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MULTILATERAL INVESTMENT FUND

ECUADOR

STRENGTHENING OF LOCAL CREDIT UNION NETWORKS

(EC-M1008)

DONORS MEMORANDUM

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INFORMATION AVAILABLE IN THE SDS/MSM FILES

PREPARATION:

UCACSUR Request
Report of consultant Enrique Orellana
Local network articles of association
Work plans for the networks
UCACNOR letter requesting inclusion in project

EXECUTION:

Document 1	Memorandum on responses to matters raised by the Programming and Operations Committee of the MIF
Document 2	Operating Regulations and terms of reference for project specialists and consultants
Document 3	Project market analysis
Document 4	Compliance matrix for eligibility criteria in member credit unions and project baseline

ABBREVIATIONS

DNC	Dirección Nacional de Cooperativas [National Cooperatives Agency]
MFIs	Microfinance institutions
SBS	Superintendencia de Bancos y Seguros [Superintendency of Banks and Insurance]
WOCCU	World Council of Credit Unions

STRENGTHENING OF LOCAL CREDIT UNION NETWORKS (EC-M1008)

EXECUTIVE SUMMARY

Executing agency:	Unión de Cooperativas de Ahorro y Crédito del Sur [Southern Council of Credit Unions] (UCACSUR)		
Beneficiaries:	UCACSUR, Unión de Cooperativas de Ahorro y Crédito del Norte [Northern Council of Credit Unions] (UCACNOR) and member credit unions of both networks.		
Financing:	MIF (III-A):	US\$ 840,000	70%
	Local:	US\$ <u>360,000</u>	30%
	Total:	US\$1,200,000	100%
Objectives:	The project goal is to broaden and improve access to efficient, sustainable financial services for microenterprises and low-income populations in Ecuador's rural areas and medium-sized cities. The project purpose is to broaden and improve the quality of microfinance services offered by credit unions in those areas and cities by strengthening local networks.		
Execution timetable:	Execution period: 36 months Disbursement period: 42 months		
Special contractual conditions:	As conditions precedent to the first disbursement, UCACSUR will have accomplished the following, to the Bank's satisfaction: (i) select and appoint a project coordinator, to the Bank's satisfaction; (ii) enter into an agreement with UCACNOR documenting both networks' commitments in executing the project; (iii) obtain approval of the Operating Regulations by both networks' general meetings; and (iv) establish the project executive board.		
Exceptions to Bank policies:	None.		
Environmental and social review:	The project activities will have no direct impact on the environment.		

**Coordination with
other development
institutions:**

The project was coordinated with the PROLOCAL poverty reduction and local rural development project, which has a rural microfinance component. PROLOCAL is financed by the European Union and has cooperation agreements in place with UCACSUR. The project will also be presented at the microfinance donors' coordination forum in Ecuador.

I. BACKGROUND AND RATIONALE

A. Microenterprises and low-income rural populations outside Ecuador's major cities

- 1.1 In Ecuador, unskilled work available to the poor (60% of the population) generates between one-third and one-half of the minimum wage (US\$280), which barely covers two-thirds of the basic shopping basket (US\$440). In response to unemployment, the number of microenterprises has grown since 1997. An estimated 2 million microenterprises are in operation, one-third of them in rural areas.

B. Microfinance in the northern and southern Sierra regions and microfinance networks

- 1.2 In Ecuador's mountain region, or Sierra, 1.8 million people reside in the provinces of Azuay, Cañar, Loja, El Oro, Zamora Chinchipe and Morona Santiago (in the South), and Carchi and Imbabura (in the North). Jobs in large and medium-sized companies are in short supply in these provinces, and it is estimated that over half of the working population (some 648,000 persons) depend on microenterprises to survive. The microfinance institutions (MFIs) operating nationally have little or no presence outside the provincial capitals. In rural areas, microentrepreneurs depend mainly on credit unions to access financial services. In the last four years, credit unions in the provinces mentioned above have formed two regional microfinance networks, the Unión de Cooperativas de Ahorro y Crédito del Sur [Southern Council of Credit Unions] (UCACSUR) and the Unión de Cooperativas de Ahorro y Crédito del Norte [Northern Council of Credit Unions] (UCACNOR) in order to strengthen the member institutions and expand and deepen the financial services they offer to microenterprises and low-income sectors in their respective regions, which are currently underserved.

C. Position of local credit union networks

- 1.3 The two networks, UCACSUR and UCACNOR, could have a positive impact on a population area inhabited by 1.8 million persons if they enable their 31 member credit unions to expand and improve the financial services they offer to some 245,000 members, of whom roughly 82,500 currently have credit. Thus, the local credit union networks have the potential to: (i) transfer knowledge concerning regulation and supervision of credit unions by the Superintendencia de Bancos y Seguros [Superintendency of Banks and Insurance] (SBS); (ii) disseminate specialized products and technologies to better serve microentrepreneurs and persons with incomes below the poverty line, who represent the greater part of the credit unions' customer base; (iii) integrate the operations of several credit unions using network technologies, to enable them to provide savings and remittance services and specialized financial products that can be more effectively offered through joint efforts; and (iv) promote mergers to consolidate the supply of microfinance products and services outside Ecuador's major cities.

- 1.4 **Position of credit unions.** Of the 31 credit unions affiliated with the two networks, 13 are notable for having achieved sustainability and sufficient scale to effectively serve the microentrepreneurs in their areas of operation. These credit unions have: (i) an average portfolio of US\$6 million (between US\$1 million and US\$41 million); (ii) over one-third of their loan portfolio in microenterprises, although the majority of them do not use microfinance technology; (iii) an average of 1,500 microentrepreneur customers (between 1,000 and 5,900); (iv) an average at-risk portfolio over 30 days of 6% (between 1% and 10%); (v) operational sustainability greater than 100%; (vi) specialization in financial services, which provide over 90% of their revenue; (vii) interest in actively using some financial monitoring system, generally the PEARLS system of the World Council of Credit Unions (WOCCU); (viii) interest in expanding and improving their financial services to microentrepreneurs and the low-income population; and (ix) no exposure to regulatory risk due to their size and performance.

Table 1: Local credit union networks in northern and southern Ecuador (as of 6/2006)

Characteristics	UCACSUR	UCACNOR	Total networks
Founded	December 2002	January 2005	-
Main office	Cuenca	Ibarra	-
Coverage	Southern Sierra Region	Northern Sierra Region	-
	1.3 million inhabitants	496,000 inhabitants	1,796,000 inhabitants
Economically active population	479,000	169,000	648,000
Member institutions	24 credit unions	7 credit unions	31 credit unions
Credit union members	225,500	19,600	245,100
Loan portfolio US\$	143.4 million	5.1 million	148.5 million
Active loans ¹	74,000	8,500	82,500
Microentrepreneurs provided with credit ¹	27,900	7,400	35,300
Savings US\$	148.6 million	3.5 million	152.1 million

- 1.5 Annex VII, Project Market Analysis, identifies several of these subprojects as well as the credit unions that would run them and a preliminary estimate of costs.
- 1.6 **Challenges faced by UCACSUR and UCACNOR.** In order to support credit unions in responding to their requests for technical assistance, the two **credit union networks** face: (i) limited experience and capacity in certain areas of technical assistance and training requested by their members; (ii) little experience with technical assistance methodologies and network consulting that could be transferred to the networks' staff and successful credit unions' instructors and staff in requested areas, e.g. technologies to serve rural areas, local economic development projects, technology, etc.; (iii) insufficient networked information systems, information

¹ At the beginning of the project, approximately 13 credit unions will qualify to receive individual technical assistance, while 18 would qualify only for group projects. The technical file includes the names of the qualifying credit unions.

management capacities and specialized monitoring of credit union financial performance, as well as technical capacity to assist member credit unions in improving their financial performance; and (iv) institutional and technical weaknesses arising from the networks' recent creation and relative inexperience in the region of local credit union networks that are sustainable technical partners of their member organizations.

- 1.7 **Regulatory and supervisory framework.** The Dirección Nacional de Cooperativas [National Cooperatives Agency] (DNC) has authorized the creation of the approximately 370 credit unions currently in operation. Of these, only 40 are under the oversight of the SBS. With the adoption of Decree 2132 in 2001, credit unions with equity of over US\$200,000 and total assets of over US\$1,000,000 were to become subject to SBS oversight within four years (by December 2005). However, the SBS has only approved 11, and 20 are awaiting review of their applications. In 2005, the Office of the President issued a new executive decree making all credit unions meeting the requirements established by the Junta Bancaria subject to SBS oversight, and it is therefore expected that many credit unions will have to adapt to bank supervision and regulation. This may require smaller credit unions to merge or share the costs of supervision, which are considerable.

D. Program rationale and approach

- 1.8 **Project additionality and rationale.** The credit unions affiliated with the two local networks have limited access to training, technology and specialized technical assistance due to their distance from programs based in Quito and Guayaquil and limited availability of resources. The problem of limited access could be solved if technical assistance and training were offered through the two networks that have requested IDB/MIF support.
- 1.9 **Selection of UCACSUR.** Of the two local networks, UCACSUR is the right executing agency for the IDB/MIF because it has greater technical and financial capacity and more experience in executing projects such as the one proposed.

E. Project strategy and MIF and Bank strategies

- 1.10 **Project strategy.** The project supports two credit union networks with a direct impact on the local microenterprise and low-income sectors in areas where the country's better-known MFIs are not present. UCACSUR and UCACNOR are key to the development of credit unions outside Ecuador's major cities, which could expand by incorporating technologies, improving productivity, efficiency and cooperation among credit unions, and possibly merging and forming federations so as to approach the scales that would make them more financially and operationally sustainable.
- 1.11 **The Bank's country strategy.** The project activities are consistent with the priorities of the Bank's new country strategy with Ecuador (document GN-2338-2) of 10 November 2004, focusing as they do on one of the Bank's two priority areas for the country: protecting the most vulnerable and promoting social development

(social dimension). Consistent with the country strategy, the project also strengthens networks of institutions with a strong local presence outside the two largest cities.

- 1.12 **Coordination with other donors.** The project was coordinated with the PROLOCAL poverty reduction and local rural development project, which has a rural microfinance component. PROLOCAL is financed by the European Union and has cooperation agreements in place with UCACSUR. The project will also be presented at the microfinance donors' coordination forum in Ecuador.

II. THE PROGRAM

A. Objectives

- 2.1 The project goal is to broaden and improve access to efficient, sustainable financial services for microenterprises and low-income populations in Ecuador's rural areas and medium-sized cities. The project purpose is to broaden and improve the quality of microfinance services offered by credit unions in those areas and cities by strengthening local networks.

B. Description and components

Component I: Developing the technical capacity and sustainability of UCACSUR and UCACNOR

- 2.2 This component seeks to develop the networks' capacity to sustainably offer the services needed by their members. To this end, this component will include: (i) design and review of the networks' business plans, including their training plans; (ii) development, adaptation and maintenance of networked information systems for dissemination of supply and demand for technical assistance services and other information needs; (iii) installation, training and support of the PEARLS monitoring system, which promotes self-regulation, and a credit scoring system linked to information from credit bureaus; and (iv) training of the networks' staff, facilitators and outside local consultants in the services needed by the MFIs. As an outcome of these activities, the networks will achieve 80% operational sustainability, will support at least 18 credit unions in the use of PEARLS and credit scoring services based on information from credit bureaus, and will have 40 trainers from the networks trained to replicate the knowledge needed by credit unions. Annex I, Logical Framework, presents the indicators for this component.

Component II: Broadening and improving the quality of member credit union services

- 2.3 This component seeks to increase the quality and scale of services offered by credit unions. To this end, technical assistance and training will be offered by qualified providers to approximately 15 credit unions. In support of this effort, the UCACSUR will: (i) prepare and disseminate invitations to presentations of technical assistance profiles available within the networks to credit unions meeting the eligibility criteria (paragraph 3.5); (ii) select subproject profiles that meet the

eligibility criteria (paragraph 3.6); (iii) finance consulting assignments for support in preparing detailed subproject proposals based on those profiles; (iv) approve technical assistance subprojects submitted, subject to approval by the Selection Committee; and (v) execute a minimum of 10 cofinanced technical assistance subprojects with a minimum of 15 credit unions, and monitor them to ensure compliance with conditions and other criteria established in the subproject proposals.

- 2.4 As an outcome of this component and after execution of at least 10 subprojects: (i) 15 credit unions will have been brought into compliance with credit union regulations; (ii) 8 new products and technologies to serve microenterprises and low-income individuals will be offered by credit unions; (iii) 8 credit unions will demonstrate operational efficiency above the average for the regulated credit union sector; (iv) the 15 credit unions supported will have an average at-risk portfolio of less than 5%; (v) 8 credit unions will meet best-practices criteria for administrative management, governance and human resources as defined on the project website; and (vi) the number of microenterprise and low-income customers served by the 15 supported credit unions will have increased by 40%.

Component III: Disseminating best practices for credit union networks

- 2.5 This component seeks to develop, disseminate and replicate: (i) the lessons learned from this project, and (ii) the best practices identified from the outcomes of technical assistance, training and studies under other similar IDB/MIF projects. To achieve the first goal, the project will seek to replicate the outcomes of components 1 and 2 in at least one additional network that meets eligibility criteria indicating greatest impact and additionality. To achieve the second, events to disseminate best practices will be financed in cooperation with other microfinance projects in Ecuador, supported by the IDB/MIF as well as other donors, that involve best practices in managing environmental and social issues.
- 2.6 This component will increase know-how and adoption of successful network collaboration among MFIs in Ecuador for greater sustainability and scale. As outcome indicators, the local networks are expected to accomplish the following: (i) learn about and disseminate tools such as credit scoring and financial monitoring, and (ii) prepare and disseminate publications concerning best practices in environmental and social-sector management, compliance with credit union regulations, development of products and technologies with improved operational and financial efficiency, risk management, administrative management, governance, human resources and scale and growth (mergers).

C. Cost and financing

- 2.7 The project will cost US\$1,200,000, of which the MIF will contribute US\$840,000 (70%) in nonreimbursable funds. The other US\$360,000 (30%) will be contributed by the executing agency with resources furnished by the two networks. A minimum of 50% of the local contribution will be in cash. The projected execution period is three years.

Table 2: Project budget in US\$

Components		MIF		Local		Total	
1.	Developing network technical capacity and sustainability	74,350	9%	64,950	18%	139,300	12%
2.	Broadening and improving the quality of member credit union services	605,700	72%	246,100	68%	851,800	71%
3.	Disseminating best practices for credit union networks	23,750	3%	6,750	2%	30,500	3%
4.	Administration, evaluations, audit and contingencies	136,200	16%	42,200	12%	178,400	15%
Total (US\$)		840,000	70%	360,000	30%	1,200,000	100%

III. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Borrower, guarantor and executing agency

- 3.1 The project will be executed by the Unión de Cooperativas de Ahorro y Crédito del Sur [Southern Council of Credit Unions] (UCACSUR), an association incorporated on 12 December 2002 by decision of the Subdirección de Cooperativas del Austro [Austro Cooperatives office] to strengthen the credit union system in the southern region of Ecuador. It has 24 member credit unions operating in the provinces of Azuay, Cañar, Loja, El Oro, Zamora Chinchipe, and Morona Santiago. UCACSUR's mission is to become a model for microfinance in the region and contribute to the development and strengthening of its members. The executing agency will be guided by a project executive board comprising the chairmen of the UCACSUR board of directors and supervisory board (two individuals); the chairman of the UCACNOR board of directors; the project director, the executive directors of the two networks and an independent member recommended by a majority of the board.
- 3.2 UCACSUR has effective management and corporate governance structures. In terms of its management structure, UCACSUR maintains four operations areas—administrative, services, systems and technical assistance—headquartered in Cuenca, supported by an operational infrastructure, a management and technical team of seven persons, and an operational information system that is already making progress in supporting the member credit unions. (See www.ucacsur.org.ec.) The management and technical team consists of a manager who has been with the institution almost from the start, as well as four managers in charge of the respective operations areas, working with two support and technical personnel contracted specifically for the projects. This structure ensures UCACSUR's operational and financial sustainability. In terms of corporate governance, UCACSUR has a general meeting of member credit unions, board of directors, chairman of the board, and supervisory board. The general meeting (consisting of the chairmen and managers of the member MFIs) convenes regularly twice a year with extraordinary meetings as required. The supervisory board meets every month.

B. Execution mechanism

- 3.3 The Bank will enter into an agreement with UCACSUR for execution of this project. UCACSUR will create an execution unit responsible for: (i) preparing and executing annual work plans; (ii) procuring goods and services in accordance with Bank rules; (iii) ensuring that the project components are executed effectively within the given time; (iv) processing disbursement requests directed to the IDB/MIF; (v) monitoring the performance indicators established in the logical framework; (vi) supervising and reviewing the work of consultants; (vii) preparing semiannual project reports and other reports required by the IDB/MIF; (viii) ensuring implementation of all project execution and administration mechanisms; and (ix) disseminating project outcomes. The qualitative and quantitative targets to be used to measure the accomplishment of project objectives are given in the logical framework. The project execution unit will have a project technical coordinator appointed by the UCACSUR, who will be responsible for technical execution of the project, and a part-time assistant contracted with funding from the program.
- 3.4 **Credit union eligibility** will be based on the following core criteria:² they must be based in one of the provinces included in the project: Azuay, Cañar, Loja, El Oro, Zamora Chinchipe and Morona Santiago (in the south), and Carchi and Imbabura (in the north), and must not be a direct beneficiary of another MIF project involving activities relating to the project purpose;³ they must derive over 75% of their revenue from financial services and have assets of over US\$1 million, 1,000 microentrepreneur customers, and nonperforming loan portfolio of less than 10% or within 30% of the average for the commercial banking system; and they must have 90% operational sustainability, counterpart commitment, and no regulatory risk.
- 3.5 **Subproject eligibility.** In order for subprojects to receive financing, they must generate measurable results in terms of the indicators in Component 2 (paragraph 2.4). There is no maximum for subprojects, but the IDB/MIF contribution will not exceed US\$140,000 per project or US\$40,000 per credit union. The counterpart contribution will be no less than 30% of the total, with half of that amount in cash.
- 3.6 **Criteria for selection among eligible proposals.** The project will establish a selection committee. In the event that more proposals are submitted than can be financed, the selection committee will give preference to subprojects that include: (i) a strategy for expanding financial services to microentrepreneurs and low-income individuals, and (ii) provisions for mergers or strategic partnerships between a larger number of credit unions affiliated with one of the networks.

² The Operating Regulations set out all the criteria in greater detail, including those applicable to credit unions in existence for less than three years, credit unions submitting group projects, and the criteria applicable to proposed subprojects.

³ Credit unions that have received MIF support, such as Cooperativa Jardín Azuayo, may take part in subprojects involving joint activities by a group of several credit unions, provided that the activities are complementary and not merely duplicative.

- 3.7 **Project readiness and no objection.** UCACSUR has the counterpart funds for the project and the key personnel to start work.
- 3.8 **Execution period and disbursement schedule.** The estimated project execution period is 36 months, with a disbursement period of 42 months. Disbursements will be made in the form of advances or replenishments to a revolving fund of up to 20% of the contribution. No replenishments of the revolving fund will be allowed until the executing agency has sufficiently justified the use of the funds received according to the parameters identified in the logical framework.
- 3.9 **Responsibilities.** The MIF will assume technical responsibility for the project. The Bank's Country Office in Ecuador will be the unit responsible for disbursements.

C. Procurement

- 3.10 UCACSUR will procure goods and consulting services in accordance with Bank procurement policies and procedures, based on the procurement plan included in the project technical files.

IV. MONITORING AND EVALUATION

A. Monitoring and indicators

- 4.1 The Bank will enter into an agreement with UCACSUR for execution of this project. UCACSUR will contract the consultants and training services called for in the proposal in accordance with Bank rules and procedures. An ongoing monitoring mechanism will also be developed to ensure consistency of reporting to the IDB. The objectives against which compliance will be measured are identified in the logical framework. The contractual indicators are shown in the following table:

Table 3: Project Contractual Indicators

Project Indicators	Baseline	Year 1	Year 2	Year 3
Credit unions with technical assistance subprojects in execution		7	12	15
Financially sustainable credit unions supported by the project		7	12	15
Credit unions with operational efficiency above the average for supervised institutions		4	7	8
Active microcredit customers (microentrepreneurs and persons with incomes below the poverty line in Ecuador)	19,961	23,200	26,300	28,600
Credit union customers who express satisfaction with the quality of microfinance services received		50%	60%	70%
At-risk portfolio (>30 days) MFIs	6%	5.66	5.33%	5%

B. Reports and evaluations

- 4.2 **Reports.** For each year following the first disbursement of funds, UCACSUR, in keeping with its coordinating and monitoring role, will submit semiannual progress reports to the IDB within 60 days after the close of each six-month period based on the information received from the networks. The reports will include, at a

minimum, a narrative of achievement of logical framework indicators and contractual indicators, and the outcomes obtained through training in accordance with the recommendations of the section on environmental and social consideration. The Bank will review the findings and recommendations of the progress reports, evaluations and audits, and in the event of shortfalls of over 20% in any of the indicators in Table 3, it may suspend commitments until UCACSUR has taken remedial measures satisfactory to the Bank.

- 4.3 **Evaluations.** Once at least 50% of the MIF resources have been disbursed or after 18 months of execution, whichever occurs first, the Bank will contract a midterm review with project resources in order to assess: (i) the efficiency and effectiveness of project execution; (ii) lessons learned during execution; and (iii) recommendations for improvement during the second half of execution in order to achieve project goals. Similarly, once 90% of the Bank funds have been disbursed, the Bank will contract a final evaluation to assess: (i) the degree to which the project's specific objectives and goals have been met; (ii) the levels of efficiency, effectiveness and sustainability of the project components; (iii) the impact on the project's beneficiaries and participants in terms of quantitative and qualitative indicators; and (iv) lessons learned and best practices.

C. Program benefits and risks

- 4.4 **Benefits.** First and foremost, the project will enhance the efficiency and sustainability of credit unions affiliated with networks that operate in rural areas and benefit low-income populations in the northern and southern Sierra regions. This will enable the member credit unions to introduce financial services so as to better serve microentrepreneurs and low-income populations outside Ecuador's major cities. Second, the project will have an impact in disseminating effective credit methodologies, processes and best practices used in the microfinance industry.
- 4.5 **Risks.** The project's main risk is that the training and technical assistance processes implemented by the networks in the context of the project will fail to meet all of the credit unions' expectations and participation levels will fall. In order to minimize this risk, the networks will have a system to quantify the demand for various training and technical assistance activities, and a project coordinator who will supervise the matching of services to quantified demand so as to ensure that the networks' services meet existing needs. A second risk is that the new regulatory framework will require credit unions to come under SBS oversight in order to continue operating. To minimize this risk, the project will give priority to projects involving several credit unions and support mergers to achieve the scale and performance likely to be required by a new regulatory framework.

D. Environmental and social review

- 4.6 The Committee on Environment and Social Impact (CESI) reviewed the project on 16 June 2006 and determined that the project should include training on how to identify and mitigate environmental risks of credit union customers, primarily

small-scale farmers whose microentrepreneurial activities may have environmental impacts. In response to this recommendation, such training will be included in Component 1, as explained in the Operating Regulations (page 4, Component 1, activity “d”). The results of this training will be included in the semiannual reports. Also in response to the CESI recommendation, the project will produce and disseminate publications on best practices in environmental and social management as part of component 3, as described in the Operating Regulations, page 6, indicator “c.”

V. SPECIAL CONTRACTUAL CONDITIONS

- 5.1 As conditions precedent to the first disbursement, UCACSUR will have accomplished the following, to the Bank’s satisfaction: (i) select and appoint a project coordinator, to the Bank’s satisfaction; (ii) enter into an agreement with UCACNOR documenting both networks’ commitments in executing the project; (iii) obtain approval of the Operating Regulations by the general meetings of both networks; and (iv) establish the project executive board.

LOGICAL FRAMEWORK
STRENGTHENING OF LOCAL CREDIT UNION NETWORKS (EC-M1008)

Narrative summary	Indicators	Means of verification	Assumptions																																			
GOAL To broaden and improve access to efficient, sustainable financial services for microenterprises and low-income populations in Ecuador's rural areas and medium-sized cities.	<i>Three years after the end of the project:</i> The number of microentrepreneurs and persons below the poverty line served by sustainable, solvent credit unions will have increased by some 20%.	<ul style="list-style-type: none">• Post evaluation.• Information from the Superintendency of Banks and Insurance (SBS).• Network information sources.	The target population's borrowing capacity and demand for credit holds constant or improves. Government policies are favorable to the microfinance sector.																																			
OBJECTIVE Broaden and improve the quality of microfinance services offered by credit unions outside major cities through strengthening of local networks.	<table><tr><th></th><th>Year 0</th><th>Year 1</th><th>Year 2</th><th>Year 3</th></tr><tr><td>Credit unions with technical assistance subprojects in execution</td><td></td><td>7</td><td>12</td><td>15</td></tr><tr><td>Financially sustainable credit unions supported by the project</td><td></td><td>7</td><td>12</td><td>15</td></tr><tr><td>Credit unions with operational efficiency above the average for supervised institutions</td><td></td><td>4</td><td>7</td><td>8</td></tr><tr><td>Active microcredit customers</td><td>19,961</td><td>23,200</td><td>26,300</td><td>28,600</td></tr><tr><td>Customers of supported credit unions who express satisfaction with quality of services received</td><td></td><td>50%</td><td>60%</td><td>70%</td></tr><tr><td>At-risk portfolio (>30 days) MFIs</td><td>6%</td><td>5.66</td><td>5.33%</td><td>5%</td></tr></table>		Year 0	Year 1	Year 2	Year 3	Credit unions with technical assistance subprojects in execution		7	12	15	Financially sustainable credit unions supported by the project		7	12	15	Credit unions with operational efficiency above the average for supervised institutions		4	7	8	Active microcredit customers	19,961	23,200	26,300	28,600	Customers of supported credit unions who express satisfaction with quality of services received		50%	60%	70%	At-risk portfolio (>30 days) MFIs	6%	5.66	5.33%	5%	<ul style="list-style-type: none">• Project semiannual and final reports.• UCACSUR information system.• Communications with the project coordinator.• Project completion report (PCR).• Other project reports.	The eligible credit unions allocate sufficient resources to introduce products and services for the target group. Microenterprises accept the products offered by participating credit unions.
	Year 0	Year 1	Year 2	Year 3																																		
Credit unions with technical assistance subprojects in execution		7	12	15																																		
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At-risk portfolio (>30 days) MFIs	6%	5.66	5.33%	5%																																		

Narrative summary	Indicators	Means of verification	Assumptions
<p>COMPONENTS</p> <p>Component 1</p> <p>Developing network technical capacity and sustainability.</p>	<p><i>By month 18 of the project:</i></p> <ul style="list-style-type: none"> Revenues from the technical assistance activities indicated in the business plans cover 50% of the networks' operating costs. The two networks are supporting at least 8 credit unions in the use of PEARLS as an operational management tool as well as credit scoring and credit bureau services. <p><i>By the end of the project:</i></p> <ul style="list-style-type: none"> Revenue from the technical assistance activities indicated in the business plans cover 80% of the networks' operating costs. The two networks are supporting at least 18 credit unions in the use of PEARLS and credit scoring linked to credit bureau information. 40 trainers from the network have the essential skills to replicate knowledge needed by the credit unions. 	<ul style="list-style-type: none"> Project final evaluation. Sections of semiannual reports updating execution of the work plan. Networks' financial statements. Records of training and technical assistance activities conducted by the networks. 	<p>Technical assistance services allow introduction of an effective credit technology service for the local microcredit sector.</p> <p>Microentrepreneur credit union customers prefer to finance using the new products.</p>
<p>Component 2</p> <p>Broadening and improving the quality of member credit union services.</p>	<p><i>By month 18 of the project:</i></p> <ul style="list-style-type: none"> At least 5 technical assistance subprojects have been approved whose work execution plans have an impact on expanding and improving the quality of participating credit unions' financial services. 8 credit unions already comply with the regulatory framework. <p><i>By the end of the project:</i></p> <ul style="list-style-type: none"> After executing at least 10 subprojects: (i) 15 credit unions have been brought into compliance with credit union regulations; (ii) 8 new products and technologies to serve microenterprises and low-income individuals are offered by the credit unions; (iii) 8 credit unions show operational efficiency above the average for the regulated credit union sector; (iv) the supported credit unions have an average at-risk portfolio of less than 5%; (v) 8 credit unions comply with best practices criteria for administrative management, governance and human resources as defined on the project website; (v) the number of microenterprise and low- 	<ul style="list-style-type: none"> Project final evaluation. Sections of semiannual reports updating execution of the work plan. Credit union financial statements Records of training and technical assistance activities conducted by the credit unions. 	<p>The contracted consultants identify credit union processes and procedures with potential for improvement and propose a restructuring of UCACSUR.</p> <p>The credit unions decide to submit network projects as indicated during project preparation.</p>

Narrative summary	Indicators	Means of verification	Assumptions
	income customers served by the 15 supported credit unions has increased by 40%.		
Component 3 Disseminating best practices for local microfinance networks.	<p><i>By the end of month 18 of the project:</i></p> <ul style="list-style-type: none"> At least 50% of the credit unions can identify benefits from their participation in a best-practices dissemination activity or from having received project publications or information from the project disseminated via the website. <p><i>By the end of the project:</i></p> <ul style="list-style-type: none"> At least 80% of the credit unions can identify one action taken as a result of the dissemination activities. 	<ul style="list-style-type: none"> Project final evaluation. Sections of semiannual reports updating execution of the work plan. 	The activities and products to disseminate the project's lessons learned and best practices generate the anticipated level of interest.
ACTIVITIES			
Component I			
Developing network technical capacity and sustainability			
<ol style="list-style-type: none"> Consulting services for the design and review of network business plans, including definition or review of training plans. Development, adaptation and maintenance of information systems. Installation, training, implementation and follow-up for PEARLS monitoring system. Annual survey of training needs. Development of a credit scoring model based on information from one credit bureau. 	<p><i>By month 6 of the project:</i></p> <ul style="list-style-type: none"> The two networks submit revised business plans for the next three years demonstrating sustainability. The two networks establish the objectives of the information system in the business plan. UCACSUR presents a consolidated summary of the credit union surveys. At least one network has an agreement in place with credit bureaus. UCACSUR presents a plan for disseminating publications. UCACSUR presents proposals for training network personnel and trainers. The first dissemination event has been held for the project's outside local consultants. <p><i>By month 12 of the project:</i></p> <ul style="list-style-type: none"> The networks submit semiannual progress reports and business plans. 	<ul style="list-style-type: none"> Project semiannual and final reports. Onsite verification and interviews with lending officers and branch personnel. Interviews with managers and directors. Communications with the project coordinator. PCR. Other project reports. Portfolio and credit policy reports. Analysis of quantitative and qualitative performance indicators. 	<p>Technical assistance services allow introduction of a credit technology that meets the needs of microenterprises in the provinces included in the project.</p> <p>The credit union's microenterprise customers prefer to finance using the services of project-eligible credit unions, rather than other providers.</p>

Narrative summary	Indicators	Means of verification	Assumptions
<p>6. Training of network personnel, instructors and local outside consultants.</p>	<ul style="list-style-type: none"> • The networks update the training plans included in their business plans in response to the findings of the surveys. • At least 6 credit unions use the PEARLS system as a financial analysis tool and report the PEARLS information to UCACSUR in the manner established. • UCACSUR will report the consolidated results of the PEARLS analysis semiannually in the information system. <p><i>By month 18 of the project:</i></p> <ul style="list-style-type: none"> • The networks submit semiannual progress reports and business plans. • The two networks have information systems in operation including the utilities provided in the business plan. • UCACSUR presents a consolidated summary of the credit union surveys. <p><i>By month 24 of the project:</i></p> <ul style="list-style-type: none"> • The networks submit semiannual progress reports and business plans. • At least 13 credit unions use the services of a credit bureau. • At least 13 credit unions use the PEARLS system as a financial analysis tool and report the PEARLS information to UCACSUR in the manner established. • At least 7 credit unions are using the credit scoring system under development. <p><i>By month 36 of the project:</i></p> <ul style="list-style-type: none"> • The networks submit final reports on accomplishment of business plans. • The information systems meet 80% of the goals in the business plans. • At least 18 credit unions in the project use the PEARLS system as an operational management tool. • At least 18 credit unions use the services of a credit bureau. • 40 trainers have acquired the essential skills to replicate the knowledge needed by the credit unions. 		

Narrative summary	Indicators	Means of verification	Assumptions
Component II			
Broadening and improving the quality of member credit union services			
<ol style="list-style-type: none"> 1. Preparation of call for applications for technical assistance and training. 2. Dissemination and launch of competitive process. 3. Selection of eligible profiles. 4. Consulting services to support preparation of subprojects. 5. Approval of subprojects. 6. Implementation of technical assistance and training subprojects. 7. Monitoring and evaluation of subprojects. 	<p><i>By month 6 of the project:</i></p> <ul style="list-style-type: none"> • UCACSUR has held at least 3 dissemination workshops. • UCACSUR has issued the first call for applications for technical assistance and training. <p><i>By month 12 of the project:</i></p> <ul style="list-style-type: none"> • At least 7 subproject profiles are declared eligible. <p><i>By month 18 of the project:</i></p> <ul style="list-style-type: none"> • UCACSUR disseminates the second call for applications for technical assistance and training. • At least 5 subprojects have been approved by the committee and are in execution. • Monitoring of subprojects in execution begins. <p><i>By month 24 of the project:</i></p> <ul style="list-style-type: none"> • At least 5 subprojects are in execution. • At least 18 subproject profiles are declared eligible. <p><i>By month 36 of the project:</i></p> <ul style="list-style-type: none"> • At least 13 subprojects are implemented and evaluated. • At least 15 credit unions show the following improvements: <ul style="list-style-type: none"> (i) 15 credit unions have been brought into compliance with credit union regulations; (ii) 8 new products and technologies to serve microenterprises and low-income individuals are offered by the credit unions; (iii) 8 credit unions show operational efficiency above the average for the regulated credit union sector; (iv) the supported credit unions have an average at-risk portfolio of less than 5%; (v) 8 credit unions comply with best practices criteria for administrative management, governance and human resources as defined on the project website; (v) the number of microenterprise and low-income customers served by the 15 supported credit unions has increased by 40%. 	<ul style="list-style-type: none"> • Project semiannual and final reports. • Onsite verification and interviews with lending officers and branch personnel. • Interviews with managers and directors. • Communications with the project coordinator. • PCR. • Other project reports. • Portfolio and credit policy reports. • Analysis of quantitative and qualitative performance indicators. 	<p>The contracted consultants are capable of incorporating input from management and the executive board into the proposed organizational model.</p> <p>New and existing staff of the networks and eligible participating credit unions demonstrate performance levels similar to those anticipated.</p>

Narrative summary	Indicators	Means of verification	Assumptions
Component III			
Disseminating best practices for local microfinance networks			
<p>1. Dissemination of lessons learned in:</p> <ul style="list-style-type: none"> - Relevance and sustainability of local networks - Credit scoring - Financial monitoring - Adaptation to credit union regulation - Development of products and technologies - Improvement in operational and financial efficiency - Risk management - Administrative management, governance and human resources - Scale and growth (mergers). <p>2. Development and dissemination of tools with best practices developed on the basis of outcomes of technical assistance and training.</p> <p>3. Dissemination workshops for managers, directors, staff and members of credit unions: 1 workshop at the end of year 1, 2 workshops in the following 2 years.</p>	<p><i>By month 6 of the project:</i></p> <ul style="list-style-type: none"> • UCACSUR presents a plan for disseminating publications. <p><i>By the end of the first 24 months:</i></p> <ul style="list-style-type: none"> • A credit scoring guide developed by the contracted consulting firm has been published. <p><i>By the end of the first 36 months:</i></p> <ul style="list-style-type: none"> • A workshop has been held on the relevance and sustainability of local networks • One workshop on dissemination and use of the UCACSUR financial monitoring tool had been held. • At least 7 publications have been disseminated among 90% of the local networks' member credit unions. 	<ul style="list-style-type: none"> • Project semiannual and final reports. • Onsite verification and interviews with lending officers and branch personnel. • Interviews with managers and directors. • Communications with the project coordinator. • PCR. • Other project reports. • Portfolio and credit policy reports. • Analysis of quantitative and qualitative performance indicators. 	<p>The hardware procured by the networks functions as provided in the project document.</p> <p>Adaptations of the computer system are feasible for the hardware and programs installed at UCACSUR and the other two eligible networks.</p>

Narrative summary	Indicators	Means of verification	Assumptions
4. One international workshop of credit union networks.			

STRENGTHENING OF LOCAL CREDIT UNION NETWORKS

ECUADOR - TC EC-M1008

ITEMIZED COSTS

DESCRIPTION	Time (months)	Unit cost	Qty.	Total	MIF	UCACNOR in kind	UCACNOR cash	UCACSUR in kind	UCACSUR cash	Total Counterpart:		%
COMPONENT I: Developing network technical capacity and sustainability												
Design, review of network business plans (days)	45	100.00	2	4,500.00	3,150.00	675.00	0.00	0.00	675.00	1,350.00	4,500.00	0.38%
Development, adaptation and maintenance of information systems	36			51,500.00	4,550.00	0.00	9,150.00	10,800.00	27,000.00	46,950.00	51,500.00	4.29%
Website development consulting assignment		2,000.00	1	2,000.00	1,500.00	0.00	500.00	0.00	0.00	500.00	2,000.00	0.17%
Website maintenance	36	200.00	1	7,200.00	0.00	0.00	7,200.00	0.00	0.00	7,200.00	7,200.00	0.60%
Maintenance for executing agency information system	36	1,050.00	1	37,800.00	0.00	0.00	0.00	10,800.00	27,000.00	37,800.00	37,800.00	3.15%
Network equipment	36	4,500.00	1	4,500.00	3,050.00	0.00	1,450.00	0.00	0.00	1,450.00	4,500.00	0.38%
Installation of monitoring system (PEARLS application) in 1 network, system user training for 2 networks, follow-up	36	300.00	2	10,800.00	5,400.00	540.00	1,080.00	1,080.00	2,700.00	5,400.00	10,800.00	0.90%
Training				37,500.00	26,250.00	0.00	3,615.00	600.00	7,035.00	11,250.00	37,500.00	3.13%
Training of staff		1,750.00	4	7,000.00	4,900.00	0.00	1,050.00	0.00	1,050.00	2,100.00	7,000.00	0.58%
Training of trainers		125.00	228	28,500.00	19,950.00	0.00	2,565.00	0.00	5,985.00	8,550.00	28,500.00	2.38%
Dissemination to local outside consultants		1,000.00	2	2,000.00	1,400.00	0.00	0.00	600.00	0.00	600.00	2,000.00	0.17%
Development and implementation of a credit scoring model based on information from one credit bureau (days)	140	250.00	1	35,000.00	35,000.00	0.00	0.00	0.00	0.00	0.00	35,000.00	2.92%
TOTAL COMPONENT I				139,300.00	74,350.00	1,215.00	13,845.00	12,480.00	37,410.00	64,950.00	139,300.00	11.61%
COMPONENT II: Expanding and improving the quality of member credit union services												
Preparation of call for applications for technical assistance and training				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%
Dissemination and launch of competitive process		2,500.00	2	5,000.00	2,500.00	125.00	125.00	1,125.00	1,125.00	2,500.00	5,000.00	0.42%
Selection of eligible profiles				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Consulting assignment to support preparation of proposals and monitoring	36	1,200.00	1	43,200.00	43,200.00	0.00	0.00	0.00	0.00	0.00	43,200.00	3.60%
Approval of subprojects		900.00	4	3,600.00	0.00	540.00	540.00	1,260.00	1,260.00	3,600.00	3,600.00	0.30%
Implementation of technical assistance and training subprojects		40,000.00	20	800,000.00	560,000.00	12,000.00	12,000.00	108,000.00	108,000.00	240,000.00	800,000.00	66.67%
TOTAL COMPONENT II				851,800.00	605,700.00	12,665.00	12,665.00	110,385.00	110,385.00	246,100.00	851,800.00	70.98%
COMPONENT III: Disseminating best practices for local microfinance networks												
Development and dissemination of best practices materials prepared on the basis of technical assistance consulting assignments		2,000.00	5	10,000.00	7,000.00	0.00	600.00	0.00	2,400.00	3,000.00	10,000.00	0.83%
Dissemination workshops for credit union managers, directors, staff and members		2,500.00	5	12,500.00	8,750.00	375.00	375.00	1,500.00	1,500.00	3,750.00	12,500.00	1.04%
International workshop of international networks		8,000.00	1	8,000.00	8,000.00	0.00	0.00	0.00	0.00	0.00	8,000.00	0.67%
TOTAL COMPONENT III				30,500.00	23,750.00	375.00	975.00	1,500.00	3,900.00	6,750.00	30,500.00	2.54%

STRENGTHENING OF LOCAL CREDIT UNION NETWORKS
ECUADOR - TC EC-M1008

ITEMIZED COSTS											
DESCRIPTION	Time (months)	Unit cost	Qty.	Total	MIF	UCACNOR in kind	UCACNOR cash	UCACSUR in kind	UCACSUR cash	Total Counterpart:	%
Project execution unit (PEU)											
PEU coordinator fees	36	2,000.00	1	72,000.00	72,000.00	0.00	0.00	0.00	0.00	0.00	6.00%
Financial, procurement, accounting assistant fees	36	400.00	1	14,400.00	14,400.00	0.00	0.00	0.00	0.00	0.00	1.20%
Accountant fees	36	200.00	1	7,200.00	0.00	0.00	0.00	0.00	7,200.00	7,200.00	0.60%
Secretarial support	36	120.00	1	4,320.00	0.00	0.00	0.00	0.00	4,320.00	4,320.00	0.36%
Travel to visit networks	36	250.00	6	1,500.00	1,500.00	0.00	0.00	0.00	0.00	0.00	0.13%
Cost of supervision of UCACSUR personnel	36	300.00	1	10,800.00	0.00	0.00	0.00	0.00	10,800.00	10,800.00	0.90%
Subtotal				110,220.00	87,900.00	0.00	0.00	0.00	22,320.00	22,320.00	9.19%
Equipment and furnishings											
Computers		1,600.00	3	4,800.00	4,800.00	0.00	0.00	0.00	0.00	0.00	0.40%
Furniture		300.00	3	900.00	0.00	0.00	0.00	0.00	900.00	900.00	
General overhead											0.00%
Office lease	36	87.50		3,150.00	0.00	0.00	0.00	3,150.00	0	3,150.00	0.26%
Telephone, electricity, water	36	125.00		4,500.00	0.00	0.00	0.00	4,500.00	0	4,500.00	0.38%
Stationery and supplies	36	75.00		2,700.00	0.00	0.00	0.00	0.00	2,700.00	2,700.00	0.23%
Security, cleaning services	36	17.50		630.00	0.00	0.00	0.00	630.00	0	630.00	0.05%
Subtotal				16,680.00	4,800.00	0.00	0.00	8,280.00	3,600.00	11,880.00	1.39%
TOTAL ADMINISTRATION				126,900.00	92,700.00	0.00	0.00	8,280.00	25,920.00	34,200.00	10.58%
Program evaluation											
Consultant to support fulfillment of conditions precedent (days)		200.00	40	8,000.00	0.00	0.00	800.00	0.00	7,200.00	8,000.00	0.67%
Midterm and final evaluations	36	8,000.00	2	16,000.00	16,000.00	0.00	0.00	0.00	0.00	0.00	1.33%
Closing workshop		7,500.00	1	7,500.00	7,500.00	0.00	0.00	0.00	0.00	0.00	0.63%
Audit		3,500.00	3	10,500.00	10,500.00	0.00	0.00	0.00	0.00	0.00	0.88%
Subtotal				42,000.00	34,000.00	0.00	800.00	0.00	7,200.00	8,000.00	3.50%
Contingencies	36	9,500.00	1	9,500.00	9,500.00	0.00	0.00	0.00	0.00	0.00	0.79%
TOTAL PROGRAM EVALUATION				51,500.00	43,500.00	0.00	800.00	0.00	7,200.00	8,000.00	
TOTAL PROGRAM				1,200,000.00	840,000.00	14,255.00	28,285.00	132,645.00	184,815.00	360,000.00	100.00%
Project percent					70.00%	1.19%	3.37%	11.05%	15.40%	30.00%	
Counterpart percent						3.96%	7.86%	36.85%	51.34%		

**STRENGTHENING OF LOCAL CREDIT UNION NETWORKS (EC-M1008)
SIMILAR AND RELATED IDB/MIF PROJECTS**

This project will serve credit unions of varying sizes in small and medium-sized cities and rural areas that will not benefit from other MIF projects, with the exception of the project to support the Jardín Azuayo credit union and the “Deepening of Financial Services in Rural Areas” project, which may support up to two member credit unions of local networks supported by this project.

Project title	Project number	Executing agency	Project description	UCACSUR/UCACNOR member credit unions potentially served
Deepening of financial services in rural areas	ATN/ME-9117	Swisscontact	Operation to support initiatives of 10 Quito- and Guayaquil-based medium-sized MFIs, mostly regulated, to expand into rural areas.	0 to 2.
Support for an innovative mechanism for providing rural credit to underserved communities	ATN/ME-8952-EC	Codesarrollo	Loan and technical cooperation funding to the Codesarrollo credit union to support informal rural financial institutions unaffiliated with the regional networks.	None.
Strengthening of the Jardín Azuayo Credit Union	ATN/ME-8078-EC	Cooperativa de Ahorro y Crédito Jardín Azuayo	Technical assistance for an UCACSUR member MFI, with outcomes potentially replicable at other MFI members of the four networks.	1
Expansion of a new microfinance institution to rural areas in Ecuador	ATN/ME-7716-EC	Banco Pro Crédito Ecuador	Financing for Banco Pro Crédito’s predecessor.	None.
Institutional strengthening of Banco Solidario S.A. Mass marketing of its electronic purse account (Cuenta Solidaria La Chauchera) Program to support microenterprises and Ecuadorian migrants	ATN/ME-7352-EC ATN/ME-7599-EC	Banco Solidario	Loan and technical assistance operation under the line of activity for the strengthening of microfinance institutions, and a remittances operation.	None.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/06

Ecuador. Nonreimbursable Technical Cooperation ATN/ME-____-EC
Strengthening of Local Credit Union Networks

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Unión de Cooperativas de Ahorro y Crédito del Sur (UCACSUR), and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to technical cooperation for the strengthening of local credit union networks.
2. That up to the amount of US\$840,000 or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

LEGIII/EC-839406-06
EC-M1008