

SOCIAL INVESTMENT FUND

(EC-0203)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Ecuador	
Executing agency:	Emergency Social Investment Fund (FISE)	
Amount and source:	IDB: (OC IFF)	US\$40,000,000
	Local:	US\$ 5,000,000
	Total:	US\$45,000,000
Terms and conditions:	Amortization period:	25 years
	Grace period:	4 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars drawn from the Single Currency Facility
Objectives:	The general objective of this program is to improve living standards among the country's poorest population segments by bringing them into the network of basic social services and strengthening their social capital.	
Description:	FISE-III will continue to support the country's poor communities through basic social infrastructure projects, with activities based on five fundamental pillars: (i) project financing in a context of more comprehensive community development aimed at achieving a greater impact on living standards among the target population; (ii) a strong emphasis on strengthening management capacity in beneficiary communities; (iii) targeting on the poorest parishes, and ranking of communities based on criteria of cohesion and degree of local commitment; (iv) strengthening of works sustainability by ensuring broad community participation throughout the project cycle; and (v) institutional management that puts financing and community participation ahead of works execution.	

The program will have the following components:

Strengthening of community organization and management capacity. Funding will be provided for training, technical assistance and support activities in 500 communities living in the country's 220 poorest parishes, aimed at creating or strengthening their capacity to self-manage their own social development.

Basic social infrastructure projects. The program will finance approximately 475 social projects prepared by the communities (primary schools, basic healthcare centers, day-care centers for the under-sevens, old-people's centers, small-scale potable water and basic sanitation works, and small-scale works to refurbish or upgrade mule tracks or rural roads). The average value of each project is US\$72,000. About 40% of the projects will finance social works in indigenous communities and around 10% will benefit Afro-Ecuadorian communities.

FISE institutional strengthening and adaptation. The program will finance the process of adapting FISE's operating structure and management to the objectives, emphasis and new requirements of the proposed operation. Funding will be provided specifically for staff training, along with technical assistance to develop institutional capacities for coordinating with other national or local mechanisms engaged in the fight against poverty, the provision of equipment to strengthen institutional capacities in the areas of project monitoring and supervision and the internal information system.

Program monitoring and external evaluation. From the outset of the program, funding will be provided for continuous monitoring, supervision and external evaluation of the program's actions and impacts, in order to provide permanent feedback to FISE and the Bank on the progress of the operation. A final evaluation will also be performed to measure the program's impacts.

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

The Bank's strategy in Ecuador has the following aims: (i) economic stabilization and recovery of growth capacity; (ii) poverty relief, human-capital formation and social inclusion; (iii) efficient management of infrastructure with private-sector participation; (iv) State modernization and decentralization, and promotion of sustainable regional development. The poverty alleviation goal emphasizes the restoration of social spending, better targeting, social inclusion of indigenous and Afro-Ecuadorian populations, support for primary education, modernization of training services and strengthening of social security among peasant populations. FISE has become a tool for promoting such objectives in poor and remote areas that lack basic social infrastructure.

Environmental and social review:

This operation qualifies both as a social-equity enhancing project and as a poverty-targeted investment. The beneficiaries of the proposed operation will be communities living in the poorest 20% of the country's parishes. These are predominantly rural and located in remote areas.

No significant environmental impacts are anticipated. Community civil works are small-scale, and they will include measures to avert or mitigate potential negative impacts on the environment. FISE possesses environmental management tools, which will be adapted in line with the new third-stage program approach; community training and technical assistance actions will be intensified to ensure best use is made of them. As regards gender equity, existing training instruments will be strengthened, and the new ones proposed in the technical assistance and community management capacity strengthening component will stress gender-related aspects. Statistics on the program's actions will include gender variables.

Benefits:

The program will benefit 500 communities living in the 220 poorest parishes in the country. Of these, 89 parishes belong to indigenous ethnic groups and 20 to Afro-Ecuadorian communities. The program will promote better living standards among the poorest population segments in rural and isolated areas, while also mitigating the racial exclusion suffered by indigenous and Afro-Ecuadorian communities.

Support and technical assistance actions will develop and/or strengthen communities' management capacities, increase their social capital and provide them with tools, knowledge and contacts to enable them to take charge of their social development, on the basis of their own initiatives.

The use of community executing units to implement basic social infrastructure works will encourage works designs that are better adapted to community needs; it will also help reduce construction costs, ensure transparency in resource use, encourage greater use of local labor and materials, help strengthen community management capacity, and enhance the sustainability and impact of the projects concerned.

Risks:

The risks that could affect program implementation include politicized and non-transparent resource allocation, poor coordination and inconsistency with activities undertaken by other social sector institutions, and delays in the works component.

The following steps will be taken to ensure transparency in the Fund's actions: (i) civil-society representatives will serve on the Fund's consultative committees (national and regional); (ii) actions will be targeted on the country's 220 poorest parishes, using poverty maps; (iii) community projects will be selected and approved on a competitive basis; and (iv) beneficiary communities will participate in all stages of the project cycle. In addition, independent firms will be hired to continuously monitor and evaluate the program.

The following steps will be taken to minimize the risk of overlapping activities or dis-coordination with other entities: (i) review and adjustment of existing intra-institutional agreements in the light of the FISE-II experience; and (ii) close collaboration with the recently established Social Front, whose technical secretariat is responsible for coordinating all government actions in the social sector.

To minimize the risk of delays in executing the civil works, the component on community training and technical assistance includes a set of actions to be carried out by NGOs or local consulting firms with experience in community work, aimed at training communities in project management and providing them with permanent technical assistance throughout the community project cycle, from the design stage through works maintenance. FISE will also check that works are completed on time. This will not only ensure the timely execution of basic community social infrastructure projects, but also strengthen communities' capacity to take charge of their own development.

**Special
contractual
clauses:**

The borrower, acting through FISE, will satisfy the following conditions precedent to disbursement: (a) implementation of the program's Operating Regulations by the FISE management board (paragraph 3.28); (b) implementation of the new FISE structure, including organization chart, definition of functions and the number of consultants and employees envisaged for that structure, through a resolution issued by the Fund's management board (paragraph 3.3); (c) start of the process to hire external evaluation bodies, through an invitation to tender (paragraph 3.24); and (d) implementation of adjustments to accounting, financial management and internal resource control systems, under the new execution approach (paragraph 3.30). Once these conditions have been satisfied, disbursements will begin in the following components: community management capacity strengthening, FISE institutional strengthening, program monitoring and external evaluation, along disbursements relating to management expenses.

To initiate disbursements in the social infrastructure project component, the FISE management board will issue a resolution

adopting the new execution setup defined in this program for executing other projects with alternative financing. This entails the following: (a) FISE acts as a financing and supervisory body; (b) communities are responsible for works execution, unless indicated otherwise in the program; (c) communities receive technical assistance, training and supervision for works execution and sustainability; and (d) technical assistance and supervisory activities are outsourced (paragraph 3.25).

Poverty-targeting and social sector classification:

This operation qualifies as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). It also qualifies as a poverty-targeted investment (PTI) (see paragraph 4.6). The borrower will be making use of the 10 percentage points in additional financing (see paragraph 2.15).

Exceptions to Bank policy:

None

Procurement:

The limits applicable to Ecuador for goods and services procurement and civil works contracting are US\$250,000 and US\$3 million, respectively; but the program does not envisage works of this magnitude. Tendering for amounts below these limits will conform to national legislation. The program's consulting services will be hired in accordance with Bank procedures, as laid down in Annex C of the loan contract.

I. REFERENCE FRAMEWORK

A. Poverty and access to basic social services

- 1.1 The difficult political situation and serious economic crisis experienced in recent years have undermined living standards among the Ecuadorian people. The percentage of the population living in poverty grew from 34% in 1995 to 56% in 1999,¹ and indigence levels increased from 12% to 21% in the same period. Unemployment and underemployment climbed to unprecedented levels in the country's recent history—14.4% and 55% respectively in late 1999—thereby eroding incomes among already poor households. Poverty incidence is greater in rural areas (77%), and among indigenous (78%) and Afro-Ecuadorian populations (over 70%). Worsening poverty and employment indicators have been accompanied growing inequality and a reduction in social spending.²
- 1.2 The population's quality of life is highly correlated with access to basic social services such as education, health, childcare, environmental sanitation, and so forth. The net primary school enrolment rate has held steady around 90%, but access to schools among the most needy groups remains critical. While 19% of children between six and 15 years of age in the poorest population quintile are not attending school, the figure is virtually zero in the top quintile. Failure to attend school is also more marked in rural areas, where 20% of children in the 6-15 age group are not enrolled.
- 1.3 In the health sector, the situation among the most vulnerable population groups has not improved; nearly one-third of the population has no access to health services. The infant mortality rate had been declining steadily over recent decades, but since 1995 it has leveled off at 20 deaths per 1,000 births. Diarrhea and respiratory illnesses account for 47% of infant mortality, which reflects household living standards and access to basic services. Maternal mortality has followed the same pattern as infant mortality, remaining steady at 55 deaths per 100,000 live births since 1995.
- 1.4 Deficiencies in childcare resulting from the crisis may lead to a worsening of already unsatisfactory child population indicators. As many as 60% of children between 0 and 17 years of age (2.7 million) are living in poverty. In 1999, 27% of children under five displayed symptoms of chronic undernourishment (small size) and 15% showed general undernourishment (low weight). This is a more serious problem in rural areas, where 37% of children suffer from chronic- and 17% from

¹ Poverty is defined here as the percentage of the population belonging to households whose consumption is less than the basic basket of goods and services. Poverty data and other social indicators come from the Integrated Social Indicator System of Ecuador (SIISE), attached to the Ministry of Social Welfare.

² The GINI index rose from 0.54 in 1995 to 0.58 in 1999, and public-sector social spending dropped from 6.1% of GDP in 1996 to 4.5% in 2000.

general undernourishment, and among the most poor, where 35% are chronically undernourished.

- 1.5 Childcare coverage is very limited; government programs only cater for 140,000 children and do not always target the poorest and most vulnerable population groups. In the country's 50 poorest cantons, for example, only 21,000 of the 181,000 poor children are covered by programs run by the Ministry of Social Welfare and the National Institute of the Family (INFA).
- 1.6 Sanitary conditions in homes have improved in recent decades, but the country suffers from glaring deficits in access to potable water and sanitation systems. In 1999, around 91% of the rural and 40% of the urban population were not connected to the public drinking-water supply. The vast majority of rural homes (89%), along with a significant proportion of urban homes (35%), have no access to the public sewerage system.
- 1.7 The low quality of life among poor communities is aggravated by the non-existence or deficient state of rural roads in the countryside, or access roads in the urban areas. The lack of roads and highways not only has negative economic effects but prevents communities from using basic social services and accessing justice and citizen safety mechanisms; it also makes it difficult for service providers to reach places where the poorest and most vulnerable people live. Access difficulties make communities more isolated and help to perpetuate poverty conditions.

B. The Emergency Social Investment Fund (FISE)

- 1.8 FISE was set up in March 1993 to carry out actions complementary to those undertaken by other State bodies in support of the poorest population groups—especially those located in areas where the basic social service network is scarce or non-existent.
- 1.9 The Bank has been involved in FISE financing ever since the latter's inception. It provided a short-term technical cooperation to support its design, and then granted a US\$30 million loan, executed between 1994 and 1996, as part of the funding for the first stage of the program (FISE-I). This had a total cost of US\$115 million, and received additional contributions from the World Bank and the Andean Development Corporation (CAF), along with other international cooperation agencies. These resources were used to finance around 4,900 works from a menu of 37 project types in the areas of social and economic infrastructure, social services and productive projects. During that period, FISE developed into an entity with national coverage, earning broad recognition among the most needy communities.
- 1.10 FISE-II began in January 1997 and ended in January 2001. For this second stage, the Bank originally approved funding of US\$45 million, but the amount was cut back to US\$29.2 million in March 1997 as part of a reallocation of funds to support

reconstruction in areas affected by El Niño. This phase coincided with one of the periods of greatest political and economic instability in Ecuador's recent history. FISE actions focused on social infrastructure and tertiary highways. The menu of project types was reduced considerably, and community participation was introduced in the prioritization of works and the areas of gender awareness and environmental evaluation.

C. Achievements of FISE-II

- 1.11 FISE-II financed 1,150 projects benefiting 1,061 communities living in 350 parishes. The program implemented 216 social shelter-type projects (construction, rehabilitation and equipping of day-care facilities and old-people's centers); 731 education projects (construction, refurbishment and equipping of schools); 54 health projects (construction, rehabilitation and equipping of health centers); 87 basic sanitation projects (potable water connection, small-scale sewerage works or installation of latrines); and 58 neighborhood road improvement projects (see table 1.1). The program also ran courses on community training and works maintenance in the beneficiary communities.

Table 1.1

FISE-II Projects funded by type (Costs in US\$)				
Project type	No. of projects	%	Cost of projects	%
Social shelter	216	19%	2,995	12%
Education	731	64%	14,813	58%
Health	54	5%	1,141	4%
Sanitation	87	8%	3,828	15%
Highways	58	5%	2,753	11%
Other	4	0%	83	0%
Total	1,150	100%	25,613	100%

Source: FISE

- 1.12 The civil works in FISE-II were targeted as follows: 10% in parishes with more than 60% of the population suffering from unmet basic needs (UBN);³ 81.5% of projects in parishes with UBN figures between 40% and 60%; and 8.5% of projects in parishes with UBN indices below 40%. It should be noted that although parishes

³ The index of unmet basic needs (UBN), broken down by parish, ranges from a minimum of 31% to a maximum of 70%. It was calculated by INFOPLAN on the basis of the 1990 census and updated with information from the 1995 standard of living survey.

as a whole may have low UBN levels, the program's civil works were located in the poor sectors of those localities. According to FISE estimates, 13% of the program's civil works were undertaken in indigenous areas and 2% in areas inhabited by Afro-Ecuadorians. Geographically speaking, 76% of civil works were carried out in rural- and 24% in urban areas.

- 1.13 Beneficiaries have highly favorable opinions of the program's actions. A survey showed that nearly all beneficiaries recognize FISE as the organization behind the works undertaken; 98% stated that the funded project was the community's top priority; 71% considered that the works benefited the entire community, and 98% claimed that without FISE the works would not have been undertaken.
- 1.14 The program also financed technical assistance activities for strengthening the institution. Its headquarters were turned into a head office in Quito, with eight regional offices, four of which were created during execution of the second stage of the program. The head office was put in charge of coordination, along with approving community projects, overall financial management (including payments to contractors) and managerial support for the regional offices. The latter are responsible for processing projects from the promotion stage through to pre-approval, and for contracting and monitoring projects once approved by head office. FISE also updated its regulatory system, establishing rules and standards, and producing manuals both for the institution's internal activities and for activities related to the cycle of projects it finances.
- 1.15 **Audits.** The Andean Development Corporation (CAF) agreed to co-finance FISE-II, matching the Bank's contribution. In April 1998, however, CAF rejected expenditure claims against the US\$10 million advance disbursed since April 1997. The reasons for this related to shortcomings in the processes of inviting tenders, and in the selection and award of contracts for civil works and supply of goods. As a result of this situation CAF foreclosed the operation in September 2000. The two most recent FISE administrations have worked to clarify the problems raised, hiring the auditors Deloitte & Touche for this purpose. In December 2000, the latter submitted a positive audit report on bidding and contracting processes applied in activities carried out by FISE with CAF resources, covering US\$9.5 million of the funds in question. In that same month, CAF accepted the report justifying the resources used.
- 1.16 In view of situation that arose with CAF, in 1998 the Bank contracted the same firm of auditors to review bidding and contracting procedures on activities carried out by FISE between May 1996 and May 1998, using the proceeds from loans 928/SF-EC and 819/OC-EC (the FISE-I program). The results of this audit showed that only 1.6% of the resources used during the review period were subject to administrative irregularities. The auditors made recommendations in a number of areas to improve the entities' management processes and execution of program projects. These include automation of all financial and accounting procedures; setting up an

information bank on consultants and subcontractors; and establishment of an institutional informatics system to support de-concentrated fund management. The auditors' recommendations were implemented by FISE and have been monitored and supervised by the Bank's country office in Ecuador.

D. Main lessons learned

- 1.17 Based on the evaluations made of FISE-I and II, together with program completion reports (PCRs) on both operations and experience gained by the Bank during their execution, the following lessons can be drawn:
- 1.18 The system of small-scale community projects responding to basic social infrastructure needs among poor populations remains fully valid in Ecuador. FISE continues to operate and respond to local demands in areas where the State has traditionally had little or no presence. Its interventions have been even more important in the economic crisis that has affected the country in recent years.
- 1.19 Unlike the first stage of the program, where the chosen projects responded to both supply and demand decisions, the second stage used a demand-driven investment modality. This involved greater community participation in ranking projects, thereby engendering a greater sense of ownership among the beneficiaries. Nonetheless, the execution of civil works was carried out by contractors selected directly by FISE without any intervention by the communities involved. A challenge for the third stage of the program is to work with local communities even more closely, to achieve greater participation in both works execution and maintenance.
- 1.20 The second stage of the program included training activities in the beneficiary communities, particularly in the areas of environmental management and maintenance. Little was done to strengthen community action competencies, however. Another challenge for the third stage is to strengthen organizational and management capacities in the beneficiary communities, not only to make the funded works more sustainable but also to enable communities to tackle their own basic social problems.
- 1.21 During FISE-II, a process was initiated to ensure participation from indigenous and Afro-Ecuadorian communities, through agreements with representative organizations from these communities (CONAIE, FEINE and CNA). These agreements gave FISE a means of reaching such population groups, which suffer from a high incidence of poverty. They also helped achieve effective targeting of the funded actions and project selection in accordance with community needs. This type of experience needs to be digested and applied more widely in executing the third stage of the program.

- 1.22 To assess the sustainability of FISE actions, a study was carried out on a random sample of 390 funded projects.⁴ The results are highly positive. As many as 89% of projects in the first stage and 99% of projects in the second are in good condition and are being used for the intended purposes; 80% of first-stage 98% of second-stage projects have suitable maintenance activities. The community is in charge of maintenance on 81% of first-stage projects and 92% in the second stage, with participation by public bodies and NGOs being far less important. The community is providing resources for works maintenance in over half of all first-stage works and three-quarters of those carried out in FISE-II.
- 1.23 The lessons learned during the two first stages of the program showed that investment is more sustainable when the following elements come together: (i) a greater sense of ownership of the civil works among local communities, particularly through their involvement in all stages of the project cycle; (ii) support provided by FISE in the maintenance process, at least in the initial stage, such that the community concerned receives technical assistance and funding for the activity; and (iii) better coordination of FISE activities with local bodies (parishes and municipios) and national mechanisms (ministries), in order to ensure adequate maintenance.
- 1.24 In the environmental domain, a set of environmental management actions were introduced in the second stage of the program, consisting of adopting an environmental manual, environmental guidelines for each works type, guidelines for environmental training, and incorporation of an environmental section in community projects. A gender-equity dimension was built into all community training mechanisms, and joint actions were undertaken with the National Women's Council (CONAMU) to raise awareness among FISE staff members and to mainstream gender aspects in institutional policies and in the statistics on the program's actions. In the cases of environmental management and gender equity, instruments have been incorporated into current FISE operations, but their effectiveness was limited by inadequate training.
- 1.25 As regards Fund management, de-concentration of certain functions to regional offices had a positive impact on the institution's work, by reducing the time needed for processing and approving community projects and in works monitoring. Time taken in the processing, approval and execution of civil works is still a lot shorter than that required by the institutional channels of sectoral ministries that address similar needs but different beneficiaries than those catered for by FISE. These improvements have basically been achieved during the last two years of project execution. Mechanisms need to be designed and implemented, however, to ensure, reinforce and enhance streamlined, transparent and efficient execution with clearly

⁴ The study was undertaken in March 2001, just a few months after the activities of the second stage of the program had been completed.

established performance targets. FISE also needs to coordinate more closely with sectoral and national strategies and policies for overcoming poverty in the country. The new FISE-III institutional arrangements need to rise to these challenges.

E. FISE and Ecuador's social policy

- 1.26 Ever since its creation in 1993, FISE has played an major role in the social sector as one of the State agencies that has addressed the demands of the country's poor communities most efficiently, especially in financing small-scale social infrastructure works. The current government recently published its medium-term social plan for 2001-2005 (PSMP). Its key objectives include reduction of indigence and poverty, promotion of equity and distributional justice, support for sustainable growth and progressively enhancing governance by promoting the social rights of citizens. FISE has a key role to play in this plan, as the specialized mechanism for improving social infrastructure among populations living in the poorest areas of the country.

F. Main characteristics of FISE-III

- 1.27 FISE-III will continue to support basic social infrastructure projects among the country's poor communities, through activities based on five fundamental pillars: (i) project financing in a context of more comprehensive community development, aimed at increasing impacts on living standards in the targeted population; (ii) a strong emphasis on strengthening management capacity among beneficiary communities; (iii) targeting on the poorest parishes, and prioritization of communities based on criteria of cohesion and level of local commitment; (iv) making civil works more sustainable as a result of broad participation by communities throughout the project cycle; and (v) institutional management that puts financing, technical assistance and support for communities ahead of works execution.
- 1.28 **Project execution in the community development framework.** Works financed by the program will seek to reinforce and be consistent with interventions being undertaken by other institutions in the beneficiary communities. A community's chances of obtaining FISE funding will be greater if it is able to incorporate works execution and maintenance into a community development plan. At the same time, the design of this plan will oblige communities to act for themselves in dealing with other local and regional institutions, and in their processes of establishing priorities. A consequence of this new approach, unlike the previous stages of FISE, is that communities can finance more than one basic social infrastructure project at a time.
- 1.29 **Community management capacity.** The program will strengthen community management capacity through training, technical assistance and support throughout the project cycle. The strategic aim of these actions is to strengthen the social capital of the communities in which FISE intervenes. Emphasis will be put on

strengthening community organization and management capacities as a necessary condition for gaining access to funding for basic social infrastructure projects. Given that the poorest communities generally lack the time, resources, knowledge and organization to prepare projects, the program will emphasize the identification and supply of training and technical assistance, particularly in preparing projects in these communities, in order to maximize their chances of obtaining FISE funding.

- 1.30 **Targeting.** Consistent with equity criteria and the insertion of FISE activities in the community development context, the Fund will target its actions on the country's 220 poorest parishes. This will ensure the inclusion of indigenous and Afro-Ecuadorian communities, which will also receive specific support in designing and preparing their project proposals for FISE. Targeting will be complemented by the need to cover all regions of the country. The selection of projects within the targeted parishes will use criteria relating to the degree of community participation and commitment, the complementarity of FISE actions with those of other bodies, and with the development plans of the community concerned, as well as its ethnic composition and relative poverty level.
- 1.31 **Sustainability.** This aspect will be strengthened by involving beneficiaries more in decision-making at all stages of the project cycle; and by providing greater support for communities once the project has ended, to train staff and to set up and finance maintenance plans. Another aspect that will help to make FISE actions more sustainable, and also help avoid duplications and take better advantage of available resources, will be coordination between FISE and other government bodies, especially institutions comprising the Social Front,⁵ and with operations funded by the Bank and other multilateral agencies offering similar services.
- 1.32 **Institutional management.** FISE will adapt its current organizational and management setup to the program's new targets and priorities, and to the need to raise its efficacy and efficiency in addressing the needs of poor communities, compared to past experience. In particular, the institution needs to put greater emphasis on supporting community management capacity and less on direct execution of infrastructure works, unless these are particularly complex. FISE will adapt its operations and structure to a strategy based on interventions conceived in a framework of comprehensive community development. It will target the country's 220 poorest parishes and give special attention to the needs of indigenous and Afro-Ecuadorian communities. The intention is also to involve civil society and program beneficiaries in the Fund's various management mechanisms.

⁵ The Social Front is a coordination mechanism for all ministries and government institutions in the social area.

G. The Bank's strategy in the country

- 1.33 The Bank's strategy in Ecuador has the following aims: (i) stabilization of the economy and restoration of growth capacity; (ii) poverty alleviation, human- capital formation and social inclusion; (iii) efficient management of infrastructure with private-sector participation; and (iv) State modernization and decentralization, and promotion of sustainable regional development. The poverty alleviation objective emphasizes the restoration of social spending, better targeting of State actions on the most needy, social inclusion of indigenous and Afro-Ecuadorian communities, support for primary education, modernization of training services and strengthening of social security among peasant communities. FISE has become a vehicle for progress towards these objectives in poor and remote areas that lack basic social infrastructure.

II. THE PROGRAM

A. Objective

- 2.1 The general objective of the program is to improve living standards among the country's poorest population sectors by drawing them into the network of basic social services and strengthening their social capital.
- 2.2 The specific objectives will be: (i) to provide basic social infrastructure to the poorest communities; and (ii) to strengthen such communities' management and organization capacities.

B. Components

- 2.3 The program will have the following components: (i) strengthening of community organizational and management capacity; (ii) basic social infrastructure projects; (iii) FISE institutional strengthening and adaptation; and (iv) program monitoring and evaluation.

1. Strengthening of community management capacity (US\$3 million)

- 2.4 This component will finance activities to strengthen management capacities in 500 communities located in the 220 poorest parishes of the country. It will finance technical assistance, training and support activities in the following areas: (i) strengthening of management capacity among community organizations, to make it possible to undertake program actions using more local resources, and strengthening community capacities to deal with and make agreements with both local and external social development agents; (ii) transfer of knowledge and technical skills to enable communities to participate directly in the project cycle, particularly in preparing diagnostic studies, justifying social investment proposals and managing funds; and (iii) training of communities to operate, maintain and sustain basic infrastructure works. Special importance will be given to environmental and gender-equity issues throughout this component's activities.
- 2.5 Training, technical assistance and support activities will be carried out on two levels. Firstly, in the FISE regional offices, regional training and technical assistance institutions (IRCATs) will be contracted to support the Fund in the selection, training and supervision of training and technical assistance units (UCATs). In the second place, UCATs will be hired to provide technical assistance and support for the program's beneficiary communities.
- 2.6 Specific activities to be financed by this component include: (i) promotion of the program in the selected communities; (ii) design of methodologies, techniques and procedures for strengthening community management; (iii) selection of UCATs and

definition of the base line, along with monitoring, supervision and evaluation thereof; (iv) training of support units at the regional level; (v) training, technical assistance and support activities in beneficiary communities; and (vi) production of manuals and materials for training, technical assistance and support activities. Each community is expected to receive an average of about 27 days' training and support from the UCATs.

2. Basic social infrastructure projects (US\$34.3 million)

- 2.7 This component will finance basic social infrastructure projects in poor communities based on a demand mechanism. The range of eligible projects includes: primary schools, basic health centers, daycare for the under sevens, old people's centers; small-scale potable water and basic sanitation works; and small-scale works to rehabilitate or upgrade mule tracks or rural roads. Funding will be provided for a minimum 475 projects (each project containing one or more civil works) for an average amount of US\$72,000 per project. About 40% of the projects will fund social works in indigenous communities, and around 10% of them will benefit Afro-Ecuadorian groups.
- 2.8 Eligible projects may include installation, refurbishment, replacement or expansion of infrastructure, and/or provision of furniture and equipment. Each project can consist of one or more basic infrastructure works and/or equipment. In educational, health, daycare and old-age care projects, approval will only be given to those that can guarantee the staff needed to provide the corresponding services. Projects to refurbish or upgrade mule tracks or rural roads need to satisfy the guidelines of the rural transport infrastructure program (EC-0196) (see paragraph 3.27). Communities themselves will prepare and present projects, and also execute them in the vast majority of cases.

3. FISE institutional strengthening (US\$1 million)

- 2.9 This component will finance actions to adapt the FISE's operational structure and management to the objectives, emphasis and new requirements of the proposed operation. Funding will be specifically provided for: (i) training activities to develop internal capacities in the areas of evaluation, selection, monitoring and regulation of institutions providing training, technical assistance and support; (ii) technical assistance activities to develop institutional capacities for coordinating with other national or local mechanisms engaged in the fight against poverty; (iii) training activities and provision of equipment to strengthen institutional capacities in the area of works monitoring and support; (iv) provision of equipment and computer systems to improve internal information systems in order to enhance efficiency in the project control system; and (v) technical assistance in decentralizing functions and resources.

- 2.10 As regards the composition of FISE managerial mechanisms, consultative bodies will be set up at the central and regional levels, with representatives from civil society, in order to ensure greater social control over the Fund's actions and allocations.

4. Program monitoring and external evaluation (US\$1 million)

- 2.11 From the outset of the program, funds will be made available for a continuous process of monitoring, supervision and external evaluation of the quality and impact of the program's processes. The basic objective here will be to provide permanent feedback to FISE on progress achieved, obstacles encountered and corrective actions needed in the program, based on a set of information and analytical tools.
- 2.12 This component will also finance an external evaluation of the program's impacts and final results, focusing on: (i) impacts on beneficiaries and their organizations; (ii) impacts on public and private institutions involved in the fight against poverty; (iii) impacts on local governments; and (iv) the achievement of broader objectives relating to human capital development and poverty reduction. The evaluation will also provide information on efficiency levels attained in this program compared to previous phases, and on the efficiency of FISE in supplying basic social infrastructure works compared to other public institutions within the traditional State apparatus.

5. Program operation (US\$4 million)

- 2.13 This component will finance FISE management and operating expenditure during program execution. Eligible expenses include professional fees, general FISE operating costs and other administrative expenses incurred in executing the operation.

6. Financial expenses (US\$400,000)

- 2.14 The program will finance loan inspection and supervision costs. The Ministry of Economic Affairs and Finance will pay the interest and commitment fees arising from the operation.

C. Costs and terms

- 2.15 The total value of the operation will be US\$45 million, of which US\$40 million will be financed by the Bank, and remaining US\$5 million will be provided as local counterpart funding. The program will last four years. Table 2.1 shows the costs and funding sources for the program's components.

Table 2.1
FISE III
Program costs and funding sources
(in US\$ thousand)

Investment category	IDB (OC/IFF)	LOCAL	TOTAL	%
1. Operating expenses	1,250	2,750	4,000	9
2. Strengthening of community management capacity	3,000		3,000	7
3. Financing of basic social infrastructure projects	32,500	1,800	34,300	76
4. FISE Institutional strengthening and adaptation	1,000		1,000	2
5. External monitoring and evaluation	1,000		1,000	2
6. Contingencies	850	450	1,300	3
7. Financial costs* (FIV)	400 400		400 400	1 1
Total	40,000	5,000	45,000	100

* Expenditures for payment of interest and commitment fees arising from the operation will be paid by the Ministry of Economic Affairs and Finance.

D. Loan terms and conditions

2.16 The terms and conditions of the loan are set out in table 2.2

Table 2.2
FISE III
Loan terms and conditions

Amortization period	25 years
Commitment period	3.5 years
Disbursement period	4 years
Interest rate	Variable (1)
Inspection and supervision	1%
Commitment fee	0.75%
Currency	US\$, drawn from the Single Currency Facility

(1) The Intermediate Financing Facility (IFF) will be used

III. PROGRAM EXECUTION

A. Executing agency

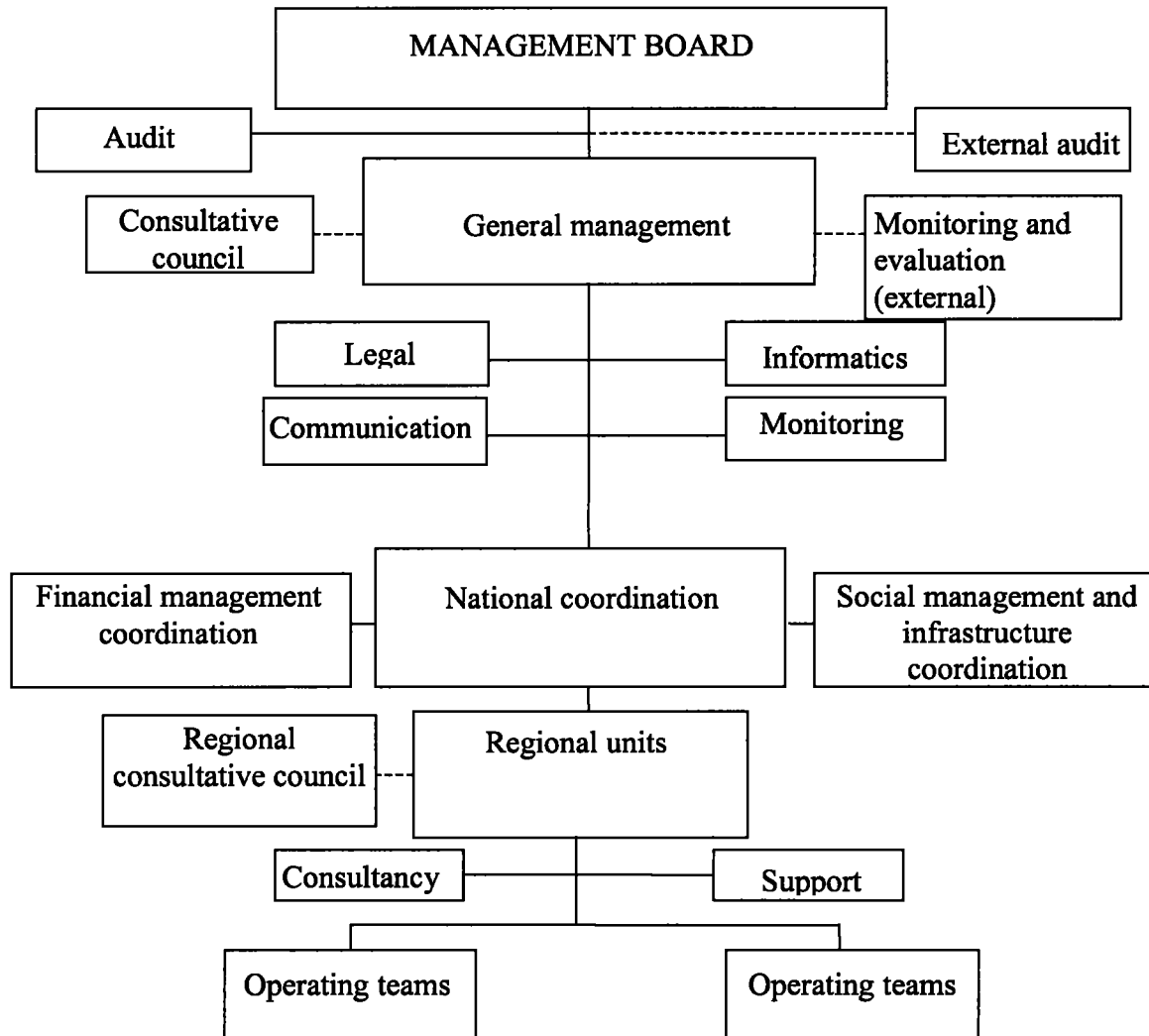
- 3.1 The borrower will be the Republic of Ecuador, and FISE will be in charge of execution. The latter is a managerially and financially decentralized body attached to the Office of the President of the Republic, in charge of technical and financial activities aimed at improving living standards among the country's population.⁶
- 3.2 As a result of the innovations introduced in FISE-III (paragraphs 1.26 to 1.31) execution of the operation will be highly decentralized and outsourced. Unlike the previous stages, in which FISE itself executed project activities either directly or through subcontractors, FISE-III will focus on the promotion and financing of community projects, support and technical assistance for the communities concerned, and coordination and monitoring of program activities.
- 3.3 The proposed reorganization of FISE is intended to respond to: (i) the new program execution arrangements, consisting of: giving the community responsibility for implementing basic social infrastructure projects; (ii) the need to adapt execution to local conditions and the specific ethnic and cultural characteristics of the beneficiaries; (iii) the need to improve the efficiency and effectiveness of interventions; and (iv) the need to broaden the scope of social control over FISE activities. The Fund's new institutional organization chart, agreed during the design of the operation, is shown in figure 3.1. The functions and responsibilities of each unit will be specified in the program's Operating Regulations. Implementation of the new FISE structure by its management board, including the organization chart, definition of functions and the number of consultants and employees envisaged in the new structure, will be a condition precedent to disbursement.
- 3.4 Broadly speaking, the new organizational structure agreed upon will involve a management board consisting of the FISE general manager and representatives appointed by the President of the Republic. The board will be responsible for defining FISE policies, ensuring that its activities are consistent with the government's social strategy, and maintaining the necessary coordination with other government institutions in the social sector. There will also be a national unit (including general administration, national coordination, financial management, and social management and infrastructure). This will be responsible for: national coordination of all Fund activities; providing advisory services to the regions; financial management of the organization's resources; and monitoring of program

⁶ FISE is a time-limited body with a legal status that expires in July 2003, according to executive decree issued by the President. Prior to the Board's approval of the loan, the Ecuadorian government will have presented evidence of having extended the legal status of FISE for a period not expiring before the expected conclusion of the program.

actions. There will also be up to eight FISE regional units responsible for managing and operating program activities at the more local level (see Annex II).

- 3.5 FISE will have a consultative council at the national level made up of representatives from civil-society organizations and beneficiaries at the national level. It will also have regional consultative bodies comprised of delegates from the national unit, representatives from provincial, municipal and parish authorities, and representation from non-governmental organizations and second-tier organizations representing the region's ethnic and cultural groups. Apart from this, FISE will aim to include among its staff professionals and technical experts from the various indigenous and Afro-Ecuadorian ethnic groups, particularly in areas of the country where activities are undertaken with these communities.

Figure 3.1
New FISE structure



B. Sequence of program implementation

- 3.6 The execution sequence combines actions from the various components of the program. The **first** step will be to select beneficiary communities in the parishes where the program's actions are to be targeted, with input from parish councils, together with indigenous, Afro-Ecuadorian and peasant group organizations. **Second**, activities in the training and technical assistance component will be started in the selected communities, in order to strengthen their organization and management capacity and support them in preparing the community development

plans and basic social infrastructure projects to be presented to FISE.⁷ **Third**, the latter will then evaluate projects and approve funding for them. This will trigger execution of the infrastructure projects themselves. **Fourth**, during execution of the civil works and after they have been handed over to the communities concerned, community training and technical assistance activities will continue in the areas of project operation and sustainability.

- 3.7 Throughout program execution, a preselected group of institutions will undertake activities in the program's external monitoring and evaluation component.

C. Program targeting

- 3.8 The program's activities will be carried out in the country's 220 poorest parishes. These will be chosen on poverty criteria measured by the index of unmet basic needs (UBN), which will need to be updated in line with the census to be applied in late 2001. This targeting criterion will be complemented by the need to ensure adequate regional coverage of communities living in poverty.
- 3.9 Within the 220 targeted parishes, 500 poor communities will be chosen to benefit from management capacity and community organization strengthening activities. Beneficiary communities will be selected by the following mechanisms: (i) a certain number of communities will be chosen per parish, depending on the size of the parish population; (ii) no less than 40% of the selected communities will be indigenous and 10% will have majority Afro-Ecuadorian populations;⁸ and (iii) the poorest communities of the parish will be selected in consultation with parish councils, together with second-tier indigenous organizations and representative Afro-Ecuadorian and peasant organizations in the region; and, where appropriate, with public and private organizations running poverty-reduction programs at the parish level.
- 3.10 Within the 500 communities selected, 475 basic social infrastructure projects will be funded. These will be chosen through semiannual contests in which the projects presented will be classified according to three criteria: (i) consistency of the project with the community development plan (the more consistent the higher the points awarded); (ii) the level of community commitment towards project cofinancing, either through direct participation in works execution, or by obtaining additional resources from other public or private bodies; and its commitment towards maintaining the civil works (the larger the percentage of community cofinancing

⁷ The community development plans contain objectives and activities agreed upon by the community to improve their living conditions. The basic social infrastructure projects are a subset of the community development plans, in which the community prioritizes the works and activities to be presented to FISE for financing (see paragraph 3.20a and Annex III).

⁸ The percentages of indigenous and Afro-Ecuadorian communities correspond approximately to the percentage of such populations in the 220 targeted parishes.

the higher the points); and (iii) preference will be given to projects presented by communities that have not previously obtained FISE support (lower points will be given to those that have received FISE support in the past).

- 3.11 Communities can request funding for projects involving one or more civil works, up to a limit of US\$75,000 per community. This limit can be exceeded if the project proposed involves two or more communities. Once all applications from the respective contests have been received, projects will be graded using the criteria indicated in the previous paragraph. Given the budget assigned to each contest, the highest-rated projects will be selected to receive funding, while those not selected will be sent back to their respective communities with suggestions for improvement, leaving it open for them to be presented in a new contest sometime in the future.

D. Execution of community training and technical assistance component

- 3.12 Actions in this component will be outsourced. FISE will establish the general contents of technical assistance and set standards for the services to be provided. It will also be responsible for calling for tenders from suppliers, and for their subsequent selection, contracting and supervision. Annex III gives a summary of the component's activities and actors.
- 3.13 The component will be implemented in two stages. Firstly, FISE will select and contract regional training and technical assistance institutions (IRCATs). These will have the following functions: help FISE promote the program in the selected communities; identify, accredit and select community training and technical assistance units (UCATs); train the UCATs in methodologies and tools for strengthening management capacity in the beneficiary communities, and for presenting, implementing and maintaining the communities' basic social infrastructure projects. IRCATs may be academic entities or NGOs with experience in social development activities in the region concerned.
- 3.14 Secondly, each selected community will receive training and technical assistance from a UCAT hired by FISE. UCATs are NGOs, local academic institutions, consulting firms or individual consultants with experience in community work on social projects. UCATs will concentrate on training community leaders to make diagnostic studies of the community's social needs and in preparing the social development plans and basic social infrastructure projects that the communities will present to FISE to compete for funding.
- 3.15 During the execution cycle of basic social infrastructure works, the UCATs will train communities in social project management, leadership and decision-making, sanitary and environmental education, gender equity and social infrastructure works sustainability. They will also give support and technical assistance to the communities in executing social infrastructure works and in designing and

implementing works maintenance activities. Once the civil works have been concluded, the UCATs will help the communities systemize the experience in order to distil knowledge, lessons and learning to strengthen their self-management capacity.

- 3.16 FISE regional units will contract UCATs from the set of entities accredited by the IRCATs. The UCATS can deal with more than one community at a time, always provided they demonstrate the capacity to do so. Preparatory studies for this operation found that there is an adequate supply of this type of institution in the country to provide technical assistance to the communities.

E. Execution of component to finance basic social infrastructure projects

- 3.17 Formulation and implementation of basic social infrastructure works in most cases will be the responsibility of the beneficiary communities themselves. Projects to be financed will be chosen competitively by FISE, acting through its regional units, using the criteria detailed in paragraph 3.10. FISE will transfer financial resources to the beneficiary communities to enable them to implement the projects. Works contracting for the selected projects will be the responsibility of executing units set up by the beneficiary communities.⁹ Only in cases where it is shown that works require skilled labor and/or complex machinery that does not exist in the beneficiary area, will execution be contracted through FISE contractors. The community project execution cycle is presented in figure 3.2.

- 3.18 **Transfer of funds to the communities.** FISE will transfer funds to the communities for financing basic social infrastructure projects, through agreements whereby the Fund makes a certain quantity of money available to the community in exchange for a commitment from the latter to make all necessary arrangements to contract professional staff, workers and materials to ensure that the corresponding work(s) is/are carried out according to the terms of the project.¹⁰ The quantity of funds transferred in these agreements will cover the cost of pre-investment activities, the cost of the works and/or equipment and a percentage for contingencies.

- 3.19 **Project executing units.** Management of works execution is carried out through executing units chosen by a representative assembly of the community. An executing unit basically consists of a president, a treasurer, a secretary and a voting

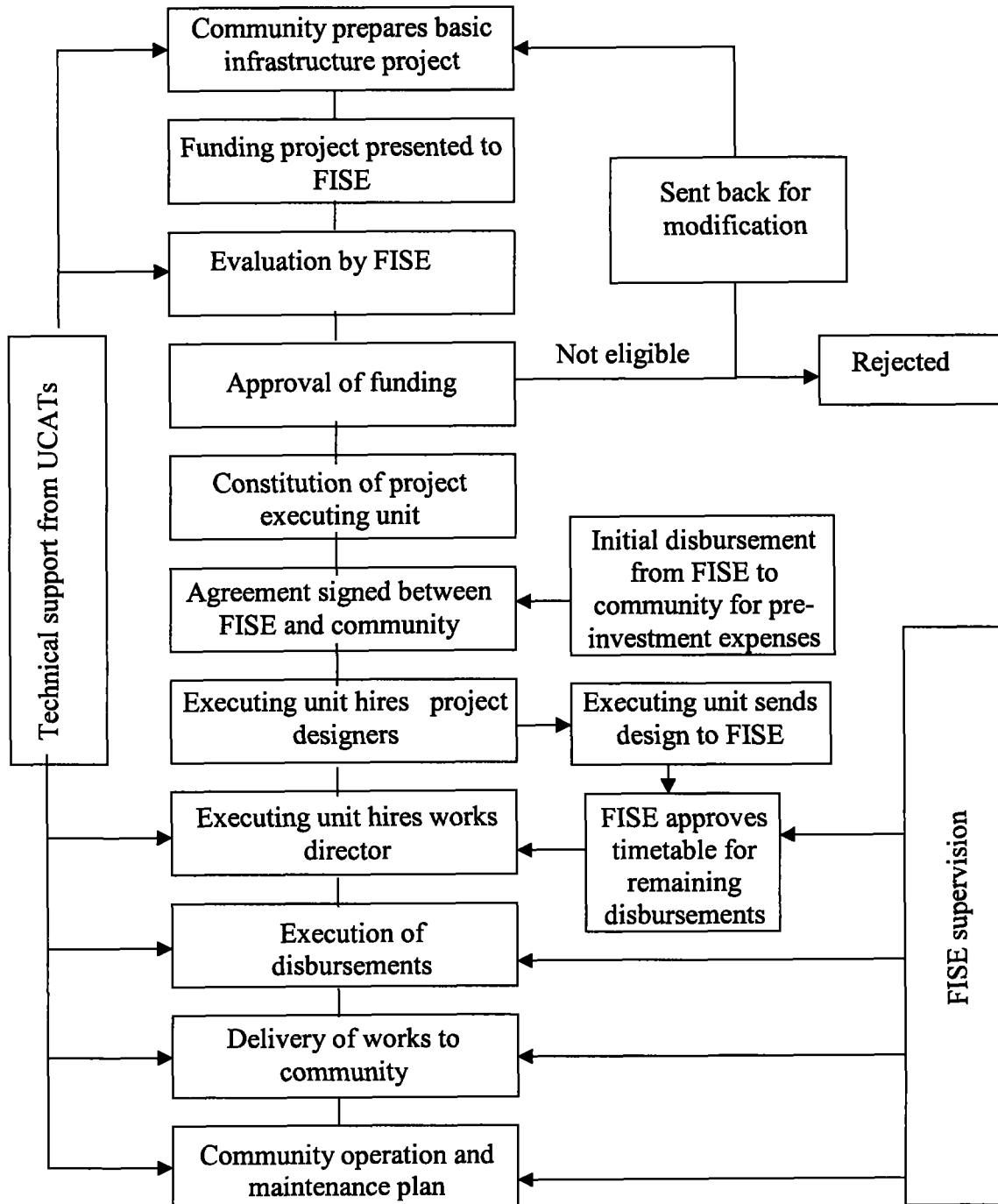
⁹ The mechanism for transferring funds to the communities and the delegation of responsibility for works execution to community executing units has been amply proven in FONCODES in Peru (PE-0101), and in Ecuador in the “*Redes Amigas*” project (EC-0125) financed by the Bank, and in PRODEPINE funded by the World Bank.

¹⁰ The legal basis for the agreements between FISE and the communities is contained in the document “FISE-III, Possibility of transfer of FISE resources to communities for works execution”. Larrea y Asociados, Quito, August 2001. This document is available in the program’s technical file.

member. The life of the executing unit ends with the project—in other words when this has been finally concluded and transferred either to the community or to the State body responsible for operating it. The functioning of executing units and the management of financial resources in their charge will be set out in detail in the program's Operating Regulations.

Figure 3.2

Basic social infrastructure projects - execution cycle



3.20 Stages in the execution of community projects. The main stages in the execution cycle of basic social infrastructure projects are as follows:

- a. **Application for funding.** The community selects priority works from its community development plan, and draws up a basic social infrastructure project, specifying its functionality and consistency with the plan. During this phase, the UCAT will advise on the process of preparing the funding request.
- b. **Approval of projects.** As mentioned above, FISE will receive funding requests on two dates during the year. Evaluations will be made by the corresponding regional FISE. All projects that surpass the evaluation criterion will be approved. Projects declared non-admissible will be returned to the community with suggestions for modification, to be presented again in the next contest.
- c. **Constitution of executing unit.** The community selects a executing unit for all activities related to community project implementation.
- d. **Agreement between FISE and the community.** Once the project is approved, an agreement is signed with FISE to prepare the final works design and to carry it out. The agreement will set out the commitments of both parties, clearly specifying the contribution to be made by the community (previously described in the project presented to FISE), as well as the FISE contribution, the execution program and the disbursement timetable.
- e. **Technical specifications, detailed budget and execution program.** For this, the executing unit will hire a project designer chosen from a list of external qualified and accredited professionals, drawn up by FISE. The executing unit will send the project to FISE for its information and to allow for adequate supervision.
- f. **Works execution.** The executing unit will hire a technical director for construction projects, chosen from a list of accredited professionals registered with the Fund. FISE will appoint a project supervisor to verify correct and timely execution of the works.
- g. **Liquidation and reception.** This will be formalized in a final liquidation report and minute, signed by the executing unit, the technical director and supervisor. The report and minute will be sent to FISE for approval.
- h. **Works transfer, operation and maintenance.** Depending on the type of works involved, these will be legally handed over to the community, municipio or sectoral bodies responsible for the services.

3.21 Works operation and maintenance. Community projects require a section stating the actions, people responsible and funding sources for works operation and maintenance. This should clearly indicate the role of the community—either exclusive responsibility (water and road projects, for example), or shared

responsibility with other bodies (education, health, childcare and care of old people). Communities will receive training, technical assistance and support from the UCATs in works operation and/or maintenance actions.

- 3.22 **Special cases for project execution.** In the case of water, sanitation or highway works of a technical complexity requiring highly skilled labor for their construction that is difficult to hire, and/or equipment and machinery that is difficult to lease in the region, FISE will undertake the selection by calling for proposals or bids from construction firms. The conditions and procedures of the special cases will be set out in detail in the program's Operating Regulations.

F. Execution of components on institutional strengthening and external monitoring and evaluation

- 3.23 The institutional strengthening component will be executed directly by FISE.

- 3.24 The component on external monitoring and program evaluation will have a separate budget and will be the responsibility of academic institutions, consulting firms, NGOs or associations thereof, hired competitively. Four organizations will be contracted to carry out monitoring and evaluation activities in the different regions of the country, and a national entity will be hired to coordinate them. A condition precedent to disbursement will be to have started the process of hiring these external monitoring entities through a call for proposals. Reports and recommendations arising from monitoring and evaluation activities will be reviewed by the executing agency and the Bank in periodic monitoring meetings. In addition, once all the resources allocated to the community strengthening and project funding components have been executed, a firm will be contracted to carry out a final evaluation of the impact of the operation.

- 3.25 To initiate disbursements in the social infrastructure project component, the FISE management board will pass a resolution adopting the new execution approach defined in this program for the execution of other projects with alternative funding. This entails the following: (a) FISE acts as funding agency and supervisor; (b) the communities themselves are responsible for works execution, unless indicated otherwise in the program; (c) communities receive technical assistance, training and support for works execution and sustainability; and (d) technical assistance and support activities are outsourced.

G. Coordination with other programs and institutions

- 3.26 FISE is party to interinstitutional agreements with government ministries and agencies in the social sector, aimed at coordinating actions, avoiding duplication of effort and ensuring social infrastructure works financed by the institution are fully operational. Such agreements will continue to be used during this operation, subject to any amendments needed to incorporate the program's new features.

- 3.27 In addition, given the nature of the community works contemplated, execution will seek to achieve coordination and consistency with actions taken at different subnational governments levels (provinces, municipios and parishes), with the decentralization process currently taking place in the country with Bank support, and with the following the ongoing programs: “*Nuestros Niños*” (EC-0157) and “*Redes Amigas*” (EC-0125) funded by the Bank, along with the PRODEPINE and PRAGUAS projects financed by the World Bank. In the case of projects to rehabilitate rural roads and mule tracks, the following eligibility criteria will be applied in order to make them consistent with the Bank’s rural transport infrastructure program (EC-0196): (a) funding will only be provided for rural roads that have a traffic volume level below 10 vehicles per day; and (b) in pack trail projects, community contribution will be required amounting to no less than 30% of the cost of the works.

H. Operating Regulations

- 3.28 Program execution will be governed by Operating Regulations containing rules, procedures and regulations for executing each of the program’s components, and setting out the functions and obligations of the different actors involved in execution. The Operating Regulations will require Bank approval, and their implementation by the FISE management board is a condition precedent to disbursement.

I. Financial management

- 3.29 The use of all program resources will be subject to Bank rules and policies, as well as the procedures and guidelines specified in the program’s Operating Regulations.
- 3.30 In recent years, FISE has reinforced its institutional capacity for managing financial resources. Nonetheless, considering the new decentralized execution structure, FISE needs to adjust its institutional capacity in the areas of contract management, finance, accountancy and internal control, and as regards mechanisms for transferring resources to the communities. Implementation of adjustments to accounting, financial management and internal control systems for handling funds under the new execution approach, together with on-site verification thereof by the Bank’s country office, will be a condition precedent to the first disbursement.

J. Financial control

- 3.31 Accounting records for all costs and recognition of expenses will be kept in detail for each activity, and also globally for the program as a whole.
- 3.32 In view of the large number of basic social infrastructure projects involved, it is recommended that in disbursements made from FISE to the communities, the corresponding support documentation should be checked on a sample basis in FISE offices. In the case of the projects, justifications for advance payments of Bank

funding will be made by presenting a list showing all charges made and amounts recognized during the justification period. FISE will keep complete records and files for each operation generating an expense. All underlying documentation, such as project approval, the summary file, receipts, reports, supervision, and so forth, will be duly filed by FISE to the Bank's satisfaction, and kept available for review by the latter and the external auditors as necessary.

K. Execution schedule

- 3.33 The program's funds will be committed over three and a half-years from the date on which the loan contract comes into effect; and disbursements are expected to be made over a period no longer than four years from the same date. Decentralized implementation of the program's actions, together with experience gained by FISE in implementing the previous stages, will support full implementation of this operation. The difference between the commitment and disbursement periods is sufficient for the conclusion of projects approved during the final year of the program.

L. Procurement and hiring procedures

- 3.34 The limits applicable to Ecuador for goods and services procurement and civil works contracting are US\$250,000 and US\$3 million, respectively, but the program does not envisage works of this magnitude. Tendering for amounts below these limits will be carried out in conformity with national legislation, which requires public bidding on procurements in excess of US\$98,000. The hiring of the program's consulting services will be conducted in accordance with Bank procedures, as set out in Annex C of the loan contract.

M. Disbursement schedule

- 3.35 The disbursement schedule shown below was projected on the basis of FISE execution capacity and the availability of counterpart funding.

Table 3.1

Estimated disbursement schedule (US\$ thousands)					
Sources	Year 1	Year 2	Year 3	Year 4	Year 5
IDB	6.50	12.20	13.70	7.60	40.00
Local	1.20	1.20	1.20	1.40	5.00
Total	7.70	13.40	14.90	9.00	45.00
%	17%	30%	33%	20%	100%

N. Retroactive recognition of expenditure against the loan, and advance of funds

- 3.36 Expenses of up to US\$500,000 incurred within 12 months prior to loan approval will be recognized retroactively against the loan for activities carried out by FISE in implementing the community technical assistance and institutional strengthening components, provided such expenditures adhere to procedures similar to those used in program execution.
- 3.37 Moreover, given the expected pace of execution, it is recommended that an advance of funds equivalent to 5% of the total loan proceeds be provided.

O. Inspection and supervision

- 3.38 The Bank will set up the inspection procedures it deems necessary to ensure satisfactory execution of the program, and FISE will provide all assistance needed to fulfill this goal. US\$400,000 will be paid to the Bank in respect of general inspection and supervision.

P. External audit

- 3.39 Financial statements for the program and FISE will be certified by a firm of independent auditors acceptable to the Bank, with terms of reference previously approved by the latter. These financial statements will be filed no later than 120 days following the end of the government's fiscal year throughout program execution, and six-monthly operational and financial reports no later than 60 days after the end of each calendar semester. These will include an audit of support documentation for disbursement requests. The cost of these audits will form part of the program's operating expenses.

Q. Monitoring, evaluations and progress reports

- 3.40 Monitoring meetings and evaluations. FISE and the Bank will hold monitoring meetings to review the functioning of the program from both the institutional and operational points of view. Two six-monthly meetings will be held during the first year, and one in each of the following years. The dates of these meetings will be programmed between the Bank and FISE. Depending on the results of these reviews, appropriate measures will be adopted to ensure satisfactory progress of the program.
- 3.41 Progress reports. During program execution, FISE will present the Bank with semiannual progress reports giving adequate details of activities carried out and basic social infrastructure projects funded, together with procedures applied in using the loan proceeds. These will be accompanied by reports and recommendations presented by independent bodies hired to undertake continuous program monitoring and evaluation.

- 3.42 Final evaluation of program impact. It was agreed with FISE to carry out a final program evaluation once execution of the community strengthening and project financing components are complete (paragraphs 2.12 and 3.24). This final evaluation will focus on the program's impact on the quality of life among beneficiaries, as detailed in Annex IV. At the start of execution, information will be collected to create a baseline for the evaluation. The final evaluation will also use information gathered for monitoring meetings and through entities responsible for the program's external monitoring and evaluation.

IV. VIABILITY, BENEFITS AND RISKS OF THE PROGRAM

A. Program viability

- 4.1 The preparation and design of this program has benefited from lessons learned in the execution of earlier stages, supported by the Bank's experience with similar projects both in other countries of the region and in Ecuador itself, and from the results of consultations held with government bodies and potential beneficiaries.
- 4.2 This program has brought together lessons learned, as set out in the evaluations of the first and second stages and in various execution reports, summarized in section D of the first chapter (paragraphs 1.17 to 1.25). Based on this, the third stage of the program was designed with the following characteristics: (i) it finances basic social infrastructure projects in a context of more comprehensive community development; (ii) it puts a heavy emphasis on strengthening community management capacity; (iii) it targets the poorest parishes and communities; (iv) it delegates responsibility for works execution to the communities themselves and strengthens their maintenance; and (v) it makes changes to the way FISE operates (see section F of chapter I, paragraphs 1.27 to 1.32).
- 4.3 The program's concept and execution scheme also benefited from consultations with government bodies from the social sector, and with potential beneficiaries, not only through the logical framework workshop, but also through meetings held with indigenous and Afro-Ecuadorian communities, featuring wide-ranging discussion of the new approach. Concrete proposals for implementation emerged from these meetings.
- 4.4 The scale of the program is compatible with FISE execution capacity. The Fund has acquired considerable experience in executing external loans, and has built up a highly efficient professional team for managing this type of program. In recent years, FISE disbursements have been in excess of US\$15 million per year. On the other hand, the execution scheme envisages the outsourcing of technical assistance actions and delegates responsibility for implementing the vast majority of works to the communities themselves. This will allow FISE to concentrate on coordination, works financing and program monitoring. The FISE institutional strengthening component will finance actions aimed at changing the organizational structure of the Fund, to enable it to fulfill its new roles and responsibilities.
- 4.5 The component for strengthening community management capacity will ensure a suitable pace of execution of the works, in particular during the first year, bearing in mind the changes introduced in this stage compared to previous phases.

B. Social and environmental impact of the program

- 4.6 Given its nature and objectives, this operation qualifies both as a social-equity enhancing project and a poverty-targeted investment. The beneficiaries of the proposed operation will be communities living in the poorest 20% of parishes in the country. These are predominantly rural and located in remote areas. Nearly 40% are in indigenous areas and 10% correspond to the Afro-Ecuadorian population; this means a significant step will be taken towards reducing the social exclusion of these ethnic groups. All the parishes to be included in the program display a UBN index above the national average of 43%, and over 70% have a UBN in excess of 60%.¹¹ By the end of the program, poor communities will enjoy better basic social infrastructure (schools, health centers, basic community services including potable water and sanitation, small-scale rural roadworks, and so forth) together with improved self-management capacity to resolve their own social problems.
- 4.7 No significant environmental impacts are envisaged. Community works are generally small-scale and they will include the necessary elements to avoid or mitigate potential negative impacts on the environment. Although, as mentioned in paragraph 1.24, FISE has developed and is using environmental management tools, this third stage will include the following actions: (a) review and adjustment of the environment manual (approved in 1999), and works environmental guidelines; (b) review and strengthening of the environmental protection approach in training manuals and guidelines for the construction and maintenance of different types of works; (c) each project submitted to FISE will have a section detailing its environmental impact and how it is dealt with; and (d) community training and technical assistance actions will be intensified on environmental issues and environmental management of works.
- 4.8 On the question of gender equity, existing training mechanisms will be reviewed, along with the new ones proposed in the component on technical assistance and strengthening of community management capacity, in order to bolster gender-related aspects. A training module on gender issues will be developed for FISE staff; and statistics on the program's actions will include gender variables. FISE will encourage equal participation by men and women in training on gender issues and will consider flexible timetables for carrying this out.

C. Benefits

- 4.9 The program will benefit 500 communities from the 220 poorest parishes in the country. Of these parishes, around 89 belong to indigenous ethnic groups and 20 of them to Afro-Ecuadorian groups. This will make it possible to improve living standards among the poorest population sectors in (predominantly rural) isolated

¹¹ See footnote 3.

areas, with very little representation in the social institutions of the State. The program will thus help to reduce poverty and social injustice, and will increase social inclusion among indigenous and Afro-Ecuadorian communities.

- 4.10 Support and technical assistance for the communities will develop and/or strengthen their management capacity, increase their social capital and provide them with tools, knowledge and contacts to manage their social development on the basis of their own initiatives. The design of community projects and responsibility for executing the corresponding works will be in the hands of the communities themselves, thereby strengthening project management capacity at the local level, and generating a high degree of approval for FISE actions among the communities concerned.
- 4.11 Using community executing units to implement basic social infrastructure works encourages works designs that are better suited to the needs and demands of the community. It also helps reduce construction costs; ensures transparency in the use of resources; encourages greater use of local labor and materials; helps strengthen community management capacity; and increases the sustainability and impact of the projects.
- 4.12 Decentralized and outsourced program execution, together with the institutional changes envisaged in the program, will make the institution more efficient and bring it more in line with the decentralization process currently taking place in the country, without giving up any of its existing strengths.

D. Risks

- 4.13 The risks that could affect execution of the program include politicized and non-transparent resource allocation, lack of coordination and consistency with activities being carried out by other institutions operating in the social sector, and delays in carrying out the civil works component.
- 4.14 To ensure transparency in FISE actions, the following measures will be taken: (i) civil society representatives will participate on the national consultative council and in the regional committees, in order to ensure greater social control over the Fund's actions and allocations; (ii) actions will be targeted to the 220 poorest parishes in the country, using the most recent poverty maps; (iii) community projects will be competitively selected and approved, using a criteria known to the beneficiaries; and (iv) beneficiary communities will participate in all stages of the project cycle. In addition, an independent firm will be hired to undertake continuous monitoring and evaluation of the program. This firm will provide timely information to the government and to the Bank to enable appropriate steps to be taken should problems arise in execution.

- 4.15 The following steps will be taken to minimize the risk of overlapping activities or dis-coordination with other entities, to guarantee full use of the social infrastructure provided by FISE to the communities: (i) review and adjustment of existing intra-institutional agreements in the light of the FISE-II experience; and (ii) close collaboration with the recently established Social Front, whose technical secretariat is responsible for coordinating all government actions in the social sector.
- 4.16 Given that the new program arrangements transfer responsibility for works execution to the communities, it is possible that delays could occur in this component. To minimize this risk, the component on community training and technical assistance includes a set of actions to be carried out by NGOs or local consulting firms with experience in community work, aimed at training communities in project management and providing them with permanent technical assistance throughout the community project cycle, from the design stage through works maintenance. FISE will also check that works are completed on time. This will not only ensure the timely execution of basic community social infrastructure projects, but also strengthen communities' capacity to manage their own development.

**LOGICAL FRAMEWORK
FISE SUPPORT PROJECT – THIRD STAGE**

ARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUM
AIM			
the quality of life of the t population segments.	Reduction in index of unmet basic needs (UBN) in the country's poorest parishes.	Annual standard of living surveys (index of the unmet basic needs UNB)	Political and eco situation in the remains stable o Government co protect social sp maintained.
PURPOSE			
eficiaries (the country's poorest roups) brought into basic social work.	1.1 Civil works constructed and services operating with suitable staff. 1.2 Sustainability procedures fulfilled	1.1 FISE internal and external evaluation system reports. 1.2 Inspection visits and reports.	Responsible org and/or commun human and mate to operate and m services. No delays occur implementing n execution appro
organization and management FISE management strengthened	2.1 7,500 community leaders trained to diagnose needs, prepare community projects and organize communities. 2.2 At least 95% of communities trained submit requests for basic social infrastructure projects that satisfy funding criteria. 2.3 New FISE organizational structure applied.	2.1 FISE internal monitoring subsystem reports. 2.2 Records of FISE regional offices. 2.3 FISE internal monitoring subsystem reports.	

ARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUM
COMPONENTS			
g of management capacity among communities.	<p>1.1 80 training and technical assistance units - UCATs - (NGOs, academic institutions, consulting firms or local consultants) to have been trained in community management.</p> <p>1.2 500 communities to have received training, technical assistance and support.</p> <p>1.3 40% of beneficiary communities indigenous and 10% Afro-Ecuadorian; to have received specific support for the design and preparation of project proposals.</p> <p>1.4 Beneficiary communities to have received training and technical assistance on environmental management and gender equity issues.</p> <p>1.5 Project execution units to have been organized in 475 communities where projects have been implemented.</p> <p>1.6 Communities to have the skills and technical knowledge needed to co-execute, operate and maintain civil works.</p>	<p>1.1 Internal and external monitoring and evaluation system reports.</p> <p>1.2 Records of communities and participants on courses and services provided by NGOs to the communities.</p> <p>1.3 Register of communities and course participants.</p> <p>1.4 Register of communities and course participants.</p> <p>1.5 Internal and external monitoring and evaluation system reports.</p> <p>1.6 Internal and external monitoring and evaluation reports.</p>	Communities and governments ma willingness to co participation agr community and development pla
execution of basic social e projects.	<p>2.1 By the end of the program, 475 projects to have been financed and executed in communities living in the 220 targeted parishes (approximately 180 projects benefit indigenous communities and 40 benefit Afro-Ecuadorian communities).</p> <p>2.2 By the end of the program, 475 communities living in the 220 targeted parishes to have prepared and implemented works maintenance plans.</p>	<p>2.1 Internal and external monitoring and evaluation reports.</p> <p>2.2 Internal and external monitoring and evaluation reports.</p>	<p>Government allo counterpart reso funding on a tim</p> <p>Contest for selec approval of com carried out with known to benefi</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Institutional strengthening.	<p>3.1 Regulatory functions in planning, evaluation, monitoring and coordination concentrated in FISE headquarters.</p> <p>3.2 Management and operation functions concentrated in regional offices.</p> <p>3.3 FISE to have outsourced training, technical assistance and support activities.</p> <p>3.4 FISE to have delegated works execution to the communities.</p> <p>3.5 FISE to have reorganized and rationalized the institution, based on the new FISE III model.</p>	<p>3.1 Internal monitoring and evaluation reports.</p> <p>3.2 Internal monitoring and evaluation reports.</p> <p>3.3 Contracts signed with training and technical assistance institutions. Evaluation reports from external evaluation system processes.</p> <p>3.4 Agreement signed with communities.</p> <p>3.5 Operating and organic functional manuals applied; internal and external evaluation system reports, and evaluation of institutional reorganization.</p>	<p>Government cooperation satisfactory with agenda.</p> <p>Government all counterpart functions</p>
Monitoring and external evaluation operation.	<p>4.1 Processes of external evaluation and monitoring of program quality and impact to provide permanent feedback to FISE and facilitate the necessary adjustments.</p> <p>4.2 External evaluation of program impact and final results available.</p>	<p>4.1 FISE information system and reports from internal and external evaluation systems.</p> <p>4.2 Impact evaluation report.</p>	<p>Terms and costs with external evaluation as planned.</p> <p>FISE internal and systems function coordinated fast</p>

DESCRIPTION OF NEW FISE ORGANIZATIONAL STRUCTURE

- 1.1 The management board will consist of the FISE general manager and ministers from the social sector appointed by the President of the Republic. Its main functions are to define FISE policies, ensure that its activities are consistent with the government's social strategy, and guarantee the necessary coordination with other government institutions in the social sector.
- 1.2 The National Unit will comprise the following: (a) general management, supported logistically by internal audit, legal, communication and informatics offices, and advised by a program consultative council and a unit to coordinate external monitoring and evaluation of the program's action; (b) national coordination, responsible for coordinating execution of the various components of the program, through permanent dialogue with the regional offices, using process monitoring and supervision systems; (c) coordination of social management and basic infrastructure, responsible for developing methods, tools and standards for intervention in communities, and verification of their compliance; and (d) financial coordination, responsible for managing FISE financial resources in a deconcentrated way, proposing rules for financial management, procurement, human resources and services throughout the organization, and evaluation and supervision of funds executed by the regional units.
- 1.3 In addition to the seven existing regional units (North, Riobamba, Cuenca, Loja, Esmeraldas, Portoviejo and Guayas), an Amazon regional unit will be created. The function of the regional units will be to execute program components in their respective geographic area. Regional units will be responsible for selecting beneficiary communities, contracting technical assistance to support community management and its supervision, approval of community projects, transfer of funds to the communities, supervision of works execution and coordination with other public or private bodies carrying out actions in similar or related fields to FISE.
- 1.4 The general manager and the National Unit will be assisted by a consultative council with representatives from civil society organizations and beneficiaries at the national level. The regional units will have support from the FISE regional committees, consultative bodies at the regional level comprising delegates from the National Unit, representatives from provincial, municipal and parish authorities, and representation from non-governmental organizations and second-tier ethnic and cultural groups from the region.

CYCLE OF TRAINING AND TECHNICAL ASSISTANCE SERVICES

ACTIVITIES	TRAINING	TECHNICAL ASSISTANCE	ACTORS
First stage:			
a. Selection of IRCATs			FISE (headquarters)
b. Selection of communities			Regional office of FISE and OSG.
c. Selection and training of UCATs	<ul style="list-style-type: none"> Methodologies and tools for strengthening community self-management 	<ul style="list-style-type: none"> Monitoring and support for UCATs 	FISE regional office and IRCATs
d. Adaptation, review and/or preparation of local plans	<ul style="list-style-type: none"> Community diagnosis Community development plan 		UCAT, communities, OSG, municipios, leaders, women.
e. Baseline organization/management	<ul style="list-style-type: none"> Guideline for local consensus Indicators of organizational strengthening 	<ul style="list-style-type: none"> Management staff and program 	UCAT, leaders, women, community, managers.
f. Preparation of basic social infrastructure community projects	<ul style="list-style-type: none"> Prioritization guideline Project formulation methodology 	<ul style="list-style-type: none"> Forms for presentation to FISE 	Development agents, leaders and women of the community, FISE regional office.
Second stage:			
a. Appointment of executing unit in community	<ul style="list-style-type: none"> Administration and management Public contracting Leadership and decision-making Dispute management Mobilization of resources 	<ul style="list-style-type: none"> Legal and administrative requirements of executing unit. 	Community delegates, leaders, UCAT, FISE regional office.
b. Works design	<ul style="list-style-type: none"> Ethno-engineering Environmental impact 	<ul style="list-style-type: none"> Use of local materials 	Community delegates, community technical staff, professional staff providing technical assistance, UCAT.
c. Works management	<ul style="list-style-type: none"> Items of organizational strengthening 	<ul style="list-style-type: none"> Public contracting Basic accountancy Accountability 	Community delegates, leaders, UCAT.
d. Physical works construction and/or equipping	<ul style="list-style-type: none"> Sanitary and environmental education Care of installations, equipment and social infrastructure Minor repairs Standards for sustainable use 	<ul style="list-style-type: none"> Strengthening of care, repairs and standards for use of equipment, systems and constructions. 	Community delegates, leaders, community technicians, professionals providing technical assistance, UCAT, FISE regional office.
e. Handover of works and/or equipment	<ul style="list-style-type: none"> Ownership and use of social investments Community responsibilities 	<ul style="list-style-type: none"> Issues according to local and community demand 	Community, leaders, parish council, OSG directors, UCAT and FISE regional office.
f. Operation and maintenance		<ul style="list-style-type: none"> Local management Issues relating to the use and care of works according to community demand (users). 	Community, operators, leaders, UCAT.
g. Community co-management		<ul style="list-style-type: none"> Local management Use and care of works according to community demand (users). 	Community, leaders, OSG directors, parish council, UCAT

ACTIVITIES	TRAINING	TECHNICAL ASSISTANCE	ACTORS
h. Systemization	<ul style="list-style-type: none"> Methodology of participatory systemization of training and technical assistance services and social investment model. 	<ul style="list-style-type: none"> Facilitation of social consultation, production of new knowledge. 	Regional FISE team, parish council, OSG, UCAT, communities.

Notes: IRCAT = regional training technical assistance institution.
UCAT = community training and technical assistance unit
OSG = second-tier community and ethnic organization.

FOCUS AREAS FOR EXTERNAL EVALUATION AND MONITORING ACTIVITIES

This annex summarizes the areas on which external evaluation and monitoring will concentrate, and it will serve as a basis for preparing terms of reference when contracting entities responsible for this activity. Evaluation and monitoring will be carried out on the management processes, results and impact of the program.

Monitoring and evaluation of program management

Monitoring and evaluation will be performed on the following processes:

- Targeting on parishes and communities, and project selection
- Community participation and social control
- Interinstitutional relations
- Process of FISE deconcentration in its regional units

The following processes will be evaluated, by comparing objectives pursued and results obtained:

- Formulation and contents of basic social infrastructure projects
- Technical assistance and strengthening of community management capacity, and the role of UCATS
- Community project execution cycle, highlighting executing units and their relation to the communities

Monitoring and evaluation of program results

The following areas will be monitored:

Program results on beneficiaries:

- Quantity and quality of community participation in the selection, design, execution, contracting, maintenance and control of civil works.
- Quantity and characteristics of works carried out.
- Quantity and characteristics of people served.
- Quantity and quality of incomes generated and jobs created.

Program results on institutions:

- Amount of cofinancing of FISE works.
- Complementarity of FISE works with other projects or with simultaneous, previous or subsequent services.
- Speed and compliance with commitments undertaken
- Quality of participation and compliance with commitments undertaken in interinstitutional evaluations.

Program results on local governments (cantons, municipios and parishes):

- Amount of cofinancing of FISE works.
- Complementarity of FISE works with other projects, or with simultaneous, previous or subsequent services.
- Speed and compliance with commitments undertaken
- Quality of participation and compliance with commitments undertaken in interinstitutional evaluations

Program impact (final evaluation)

The program's impact will be evaluated in the following areas:

Impact on beneficiaries and their organizations:

- Reduction in poverty indices, measured by UNB, the poverty line or service deficits.
- Promotion of community leadership
- Creation, strengthening or weakening of social organizations as result of the program.
- Strengthening or weakening of relations between communities and social organizations.
- Learning of technical skills, in project formulation and management.
- Learning and promotion of socio-community rights.
- Capacities to deal with institutions and various government levels and promote demands.

Impact on public and private institutions:

- Execution of other projects in the fight against poverty in communities other than those covered by the program.
- Investment targeting in other parishes or communities.
- Community participation practices in non-FISE projects.
- Increased capacity to collaborate with other institutions in interventions among poor communities.

Impact on local governments:

- Changes in local budgets in favor of the fight against poverty.
- Execution of other projects in the fight against poverty in communities other than those covered by the program.
- Investment targeting in other parishes or communities.
- Community participation practices in non-FISE projects.
- Increased capacity to collaborate with other institutions in interventions in poor communities.

ECUADOR
FISE –III (EC-0205)
PROVISIONAL PROCUREMENT PLAN

Main procurement	Financing			TOTAL (thousand)	Method	Prequalification	Estimated date
	Unit value (thousand)	% IDB	% LOCAL				
Works:							
65 community social infrastructure projects	72	95	5	4,680	DC	No	April/2002
65 community social infrastructure projects	72	95	5	4,680	DC	No	October/2002
65 community social infrastructure projects	72	95	5	4,680	DC	No	March/2003
65 community social infrastructure projects	72	95	5	4,680	DC	No	September/2003
70 community social infrastructure projects	72	95	5	5,040	DC	No	March/2004
70 community social infrastructure projects	72	95	5	5,040	DC	No	September/2004
70 community social infrastructure projects	72	95	5	5,040	DC	No	March/2005
Goods:							
Computer equipment and software	N/A	100		280	LB	No	April-Oct. 2002
Equipment	N/A	100		80	LB	No	April-Oct. 2002
Consulting services:							
Hiring of 5 IRCATs (regional training consulting firms)	60	100		300	CP	No	April/2002
Hiring of 80 UCATs (local firms to provide technical assistance to communities)	18	100		1,800	DC	Yes	Between 2002 & 2004
Hiring of 50 individual consultants to provide community assistance	18	100		900	DC	No	Between 2002 & 2004
Hiring of firms to train FISE staff	N/A	100		140	DC	Yes	Between 2002 & 2004
Hiring of consultants for institutional strengthening	N/A	100		500	CP/DC	No	Between 2002 & 2003
Hiring of 5 firms for external program monitoring and evaluation	200	100		800	LB	Yes	April/2002
Hiring of a firm to evaluate program impact	200	100		200	LB	Yes	August/2005

Note:

- DC: Direct contracting
- CP: Competitive pricing
- LB: Local bidding
- IB: International bidding

PROPOSED RESOLUTION

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

(Social Investment Fund-Third Stage)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the program Social Investment Fund-Third Stage. Such financing will be for an amount of up to forty million dollars of the United States of America (US\$40,000,000) from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Financial Terms and Conditions" and the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

**ECUADOR. PARTIAL PAYMENT OF INTEREST ON LOAN ____/OC-EC
TO THE REPUBLIC OF ECUADOR**

(Social Investment Fund-Third Stage)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such Representative as he shall designate, is authorized, in the name and on behalf of the Bank as administrator of the Intermediate Financing Facility Account (the "Account"), to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as Borrower, and to adopt other pertinent measures to use the resources of the Account to pay a portion of the interest due by the Borrower on outstanding balances of the loan authorized by Resolution DE-___/___, in accordance with the provisions set forth in Document FN 263-2, as amended, approved by the Board of Executive Directors on December 21, 1983.