. As part of this final evaluation, surveys will be conducted (i) in a sample of the areas where the program was operating to evaluate the level of provision of financial services, and (ii) with regulated financial institutions to estimate how many have increased significantly their provision of financial services in rural areas.

VIII. ENVIRONMENTAL AND SOCIAL IMPACTS

- 8.1 The project is not expected to have any direct environment impacts as it is a technical assistance program. However, it should have a significant positive social impact as it leads to increased access to financial services which should facilitate the raising of incomes of rural households, that are primarily low-income. The project has been designed so that indigenous and afro-ecuadorian communities would be significant beneficiaries, and participating financial institutions would be advised on how to facilitate access to services by these communities.
- 8.2 The Committee on Environment and Social Impact (CESI) reviewed this project document in its meeting held on November 12, 2004, where it was agreed that MIF guidelines for technical assistance projects for financial institutions would be the framework for ensuring the environmental and social viability of the project (<http://www.iadb.org/mif/v2/privateSector.html>). Training materials based on these guidelines would be made available by the executing agency to participating financial institutions.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 Prior to first disbursement, the executing agency will have (i) appointed the program manager, and the advisors for components 1 and 2; and (ii) approved the model contracts for participating financial institutions under Component 1 and 2 in accordance with terms and conditions agreed to with the Bank.
- 9.2 **Implementation Readiness.** The project should be able to implemented promptly, as Operating Regulations have been fully established and agreed to with the Bank, terms of reference for program staff have been prepared and potential candidates have been identified, and draft model contracts are under preparation.

LOGICAL FRAMEWORK

DEEPENING OF FINANCIAL SERVICES IN RURAL AREAS (EC-M1009)

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL Improved access to financial services in rural areas of Ecuador where projects supported by the Program are operating.	Improvements in access to financial services (deposits, credits and payments) in areas where the Program supported projects of participating financial institutions. Increase in access in program areas should exceed by 25% the change in access of households as measured by the annual quality of life survey conducted by the national statistical agency INEC. (Baseline determined from INEC database when projects are selected.)	<ul style="list-style-type: none"> Annual quality of life surveys conducted by INEC. End-of project evaluation including random survey of financial service access in areas where program is operating, and average growth in service areas as provided from data of the Superintendency of Banks. 	<ul style="list-style-type: none"> Macroeconomic and financial sector stability maintained. Government maintains policy to expand financial services to underserved markets via private financial institutions.
PURPOSE Increased level, scope and effectiveness of financial services provided in rural areas by private financial institutions. Increased number of regulated private financial institutions that have established or expanded their provisions of financial services in rural areas.	Change in level of services in terms of deposits, credits, and payments provided in rural areas by financial institutions participating in Program, as well as the number of new clients for all services and the number of new credit clients. (Specific targets and baseline to be included in applications of participating financial institutions.) For upgraded savings and credit cooperatives, deposit and lending levels in rural areas should increase by 20% by the end of project, and for regulated financial institutions total increase in level of services should equal 3 times the amount of Program support. Number of regulated private financial institutions that have established or expanded their level of financial service provision in rural areas. Program should increase by: (i) at least 5 the number of newly regulated savings and loans cooperatives based in rural areas and by (ii) five the number of already regulated financial institution that have adopted new technologies to expand their provision of rural financial services.	<ul style="list-style-type: none"> Project Management Information system Data on increased service levels of institution participating in program. Comparison of end-of-project data with baseline data provided by participating institutions in their project applications. Survey of regulated financial institutions to be conducted for end-of project evaluation. PPMR Mid-Term and Final Evaluation by external consultant. PCR 	<ul style="list-style-type: none"> Financial institutions maintain interest in expanding services in rural areas.
OUTPUTS /COMPONENTS Component 1. Partially finance rural finance projects of financial institutions that were regulated by the Superintendency of Banks prior to the approval of Decree 2132.	<ul style="list-style-type: none"> 10 Projects presented and five selected and implemented. By Year 1, 10 projects should be presented and at least 3 initiated, by second Year 2 additional projects initiated, and by Year 3, 5 projects completed. 	<ul style="list-style-type: none"> Management information and monitoring systems. PPMR Progress and Final Reports by the Executing Agency PCR 	<ul style="list-style-type: none"> Financial institutions maintain their interest in expanding services to rural areas.

		<ul style="list-style-type: none"> • Mid-term and final evaluation of individual projects 	
<p>Component 2. Partially finance institutional strengthening plans of Savings and Credit Cooperatives (COACs), based in rural areas that were not regulated prior to the approval of Decree 2132, in order to upgrade the institutions and meet the criteria to become financial intermediaries regulated by the Superintendency of Banks.</p>	<ul style="list-style-type: none"> • 10 Plans submitted, and at least 7 selected supported by Program and implemented. By Year 1, 10 projects presented, 7, and 4 projects initiated. By Year 2, 3 additional projects initiated. By Year 3, 7 projects completed. Progress in meeting agreed bi-annual targets associated with fulfillment of requirements of the Superintendency of Banks for (i) capitalization and (ii) financial reporting. (Specific targets and baseline to be included in applications of participating financial institutions.) • By end of project, five of the supported COACs meet the Planes de Adequación of the Superintendency of Banks to become regulated financial intermediaries. 	<ul style="list-style-type: none"> • Management information and monitoring systems. • PPMR • Progress and Final Reports by the Executing Agency • PCR • Mid-term and final evaluation of individual projects • Registry of regulated financial intermediating institutions of the Superintendency of Banks. 	<ul style="list-style-type: none"> • Financial institutions maintain their interest in expanding services to rural areas
<p>ACTIVITIES</p> <p>Component 1: Regulated Financial Institutions</p> <ul style="list-style-type: none"> • Promotion; • Evaluation and selection of projects. • Financing and execution of projects. • Supervision of financed projects. • Evaluation and Closure of Projects and Program. 	<p>FOMIN: US\$900,000; Counterpart: US\$900,00 TOTAL: US\$1,800,000</p> <ul style="list-style-type: none"> • 2 workshops for regulated institutions, preparation of program newsletter and promotional material. (by month 4) • Systems for evaluation and selection of projects developed. (by month 3) Scoring results presented to IDB within 2 weeks after each round of competition planned for months 4 and 9). • Amount of financing provided and activities supported (type, cost and timing.) (FOMIN: US\$ 300,000 by Year 1, US\$ 500,000 Year 2, US\$100,000 Year 3) • Supervision Missions: 10 Year 1, 10 year 2, 10 Year 3. • Evaluation and closure of individual projects. (3 in Year 2, 2 in Year 3) and Mid-term and final evaluation of Program. (Month 18, Month 37) 	<ul style="list-style-type: none"> • Program management information and monitoring systems. • Program documents. • Progress and Final Report by the Executing Agency. • PPMR • PCR • Mid-term and final evaluation reports 	<ul style="list-style-type: none"> • Timely presentation of projects by financial institutions. • Timely contracting of consultants and other services for execution of projects. • Timely provision of counterpart financing
<p>Component 2. Regulatory Upgrading of Savings and Credit Cooperatives</p> <ul style="list-style-type: none"> • Promotion and Dissemination of 	<p>FOMIN:US\$850,000; Counterpart:US\$364,000 TOTAL: US\$1,214,000</p> <ul style="list-style-type: none"> • Workshop for rurally based savings and credit cooperatives, program newsletter and 	<ul style="list-style-type: none"> • Program management information and monitoring systems. 	<ul style="list-style-type: none"> • Timely presentation of projects by financial institutions.

<p>Results</p> <ul style="list-style-type: none"> • Evaluation and selection • Financing and execution of projects; • Supervision of financed projects; • Evaluation and Closure of Projects and Program 	<p>promotional material (By month 4);</p> <ul style="list-style-type: none"> • System for evaluation of institutional strengthening plans and institutions (by month 3). Scoring results presented to IDB after competition (by month 4). • Amount of financing provided to individual project and activities supported (type, costs and timing.) FOMIN: US\$250,000 Year 1, US\$400,000 Year 2, US\$200,000 Year 3. • Supervisory Missions. 14 Year 1, 21 Year 2, 6 Year 3. • Evaluation and closure of individual projects (4 Year 2, 3 Year 3) • Mid term and final evaluation of Program. 	<ul style="list-style-type: none"> • Program documents. • Progress and Final Report by the Executing Agency. • PPMR • PCR • Mid-term and final evaluation reports 	<ul style="list-style-type: none"> • Timely contracting of consultants and other services for execution of projects. • Timely provision of counterpart financing
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Annex II

Detailed Budget Summary EC-M1009 (US\$)

	Costs per unit	TOTAL	MIF	Swisscontact	Fin. Inst.
1. Matching Grant Fund : Regulated Financial Institutions	Est. 5 projects @ ~ US\$360 thousand of which~ US\$ 180,000 MIF	1800000	900000		900000
2. Matching Grant Fund: Savings and Credit Coop.	Est. 6 projects @ ~US\$ 200 thousand of which ~US\$140,000 MIF	1214000	850000		364000
3. Administration		271,000	169,000	102,000	
3.1 Management		65,500		65500	
Intl. Management	\$500/ day@ 59 days	29,500		29500	
Local Management	\$1000/month/36 months	36,000		36000	
3.2 Project Supervision and Advice		144000	144000		
Advisor;Component 1	\$2500/month/30 month	75000	75000		
Advisor: Component 2	\$ 2300/month/30 month	69000	69000		
3.3 Administrative Support	2 staff @ \$ 264 month/36 months	19000		19000	
3.4 Operating Costs (rent, utilities,materials)	\$444 month/36 month	16000		16000	
3.5 Travel		26500	25000	1500	
International	3 trips@\$500 trip	1500		1500	
Local	100 trips@\$250 trip	25000	25000		
4. Promotion		29000	29000		
Workshops Regional (Component 1)	\$2500 event/3	7500	7500		
Workshops Provincial (Component 2)	\$1500 event/5	7500	7500		
Dissemination of Results	\$3500 event/4 2 after mid-term evaluation 2 afterfinal evaluation	14000	14000		
5. Audit	3 annual audits/\$3333	10000	10000		
6. Evaluation	Mid-term:\$15,000 Final: \$25,000	40,000	40000		
7. Contingencies		50000	50000		
TOTAL		3,414,000	2,048,000	102,000	1,264,000
		100%	60%	3%	37%

Projects in Ecuador
EC-M1009 Deepening of Financial Services in Rural Areas

A. Similar or related MIF Projects

Project No. / Approval Date	Project Title, Sector, Executing Agency and Amount	Signature Date and Original Disbursement Period	Percentage Disbursed	Comments: Satisfactory or problematic execution, including delays, extensions, reformulations, changes in execution, etc.
Technical Cooperation ATN/ME-7716-EC 12/12/01	Expansion New Microfinance Institution to Rural Areas Expansión Nueva Institución Microfinanciera a Areas Rurales. Sociedad Financiera Ecuatorial S.A \$165,000 S.A.	4/25/02	100%	Project Completed Classified as HS/SP (Favorable development prospects (output and outcomes)
Loan 52/MS-EC 12/12/01	Expansion New Microfinance Institution to Rural Areas Expansión Nueva Institución Microfinanciera a Areas Rurales. Sociedad Financiera Ecuatorial S.A \$1,500,000	4/25/02	100%	Project Completed Financial and developmental results exceeded objectives that were originally targeted.

B. Similar or Related Bank Projects

Project No. / Approval Date	Project Title, Sector, Executing Agency and Amount	Signature Date and Original Disbursement Period	Percentage Disbursed	Comments: Satisfactory or problematic execution, including delays, extensions, reformulations, changes in execution, etc.
SP/SF-02-13-EC 11/07/02	Support Mechanism Cooperative Enterprises in Rural Areas Mecanismo de Apoyo a Empresas Asociativas en Areas Rurales US\$1,200,000 Red financiera rural	02/12/03 42 months	21.6%	Execution was delayed because of difficulties to hire a project director.

C. MIF Projects Related to the same Sector or Beneficiaries

Project No. / Approval Date	Project Title, Sector, Executing Agency and Amount	Signature Date and Original Disbursement Period	Percentage Disbursed	Comments: Satisfactory or problematic execution, including delays, extensions, reformulations, changes in execution, etc.
ATN/ME-5612-EC 6/25/97	Microenterprise Services Servicios Empresariales Microempresa	8/7/97 40 months	100%	Project Completed Classified as HS/HP (Favorable development prospects

	Corporación Financiera Nacional (CFN) \$1,260,000			(output and outcomes)
ATN/MT-5878-EC 2/25/98	Strengthening of Credit Union System Fortalecimiento del Sistema Cooperativa, Ahorro y Crédito Superintendencia de Bancos (SB) \$706,000	2/25/98 36 months	96%	Classified S/P -Favorable development prospects (outputs and outcomes), but with slow execution (24 months of extensions and a partial cancellation of \$320,742 (45%))
ATN/ME-7352-EC 3/6/01	Institutional Strengthening Banco Solidario S.A Fortalecimiento Institucional Banco Solidario SA Banco Solidario \$300,000	6/26/01 24 months	100%	Classified S/P -Favorable development prospects (outputs and outcomes)
Technical Cooperation ATN/ME-7599-EC 9/19/01	Support Microenterprises & Emigrants Apoyo a Microempresas y Emigrantes Banco Solidario S.A \$200,000	11/16/01 42 months	77%	Classified as HS/HP (Favorable development prospects (output and outcomes)
Investment 51/MS -9/19/01EC	Support Microenterprises & Emigrants Apoyo a Microempresas y Emigrantes Banco Solidario S.A \$2,000,000	11/16/01 49 months	98.7%	Project performing as expected. Financial and developmental results on target.
ATN/ME-8078-EC 10/28/02	Institutional Strengthening Cooperative Jardín Azuayo Fortalecimiento Institucional a Cooperativa de Ahorro y Crédito Jardín Azuayo Jardín Azuayo Credit Union \$300,000	12/06/02 43%	39%	Classified S/HP -Favorable development prospects (outputs and outcomes)
ATN/ME-8539-EC 12/09/03	Institutional Strengthening of Finca Ecuador Foundation Fortalecimiento Institucional a Fundación Finca Ecuador \$300,000	Has not been signed	0%	Fundación FINCA on its own has become Sociedad Financiera. BID/MIF are analyzing whether the project continues or be cancelled.
ATN/ME-8896-RG-EC 10/7/04	Financing Microenterprises & Small Businesses through Financial Intermediaries Financiamiento a Microempresas y Pequeños Negocios Sociedad Financiera Ecuatorial \$202,000	Has not been signed	0%	The Executing Agency is in the process of reviewing the Agreement. CO Ecuador expects contract to be signed at the end of February 2005.

MULTILATERAL INVESTMENT FUND ANNEX III-1

ECUADOR MIF PORTFOLIO

No.	Memo #	Project #	ATN #	Name	Exec. Agency	FAC	Approval	Status	MIF Amount	% Disb
1	MIF/AT-40	TC9409386	ATN/MH-4907-EC	Manpower Adjustment Program	FE	II	24-May-95	Completed	1,837,072	100.00
2	MIF/AT-41	TC9410143	ATN/MT-4908-EC	Modernization of State (Transport Component)	CONAM	I	24-May-95	Completed	1,021,427	100.00
3	MIF/AT-44	TC9503386	ATN/MT-4960-EC	Modernization of the Water and Sanitation Sector	CONAM	I	19-Jul-95	Completed	666,913	100.00
4	MIF/AT-57	TC9502130	ATN/MT-5051-EC	Trade Modernization		I	1-Nov-95	Completed	690,000	100.00
5	MIF/AT-105	TC9503287	ATN/MT-5440-EC	Mediation and Arbitration Center	CCQE	I	11-Dec-96	Completed	708,828	100.00
6	MIF/AT-124	TC9603128	ATN/MH-5566-EC	Employment Services and Training	FH	II	2-May-97	Completed	450,000	100.00
7	MIF/AT-132	TC9609126	ATN/ME-5612-EC	Voucher Program for Entrepreneurial Service	CFNCNV	IIIa	25-Jun-97	Completed	1,047,029	100.00
8	MIF/AT-156	TC9610131	ATN/MT-5878-EC	Strengthening the Savings and Credit Coops. System	SB	I	25-Feb-98	Completed	368,934	100.00
9	MIF/AT-157	TC9705271	ATN/MT-5877-EC	Transport Concessions	MOP	I	25-Feb-98	Completed	1,025,682	100.00
10	MIF/AT-242	TC9804461	ATN/ME-6459-EC-1	Local Development and Support for Private Initiatives	ACUDIR	IIIa	21-Apr-99	In execution	453,820	81.44
11	MIF/AT-242	TC9804461	ATN/ME-6459-EC-2	Local Development and Support for Private Initiatives	ACUDIR	IIIa	21-Apr-99	In execution	453,820	76.04
12	MIF/AT-242	TC9904007	ATN/MH-6460-EC-1	Local Development and Support for Private Initiatives	ACUDIR	II	21-Apr-99	In execution	270,180	89.30
13	MIF/AT-242	TC9904007	ATN/MH-6460-EC-2	Local Development and Support for Private Initiatives	ACUDIR	II	21-Apr-99	In execution	270,180	75.82
14	MIF/AT-242	TC9904008	ATN/MT-6461-EC-1	Local Development and Support for Private Initiatives	ACUDIR	I	21-Apr-99	In execution	246,000	24.04
15	MIF/AT-242	TC9904008	ATN/MT-6461-EC-2	Local Development and Support for Private Initiatives	ACUDIR	I	21-Apr-99	In execution	246,000	36.66
16	MIF/AT-346	TC9911188	ATN/MT-7084-EC	Development of Health Franchises	CARE	I	2-Aug-00	Completed	230,168	100.00
17	MIF/AT-346	TC9911188	ATN/MH-7083-EC	Development of Health Franchises	CARE	I	2-Aug-00	Completed	436,492	100.00
18	MIF/AT-388	TC0007041	ATN/ME-7300-EC	E-commerce Pilot Project for Small-Scale, Artisanal, and Agricultural Producer Groups	CAMARI	IIIa	22-Dec-00	In execution	409,920	97.97
19	MIF/AT-398	TC0007013	ATN/ME-7352-EC	Banco Solidario	BSSA	IIIa	6-Mar-01	Completed	299,835	100.00
20	MIF/AT-403	TC0104033	ATN/MH-7404-EC	Training for Young Entrepreneurs	FJA	II	25-Apr-01	In execution	201,449	86.41
No.	Memo #	Project #	ATN #	Name	Exec. Agency	FAC	Approval	Status	MIF Amount	% Disb

21	MIF/AT-421	TC0006013	ATN/MT-7511-EC	Privatization of the Assets of the Ministry of Tourism	MINTU	I	13-Jul-01	In execution	500,000	89.92
22	MIF/AT-425	TC9902016	ATN/MH-7524-EC	Support of Local Participation in the Galapagos Tourism Sector	CPTG	II	24-Jul-01	In execution	300,400	85.78
23	MIF/AT-436	EC0206	51/MS-EC	Support Micro-Enterprises Utilizing a Line of Credit	BSSA	IIIb	19-Sep-01	In execution	2,000,000	-75.73
24	MIF/AT-436	TC0105029	ATN/ME-7599-EC	Support Micro-Enterprises Utilizing a Line of Credit	BSSA	IIIa	19-Sep-01	In execution	200,000	76.90
25	MIF/AT-448	TC9902019	ATN/ME-7705-EC	Improving competitiveness for micro and small enterprises in textile sector (INSOTEC)	INSOTEC	IIIa	5-Dec-01	In execution	659,000	52.84
26	MIF/AT-449	EC0209	52/MS-EC	Sociedad Financiera Ecuatorial S.A.	SFE	IIIb	12-Dec-01	Completed	1,500,000	100.00
27	MIF/AT-449	TC0110024	ATN/ME-7716-EC	Sociedad Financiera Ecuatorial S.A.	SFE	IIIa	12-Dec-01	Completed	164,843	100.00
28	MIF/AT-454	TC0102027	ATN/MT-7750-EC	Strengthening Intellectual Property	IEPI	I	20-Dec-01	In execution	245,000	64.62
29	MIF/AT-463	TC0103001	ATN/ME-7833-EC	Development of a National Clean Production Center	CEPL	IIIa	3-Apr-02	In execution	737,900	53.02
30	MIF/AT-505	TC0203022	ATN/ME-8078-EC	Organizational Strengthening Or Jardin Azuayo Credit Union	CACJA	IIIa	28-Oct-02	In execution	300,000	39.09
31	MIF/AT-559	EC-M1005	ATN/ME-8530-EC	Program to Mitigate Market Access Barriers under the Andean Trade Preference Act	CORPEI	IIIa	3-Dec-03	In execution	1,323,492	2.27
32	MIF/AT-565	TC0205031	ATN/ME-8539-EC	Fortalecimiento Institucional de Credife	FINCA	IIIa	9-Dec-03	Approved	300,000	0.00
33	MIF/AT-567	EC-M1002	ATN/MH-8542-EC	Job Competencies Certification System in the Tourism Sector	FENACAPTUR	II	10-Dec-03	Approved	778,385	0.00
34	MIF/AT-623	EC-M1006	81/MS-EC	Financing Codessarrollo	CODESARRO	IIIb	17-Nov-04	Approved	1,200,000	0.00
35	MIF/AT-623	EC-M1006	ATN/ME-8952-EC	Financing Codessarrollo	CODESARRO	IIIb	17-Nov-04	Approved	290,000	0.00
								Total MIF Amount	21,832,770	