

PROGRAM OF SUPPORT FOR THE EMERGENCY SOCIAL INVESTMENT FUND
(SECOND STAGE)

(EC-0158)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	The Republic of Ecuador	
EXECUTING AGENCY:	The Fondo de Inversión Social de Emergencia (FISE) [Emergency Social Investment Fund]	
AMOUNT AND SOURCE:	IDB:	US\$ 45 million (OC/IFF)
	World Bank:	US\$ 45 million
	Local contribution:	<u>US\$ 10 million</u>
	Total:	US\$100 million
FINANCIAL TERMS AND CONDITIONS:	Amortization period:	25 years
	Term for commencement of work:	2.5 years
	Disbursement period:	3 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	United States dollars from the Single-Currency Facility
OBJECTIVES AND PURPOSE:	1. <u>Objectives</u> The second stage of the program has the same objective as the first, i. e. to help improve the living conditions of the poorest segments of the country's population by bringing them into the social-services network. It was designed by the authorities of the new administration on the basis of experience gained in carrying out the first stage and on the recommendations stemming from the evaluation of that stage. This new stage incorporates a strategy under which efforts are focused primarily on aiding the key social sectors, narrowing the scope of eligible social-project types, stepping up community participation by means of a gender-oriented approach, and with the introduction of new components and processes to improve the program's performance.	

2. Purpose

The program is intended to accomplish its objectives by aiding in the efficient implementation of small social projects identified by the communities themselves and contributing to the building up of community-based capacity for identifying, preparing, executing and maintaining such projects. The projects in question should be responsive to community-identified priorities and should be aimed at facilitating community access to such basic social services as education, health, potable water and sanitation.

DESCRIPTION:

The IDB and World Bank will provide financing to support FISE as an institution and not one of its specific programs. Accordingly, any change to be introduced that would alter the institutional structure of FISE or its objective, regulations, criteria or operating systems must be agreed upon in advance by FISE and the two Banks. Any additional financing, irrespective of their source, including amounts to be provided by the government, should be targeted toward increasing the agreed-upon activities not toward introducing new project lines or raising the maximum per-project amounts defined in the Operating Regulations and/or manuals.

The program will have two components: (a) an **investment** component, consisting in the financing of basic social projects; and (b) an **institutional-strengthening** component to bolster community operations and FISE.

1. Investment component (US\$86.9 million)

In the first stage, certain sectors were included by FISE in response to conditions laid down by the various donors. This resulted in a wide spectrum of opportunities but one for which the demand was limited. For the second stage, FISE has redefined the strategy of its program to focus on the financing of projects for which there is stronger public demand, i. e. those which were the most successful in the first stage, with the array of eligible projects being limited to six sectors.

Projects in the following social sectors would be eligible for financing at this stage: (a) **water supply and sanitation** for the purpose of meeting the basic food, personal and household cleanliness and sanitation needs of rural and marginal urban

populations; (b) **education** (i) formal education: these projects are aimed at improving the access to and regular attendance at basic educational facilities (preschool and primary); and (ii) special education: these projects are aimed at meeting the education requirements of the disabled; (c) **health projects**, to facilitate access to primary health care; (d) **social welfare activities** targeted to the assistance, care and protection of children, the elderly and the disabled; (e) **transportation of the elderly**, to facilitate access (on foot or by vehicle) of people isolated from service centers; and (f) **other projects**, including improvements to small irrigation systems and protection against landslides.

2. Institutional strengthening component
(US\$11.6 million)

This component includes: (a) funding for the **operation of FISE** during the program implementation; (b) **institutional strengthening of FISE**; and (c) **community management support**.

a. Operation of FISE (US\$9.6 million)

This subcomponent will finance the operation of FISE during the program implementation period; it includes funding for fees and general operating expenses.

b. Institutional strengthening of FISE
(US\$1.6 million)

As a result of recommendations stemming from the evaluation of the earlier stage, FISE will adapt its operation in this second stage to a strategy centered on strong community participation with a gender-oriented approach and effective environmental-protection operations. This strategy calls for strengthening of FISE in the following areas: (a) **decentralization of its operational activities** through the creation of three new regional offices and the conversion of its present central office into a headquarters office and a Pichincha regional office. Including the four regional offices established during the first stage, FISE would now be conducting its operations through eight regional offices (Pichincha, Guayas, Azuay, Loja, Manabí, Esmeraldas, Pastaza, and Chimborazo); (b) **strengthening FISE's central office and existing regional offices and building up the capabilities of the new offices**, especially their ability to extend community support. In addition, the central office needs to be

strengthened in its ability to program, monitor and evaluate the regional offices; and (c) **strengthening FISE's environmental-protection operations**, including its training modules, and hiring a professional auditor as a regular member of the professional staff of FISE, as a condition precedent to the first disbursement.

c. Community management support (US\$400,000)

Roughly one a third of Ecuador's 1,137 parishes - mainly those at the lowest-income levels - were not covered by the first stage of the program. This calls for a special effort to bring FISE into closer touch with the communities and for FISE support to improve community-organization capabilities. Communities will be provided with assistance in diagnosing their own situation and prioritizing their needs, identifying solutions and organizing themselves for playing an active part in managing the projects. This subcomponent envisages participation by outside promoters and NGOs to train the communities. Special emphasis will be placed on promoting and supporting participation by women from the community at each stage of the process and in decision-making.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee (CMA), at its meeting of August 13, 1996, classified this as a Category III operation and an Environmental Summary was therefore prepared. The summary was approved by the CMA at its meeting of October 22, 1996.

BENEFITS:

One of the principal benefits of the program will be to improve the living conditions of the poorest social groups through the implementation of some 2,750 small basic social infrastructure projects accorded high priority by the communities concerned since they will provide them with access to basic social services.

Another major benefit of the program pertains to an increase in the ability of communities, and particularly of women, to take a hand in their own development and to enhance their role in society.

By directing its investments through an effective focalization system, the program will contribute to improve efficiency and equity in the use of public funding targeted to the social area.

Finally, decentralizing the operations of FISE by channeling them through its eight regional offices will help to generate capabilities at the regional and local levels for working in close conjunction with the country's poorest communities in the identification, formulation, execution, supervision and maintenance of projects. Moreover, this relationship should stimulate local private-sector participation at each stage of the project cycle. In addition, the regional offices should make coordination more effective at the local level and will provide experience that may be useful in the country's overall decentralization process.

RISKS:

Four risks have been identified that could affect the program's implementation: (a) the risk of not attaining a satisfactory degree of sustainability in the projects; (b) the risk of faulty coordination of FISE with other institutions in the social area, with a consequent duplication or overlapping of activities; (c) a failure to implement measures to mitigate environmental impacts identified during the evaluation of the program; and (d) the risk of the institution's becoming politicized and thereby losing sight of its goal of keeping its action focused and its procedures transparent.

With respect to the first risk, the first-stage evaluation showed that there was a close correlation between a community's participation in the project cycle and its willingness to make the project sustainable. The program therefore provides for community management support in the form of training to help the communities organize and, promoting their participation at every stage, from the initial meetings when the first decisions on prioritization are made and on throughout the various phases of project implementation. This will encourage their willingness to support the sustainability of the projects they have chosen themselves.

To minimize the risk of FISE activities overlapping with those of other organizations in the social area, the interagency coordination agreements have been reviewed and are being adjusted. Additionally, a representative of the competent ministry will sit on in FISE's Approval Committee when projects in his/her area of competence are taken up for approval, as a means of facilitating coordination between the institution concerned and FISE.

To avert or minimize the risk of a failure to properly implement the measures for mitigating

environmental impacts, a special contractual clause pertaining to disbursements by FISE to contractors has been included in the Contracting Manual; this clause makes the prior implementation of such mitigation measures compulsory. The procedure for verifying such implementation is set forth in the Monitoring Manual.

Finally, with respect to the risk of politicization, a provision will be included in the Focalization Manual to the effect that the regional allocation of resources for projects must be consistent with the regional parameters laid down in the "Geografía de la Pobreza" [Geography of Poverty]. In addition, criteria for evaluating the selection of projects have been established with a view to assuring the quality of the projects and the transparency of their choice. Furthermore, a provision has been included that requires the Bank to indicate its nonobjection to the appointment of executive and technical staff members, who will be required to have professional experience and training consistent with the terms of reference of the posts they are to occupy.

**IMPACT ON LOW-
INCOME SECTORS:**

The program is framed within the targets of social reform and poverty reduction of established for the Eighth General Increase of the Resources of the Bank, inasmuch as its investments are targeted geographically toward the rural communities in the country's poorest areas and a significant majority of its direct beneficiaries (more than 70%) are low-income people (see paragraph 4.8).

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's social strategy for Ecuador will hinge on support for reforms to broaden the coverage of social services and improve their quality as well as to enhance the efficiency of the delivery mechanisms for these services, making them more sustainable. As a result, the Bank's strategy has focused on supporting a Social Agenda and establishing a strategy for implementing it. This strategy will serve as the benchmark for conceptualizing social projects under the program that have been agreed on between the Bank and the country for the years ahead.

Given the country's priority needs, the Bank will focus its efforts mainly on providing training support, promoting a suitable framework for participation by the private sector in rebuilding and expanding physical infrastructure, and establishing a climate conducive to investment, efficient financial intermediation, and domestic savings. To broaden the coverage of social services and improve their

quality, the Bank will continue its support for the shaping and adoption of major reforms in health, education, housing, and sanitation. In addition, the Bank will continue supporting major policy reforms in natural resource management to bring about efficient use of natural resources and environmental protection.

As an immediate response to the social problems that exist, the Bank is taking part in special programs such as care for children at risk, rural development, and phase two of FISE. In fact, FISE is considered to be only a stop gap in satisfying the needs of the very poor, and implementation of the second phase of this program needs to be linked to the preparation and adoption of a Social Agenda. The Bank will help the country to draft this Agenda with the backing of its own experts and outside consultants as well as with material support and financing for workshops at which intersector coordination will be stressed in seeking a consensus on the reforms.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The borrower, acting through FISE, will be required to comply with the following conditions precedent to the first disbursement: (a) it must have hired the environmental auditor in accordance with the terms of reference and professional profile agreed upon with the Bank (see paragraphs 2.11 and 4.15); (b) the operating manuals, adjusted as agreed upon with the Bank, must be operative (see paragraph 3.10); (c) it must have reached agreement with the Bank with respect to the final design for the training plan and timetable (see paragraphs 2.12 and 2.13); and (d) it must have signed the adjusted interagency coordination agreements (see paragraph 3.32).

The borrower, acting directly, must comply with the following condition precedent to the first disbursement: it must have reached agreement with the Bank on the Social Agenda and its timetable (see paragraphs 1.10 and 1.11).

Special contractual condition: FISE may not commit more than 50% of the resources allocated for projects until such time as it has presented, to the Bank's satisfaction, the mid-term evaluation, including the status report implementation of the Social Agenda (see paragraphs 3.42 and 3.43).

I. FRAME OF REFERENCE

A. Introduction

- 1.1 The Fondo de Inversión Social de Emergencia [Emergency Social Investment Fund] (FISE) was created on March 19, 1993, as a temporary mechanism for conducting activities to supplement those being conducted by other government agencies for the benefit of groups living at the highest poverty levels or in areas which the network of social services barely reaches or fails to reach. The main responsibility assigned to it for this purpose was to target and channel fund transfers for financing small projects allocated to those social strata.
- 1.2 The IDB has participated in FISE financing of since the latter's inception. It provided short-term technical-cooperation funding for the purpose of preparing the fund, and later, in July 1994, granted FISE a US\$30 million loan for an operation scheduled to be terminated in December 1996. The operation discussed herein is intended to provide Bank financing for stage two of that program.

B. Macroeconomic framework and economic policy of the government

- 1.3 During the second half of 1992, the previous administration began what was to become the most successful economic stabilization program undertaken in Ecuador since the debt crisis of 1981, in order to deal with inflation rates of up to 60% a year and to correct an external imbalance that had caused international reserves to dwindle to only US\$121 million. Under the economic program, annual inflation was brought down to 25% and reserves were built up to US\$1.509 billion as of July 31, 1996, immediately before the new administration took office. The most important tools of the stabilization process were fiscal adjustment and exchange policy, which was used to help anchor the price level. Monetary policy, directed basically toward defending international reserves and the floating exchange band, was passive for most of the time, as a result of which interest rates were volatile and, by the end of the previous administration, very high. Another important accomplishment of this administration was its renegotiation of the external debt to commercial banks and the resumption of debt service payments.
- 1.4 The fiscal adjustment process met with substantial setbacks in 1995 and 1996. Given that sound fiscal policy was the cornerstone of the stabilization process, the latter also encountered problems in those two years. The 1995 border conflict generated extraordinary costs, but the government was unable to secure the political consensus it needed to increase tax revenues and raise rates for public services. The fiscal deficit amounted to 1.9% of GDP in 1995. The government's weaker position in 1995 contributed to the fiscal imbalance in 1996; in August, when the change of government

took place, the fiscal deficit was on the order of 4% of GDP (annualized). The fiscal gap has been financed primarily through internal borrowing, with some foreign borrowing, and with delays in payments, including US\$180 million in payments with the Paris Club.

- 1.5 The present administration took office in August 1996 and is in the process of defining the new economic program, which it has announced it will present in mid-November. The new government faces an enormous challenge in the fiscal area, in part inherited from the previous administration and in part arising from the need to finance its priority program of delivering a package of goods and services to the poorest segments of the population. The Ministry of Finance has announced that the program will include important fiscal-adjustment measures, particularly in the tax area, such as elimination of the gas subsidy, an increase in electric power and telephone rates, and elimination of exemptions to the VAT.
- 1.6 Against this backdrop, the government has decided to extend the FISE, which was due to expire in December 1997, and to apply to the Bank for funding for a second stage of the FISE operation. FISE is seen as a tool to enable the government to continue delivering social-infrastructure services to the poorest sectors at a time when fiscal pressures are making it difficult to allocate more funds to the general education and health programs.

C. Social strategy of the government

- 1.7 Close to one half of all Ecuadorans live below the poverty line. Low income levels, together with a weak system for delivery of social services and with inefficient targeting mechanisms, have been leaving the majority of the poor with a low level of access to basic social services of acceptable quality. Roughly one third of all Ecuadorans have no access to health services; 10% of the adult population is illiterate; and more than one third of children are undernourished. In the case of certain groups (indigenous people Ecuadorans of African descent, rural women and female heads of household), poverty is especially prevalent and their access to social services is even more difficult.
- 1.8 The decline of social spending from 12% in the eighties to 5% in 1995 has not been the only cause of the country's weak social performance. A number of basic obstacles affecting every sector have also been identified. These include: (a) a highly complex and centralized institutional framework that makes it difficult to respond effectively to the needs of users; (b) a lack of effective inter-institutional coordination; (c) an absence of clearly defined priorities and efficient systems for establishing and implementing them; (d) inadequate funding and cost-recovery systems; (e) weak human resources in the public sector, especially at the technical and managerial levels; and (f) inappropriate and poorly targeted subsidies.

- 1.9 Faced with the situation described above, the government is developing a social policy and a strategy aimed at addressing these problems in a coordinated and sustainable fashion. The basic guidelines of this agenda include actions: (a) to achieve consistency between economic and social policy; (b) to increase efficiency and responsibility in social services, on the part of users and providers, through the development of new mechanisms to regulate this relationship; (c) to broaden the coverage of social services and make them more equitable through a more effective and comprehensive targeting process and a selective expansion of public spending targeted to the social sectors; and (d) a progressive decentralization of resources and operating capacities to place them closer to the beneficiary.
- 1.10 The agenda will involve actions in four areas: health, education, housing, and social integration of the groups at greatest risk (such as women and youth in rural and low-income urban areas, native people, female heads of household, and workers in the informal sector) and the development of a system to allow more-effective targeting of public resources for the benefit of the lowest-income groups and those at greatest risk. It will also include a definition of the measures, resources and timetables for the development and subsequent implementation of the policy at each stage.
- 1.11 Given the nature of the problems to be resolved, designing and implementing the policies and appropriate programs will require a considerable amount of time. In view of the need to continue assisting the poorest sectors of the population during the time it takes to put the reforms in place and until the first results are achieved, the action of FISE will be an important part of Ecuador's social strategy in the short and medium run. Nevertheless, although FISE continues to be a temporary response to meeting the basic needs of the very poor, the duration of this temporary measure will depend directly on how quickly the social sector reforms are introduced. Consequently, the implementation of the second stage of this program needs to be linked to the preparation and adoption of a Social Agenda. In this context, the government plans to complete the design for the Social Agenda in the first quarter of 1997 and its content will be subject to agreement with the Bank as a condition precedent to the first disbursement. The progress made in introducing the Social Agenda will be evaluated in the mid-term review of FISE II.

D. The Bank's experience with social investment funds

- 1.12 The Bank has been supporting actions undertaken under structural adjustment programs for the purpose of alleviating their impact on the poorest segments of the population from the very start of such programs across the region. Indeed, it has made available more than \$1.1 billion for the creation of social investment funds in

most of the countries of the region and, in some cases, has financed second and third stages of such programs.

- 1.13 Over the 10 years it has been supporting activities of this type, the Bank has gained substantial experience with respect to the strengths and weaknesses of such funds, lessons which have been useful in improving their conceptualization and efficiency. Among their principal achievements, the funds have demonstrated that it is possible to secure:
 - a. smoothly operating mechanisms for approval and implementation of small social and economic infrastructure projects and for the generation of temporary jobs in poor localities, with direct benefits for the communities;
 - b. mechanisms for coordination with front-line institutions and ministries in dovetailing their activities, especially in education, health and environmental sanitation, with the rehabilitation or replacement of education centers and primary health care facilities;
 - c. transparent project-approval systems based on the development of a "project cycle" supported by clear and simple mechanisms for the focalization, promotion, evaluation, management, control and monitoring of projects;
 - d. direct community participation in the selection and formulation of small projects, through the promotion of the "demand-driven" concept; and
 - e. adequate emphasis on the sectors of greatest poverty where the presence of the State has been minimal or nonexistent.
- 1.14 In addition, there are certain risks that have not been fully addressed. These include:
 - a. **Maintenance.** Maintenance has been a problem common to nearly all the funds. It arises from an absence of training and a shortage of resources in the beneficiary communities, as well as from budgetary and technical constraints faced by the municipalities or other institutions responsible for the operation and maintenance of facilities. This problem is being mitigated through training and the formation of maintenance committees in the communities.
 - b. **Comprehensiveness of projects.** The work of the funds in connection with infrastructure projects has been highly successful, but the projects have not succeeded to the same extent in including other components that offer qualitative improvements, such as the distribution of educational and training materials.

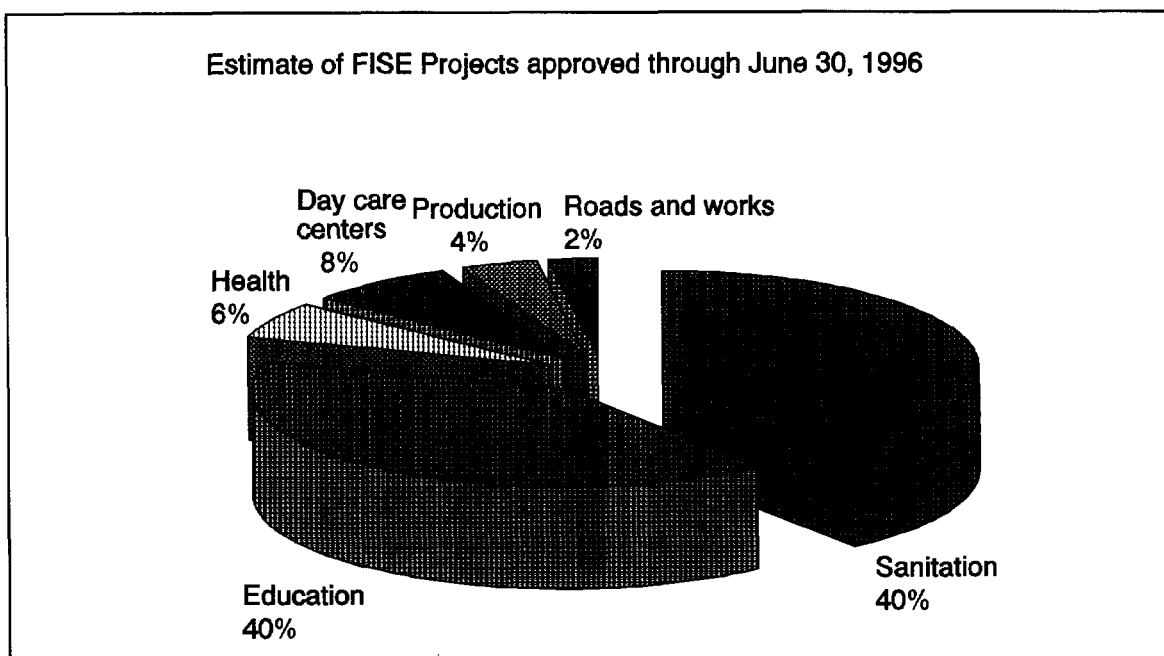
- c. **Participation of women.** While there have been various successful experiences resulting in active participation by women, primarily in project implementation and maintenance, a satisfactory degree of participation has not been achieved in the project selection and formulation stages, in community leaderships or in decision-making, nor have women been able to benefit to a large extent from the temporary jobs created as a result of construction projects or community training. The actual extent of participation by women in projects undertaken by the funds has not been documented, owing to the absence of any systematic data disaggregation.
- d. **Temporary nature of the funds.** The creation of social funds was justified as a temporary expedient in the face of a social emergency. However, the amount of time it would take to address the emergency was underestimated, so that even now they all continue in operation and several countries are considering the possibility of establishing them as permanent institutions.
- 1.15 As may be gleaned from the findings of the evaluations performed during the first stage of FISE, which are summarized below in section F of this chapter, the strengths and weaknesses characterizing this type of program were apparent to a greater or lesser extent. It is important to emphasize, however, that in the comparative study of social funds being conducted by the Bank, FISE of Ecuador is rated as one of the most successful social funds in the region, both in terms of positive responsiveness to the beneficiaries and in terms of ability to focus on the very poor.
- E. Stage one: performance and results
- 1.16 Since its inception in March 1993, FISE has succeeded in reaching all 20 provinces of the country, 1/ financing infrastructure projects in the areas of education and health, water supply, sewerage and roads as well as small social welfare projects. From its inception to August 1996, FISE received 17,213 applications for funding, and of these it evaluated and awarded contracts for 4,920 projects (28.5%) totaling US\$108.1 million. Of this total, 4,026 projects have been completed and 894 are at various stages of implementation. Table I-1 shows, the status of projects received by FISE during the period indicated as well as those that have not completed the cycle and are therefore potential components of the pipeline for the second stage.

1/ The country is politically and administratively divided into 20 provinces, 200 municipalities and 1,137 parishes.

Table I-1 FISE ACTIVITY - MARCH 1993 TO AUGUST 1996 (in millions of US\$)		
STATUS	PROJECTS	
	No.	US\$
Received	17,213	-
Rejected	3,380	-
Added to pipeline of operations	13,833	331.3
Approved	4,920	108.1
Potential pipeline for FISE II	8,913	223.2
<u>Contracts awarded:</u>	<u>4,920</u>	<u>108.1</u>
In process	247	7.6
Under way	647	18.8
Completed	4,026	81.7

1.17 Figure I-1 gives a breakdown by sector of projects financed during stage I. A breakdown by project type is included in Annex I-1.

Figure I-1



F. Evaluation of the first-stage results

- 1.18 In order to ascertain the results and effects of the work of FISE, in December 1995 an independent firm was hired to perform an operational and institutional evaluation of the Fund's performance in 1994-1995. The terms of reference for this assignment defined the scope of the evaluation as encompassing the operational, institutional, financial, administrative, coordinational and community-management aspects of FISE's work. The evaluation was based on a representative sample consisting of 146 projects, and surveys of 2,793 of the beneficiaries. The work was finished in May 1996. Following is a summary of the principal results of the evaluation, which served as the basis for designing the second stage of the program.

1. Institutional aspects

- 1.19 FISE has been putting together an appropriate institutional structure for meeting the operational requirements of a cycle that covers a number of small projects, each individually simple but together comprising a complex task because of the multiplicity of projects involved. Viewed in this context, the evaluation shows that in general the institution was well managed, achieving better-than-anticipated results. Nonetheless, there are institutional aspects to which adjustments will be made because of improvements incorporated into the project cycle. Most of all, the institutional structure will be adapted to incorporate features pertaining to functional decentralization, strengthening of environmental provisions, and community participation with emphasis on gender aspects.

2. Project cycle

- 1.20 The project cycle was one of the topics to which greatest importance was attributed during the preparation of the first stage, given that the objectives of the operation could be attained only if there was an orderly system in place for executing and monitoring the activities of FISE.
- 1.21 The effectiveness of this cycle was examined, and its results were, in general, found to be positive. Nevertheless, there are areas in which improvements will need to be made in the second stage, namely: (a) promotion must be more active and must be aimed at encouraging greater community participation, specifically by women, in the various stages of the project cycle, especially in areas pertaining to project prioritization and implementation, as well as sustainability; the promotional effort must also include information on the obligations the community will take on when priority is given to a project that requires the payment of rates; (b) the requirement that fully developed designs must be submitted in support of applications for financing restricts the participation of the poorest communities; in the second stage,

assistance in the preparation of projects will therefore be given to such communities; (c) although the pace of contract awards has been at the scheduled level, this has required major efforts on the part of the technical and professional staff; the contract-award and payment-verification systems need to be improved and the relevant procedures simplified; and (d) likewise, even though this has not directly affected the initial operation of projects, delays in registering projects in the public registry were detected; this problem will be addressed through more-effective interagency coordination.

3. Eligible projects

- 1.22 The menu of projects eligible for FISE financing was extremely broad; while this enabled a community to select its priority from a wide variety of options, the demand clearly in favored of education and sanitation projects. Moreover, there were project lines that were not successful. Such was the case with production projects in the areas of agribusiness, farming and livestock, crafts and fisheries, in which 2% of the funds were invested and benefits failed to materialize, basically because FISE was not designed to perform the specialized types of analyses required for this type of project (productivity, market and financial analyses, etc.) or to provide the sustained support such projects need.
- 1.23 For the second stage, the project menu was reexamined and, as a result, reduced to eliminate: (a) types of projects for which the demand was too small to warrant retaining the specialists needed to promote, evaluate and supervise them; and (b) projects whose results had been less than satisfactory, e. g. training centers, immunization facilities and discount pharmacies.

4. Focalization

- 1.24 The "poverty level" of each parish, plotted on a scale of one to five, was the indicator used to evaluate the program's focalization (a parish is the next-smallest administrative subdivision after a municipality). Based on this scale, 79.3% of the amounts approved were targeted to parishes in quintiles one and two, which are those with the highest poverty rates in the country. Table I-2 shows the distribution of the projects financed by poverty quintile of the beneficiary population.
- 1.25 For the geographic focalization, FISE I used a poverty map with 1982 data projected to the census of 1990. In the second stage, the focalization can be improved by using the *Geografía de la pobreza* [Geography of Poverty] published in 1996, which contains the percentage of population living below the poverty line in each parish, as well as the relative level as a percentage of the country's total poor population.

Table 1-2 PROJECTS APPROVED, BY POVERTY QUINTILE 1/				
QUINTILE	PROJECTS		AMOUNTS	
	No.	%	US\$000	%
1	2,075	42.2	44,464.1	41.1
2	1,777	36.1	40,787.0	37.7
3	924	18.8	20,374.3	18.8
4	101	2.0	1,919.2	1.8
5	43	0.9	597.9	0.6
TOTAL	4,920	100.0	108,142.5	100.0
1/ The quintiles are ranges within the poverty index. The indicators used are coverage of services, malnutrition, illiteracy, and infant mortality.				

5. Community participation

- 1.26 Three aspects of community participation were evaluated: (a) **prioritization of the projects**, with respect to which 50% of the beneficiaries interviewed said they had participated in the community meetings that selected the projects; (b) **implementation of the projects**, in which 56% said they had participated; and (c) **operation and maintenance**, with respect to which 60.4% of the projects have an organization of some kind in charge of maintaining the works and 54% of the beneficiaries are participating in one way or another in the pertinent organization. The principal reasons for the low participation include a limited capacity of the population to organize for community purposes and weak promotional efforts by FISE.
- 1.27 In light of these results, stronger emphasis will be placed, in the second stage on supporting community participation with a gender-oriented approach, strengthening FISE's promotional capability, and providing training to the communities to improve their community-management efforts.

6. Quality of the works

- 1.28 According to the surveys carried out, 72% of the beneficiaries rated the construction work as "fair" or "very good," this being consistent with the technical evaluations done by independent firms of construction specialists. These firms evaluated 10% of the projects, chosen by stratified random sampling. Ninety-one percent of these were rated as being of adequate quality, while the remaining 9% were found to be deficient in terms of the quality of the lumber used or (in the case of sanitation works) problems with

the landfills. The latter work was generally carried out by the community.

7. Sustainability

- 1.29 Sixty point four percent (60.4%) of the beneficiaries referred to the existence of some type of community organization responsible for supporting sustainability. This organizational trend is stronger in rural areas (63%) than in urban areas. Also, the situation varies according to the type of project: affirmative responses accounted for 81.7% of the total in regard to water supply projects but failed to exceed 40% with respect to road and sewerage projects. In order to improve this situation, in the second stage an effort will be made to strengthen community capabilities for the maintenance and operation of systems by including in each project a training module, the cost of which will be covered as part of the financing provided by FISE.

8. Environmental impact

- 1.30 The findings of the evaluation indicate that only 5.8% of the projects included specific recommendations on environmental problems affecting the project; 28% included an environmental assessment of the project's foreseeable impact; 40% included proposals on basic environmental measures; and 26% proposed no action at all. This situation resulted, on the one hand, from the existence of a complex environmental handbook containing requirements that were out of proportion to the size of the projects, which made it difficult to apply them and, on the other hand, from the FISE technical staff's limited training in environmental matters. To address this problem, a new and simpler methodology has been designed which proposes the measures to be applied at each phase of the project cycle. In addition, a training module in environmental management has been included as part of the FISE-strengthening component and provision and an environmental auditor must have been added to the staff of FISE, as a condition precedent to the first disbursement.

9. Participation of women

- 1.31 Participation by women in the program has come about spontaneously and not as a response to a FISE policy in this regard. It has been limited to voluntary contributions in the form of labor for the execution and maintenance of the project and has involved little access to the decision-making arena. This has weakened the involvement of women at every stage of the project cycle.
- 1.32 At the second stage, an effort will be made to promote more-active participation by women in all phases of the project by providing training in community organization with a gender-oriented approach. A follow-up study will be done on the basis of indicators with a break down by gender.

10. Participation by indigenous communities

- 1.33 While there are no direct data that can be used to gauge the size and characteristics of the indigenous population that has benefited from the work of FISE, this population was estimated by superimposing the ethnic map of Ecuador on a map showing sites of projects financed. It was found that 59.7% of the projects were carried out in parishes in which the population was predominantly Indian. This figure will be improved in the second stage, given that FISE is to establish three new regional offices in the areas with the highest concentrations of native people living in poverty for the purpose of coming closer to them and learning about them.

11. Satisfaction of the beneficiaries

- 1.34 The evaluation of the program's impact was based on surveys distributed to the beneficiaries of 146 projects in which they were asked the following questions concerning the projects conducted in their communities:
- a. Was the project necessary and did it merit priority status?
 - b. Is the project useful?
 - c. Was it well built?
 - d. How satisfied are you with the project?
- 1.35 The replies, which are tabulated by region and type of project and are listed in Annex I-3, are very positive: 88% of the beneficiaries replied that the project conducted in their community was highly deserving of priority status; 84% replied that the project was very necessary; 80% that the project was useful or very useful; and 85% that they were satisfied or very satisfied with the project. 2/ The beneficiaries expressed less satisfaction with respect to the quality of construction: 18% replied that the construction showed deficiencies. As will be noted in the tables in the annex, however, depending on the type of project involved, there were significant differences in the degrees of success and satisfaction reported by the respondents. The most favorable ratings are for the education and health projects, whereas production and water supply projects received a very low evaluation. This low evaluation in the case the water supply projects, expressed by 25% of the beneficiaries, has to do with an

2/ "Satisfacción e impacto de los proyectos desde la perspectiva de los beneficiarios," [Satisfaction with the projects and their impact from the viewpoint of the beneficiaries], in Desarrollo y autogestión [Development and Self-management], Working Paper No. 8, April 1996, pp. 62-63.

omission in the design, i. e. the failure to include funds for house connections in the financing.

12. Summary of the evaluation

- 1.36 In summary, the evaluation shows that FISE has managed to comply appropriately with its objectives even though the country has been going through various critical situations, both political and economic. Its success is related to sound focalization, transparent procedures and professional capability on the part of its staff. Among the leading recommendations arising from the evaluation are those pertaining to the need to improve community participation, the gender-oriented approach, environmental management, and interagency coordination. All of these matters were taken into account in the design for the second stage.

G. Continuity of FISE

- 1.37 The decision by the government to continue the FISE operation and to request support from the IDB and World Bank for a second stage of the program are attributable to the proven success of this procedure in the past for implementing small projects to meet the basic needs of the country's poorest and most vulnerable population groups, the still-limited institutional capabilities of the front-line ministries and municipalities, and the continuing need for an effective, transparent mechanism to channel resources to needy communities until such time as the Social Agenda activities are designed and implemented.

H. Operating strategy of the Bank in Ecuador

- 1.38 The management of the Bank has been maintaining an intensive dialogue with the Ecuadoran authorities since the new administration took office with a view to presenting the views of the Bank on the economic and social development of Ecuador and discussing possible Bank support for the government's program. Moreover, the country paper is in preparation and is scheduled for submission to the Bank's Programming Committee in the near future, and preparations are under way for a programming mission in December of this year.
- 1.39 The Bank's social strategy for Ecuador will hinge on support for reforms to broaden the coverage of social services and improve their quality as well as to enhance the efficiency of the delivery mechanisms for these services, making them more sustainable. As a result, the Bank's strategy has focused on supporting a Social Agenda and establishing a strategy for implementing it. This strategy will serve as the benchmark to be followed in conceptualizing social projects that have been agreed on between the Bank and the country for the years ahead.

- 1.40 Given the country's priority needs, the Bank will focus its efforts mainly on providing training support, promoting a suitable framework for participation by the private sector in rebuilding and expanding physical infrastructure, and establishing a climate conducive to investment, efficient financial intermediation, and domestic savings. To broaden the coverage of social services and improve their quality, the Bank will continue its support for the shaping and adoption of major reforms in the areas of health, education, housing, and sanitation. The Bank will also continue supporting major policy reforms in natural resource management in order to rationalize the use of natural resources and to achieve effective environmental protection.
- 1.41 As an immediate response to the social problems besetting the country, the Bank is taking part in special programs such as care for children at risk, rural development, and phase two of FISE. In fact, the FISE program is considered to be only a stop gap in satisfying the needs of the very poor, and implementation of the second phase of this program needs to be linked to the preparation and adoption of a Social Agenda. The Bank will help the country to draft this Agenda with the backing of its own experts and outside consultants as well as with material support and financing for workshops at which intersector coordination will be stressed in seeking a consensus on the reforms.

II. THE PROGRAM

A. Objective

- 2.1 The second stage of the program has the same objective as the first, i. e. to help improve the living conditions of the poorest segments of the country's population by bringing them into the social-services network. It was designed by the new administration on the basis of experience gained in carrying out the first stage and recommendations stemming from the evaluation of that stage.
- 2.2 This new stage incorporates a strategy under which efforts are focused primarily on aiding the most critical social sectors, narrowing the array of eligible social-project sectors, intensifying community participation under a gender-oriented approach. In addition, some new components and processes have been introduced with the aim of improving the program's performance.

B. Purpose

- 2.3 The program is intended to accomplish its objectives by aiding in the efficient implementation of small social projects identified by the communities themselves and contributing to the building up of community-based capacity for identifying, executing and maintaining such projects. The projects in question should be responsive to priority needs determined by the communities themselves, and their purpose should be to facilitate community access to such basic social services as education, health, potable water and sanitation. The logical framework for the design of this operation is included as Annex II-1.

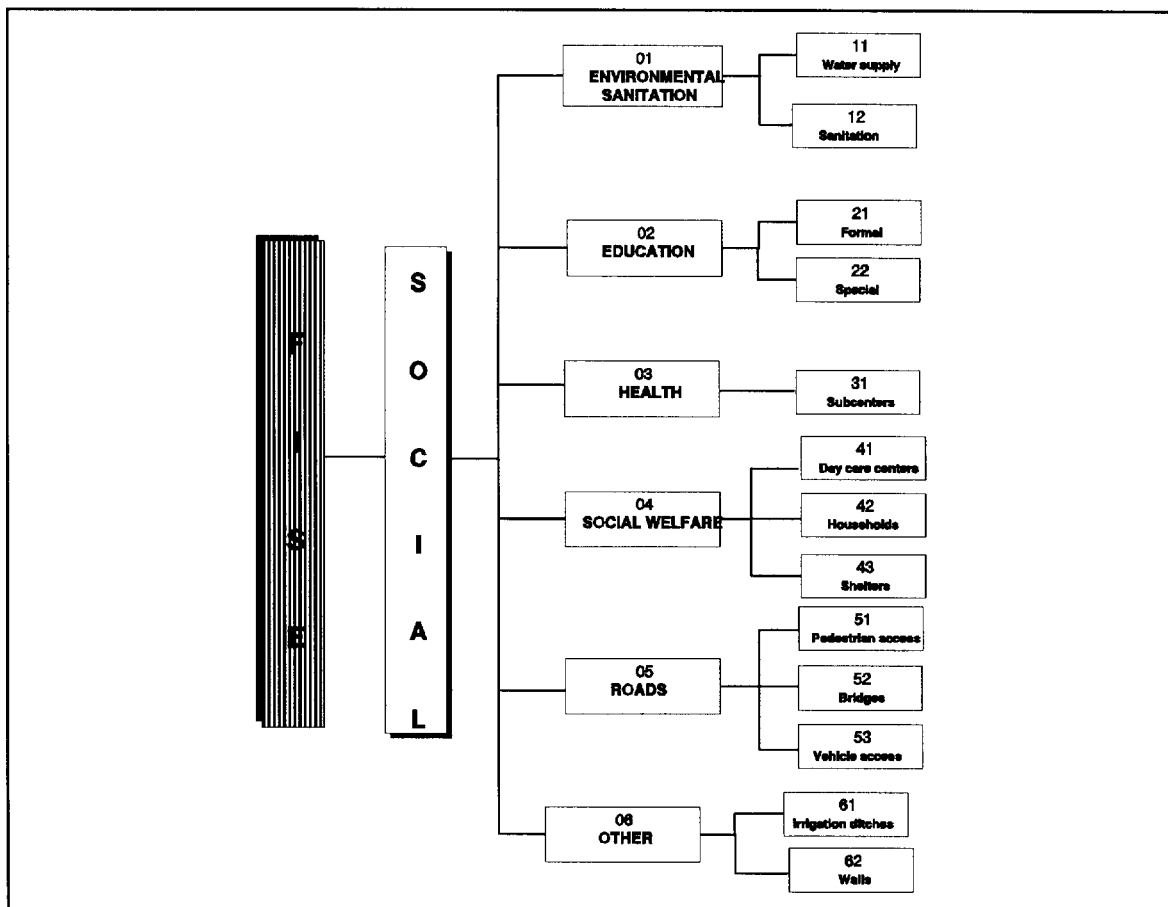
C. Description

- 2.4 The program will have two components: (a) an **investment** component, consisting in the financing of basic social projects; and (b) an **institutional-strengthening** component to bolster community operations and FISE.

1. Investment component

- 2.5 In the first stage, FISE included some sectors in accordance with conditions laid down by the various donors. This resulted in a wide framework of action opportunities but one for which there was limited demand. At this second stage, FISE has redefined the strategy of its program to focus on the financing of projects for which there is stronger public demand, i. e. those which were the most successful in the first stage, with the array of eligible-project sectors reduced to six.

Figure II-1
RANGE OF FISE-ELIGIBLE PROJECTS



2.6 Projects in the following sectors would be eligible for financing at this stage:

- a. **Water supply and sanitation.** The object is to meet the basic needs of rural and low-income urban communities in terms of food, personal hygiene and household cleanliness and sanitation by financing small water-supply systems, intakes, transmission and distribution lines and storage tanks, as well as individual toilets (latrines) or collective sanitation networks.
- b. **Education.** (a) Formal education: These projects will be aimed at facilitating improved access to and regular attendance at basic (preschool and primary) education facilities and reducing the dropout rate for children from low-income families through financing for infrastructure, equipment and teaching materials for schools; and (b) special education: these projects will

seek to meet the education needs of the people with disabilities.

- c. **Health.** The purpose of projects in this area will be to facilitate access to primary health care, including maternal and child care and check-ups, immunizations, and dental and outpatient care, with financing to outfit clinics and health centers.
 - d. **Social welfare.** Projects in this area will be designed to provide health care and/or protection to children, the elderly, the handicapped and the homeless, with financing for care centers, homes and shelters and equipment for such facilities.
 - e. **Tertiary roads.** The projects will facilitate movement (pedestrian and/or vehicular) from isolated communities to service centers.
 - f. **Other projects.** This includes improvements to irrigation ditches and construction of retaining walls or gabions to prevent landslides.
- 2.7 The projects may involve installation, rehabilitation, replacement or expansion works. Provision must be made in all projects for proper management, operation and maintenance of the service in question.
- 2.8 The total amount of financing for the projects - including the World Bank share - comes to US\$86.9 million, US\$7.9 million of which will be used to hire outside professionals to assist with preparation of the projects, inspection of the work, and community training in the operation and maintenance of projects.

2. Institutional strengthening component

- 2.9 This component includes: (a) funding for the **operation of FISE** during the program's implementation period; (b) **institutional strengthening** of FISE; and (c) **community management** support.
- a. Operation of FISE
- 2.10 This subcomponent will finance the operation during the program's implementation period; this funding includes fees and overhead, and the pertinent cost for the three years of implementation has been estimated at US\$9.6 million.
- b. Institutional strengthening of FISE
- 2.11 At this second stage, FISE will adjust its operation to a strategy focused on community participation at all times, from the identification of needs to the operation and maintenance of

projects, and on effective environmental management. Such a strategy requires strengthening FISE in the following areas:

- a. **Decentralization of its operational activities** through the creation of three new regional offices and the conversion of its central office into a headquarters office and a Pichincha regional office. Including the four regional offices created during the first stage, FISE would then have a total of eight regional offices: Pichincha, Guayas, Azuay, Loja, Manabí, Esmeraldas, Pastaza and Chimborazo. The cost of creating and equipping the new regional offices, including vehicles, furniture and computer equipment, has been estimated at US\$420,000.
- b. **Strengthening FISE's headquarters and existing regional offices and training staff for the new regional offices**, especially for community-support operations. In addition, FISE headquarters needs to be strengthened in terms of its ability to program, monitor and evaluate the work of the regional offices. The cost of this subcomponent is estimated at US\$1,058,000.
- c. **Strengthening FISE's environmental-protection operations**, including its training modules, and hiring an environmental auditor to serve as a regular member of the professional staff of FISE, as a condition precedent to the first disbursement. The cost has been estimated at US\$180,000.

c. Community-management support

- 2.12 Roughly one third of Ecuador's 1,137 parishes – mainly those at the lowest-income levels – were not covered by the first stage of the program. This calls for a special effort to bring FISE into closer touch with the communities and for FISE support to improve community-management capabilities. Communities will be provided with assistance in diagnosing their own situation and prioritizing their needs, identifying solutions and in organizing themselves for playing an active part in managing the projects. This subcomponent envisages the participation of outside promoters and NGOs to provide training to communities. Special emphasis will be placed on promoting and supporting the participation of women from the community at each stage of the process and in decision making. (see Annex II-2). The cost of this subcomponent is US\$372,000.
- 2.13 The final designs, with detailed costs and timetables for both the FISE and the community-training subcomponents, are to be agreed upon with the Bank as a condition precedent to the first disbursement.

D. Scale of the operation

1. Effective demand and inventory of projects

- 2.14 During the first stage, each subcomponent of a project was considered as an individual project. For example, the infrastructure, equipment and teaching materials for a given school were treated for accounting purposes as three separate projects. For the second stage an integrated concept will be applied and, accordingly, cases such as the one just cited will be regarded as a single project.
- 2.15 Application of the integrated project concept, along with the narrowing of the array of eligible project sectors, results in an inventory of approximately 6,000 projects with an estimated cost of US\$170 million. Based on past experience 3,000 applications would be received per year and added to the existing inventory, so that the demand for project financing would not restrict the size of the program.

2. Criteria for determining the scale of the program

- 2.16 Three basic criteria were taken into account to determine the scale of the program: effective demand for projects, institutional capacity for implementing them, and ability of the country to commit counterpart funds. As indicated in the previous paragraph, no problems would arise with respect to demand. Neither would FISE's institutional capacity be a constraint, since the previous stage was implemented in less than two years. Given these circumstances, it was estimated that the country's counterpart capacity would be able to accommodate a three-year operation for a similar amount to that of the first stage, which was US\$100 million, of which US\$86.9 million would be allotted to project financing.
- 2.17 In order to determine the amount of funding needed for preinvestment, inspection and the institutional-strengthening component, an estimate was made of the number and amount of projects in each of the sectors that would be financed in the second stage. These figures are shown in table II-1.

Table II-1 ESTIMATE OF THE DISTRIBUTION OF PROJECTS BY SECTOR		
SECTOR	NUMBER OF PROJECTS	AMOUNT 1/ (US\$000)
Sanitation	806	32,484
Education	1,429	32,751
Health	141	4,690
Social welfare	187	6,294
Roads	163	9,062
Other projects	22	1,624
TOTAL	2,748	86,905
1/ The cost of the projects includes US\$7.9 million for community preparation, supervision and training to promote sustainable projects. This work will be done by outside professionals.		

2.18 In view of the fact that the demand is far in excess of financing capacity, a prioritization system will have to be used in considering the projects. The system envisaged is described in chapter III.

E. Cost and financing plan

1. Cost of the program

2.19 The total cost of the program, including the World Bank financing and the local counterpart, has been estimated at the equivalent of US\$100 million. The breakdown by investment category and source of financing is shown in table II-2.

2. Plan of financing for the program

a. IDB financing

2.20 The IDB financing, in the amount of US\$45 million, will be drawn on the ordinary capital resources under the Intermediate Financing Facility account (IFF). These funds will cover 45% of the total requirements for the program.

b. World Bank financing

2.21 As with the previous program, the World Bank will participate in the program with a loan equal in amount to that of the Bank, i. e. US\$45 million. The use of the funds from the two Banks is shown in the table of costs. The project amounts and categories, as well as the procedures to be applied in implementing the program, have been standardized. A high degree of operational coordination, including the organization of joint missions for both monitoring and evaluation, was developed in the course of implementing the previous program; this coordination is expected to continue.

c. Local contribution

- 2.22 The local counterpart has been estimated at the equivalent of US\$10 million, of which US\$6.6 million will be allocated to project financing, US\$3.1 million to FISE operating expenses, and the balance of US\$300,000 will be used to finance contingencies. The local contribution will be financed by the government via the national budget.

TABLE II-2 COST AND FINANCING OF THE PROGRAM (In US\$000s)					
INVESTMENT CATEGORY	TOTAL				% TOTAL
	IDB/IFF	IBRD	LOCAL	TOTAL	
1. PROJECT FINANCING	39,925	40,375	6,605	86,905	86.9
2. INST. STRENGTHENING	4,287	4,287	3,056	11,630	11.6
2.1 FISE operation	3,272	3,272	3,056	9,600	9.6
2.2 FISE strengthening	829	829	0	1,658	1.7
2.3 Community support	186	186	0	372	0.4
SUBTOTAL	44,212	44,662	9,661	98,535	98.5
3. UNALLOCATED	338	338	339	1,015	1.0
4. FINANCIAL COSTS	450	0	0	450	0.5
4.1 Inspection and supervision	450	0	0	450	0.5
GRAND TOTAL	45,000	45,000	10,000	100,000	100.0
% per source, per year	45	45	10	100	

3. Terms and conditions of the loan

- 2.23 The terms and conditions of the Bank's loan will be as follows:

Table II-3 TERMS AND CONDITIONS OF THE LOAN	
Source of funds:	Ordinary capital
Amount:	US\$45 millions
Terms: amortization initiation of works grace period for commitment of funds disbursement	 25 years 2.5 years 3.5 years 2.5 years 3 years
Interest rate:	Variable <u>1/</u>
Inspection and supervision:	1% of the loan amount
Credit fee:	0.75% per annum on undisbursed amounts
Currency	United States dollars from the Single-Currency Facility
<u>1/</u> The Intermediate Finance Facility (IFF) will be used.	

III. EXECUTION OF THE PROJECT

A. IDB and World Bank participation in the financing

- 3.1 The support of the Banks (IDB and World Bank) is for the financing of FISE as an institution and not for a FISE program. Accordingly, any change to be introduced that would alter the institutional structure of FISE or its objective, regulations and criteria or operating systems must be agreed upon in advance by the FISE and the Banks. Any additional financings, irrespective of their source, including amounts to be provided by the government, should be targeted toward increasing the agreed-upon activities rather than toward introducing new project lines or raising the maximum per-project amounts defined in the Operating Regulations and/or manuals.

B. The borrower and the executing unit

- 3.2 The proposed financing would be granted to the Republic of Ecuador. FISE would bear the responsibility for executing the program. The loan and counterpart funds would be transferred to FISE as the program is implemented. Management of the funds will be governed by the same procedures as were applicable to the FISE I loans.

C. Institutional framework and execution of the program

1. Organization of FISE

- 3.3 FISE was created by Supreme Decree 584 of March 19, 1993, as a temporary agency and was scheduled to be terminated in December 1997; however, given the persistence of poverty and the continued weakness in other public social-sector agencies, the present administration extended its life to the year 2001.
- 3.4 From the standpoint of corporate accountability, FISE will continue to be governed by a **Board of Directors** chaired by the President of the Republic or his delegate. Other board members are the Minister of Finance and Public Credit, the Minister of Social Welfare as leader of the Social Front, the Secretary General of CONADE or the individual he has designated to represent him, the National Director of FISE or the individual he has designated to represent him, two NGO representatives and a representative of the public at large, all appointed by the President of the Republic. The composition of the board is designed to promote transparency and ensures the consistency of FISE's rules and operations with the government's poverty-reduction policy.
- 3.5 The Board of Directors delegates the authority for approval of projects to the **Approvals Committee**, which meets every two weeks and is composed of all the members of the board except the

Ministers of Finance and Social Welfare. In order to strengthen the interagency coordination, a representative from each of the line ministries will be added to this committee for the duration of the proposed program and will be entitled to attend meetings at which projects in his or her respective area are to be taken up, without the right to vote .

- 3.6 In order to improve the efficiency of FISE as a vehicle for the management of a project cycle based on real community demand, and to facilitate active community participation, FISE has made some changes in its organizational structure and in the profile and professional composition of its staff. The principal organizational change is the decentralization of functions toward regional offices, the number of which has been raised from four to eight to provide full country-wide coverage. This decentralization was considered necessary for the performance of the fund's new functions, especially community-operations support, which requires close, direct and continuous contact with the communities.
- 3.7 Overall responsibility for FISE is vested in a **National Director**, assisted by a **Deputy National Director**. Both will be stationed in Quito, where a functionally simplified main office will operate. This office will have two **departments**: a **financial and administrative department** with basic support functions in those areas and an **operations department** with functions in the areas of programming, control and operational supervision. In addition, the main office will continue to be responsible for financial management and the project approvals.
- 3.8 The **regional offices** will have a basic scheme that will vary mostly in terms of the size of the staff assigned to each office on the basis of its projected workload. Each office will have a regional director and a technical team that will not be structured into divisions but whose members will exercise specific functions pertaining to the project cycle. Thus, each regional unit will have professionals in charge of project identification and promotion, preparation, evaluation and monitoring. It is important to emphasize that community participation is a highly essential feature of the proposed program and that accordingly all necessary support and supervision will be extended to the project-identification and project promotion stages. The structure and functions of these departments reflect the needs of the project cycle. The organizational structure of the main office and the regional offices is shown in Annex III-1.
- 3.9 The decentralization process will be carried out using the same staff as is currently working in FISE, but relocating and/or transferring such employees as necessary. New staff will be needed only to strengthen community participation at the regional and central level, for which purpose 10 new technical experts will be added to the permanent staff. Overall, FISE will have a staff of

approximately 197 regular employees, including 82 technical and 115 support personnel, for the proposed program. Seventy-seven of these employees will be working in the main office and 120 in the regional offices. This staff composition and size are regarded as adequate for implementing the proposed program.

2. Execution of the investment component

- 3.10 FISE's operating mechanisms, which have been updated to accommodate changes stemming from recommendations emanating from the evaluation of FISE I, will be utilized for implementing the investment component. The preliminary version of the updated Operating Regulations (see technical files) is presented in Annex III-2. The regulations and pertinent manuals agreed upon with the Bank will need to be approved as a condition precedent to the first disbursement.
- 3.11 The project cycle has been reviewed and adjusted with the following ends in view: (a) encourage and facilitate community participation under a gender-oriented approach; (b) improve interagency coordination; and (c) improve the project-processing efficiency of FISE. The principal features of FISE's project cycle are outlined below.

a. Focalization

- 3.12 In order to make certain that the program benefits the target population, FISE has adopted a focalization strategy based on: (a) the criteria that determine project eligibility (works and activities are financed that, in terms of their nature and magnitude, respond to the needs of the poor; (b) the selection of beneficiaries (priority groups such as women, children and informal-sector workers are identified for the program as a whole and for each type of project); and (c) the use of a poverty map to direct the programming toward priority geographic areas.
- 3.13 The *Geografia de la pobreza*, a document prepared by the Technical Secretariat of the Social Front (first edition, July 1996), will be used for this second stage. This document is a consolidated poverty map that classifies the country's 20 provinces, 200 municipalities and 1,137 parishes in terms of their respective levels of unmet basic needs and poverty percentages. The geographic allocation of funds will take these indicators (to be established in the Focalization Manual) into account in achieving an equitable distribution of resources.

b. Promotion and identification

- 3.14 FISE will start the proposed program with a substantial inventory of projects (approximately 6,000), 1,500 of which have been evaluated and are awaiting submission to the project approvals committee. The other 4,500 projects will be updated on the basis

of contacts with the applicants, and the intention is to subject them to the new focalization, prioritization and community-participation mechanisms.

- 3.15 FISE has also identified a number of target population groups (parishes) that to date have not benefited from the previous program. For groups such as those, FISE is developing a promotional plan under which visits will be made to the communities in question for the purpose of helping them diagnose needs of their own that can serve as a basis for projects eligible for financing with funds from the program. This participatory self-diagnosis will be the key that provides an opportunity for the beneficiary community, particularly its women, to: (a) express their requirements; (b) work together to construct the preliminary project profile; and (c) supply information on their socioeconomic status and local conditions to guide the best project design and increase the feeling among men and women of the community that the project is theirs. The self-diagnosis should also include an evaluation of the existing organizations, a description of problems that make it difficult for women to participate in the execution of the project, and information on the presence or absence of women in community structures. To provide a channel of communication and facilitate relations with the beneficiary communities, FISE, through its regional units, will designate a professional as "project officer" to provide formal linkages between the community and FISE.
- 3.16 Despite the fact that the projects for the proposed program will be subject to a stricter focalization process, it is expected that the number of projects will far exceed the reach of available funds. To address this problem, FISE will prioritize the projects by applying a point system in which different values and relative weights are assigned to the three basic aspects of focalization. The system, to be included in the Focalization Manual, will assign points for each of the various criteria utilized: (a) the poverty quintiles; (b) the level of priority accorded the project type; and (c) the level of attention the community has received from FISE; the system will be computerized, and the findings will be entered into the project-control system. An updated listing of projects for which the point scores have been determined will be produced periodically in each regional office, and those with the highest scores will be selected and moved forward to the next stage of the cycle (preparation). The number of projects selected will be consistent with FISE's processing capacity at the time in question.
- 3.17 All financing requests will be entered into the project control system. This will make it possible to monitor each project in detail, not only by phase of the cycle but also by activity within the cycle. It will also make it possible to assign and monitor specific responsibilities at each phase of the cycle.

c. Preparation

- 3.18 As part of the process of bringing the community into the processing of projects, FISE's regional offices will put forth efforts in priority areas to promote the interest and determine the capacity of local organizations to formulate and present projects, and funds will be made available for hiring consultants to help the applicant communities prepare their projects. Preinvestment expenses will be recognized in one of two ways: on an ex ante basis for communities whose condition is more precarious and which have been accorded priority and on an ex post basis for all other projects declared eligible. Such funding will be counted as part of the cost of the projects. FISE will participate in this phase of the cycle only as project-preparation facilitator.

d. Evaluation

- 3.19 FISE has established evaluation methodologies for the various types of projects, basing them on the eligibility criteria and on provision of the operating manuals. With a view to ensuring cost-effective, efficient, appropriately focused and sustainable projects, the technical and cost parameters have been updated and revised in the light of present economic conditions and first-stage experience (see Annex III-3 in the technical files).
- 3.20 The **evaluation** consists of a technical, economic, financial, social, institutional and environmental analysis. It is a two-step process: (a) the first step is the **field visit**, which verifies data submitted by the applicant, checks for the availability of sufficient funds for operation and maintenance of the project and gathers data for the socioeconomic evaluation of the project; and (b) the **technical, institutional, financial, economic, social and environmental evaluation**, which is based on the data collected during the field visit and on criteria to be described further on. The social and institutional evaluation is the principal tool for: (a) verifying the degree of consistency between the self-diagnosis and the project proposed; (b) identifying special training needs; (c) assessing the potential of the community committee; and (d) collecting information on the benefits to, and levels of participation by, women and youth and the status of each of these groups. To calculate the cost of a project, the evaluator quantifies each of the items that make up the project and computes their total cost by applying the unit prices listed in FISE's cost database, which is updated periodically.
- 3.21 The methodology for the economic evaluation of the projects employed the following indicators, which have been revised and refined for use in phase two:
- a. **Indicators of efficacy.** These indicators are determined by the sector agencies which establish for each sector the minimum

requirements that must be satisfied for each project (m²/student, students/classroom, beneficiaries/m of collector, etc.).

b. **Indicators of efficiency.** Maximum unit costs by project type were established for each sector on the basis of three factors: geographic region (coast, sierra, or oriente), location (rural or urban), and technology used (concrete, metallic structures, wood, etc.).

c. **Indicators of effectiveness.** Maximum investment costs were established by beneficiary, geographic region, and location (rural or urban).

e. Approval

3.22 Applying the current procedures, lists of projects to be submitted to FISE's Approvals Committee are drawn up from time to time on the basis of the evaluation results. Once a project has been approved by that committee, it is forwarded to the Bank for approval if its cost exceeds US\$100,000. In the case of projects costing less than US\$100,000, FISE notifies the Bank of their approval. The commitment of funds will be recorded upon receipt of proper notification by the Bank and signature of the financing contract and/or agreement for the project.

3.23 With a view to securing closer interagency coordination, representatives of the line ministries will be added to the Approvals Committee and will participate in meetings thereof at which projects pertaining to their respective organizations are to be taken up.

f. Contracting

3.24 The contracting procedures used for FISE I will continue to be used in FISE II. They are similar to those established by national law which specifies that contracts for projects valued at US\$25,000 or less may be awarded directly; contracts for projects valued at between US\$25,000 and US\$100,000 must be awarded by a competition in which at least three bidders take part; and contracts for projects costing more than US\$100,000 must be awarded through public bidding. In the latter event, the ad hoc procedure agreed upon with the Bank will be followed. Given that the maximum amount of an eligible project is US\$250,000, no contract will be awarded for an amount exceeding that figure.

3.25 The direct contract-award procedure is justified by the fact that the projects may be situated in small localities where there are few contractors. Furthermore, the projects to be financed are small and numerous and involve simple technology and labor-intensive procedures, in addition to which the vast majority of the

projects involve the rehabilitation of existing infrastructure. Moreover, FISE's system of unit costs, adjusted for regional differences and updated semiannually, provides a guide for the estimation of costs under direct contracting. FISE maintains in its information systems a database that can provide the number, amount and geographic location of projects listed by contractor or executing agency. It is worth noting that direct contracting has been used for smaller projects in several social-investment-fund programs financed with Bank resources. However, in order to achieve greater competitiveness and make certain that this exceptional procedure is followed only when conditions do not allow an alternative, its application will be limited in accordance with two criteria: (a) contracts may be awarded directly only for a total amount of program funds not to exceed US\$20 million; and (b) not more than three contracts may be awarded directly to any single person or construction firm without prior consultation with the Bank. Given the large number of contracts to be awarded and the small amounts involved, the Bank will perform an ex post review of the construction and consulting contract awards. In any event, the database for each project should contain information on the award contracts system.

- 3.26 The first-stage evaluation indicated that the system of local competition for projects between US\$25,000 and US\$100,000 did not function properly because communities were using contractors as project preparers, which was taken to represent an implied commitment to award the construction contract. Two steps have been taken to avoid this situation: (a) resources of the program will be used to finance the preparation of projects by independent professionals, who will not be allowed to participate in the construction phase, thereby avoiding any commitment to contractors; and (b) a system of competition will be used under which the responsibility for issuing direct formal invitations to submit price bids to at least three contractors registered with FISE will devolve on the community itself.
- 3.27 Once a contractor has been selected, FISE prepares a financing agreement in which FISE appears as contracting and supervising entity, the contractor as works-executing entity, and the community as beneficiary. FISE may provide an advance of funds for as much as 40% of the total amount of the contract provided that collateral guarantees adequate to cover the amount of the advance are tendered.

g. Supervision of execution

- 3.28 The project **supervision system** includes three types of activities: (a) FISE contracts for **outside technical supervision** services, to be financed with a percentage of the total cost of the project, the precise percentage depending on the type of project involved; (b) regional office personnel makes **periodic visits to the works**,

checking the reports of the supervisor on a selective basis; and (c) FISE hires consultants periodically to assess the impact of projects and to monitor and supervise projects under way or completed. An additional level of supervision is provided by the applicant community, which has a direct interest in seeing to it that the work is completed properly and on schedule. Before the final payment is made to the contractor, confirmation must be obtained from the community that the project has been properly constructed.

h. Project-eligibility criteria

- 3.29 The principal general eligibility criteria for projects to be financed with funds of the program are as follows: (a) the maximum cost per project should not exceed US\$250,000; (b) the direct beneficiaries must belong to low-income groups and their incomes must not be above the poverty line agreed upon by the Bank and Ecuador; and (c) (i) the projects must be supported by evidence of legal possession of the easements and other rights to the land and water on which the works are to be built, or of other pertinent permits; (ii) all the components (financial and institutional) needed to ensure normal operation and, if applicable, maintenance of the works must be available; (iii) the projects must include the requisite measures and safeguards to protect the environment; (iv) it must be verified in the field that the project was indeed prioritized by the community; (v) the projects must contain all the elements required for their operation; and (vi) they must fall within the action areas of the program.
- 3.30 In addition to the general eligibility criteria, specific criteria have been established for each type of project to be eligible for financing under the program. These criteria are listed in Annex III-4 (see technical files).

(i) Sustainability and institutional coordination

- 3.31 A demonstration of the existence of means of ensuring the sustainability of a project is a requirement laid down in the Project Preparation Guide. Community training in operation and maintenance will be provided for in the project and included in its cost as a means of meeting this requirement. However, the recovery of costs is compulsory in certain types of projects, and FISE is therefore working with the beneficiaries to identify appropriate ways in which they can assume greater responsibility for the operation and maintenance of the projects.
- 3.32 The arrangements for coordination with the line ministries are being reviewed with a view to the ministries' assuming additional responsibility in the processing of projects, including the identification of operating and maintenance costs, participation in project monitoring, projected date of completion, and timely calculation of the budget for staff and/or equipment and materials,

as applicable in each case, to minimize the delay in getting the project under way. The interagency coordination agreements will include requirements to this effect, and their entry into effect will be a condition precedent to the first disbursement.

3. Execution of the institutional strengthening component

a. Operation of FISE

- 3.33 The execution of this subcomponent will require an indication by the Bank of its nonobjection to the proposed recruitments of executive and technical counterpart staff. To this end, FISE and the Bank will reach agreement on the pertinent terms of reference and FISE will provide the Bank with resumes of at least three candidates for each position prior to such recruitment.

b. Institutional strengthening of FISE

- 3.34 Institutional-strengthening activities need to be implemented in both the main and regional offices of FISE for the purpose of facilitating stronger community participation with a gender-oriented approach at each stage of the project cycle. These activities will include:

- a. **the addition of 10 professionals who are specialists in community participation**, the terms of reference for whom, as well as the selection procedures, will require a statement by the Bank of its nonobjection thereto;
- b. **internal training**, particularly in the new regional offices, on the administration of the project cycle as expanded to include the addition of community-participation and environmental-protection criteria; and
- c. **strengthening of the management-information area** with the integration of the accounting and project-monitoring systems and regional-offices-support requirements.

c. Community training

- 3.35 Training will be an essential component of FISE II projects as a means of enabling the community to participate more actively in the preparation and management of projects and assume greater responsibility for the proper use and maintenance of facilities. The types of training will be twofold: (a) training to strengthen community committees, social leadership, and the participation of women; and (b) project-related training, including training on the operation, maintenance and proper use of facilities and such other related topics as hygiene and sanitary education. Equal access by men and women is an essential means of making projects more sustainable. In view of this, support will be provided to the

active participation of women and, at the same time, the concept of equally-shared responsibility of men and women of the communities at every stage of the project will be promoted.

D. Financial considerations

1. Financial implementation of FISE

- 3.36 During the past four years, FISE has been implementing a program totaling approximately US\$115 million from a number of sources, the principal ones being the IDB, the World Bank and the Andean Development Corporation (CAF), each of which provided US\$30 million, for a total of US\$90 million. The other US\$25 million were supplied by the government and other domestic sources such as Care-USAID, KfW and the Spanish Agency for International Cooperation. As of September 16, 1996, FISE had committed a total of US\$126 million. The surplus of commitments over program funds, i. e. approximately US\$10 million, has been sought from the CAF and is expected to become available in December 1996. As of September 16, 1996, FISE had disbursed US\$102.7 million and, according to its schedule for completing the FISE I program, it will disburse the remaining US\$22.3 million during the first half of 1997.

2. Execution timetable

- 3.37 The resources of the proposed program will be committed over a period estimated at 2½ years beginning on the date of signature of the loan contract, and it is estimated that they would be disbursed over a period of not more than three years from the same date. The commitment of funds for a given project is defined as the approval of that project by FISE's Approvals Committee. The lag between the periods of commitment and disbursement of funds would be sufficient to allow contracted projects to be completed six months before the termination date of the program.
- 3.38 The timetable for implementing the program has been projected on the basis of the inventory of existing projects, the execution capability of FISE, and the availability of counterpart funds. It is anticipated that the funds will be disbursed in accordance with the following schedule:

Table III-1 ESTIMATED SCHEDULE OF DISBURSEMENTS			
	Year 1	Year 2	Year 3
% annual	24%	38%	38%
% cumulative	24%	62%	100%

3. Recognition of past expenditures; advances of funds

- 3.39 In view of the financing to be received by FISE from CAF to continue its operations until June 1997, no recognition of prior expenditure is anticipated. Given the rapid pace of disbursements foreseen for this stage, and taking into account the need for FISE advances to contractors, FISE would itself require an advance of funds to ensure that its operations go forward smoothly and on schedule. It is therefore recommended that an advance of funds equal to 10% of the loan (US\$4.5 million) be made available from the time the loan is declared eligible.

E. Monitoring, evaluation and control of the program

- 3.40 The monitoring and evaluation of the program will serve as a basis for identifying problems and/or changes needed in the course of implementation, either in the implementation strategy or in the monitoring milestones. Supervision of the program will be carried out under the responsibility of the Country Office in Ecuador with the support of the project team.

1. Progress reports and annual reviews

- 3.41 Throughout the execution of the program, FISE will submit semiannual progress reports to the Bank including summary information on the works financed, the beneficiaries served, the applicants involved, and the procedures followed in the use of funds from the financing. Such reports will include, *inter alia*: (a) figures on the execution of the program during the semiannual period, including commitments and disbursements; (b) data on performance indicators agreed upon with the Bank; (c) a participatory beneficiary assessment; (d) a review of the effectiveness of the project cycle and of the operating regulations and manuals; and (e) information and/or studies agreed upon with the Bank and the World Bank. These reports will serve as basic documents for meetings to be held each year to monitor the program and to develop the programming for the following year. Special importance will be given at these meeting to an evaluation of community participation in and ownership of the projects. The annual meetings will be held, if possible, in June of each year of the program.

2. Mid-term evaluation

- 3.42 A mid-term evaluation of the program will be carried out by an independent firm, satisfactory to the Bank, to be hired with funds from the financing. The findings and recommendations of the evaluation should become available before FISE has committed 50% of the funds earmarked for projects. FISE should therefore take the necessary action to hire the firm sufficiently in advance. In the event that 18 months elapse without that level of commitments'

having been reached, the evaluation should be performed at the end of that period of time. Project approvals by FISE's Approvals Committee will be taken to mean commitments of funds for these purposes.

- 3.43 This evaluation will be supplemented using the methodology for the previous stage, with a view to: (a) verifying that the projects are sustainable on the basis of a representative sample of projects carried out in phase one, with a review of the contribution by the line ministries and/or agencies, and the community; (b) verifying the extent to which the focalization targets have been met using indicators of per capita investment by poverty quintile; (c) verifying with the help of specialized personnel the quality of the works; (d) incorporating an evaluation of the new components; (e) evaluating the institutional reforms and changes to the project cycle; and (f) gauging progress made in implementing the Social Agenda. The monitoring indicators agreed upon by the Banks and the country with respect to development of the Social Agenda will be used for the latter purpose. Commitments of funds may not exceed the limit indicated above until the findings of the evaluation and the information on progress of the Social Agenda are made available to the satisfaction of the Banks (special contractual condition).

3. Ex post evaluation

- 3.44 While there is no requirement for an ex post evaluation of the program, FISE has agreed, as part of its monitoring obligation, to collect whatever detailed information may be needed to make it possible to perform such an evaluation in the event of a future decision to perform one.

4. External audit

- 3.45 The financial statements of the program and those of FISE will be audited by a firm of independent auditors acceptable to the Bank. They should be submitted within a period of 120 days following the close of the government's fiscal year throughout the life of the program and within a period of 180 days after completion of the program.

5. Inspection and supervision

- 3.46 The Bank will establish such inspection procedures as it deems necessary to ensure satisfactory implementation of the program. FISE will extend all cooperation required for the best accomplishment of this purpose. A sum of US\$450,000 will be set aside from the amount of the program and credited to the accounts of the Bank to cover inspection and supervision costs.

6. Internal controls

- 3.47 The operations of FISE are subject to systematic control systems. An internal audit unit performs periodic budget audits for the purpose of checking compliance with the rules and procedures established for FISE.
- 3.48 FISE has a computerized information system which has served adequately for project-control purposes but requires adjustments to enable the fund to extend this type of control to the financial area. Changes designed to incorporate the necessary comprehensive controls into the program will be instituted during the first months of the proposed program. The expanded system will facilitate management monitoring and control and support the allocation of responsibilities (accountability) for all operating aspects of program implementation.

IV. LESSONS LEARNED, FEASIBILITY, BENEFITS, AND RISKS

A. Lessons learned and feasibility of the program

- 4.1 The purpose of the present program is to help improve the living conditions of the poorest and most vulnerable social groups through the implementation of small social infrastructure projects accorded priority by the communities themselves. The success of FISE's efforts during the first stage of the program was reflected in the financing of nearly 5,000 infrastructure and equipment projects that were responsive to the most-pressing needs of Ecuador's poor and isolated communities.
- 4.2 The various external evaluations conducted during the first stage, the major findings of which were outlined in chapter I, as well as the IDB and World Bank supervision missions, which included visits to the sites of several FISE-financed projects, provided an opportunity to identify strengths and weaknesses of the program as a basis for designing this second stage.
- 4.3 The success of the projects financed by FISE is ascribable largely to the inclusion in their design of features such as: (a) geographic focalization at the level of the country's smallest administrative units (municipalities and parishes); (b) regular outside supervision of construction by professionals hired expressly for the purpose; (c) clear and standardized cost-effective criteria for each type of project; (d) optimization of existing infrastructure by means of rehabilitation; (e) development of standard designs in agreement with the ministries responsible for the area in question for use in repetitive works; and (f) institution of smoothly operating project-execution procedures.
- 4.4 Project programming and monitoring were facilitated by the fact that FISE has a computerized database which, according to the plan for decentralizing and outfitting the regional offices, will be connection up to the main office in Quito and the eight regional offices. This database includes a costing system that will quickly compute the reference costs for the various types of projects to be financed in each region of the country. Developed during the first stage, its systems are being modernized for this new stage with the support of the Banks.
- 4.5 Interagency coordination is crucial to avoid overlapping activities and ensuring the sustainability of projects. In the first stage, there were agreements with the ministries and institutions responsible for each area, but it was difficult to apply them in the search for a common objective. The coordinational arrangements are accordingly being adjusted for this second stage, and the revised and easier-to-apply provisions will be reflected in the new

agreements. These agreements will be consonant with the social strategy being developed by the government.

- 4.6 In addition, FISE has been optimizing the design for each type of project, taking into account the need to maximize the probabilities of the investments' remaining sustainable over the long haul. As a condition precedent to the first disbursement, all infrastructure works require a commitment by the community, ministry, municipality and/or company concerned to operate and maintain such works in a satisfactory way. In order to ensure compliance with community obligations, prior to the community priority-setting exercise FISE will provide communities with adequate information on the contributions and/or operation and maintenance charges involved in the various types of projects. In order to strengthen community operation and maintenance efforts, FISE will finance community-training activities in these areas as part of the project.
- 4.7 Community participation is a fundamental feature of a program of this type. Accordingly, in keeping with the findings of the first-stage evaluation, action has been taken to strengthen this local involvement by instituting a gender-oriented approach and providing for community participation in every phase of the project. All of these measures have been incorporated into the institutional-strengthening component as a means of providing community-management support.

B. Impact on the low-income sectors

- 4.8 The program is consistent with the social-reform and poverty-reduction goals laid down in the Eighth General Increase in the Resources of the Bank, inasmuch as its investments will be geographically focused on rural communities in the poorest areas of the country and a significant majority of its direct beneficiaries (more than 70%) are low-income people.

C. Participation of women

- 4.9 The second stage of the program will include a strategic vision and an operational methodology for extending the level of community participation with a gender-oriented approach to the entire project cycle. To implement this approach, the program calls for:
- a. **institutional strengthening of FISE**, including: (i) internal training to improve the agency's capabilities in social-, community- and gender-related areas; and (ii) organizational and functional improvements to further the institutionalization of the community-participation and gender-oriented approach; and
 - b. **methodological adjustments to the project cycle** to encourage and support active participation by women in: (i) the

participatory self-diagnosis to identify needs and formulate projects; (ii) community committees; (iii) community training in project management, use and maintenance; and (iv) temporary employment opportunities. In addition, indicators will be included for measuring the benefits and the levels of participation by gender.

D. Participation of indigenous communities

- 4.10 In the first stage, projects were implemented in geographic areas with a largely native population. In the second stage, FISE will establish the new regional offices in localities with the highest concentrations of impoverished indigenous groups so as to draw closer to them and learn their needs. However, the diversity and number of Indian communities create a series of problems lying beyond the reach of FISE. The Bank and the government are therefore proposing an investment program for indigenous communities consisting basically in the establishment of a foundation representing Ecuadoran native peoples, that would be a major player in raising and channeling resources for their communities.

E. Environmental considerations

- 4.11 The program was classified as a category III operation by the Environment Committee (CMA) on August 13, 1996, and an Environmental Summary was therefore drawn up. The summary was approved by the CMA on October 22, 1996. It included a design for an environmental management system and criteria for the environmental assessment of projects to be financed by FISE, in view of the weak performance of this area during the execution of the first stage.
- 4.12 As a result of the CMA review, the following recommendations were put forth:
1. At the operational level
- 4.13 The Project Environmental Report designed should be applied to all the FISE projects, and training in the principles of environmental management and public health should be offered to FISE staff.
2. For inclusion in the operating regulations and/or manuals
- 4.14 It is recommended that: (a) environmental eligibility criteria be inserted in the project evaluation manuals of FISE; (b) an environmental quality control system be instituted, including, as control instruments, the project environmental report, the environmental questionnaire and, where applicable, specific terms of reference; (c) environmental-quality control powers and responsibilities be assigned to the various organizational units of

FISE; and (d) the measures to mitigate the environmental impacts of projects be spelled out in the contracts.

3. For inclusion in the loan contract

- 4.15 An environmental auditor should be hired in accordance with the terms of reference and professional profile agreed upon with the Bank and as a condition precedent to the first disbursement.

F. Benefits and risks

1. Benefits

- 4.16 One of the principal benefits of the program will lie in the improvement of living conditions among the poorest social groups through the implementation of some 2,750 small basic-social-infrastructure projects, which are of high priority for the communities concerned since they will provide them with access to basic social services.
- 4.17 Another major benefit of the program pertains to an increase in the ability of communities, and particularly of women, to participate in their own development and to improve their role in society.
- 4.18 The program, by directing its investments through an effective focalization system, will contribute to improved efficiency and equity in the use of public funding targeted to the social area.
- 4.19 Decentralizing the operations of FISE by channeling them through its eight regional offices will help generate capabilities at the regional and local levels to work closely with the country's poorest communities in identifying, formulating, executing, supervising and maintaining the projects. Moreover, this relationship should stimulate local private participation at each stage of the project cycle. In addition, the presence of regional offices should lead to better coordination at the local level and will provide experience that may be useful as a contribution to the country's overall decentralization process.

2. Risks

- 4.20 Four risks have been identified that could affect the program's implementation, as well as its results: (a) the risk of not attaining a satisfactory degree of sustainability in the projects; (b) the risk of faulty coordination of FISE with other institutions in the social area, with a consequent duplication or overlapping of activities; (c) a failure to implement measures to mitigate environmental impacts identified during the evaluation of projects; (d) the risk of the institution's becoming politicized and thereby losing sight of its goal of keeping its action focused and its procedures transparent.

- 4.21 With respect to the first risk, the first-stage evaluation provided evidence of a close correlation between a community's participation in the project cycle and its willingness to support the project's sustainability. The program therefore contains provisions for supporting community management efforts through training to help the communities organize and by promoting their participation at all stages, from the initial meetings on prioritization and on through the various phases of project implementation. This will encourage them to support the sustainability of the projects they have chosen themselves.
- 4.22 To minimize the risk of an overlapping of FISE activities with those of other social-area agencies, the interagency coordination agreements have been reviewed and are being adjusted taking into consideration the experience learned in phase one. Additionally, provision has been made for a representative of the competent ministry to sit on FISE's Approvals Committee when projects in his/her area of competence are taken up for approval, as a means of facilitating coordination between the institution concerned and FISE.
- 4.23 To avert or minimize the risk of a failure to properly implement the measures for mitigating environmental impacts, a special contractual clause pertaining to disbursements by FISE to contractors has been included in the Contracting Manual; this clause makes the prior implementation of such mitigation measures compulsory. The procedure for verifying such implementation is set forth in the Monitoring Manual.
- 4.24 Finally, with respect to the risk of politicization, a provision will be included in the Focalization Manual to the effect that the regional allocation of resources for projects must be consistent with the regional parameters laid down in the "*Geografía de la Pobreza*" [Geography of Poverty]. In addition, criteria for evaluating the selection of projects have been established with a view to assuring the quality of the projects and the transparency of their choice. Furthermore, a provision has been included that requires the Bank's nonobjection to the appointment of executive and technical staff members, who will be required to have professional experience and training consistent with the terms of reference of the posts they are to occupy.

DETAILS OF FISE-FINANCED PROJECTS, BY PROJECT TYPE
MARCH 1993-AUGUST 1996
(US\$)

TYPE OF PROJECT	PROJECTS FINANCED IN STAGE I				
	No.	%	COST	%	Average
I. SOCIAL INFRASTRUCTURE					
1.1 Schools	1,455	29.6	31,967,912	29.6	21,971
1.2 School equipment	1,259	25.6	6,946,657	6.4	5,518
1.3 Training centers	60	1.2	1,623,965	1.5	27,066
1.4 Training center equipment	30	0.6	253,235	0.2	8,441
1.5 Special education schools & schools for persons with disabilities	1	—	33,251	—	33,251
1.6 Equipment for special education schools & schools for persons with disabilities	5	—	64,298	—	12,860
1.7 Medical dispensaries	59	1.2	1,510,917	1.4	25,609
1.8 Medical dispensaries equipment	20	0.4	204,381	0.2	10,219
1.9 Health centers	100	2.0	2,905,653	2.7	29,057
1.10 Health center equipment	53	1.1	954,045	0.9	18,001
1.11 Day-care centers	177	3.6	4,660,023	4.3	26,328
1.12 Day-care center equipment	70	1.4	263,031	0.2	3,758
1.13 Homes and shelters	33	0.7	1,635,867	1.5	49,572
1.14 Equipment for homes and shelters	27	0.5	428,097	0.4	15,855
1.15 Pedestrian facilities access	26	0.5	458,520	0.4	17,635
1.16 Latrines	568	11.5	16,561,613	15.3	29,158
1.17 Sanitary facilities	82	1.7	897,354	0.8	10,943
1.18 Public wash houses	2	0.0	17,891	0.0	8,946
1.19 Curbs & ditches	9	0.2	313,059	0.3	34,784
II. ECONOMIC INFRASTRUCTURE					
2.1 Water supply	235	4.8	13,462,447	12.4	57,287
2.2 Sewerage	148	3.0	8,141,108	7.5	55,007
2.3 Roads and bridges	54	1.1	2,294,972	2.1	42,499
2.4 Microirrigation	15	0.3	1,165,878	1.1	77,725
2.5 Production Infrastructure	10	0.2	579,022	0.5	57,902
2.6 Paving blocks and cobblestone	118	2.4	7,510,208	6.9	63,646

TYPE OF PROJECT	PROJECTS FINANCED IN STAGE I				
	No.	%	COST	%	Average
2.7 Walls	13	0.3	730,869	0.7	56,221
2.8 Soil conservation and erosion protection	5	0.1	317,519	0.3	63,504
III. SOCIAL SERVICES					
3.1 Immunization	1	0.0	16,440	0.0	16,440
3.2 Discount pharmacies	10	0.2	107,082	0.1	10,708
3.3 Community training: health, nutrition, hygiene	11	0.2	136,448	0.1	12,404
3.4 Training: health promoters	—	—	—	—	—
3.5 Training: production sectors	2	0.0	11,257	0.0	5,629
3.6 Training materials	234	4.8	276,874	0.3	1,183
IV. PRODUCTION PROJECTS					
4.1 Farming and livestock production: spraying	14	0.3	887,306	0.8	63,379
4.2 Small-scale fishing and aquaculture	1	0.0	133,538	0.1	133,538
4.3 Crafts	5	0.1	198,496	0.2	39,699
4.4 Agribusiness	8	0.2	473,295	0.4	59,162
TOTAL	4,920	100.0	108,142,528	99.9	21,980

I.	SOCIAL INFRASTRUCTURE	4,036	81.9	71,699,769	66.2	17,765
II.	ECONOMIC INFRASTRUCTURE	598	12.2	34,202,023	31.6	57,194
III.	SOCIAL SERVICES	258	5.3	548,101	0.5	2,124
IV.	PRODUCTION PROJECTS	28	0.6	1,692,635	1.6	60,451

RESULTS OF THE IMPACT EVALUATION

In December 1995 the FISE contracted a local consulting firm, Desarrollo y Autogestión (DYA), to conduct a broad evaluation of the FISE. That part of the evaluation measuring the impact of FISE projects on beneficiaries as based on a sample of 146 projects. Each of these projects was visited by the evaluator and interviews were conducted with a sample of project beneficiaries as well as local government and FISE officials. This annex is a summary of the findings of that evaluation.

The responses to a number of questions are displayed by region, type of project, degree of poverty and gender in tables A-1 through A-4. In general the responses are highly positive. Eighty-eight percent of the beneficiaries thought that the FISE projects in their communities were the "*más necesario*" ["most necessary"]. Eighty percent thought projects were either useful or very useful, and 85% were either satisfied, or very satisfied with the projects in their communities. Beneficiaries were somewhat less satisfied with the quality of construction in FISE projects, with 18% saying that projects were poorly constructed. There are significant differences in the degree of success and satisfaction across projects as one can see from the tables. Education, health, sewers, roads get high marks, while productive projects and water do badly. Fully one fourth of respondents were dissatisfied with the results of water projects even though they also ranked them as high priority needs. That was either because the projects were poorly designed or poorly built, or the project did not contain money to hook up individual houses to the system.

For the purposes of this summary, a selection has been made of tabulated beneficiary responses which we have grouped under (a) project priority and legitimacy, (b) project execution, (c) operation and sustainability of projects, and (d) project impact.

- a. Project priority and legitimacy: Clearly FISE projects have a high degree of acceptance and legitimacy. The choice of projects was made by the majority of community inhabitants in 85% of the cases, and 88% of beneficiaries called the project the most necessary in their community. There was little variation across either project type, poverty level, or gender.
- b. Project execution: Again it seems clear from the responses to the questionnaires that community inhabitants think that, with several exceptions, projects are being efficiently planned and built. Eighty-four percent thought that the projects were either very well or well located. The substitution of substandard construction material apparently is not a major problem since about 90% of those responding thought the quality of material used was either good or very good. There were more problems with the quality of construction, with over 20% of those responding calling it bad or very bad.

This problem is particularly bad in road, water, and sewer projects compared to schools and health posts. That is probably a result of the more complex technical requirements in this type of project compared with the standardized plans that typically are available for small buildings such as rural schools and health posts. As to the management of project funds, there were relatively few complaints among beneficiaries. No more than 3.7% complained about diversions of funds, and 78.5% of those who responded said that they not heard of any complaints on this subject.

- c. Project operation and sustainability: Project sustainability is an issue in all the funds since the projects do not contain any money to cover operating costs. That means that projects must either obtain a guarantee from the relevant government ministry to provide the necessary personnel and complementary inputs (for education and health), or they must arrange for local communities to shoulder this burden and that is especially important for water and sewerage systems and for roads. There is little evidence that schools are standing empty because no one has supplied teachers. This was confirmed directly by the head of the DYA evaluation team, and it is confirmed by the favorable response on the usefulness of education projects. The picture is a good deal less optimistic for health posts, water projects, and roads. For example, 22% said that health posts were either of little or no use and 27% made the same response for water projects. In the typical project there has been little provision for payments or of training for maintaining projects. Only one third of the beneficiaries indicated that they had made any sort of maintenance payment, and only 15% had received any sort of maintenance training. This is a problem that needs to be addressed particularly in projects like water, sewers, and local roads where the community has to assume the responsibility for maintenance and technical supervision.
- d. Project impact: In general beneficiaries seem to be happy with their FISE projects. Eighty percent said that the projects were wither useful or very useful, 85% were either satisfied or very satisfied, and 83% said that the project had either completely or partially satisfied the problem. Those are high ratings and compare quite favorably with those for the Funds in other countries. Once again, there are significant differences across subsectors. Education, health, sewers, and roads get relatively high marks while productive projects and water do badly. The high level of dissatisfaction with water projects was either because the projects were poorly designed or badly built, or because the project did not contain sufficient money to hook up individual houses to the system. Productive projects were apparently poorly planned and paid insufficient attention to technical requirements and markets. The FISE plans to discontinue or give a very low priority for this type of project in the second stage.

TABLE 1
IMPACT ASSESSMENT: BENEFICIARIES' RESPONSES(%)

[illegible]

TABLE II
IMPACT ASSESSMENT: BENEFICIARIES' REPLIES (%)

	AREA		REGION			TYPE								QUINTILE				SEX	
	URB.	RURAL	COAST	SIERRA	ORIENTE	EDUC.	HEALTH	DAY NURS.	STREETS	SANIT.	WATER	SEWERS	PROD.	1	2	3	4	M	F
FOR MANAGEMENT OF MONEY																			
	10.3	8.9	9.3	9.2	11.2	10.9	5.6	9.0	14.9	7.4	8.0	13.6	7.9	10.8	8.2	10.9	7.7	7.8	7.9
	18.7	19.8	18.8	19.1	20.3	15.4	21.5	10.6	14.4	19.1	24.0	17.4	38.4	19.5	14.9	18.8	21.3	19.8	20.9
	70.9	71.3	71.9	71.7	68.5	73.7	72.9	80.3	70.7	73.5	68.0	69.0	53.7	69.7	76.9	70.3	70.9	72.4	73.5
WITH THE WORK																			
	2.8	2.6	2.9	2.6	2.4	1.9	0.3	8.4	2.0	2.1	1.5	2.3	5.2	3.0	3.9	2.6	2.1	2.9	3.0
	19.5	31.1	21.3	30.8	20.3	25.8	14.7	18.3	32.6	27.3	23.3	32.3	28.9	34.5	25.3	18.7	25.3	25.1	26.2
	63.0	55.4	64.5	53.7	62.4	60.9	78.2	62.1	57.0	63.0	47.6	54.4	42.3	52.3	55.8	65.5	59.2	59.7	60.8
	12.7	9.4	9.9	10.7	13.6	10.2	5.9	9.5	6.1	7.2	23.4	9.4	19.7	8.5	11.7	12.3	11.6	10.1	11.2
	2.0	1.4	1.4	2.2	1.2	1.2	0.9	1.7	1.2	0.4	4.2	1.5	3.9	1.8	3.4	0.9	1.9	2.2	2.3
THE WORK?																			
	39.0	32.7	38.2	37.2	28.7	32.7	23.8	38.3	42.3	40.9	42.0	34.6	30.6	34.0	36.1	40.4	31.9	32.6	33.7
	19.0	16.2	24.8	12.7	16.3	19.8	23.5	15.8	16.8	16.7	14.0	22.3	8.0	12.3	16.1	21.0	18.7	18.6	19.7
	1.3	2.5	2.0	1.7	2.3	1.5	2.4	1.7	1.8	1.8	2.1	2.2	2.6	1.9	0.3	1.7	2.8	2.1	2.2
	2.3	4.5	2.0	4.4	3.8	5.4	3.5	1.5	4.0	1.6	1.7	9.0	—	4.7	3.9	3.2	2.4	2.6	2.7
	33.2	37.6	25.5	39.0	44.0	32.3	38.5	36.5	32.8	36.7	32.1	29.2	51.0	41.1	41.2	25.4	39.8	38.0	39.1
	2.4	3.8	4.2	2.3	3.3	5.0	4.4	0.9	1.1	1.4	5.5	2.0	3.3	3.0	1.5	4.9	1.9	2.8	2.9
	0.7	0.8	0.8	1.0	—	1.6	0.9	2.5	—	0.2	—	—	—	1.4	—	0.8	0.4	0.8	0.9
	2.1	1.9	2.5	1.8	1.6	1.7	2.9	2.7	1.2	0.8	2.5	0.8	4.4	1.6	0.8	2.6	2.1	2.5	2.6
THE MONEY?																			
	37.2	28.8	37.8	32.5	25.8	30.2	21.8	35.2	36.7	40.1	38.3	35.6	22.7	28.6	33.6	37.0	31.7	30.2	31.3
	10.4	9.4	13.7	6.9	10.5	12.7	17.4	7.0	6.7	6.4	11.7	11.1	3.3	7.5	8.3	13.2	8.9	10.9	11.0
	1.6	1.7	1.8	15.0	1.8	1.2	3.5	1.0	4.2	1.7	—	1.1	0.8	1.7	0.7	1.8	1.8	1.4	1.5
	4.8	6.2	5.2	4.3	8.4	6.8	2.9	3.0	8.5	1.1	7.2	14.4	—	4.9	4.3	6.9	4.7	5.5	5.6
	17.7	24.9	20.4	20.5	24.9	18.0	22.4	27.3	21.2	32.6	17.5	16.4	10.9	20.2	32.1	16.5	23.6	22.6	23.7
	19.0	22.5	13.1	25.5	23.0	21.8	23.2	15.2	16.8	12.9	18.3	18.7	48.6	26.7	13.8	17.0	22.8	22.1	23.2
	1.9	1.5	1.4	2.5	0.2	2.0	2.9	6.5	0.3	0.6	0.3	—	0.8	2.3	3.0	1.6	0.7	1.5	1.6
	3.2	1.9	1.7	3.3	2.3	2.1	1.2	0.5	2.3	1.5	2.5	1.1	12.3	5.1	1.3	1.3	2.2	2.5	2.6
	4.2	3.2	4.8	3.0	3.2	5.2	4.7	4.2	3.3	3.2	4.2	1.5	0.8	3.0	3.0	4.6	3.4	3.3	3.4
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

know or did not respond.

TABLE IV
IMPACT ASSESSMENT: BENEFICIARIES' RESPONSES
DO YOU THINK ALL OF THE MONEY WAS USED FOR THE PROJECT?

	EDUCATION	HEALTH	DAY CARE CENTERS	ROADS	PUBLIC CONVENIENCES	WATER	SEWERS	PRODUCTION PROJECTS	AVERAGE
	49.5	43.5	51.3	51.8	58.5	57.4	51.6	24.6	49.5
	27.6	31.5	29.6	21.1	17.8	24.7	15.7	42.2	27.6
	19.4	22.9	15.2	21.3	20.2	16.3	27.5	27.7	20.2
	3.4	2.1	3.9	5.9	3.5	1.6	5.2	5.5	3.4

know or did not respond.
beneficiaries, DYA-FISE, 1996.

TABLE V
IMPACT ASSESSMENT: BENEFICIARIES' RESPONSES
HAVE YOU HEARD ANY COMPLAINTS ABOUT HOW THE MONEY WAS MANAGED?

	EDUCATION	HEALTH	DAY CARE CENTERS	ROADS	PUBLIC CONVENIENCES	WATER	SEWERS	PRODUCTION PROJECTS	AVERAGE
	10.9	5.6	9.0	14.9	7.4	8.0	13.6	7.9	9.0
	15.4	21.5	10.6	14.4	19.1	24.0	16.4	38.4	15.4
	73.7	72.9	80.3	70.7	73.5	68.0	69.0	53.7	73.7

know or did not respond.
beneficiaries, DYA-FISE, 1996.

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS															
ACHIEVEMENT																		
Access of the poorest population to services	1.1 Number of additional beneficiaries gaining access to basic social services that meet the minimum quality standards	Ex post evaluation of beneficiaries Records of services	The changes in economic and level of income trigger migratory flows in the place the projects were carried out															
IMPACT																		
Community projects efficiently to enable basic social services	1.1 2,748 projects executed 1.2 95% of the projects are providing service, are sustainable, and were implemented within the budget and time frames foreseen in the project evaluations 1.3 90% of the projects were managed by community committees with 50% participation of women	Project completion report Sample of projects executed	The responsible agencies and communities assign the human material resources for operation and maintenance of the services															
RESULTS																		
FINANCING OF COMMUNITY SUBPROJECTS																		
Project financing	1.1 Projects completed per year Year 1 660 projects US\$20.9 million Year 2 1,044 projects US\$33.0 million Year 3 1,044 projects US\$33.0 million	1.1 Audited annual reports and FISE records	The government is satisfied with the progress of implementing the social policy agenda. It is allocating counterpart funds for the project on a timely basis.															
Preparation of projects, monitoring of implementation, and training with a view to ensuring their sustainability	1.2 Number of projects that received support in: <table border="1"> <thead> <tr> <th></th><th>Self-diagnosis</th><th>Preparation</th><th>Training</th></tr> </thead> <tbody> <tr> <td>Year 1</td><td>99</td><td>330</td><td>594</td></tr> <tr> <td>Year 2</td><td>156</td><td>522</td><td>940</td></tr> <tr> <td>Year 3</td><td>156</td><td>522</td><td>939</td></tr> </tbody> </table>			Self-diagnosis	Preparation	Training	Year 1	99	330	594	Year 2	156	522	940	Year 3	156	522	939
	Self-diagnosis	Preparation	Training															
Year 1	99	330	594															
Year 2	156	522	940															
Year 3	156	522	939															
FUNCTIONAL STRENGTHENING																		
Financing of FISE operations	2.1 Targeted and effective allocation of funds (a) 80% of the funds allocated are going to 40% of the very poor (b) 97% of the projects financed meet established social, economic, technical and environmental criteria	2.1 Geography of poverty vs FISE records Ex post evaluation of a sample of projects	The government is satisfied with the progress of implementing the social policy agenda. It is allocating the counterpart funds for the project on a timely basis.															
Strengthening of FISE capabilities	2.2 FISE is operating in decentralized fashion has the necessary means for promoting community participation with a gender-based approach FISE has hired the environmental auditor and trained its staff in environmental management	2.2 First annual review Contracts and semiannual reports																
Support for community management	2.3 The communities received training in self-diagnosis, determination of priority needs, and organization for project management Training is being conducted in 360 communities and women account for 50% of membership in community-organization committees	2.3 Minutes of community meetings																

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTION
RESOURCES USED			
PROVISION OF COMMUNITY SUBPROJECTS			
selection, preparation, evaluation, execution of community projects	1.1 US\$86.9 million for 2,748 projects, disbursed over three years	Semiannual progress reports	There are no delays in project preparation No bidding awards have been challenged The contractors are meeting schedules and established
TECHNICAL STRENGTHENING			
centralization of FISE operating procedures strengthening in areas of programming, monitoring, and evaluation. Training in these same areas strengthening in environmental management strengthening in community management	2.1 US\$420,000 disbursed in year one 2.2 US\$1.058 million disbursed during program execution 2.3 US\$180,000 disbursed in year one, used for training in environmental issues 2.4 US\$372,000 disbursed over 2.5 years, used to support 411 communities in preparing self-diagnosis and eight training workshops in community management for FISE staff	Semiannual progress report	There are sufficient professional and trainers

COMMUNITY PARTICIPATION WITH A GENDER-ORIENTED APPROACH
IN THE FISE II PROJECT CYCLE

I. BACKGROUND

- 1.1 In early 1996 an assessment was made of the work of FISE from the time of its establishment in 1993 to December 1995. The findings of that assessment demonstrated the strengths and weaknesses of the institution, which were taken into account in designing a second stage of the IDB-financed program.
- 1.2 One of the areas in which adjustments are needed is community participation in the management of the projects submitted to FISE for financing, particularly with respect to the gender-based approach to community involvement. The recommendations contained in this annex serve to articulate a comprehensive strategic vision to enable FISE to move effectively toward its goal of improving the quality of life for the poorest communities.

II. GENERAL AND OPERATING STRATEGIES

A. New strategic vision

- 2.1 The expanded role of community participation with a gender-oriented approach in FISE projects represents an enrichment of the agency's institutional vision that springs from its past experience and its desire to contribute with ever-increasing effectiveness to improving the living conditions for the very poor.
- 2.2 Conditions favoring the new strategic vision:
 - a. Conditions at the present juncture favor this approach: first, there is the technical experience gained by FISE and, second, there are the policy guidelines issued by the Ecuadoran government, which call for a greater emphasis on social and community issues.
 - b. A spirit of entrepreneurial efficiency coexists with a social perspective in the present management of FISE.

B. Consistency among policies, strategies and operations

- 2.3 Prior agreement and commitment on the part of all participants in the FISE project cycle to the new perspective and its strategies is a prerequisite in designing the operational scheme for implementing this approach. The scheme should be based on the application of

interrelated systematic and comprehensive strategies rather than on isolated or temporary activities.

- 2.4 Under this new approach, the development of an operational scheme implies an evaluation of the steps, guidelines, criteria, manuals and other tools used under the program, to introduce the necessary adjustments.

C. Interconnected system in the projects

- 2.5 Community participation with a gender-oriented approach in identifying projects, determining the makeup of community committees and organizing training events is a fundamental component of an interconnected system at the project level.
- 2.6 To implement such a system, two training modules should be developed: one targeted to the beneficiary communities and the other to FISE itself, to strengthen its capacity to manage the strategic vision.

D. Training for the beneficiary communities

- 2.7 The training program targeted to the beneficiary communities should cover three areas:
 - a. organization, community management and social leadership (with the inclusion of more women and young people);
 - b. training of community committees; and
 - c. training related to projects.
- 2.8 Community training should be conducted in a decentralized manner, *in situ* and with the support of local social-promotion organizations. This means that FISE must make an effort to draw closer to those communities which it failed to reach in the past and which are priority targets because of their high poverty levels, with the help of local promoters or NGOs as the case may be.
- 2.9 FISE can enhance the effectiveness of beneficiary participation by enlisting the help of local residents, both male and female, endowed with organizational, promotional and leadership capabilities. In the case of a community with no grass-roots organization, the training module in community management should first be applied.

E. Institutional training for FISE

- 2.10 The implementation of FISE's new strategic perspective calls for strengthening the capabilities of its staff in the social, community and gender-related areas.

F. Communications policy

- 2.11 FISE's training strategy must be accompanied by a communications policy covering, inter alia, dissemination of its institutional policies and its strategic vision on expanding community participation, and the benefits and levels of participation by women and young people.

G. Gender-oriented approach

- 2.12 In order to secure greater participation by women, FISE should welcome their involvement beginning at the community self-diagnosis stage of a project. This approach should continue throughout the entire life of the project so that women will participate more actively and decisively in committees and be encouraged to express their views more assertively and collaborate in the project, thereby gaining access to temporary employment and, eventually, continuing to participate in its operation and maintenance.
- 2.13 The gender-oriented approach can be fostered also by the formulation of eligibility criteria that encourage the participation of women.

III. **METHODOLOGICAL CONCEPTUALIZATION OF THE VARIOUS STAGES OF PROJECTS**

A. New policy vision: adjustments in the methodology and instruments

- 3.1 At this stage, action will be taken concurrently to:
(a) incorporate the new strategic vision as it relates to the expansion of community participation with a gender-oriented approach; and (b) adjust instruments, systems and procedures.
- 3.2 To implement the new strategic vision, a FISE internal training program with the following objectives should be programmed:
- a. Analysis of the operational implications of FISE's new perspective in relation to gender and community participation.
 - b. Review of the project cycle and its stages with an eye to:
(i) introducing new significant social indicators; and
(ii) including mechanisms to foster community participation with a gender-oriented approach.

- c. Review of project-presentation guides, manuals and forms, social and institutional evaluation guidelines, and field reporting and monitoring forms with an eye to adjusting references to the community and gender.

B. Promotion, identification and formulation

- 3.3 Self-diagnosis, community training and community committees are three inter-related strategies to support the development in communities of attitudinal and behavioral changes that will favor their own development, strengthen their project support and improve their social organization.

1. The participatory community self-diagnosis

- 3.4 The participatory self-diagnosis will be conducted on a working day with advance notice to the entire community. The meetings will be organized, facilitated and conducted by duly accredited social promoters, either local or from an NGO, with the help of a guide developed in advance. A phase involving separate discussions with men and women will be included so as to ascertain the particular needs of each.
- 3.5 The participatory diagnosis will supply the following information: (a) priority needs, as perceived by the community; (b) indicators for social and institutional evaluation, such as: years of schooling, language, gainful occupation, access to health services and stable employment, with a breakdown by sex; (c) project-related application to FISE; and (d) composition of community committees including women and young people as members.
- 3.6 An evaluation of existing grass-roots organizations and the presence or absence of women in community structures will be included in the self-diagnosis report.

2. Training and accreditation of promoters

- 3.7 The external promoters or those from NGOs who are to support FISE in this work will be trained and accredited in advance.
- 3.8 Emphasis is being placed at this time on the fact that the various elements of the process – self-diagnosis, community participation, training and the existence of the community committee – constitute a single unit in which the latter provides the venue for linkage among the various phases of the process, supports mutual training efforts and multiplies the impact of the intervention by FISE.

3. Role of the community committees

- 3.9 FISE will be required to use the community committee as the channel of communication with beneficiaries on matters pertaining to

projects, maintenance, monitoring, the gender-oriented approach, training with reference to the project, etc.

- 3.10 In order to enable the community to participate more actively in the preparation and management of a project and assume responsibility for the proper use and supervision of the works, assistance will be provided for the purpose of training, regulating and strengthening community committees. These committees represent a decentralized, self-managing, low-cost cooperative strategy which enhances the self-esteem of its beneficiaries and enables them to capitalize on their skills through mutual training.

4. Project formulation guide

- 3.11 The recommended adjustments to the project formulation guide include:
- a. expanding the information collected to include the percentage of men and women with stable employment and the types of gainful activity they engage in, the ethnic predominance of the community, and the language spoken in the home.
 - b. describing the current status of men, women and children in the beneficiary group, their access to health services, and years of schooling by sex.
 - c. describing the participation of women in project identification.
 - d. including the self-diagnosis report and the minutes of the community committee's organizational meeting.

5. Institutional management

- 3.12 The organization, functions and profiles of the FISE administrative unit in charge of implementing this approach should be truly responsive to the new strategic vision of the institution, to its strategies and, accordingly, to its instrumentation.

C. Evaluation manual

- 3.13 The evaluation manual should be reviewed and adjusted to reflect the need for coordination among all instruments and the new requirement for community participation with a gender-oriented approach.

1. New variables and indicators

- 3.14 The following should be included among the social evaluation objectives in the social and institutional evaluation guide:
- (a) checking the proposed project for consistency with the

self-diagnosis; (b) evaluating the performance and potential of the community committee; (c) identifying special training needs, differentiated by group; and (d) information on the participation of young people and women and the status of each of these groups.

2. Role and profile of the evaluation team

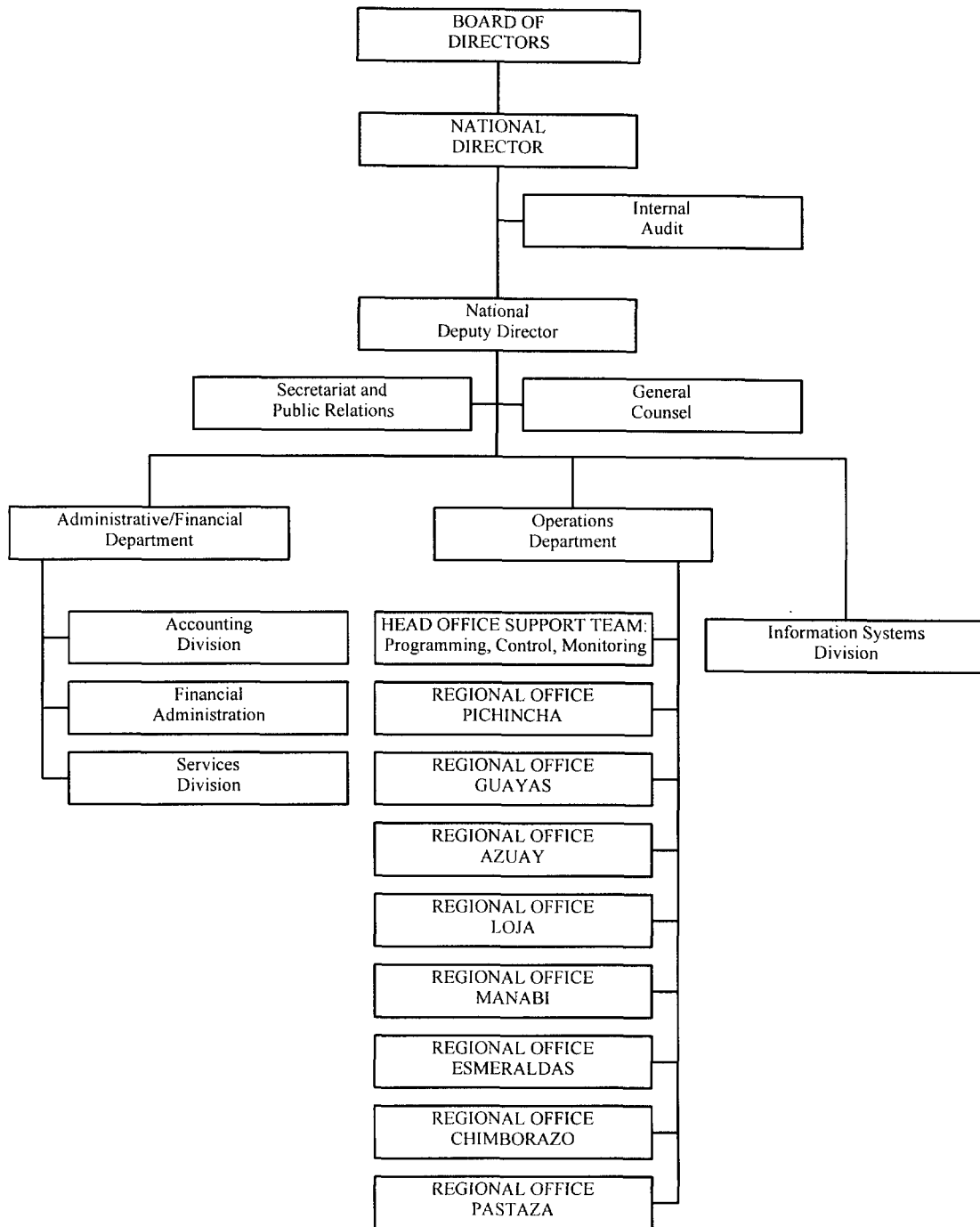
- 3.15 The composition of the evaluation team should be multidisciplinary, and include sociologists, anthropologists, psychologists, educators and economists of both sexes.

D. Monitoring

- 3.16 The monitoring conducted by FISE has been directed almost exclusively to checking civil works for compliance with the technical specifications. Project supervision and monitoring in this second stage should be broadened substantially to include determining the consistency and completeness of projects and noting the progress made in the physical, social, organizational and community-management areas.

**SOCIAL INVESTMENT FUND
ORGANIZATIONAL PLAN**

Annex III-1
Page 1 of 1



PROPOSED RESOLUTION

ECUADOR. ____/OC-EC TO THE GOVERNMENT OF THE REPUBLIC OF ECUADOR
SOCIAL EMERGENCY INVESTMENT FUND PROGRAM - PHASE TWO (EC-0158)

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 the Bank, to enter into such contract or contracts as may be necessary with the Government of the Republic of Ecuador, as Borrower, for the purpose of granting financing to cooperate in phase two of a social emergency investment fund program. Such financing will be for the amount of up to Forty Five Million United States of America dollars (US\$45,000,000), from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Terms and Financial Conditions" and "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

ECUADOR. PARTIAL PAYMENT OF INTEREST ON LOAN NO. /OC-EC TO
THE REPUBLIC OF ECUADOR

(Social Emergency Investment Fund Program - Phase Two)

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with Republic of Ecuador, as Borrower, and to adopt other pertinent measures to use the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of the loan authorized by Resolution DE- /96, for financing part of the cost of the Social Emergency Investment Program - Phase Two, 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.