

## **Annex C. Progress Achieved to Date with the Bank's Current Portfolio of Loans and Montreal Protocol Assistance**

Agricultural Research—PROMSA (L.4075 for \$19.8 million, Approved July 1996, Closing December 2003). The objective of the loan is to support increased agricultural research, with a view to increasing productivity and agricultural production while preserving or improving the natural resource base. The project supports a Competitive Fund for research projects, international strategic alliances, and the strengthening of the National Autonomous Institute for Agricultural Research (INIAP). To date, 114 projects (compared to a goal of 110) and 17 strategic alliances with education and research centers (compared to a goal of 18) have been approved in 21 provinces under the competitive funds component. Moreover, private sector participation with 56 percent financing compared to the 30 percent initially expected has permitted the financing of more subprojects. On the other hand, the future of the competitive funds program is unclear, because financing has yet to be identified once the World Bank project closes, and it will be important for the Government to consider making support for research in agriculture a national priority. The INIAP component began slowly, and while the targets in terms of Masters Degrees has been surpassed, INIAP's institutional development plan is well behind target and will need to be accelerated before the closure of the project.

Agricultural Census—SICA (L.4279 for \$24.8 million, Approved January 1998, Closing September 2004). In April 2002, the World Bank Board of Directors approved a \$4.8 million supplement to the original \$20 million approved in January 1998. The objective of the project is to ensure the availability, consistency, timeliness, and usefulness of information from the agricultural census and other sources, in order to reduce asymmetries in access to information among different social groups, improve the competitiveness of the agricultural sector, strengthen policies and the institutional framework of the sector, and ensure the institutional sustainability of the SICA project. In 2002, the Government disseminated the general national and provincial results of the agricultural census. The project has the most visited website in Ecuador, with an average of 1.2 million hits per month; it provides information for 70 weekly radio communications, including 8 in the indigenous *quechua* language, reaching an audience of around 800,000 as estimated by the project coordinating unit. A key outcome of the project has been the support provided to the "Consultative Councils," which bring together stakeholders in the production and marketing chain for 11 agricultural products, whereby SICA has provided independent information that has facilitated consensus building and planning, and contributed to resolution of intrasectoral conflicts. It will be important to maintain this project under the budget of the Ministry of Agriculture in order to provide continuity in this process once the Bank project closes.

Rural Poverty—PROLOCAL (L.7067 for \$25.2 million, Approved July 2001, Closing December 2006). The objective of this project is to improve the well-being of poor families in the microregions covered under the project, beginning with southern Manabí province and the upper watershed of the Jubones River, by supporting participatory local development planning, local advisory services, and subprojects. The project is cofinanced by the European Union, which is supporting the strengthening of rural financial services. The project was declared effective in April 2002, work has begun at the community level in the design of the local development plans, and a gender strategy has been developed for the project. The management of the project is also being decentralized further to the local level.

Development Project for Indigenous and Afro-Ecuadorian Peoples—PRODEPINE (L.4277 for \$25 million, Approved September 1998, Closing April 2003). The main objectives of the project are to strengthen management capacity, democratic integration, and the development process that respect the cultural values and identity of indigenous and Afro-Ecuadorian peoples in Ecuador, reducing their poverty levels and strengthening capacity with respect to participatory, decentralized planning processes. During the past four years, the project has financed components to strengthen the indigenous and Afro-Ecuadorian organizations, nations and peoples; studies on and titling of ancestral lands and of water systems; rural investments; and capacity building for government agencies responsible for policy development for indigenous peoples (CODENPE) and for Afro-Ecuadorians (CODAE). The project has been successful, facilitating 210 local development plans at the community level; providing support to

their respective implementing units; supporting educational and cultural programs—among which the recovery of cultural identity and the language of the Zápara people stands out; and titling 252,000 hectares of ancestral lands. The rural investment component has financed 654 projects, benefiting more than 60,000 families, and has provided seed capital for 574 solidarity funds, benefiting 14,000 families. The project is cofinanced by the International Fund for Agricultural Development, which has provided \$15 million in financing directed primarily to strengthening rural financial services.

Health Services Modernization—MODERSA (L.4342 for \$45 million, Approved June 1998, Closing December 2004). The objective of Modersa is to support health sector reform and the construction of the National Health System, in order to improve access to health services for the poorest, and improve the equity, efficiency, and quality of health services, with particular emphasis on maternal and child care in selected provinces and municipalities. The project components support the development of the legal and judicial framework, decentralization of the health system, hospital modernization, and the Integrated Health Monitoring and Evaluation System (SIME). One of the main successes of the project to date is Congress's approval in 2002 of the Organic Law of the National Health System, wherefore the project will support the development of the corresponding implementing rules and regulations. The project implementation unit reports a 40-percent advance in the implementation of the new structure of the Ministry of Public Health and in the decentralization model, with local management agreements signed with the cities of Cuenca and Tena, and advances in the other eight project cities. With regard to hospital modernization, strategic and business plans have been approved in 7 of the 10 targeted hospitals, while the SIME system is being implemented at the national and local level. The project has also developed contingency plans in the event that emergency assistance is required to address a natural disaster such as a possible El Niño phenomenon.

Financial Sector TA Loan—FSTAL (L.4567, for \$10 million, Approved June 2000, Closing June 2004). The objective of the project is to support the administration and resolution of the financial sector crisis and to strengthen the regulatory framework and supervisory capacity with a view to promoting the long-term solvency and efficiency of the banking system. The original components support the strengthening of the Superintendency of Banks and Insurance (SBS) and the Deposit Guarantee Agency (AGD), restructuring of corporate debt and technical assistance for the preparation of a competition law and modernized bankruptcy legislation. The project, which was supported by parallel financing by the IDB and CAF, has developed manuals for onsite examinations and off-site monitoring to strengthen banking supervision, and is developing proposals for legal reforms to banking laws. It also supported a Debt Restructuring Unit that implemented an incentive-compatible mechanism for restructuring of \$1.3 billion in corporate debt owed by borrowers with loans of over \$50,000 each. The FSTAL has also supported studies for the development of a strategy and action plan for the financial sector. The withdrawal of the AGD from the project activities and participation of the Central Bank will lead to a restructuring of the project that addresses newly identified needs, including strengthening of the payments and liquidity mechanisms, an anti-money-laundering program, enforcement of rapid foreclosure provisions (known as *coactiva*) on loans that could not be restructured, and improving information technology for the Banking Superintendency.

Rural Water Supply and Sanitation—PRAGUAS (L.7035, for \$32 million, Approved October 2000, Closing October 2004). The project is the first phase of a 10-year Adaptable Program Loan (APL), the objective of which is to improve living conditions for inhabitants of rural areas and small municipalities through the provision of sustainable water supply and sewerage services; consolidate a major reform of the sector to improve institutional efficiency and service delivery; achieve sustainable services for 1.6 million beneficiaries in rural areas; and transfer water and sanitation services in 50 municipalities currently provided directly by municipal governments to autonomous (public and private) operators. This first phase supports sectoral development (of laws, regulations, policies, and institutions), rural investment, and technical assistance to municipalities to apply a delegated management model for water and sanitation services. To date, framework agreements have been reached with 103 of 152 eligible municipalities (the main urban centers of which have less than 10,000 inhabitants), and 175 specific system-design agreements have been prepared for 379 communities, with a view to advancing in the

construction of water and sanitation systems. The project has been slowed by the need for communities to bring together counterpart funding as evidence of ownership to ensure sustainability, and has been hampered by parallel programs following a more paternalist approach of requiring no counterpart financing from the municipalities or communities, and by turnover in technical staff at the municipal level.

International Trade and Integration (L.4346 for \$21 million, Approved June 1998, Closing June 2003). The objective of the project is to encourage economic growth via international trade and integration with the global economy. This is to be achieved through the modernization of the State's institutional structure for overseeing external trade; strengthening capacity building and entrepreneurial innovation to develop links between micro-, small, and medium-sized enterprises with international trade; and improving quality, productivity, and environmental practices. During the past four years, the project has supported export and investment policies that include the External Trade Law, the national plan for attracting foreign investment, the national competitiveness agenda, creation of the National Competitiveness Council and the National Quality System, regulation of the Customs Law regarding the drawback system, and draft competition and tourism laws. In the area of competitiveness, the project supported a diagnostic study on the country's competitiveness, contributed to the reduction in the time needed to set up a company from 150 to 30 days, and is supporting one-stop shops for businesses (so-called entrepreneurial development agencies, in which all necessary official permits are granted in one place) and a program of support to Ecuadorian migrants. The shared funds component has reached more than 700 small and medium export-oriented enterprises and 31 NGOs that support more than 12,000 microenterprises, achieving overall increases in employment by 29 percent, sales by 17 percent, and exports by 8 percent, with a greater variety and quality of products and markets. In the area of quality, opportunities have been established for new laboratories to provide internationally recognized quality ratings (in the area of health certificates the termination of the monopoly of the state laboratory has cut the time from over two years to 30 days), and has developed a quality-improvement program that is contributing to a significant increase in the number of enterprises with ISO qualifications. The project was extended from the original closing date of June 2002 to continue with the quality component, and the lack of sustainability of the system of metrology, norms, and accreditation remains a concern. The Bank also indicated its concern that the drawback system, designed after inputs from project consultants, did not require adequate evidence of payment of taxes prior to devolution of a fixed coefficient. Finally, as part of the implementation completion review, the Bank has recommended an analysis of the cost per job created and of the pre- and post-assistance tax collections from beneficiary enterprises.

Power and Communication Sectors Modernization and Rural Services—PROMECA (L.7082 for \$23 million, Approved November 2001, Closing June 2006). The loan is accompanied by a Global Environmental Facility Grant for \$2.84 million, which also supports the project objective of increasing the modernization of the telecommunications and electricity sectors via strengthening of regulatory, supervision, and control agencies; expansion of electricity and telecommunications services in rural and peri-urban areas and the development of information and communication technology-based (ICT-based) business among small enterprises and lower-income levels; implementation of programs to promote the efficient use of energy and environmental protection; and integration of broader society in the modernization process via consultation, participation, and communication mechanisms. The project became effective only in August 2002, and has been affected by an initial shortage of counterpart funds, although close to one-quarter of project costs will eventually be covered by private sector participation. To ensure the success of the project it will be important to depoliticize decisionmaking by regulatory, supervision and control agencies, and to address the worrisome financial situation of the electricity and telecommunication sectors. Moreover, the rates of return for rural off-grid electrification projects will need to be attractive to ensure private participation and sustainability of these and of pilot projects for energy efficiency and of ICT centers that serve the poor.

Public Sector Financial Management—SIGEF (L.7110 for \$13.86 million, Approved March 2002, Closing September 2005). The objective of this project is to ensure the sustainability and strengthening of the reforms in public finances systems, increasing coverage of the Integrated Financial Management

System (SIGEF) to achieve consolidated national accounts with the level of coverage and quality required by the Ministry of Economy and Finance, and to bring greater transparency to the management of public resources. Five principal components will be supported with the project: consolidation of the system; extension of coverage at a national and municipal level; technological sustainability (including web-based access to SIGEF); strengthening of the General Controller of the State (ensuring an interface with SIGEF that will allow more direct auditing of accounts); and legal, regulatory, and normative support for SIGEF. The signing of the loan agreement was postponed as a result of changes in the Ministry of Economy and Finance, leading to a reevaluation of the project's components. The loan agreement has been signed by the new Administration, which is committed to implementing the project with a few modifications over the coming years.

Montreal Protocol (TF024359 for \$3.41 million, Approved October 2000, Closing September 2004). The project for the reduction of ozone-depleting substances (ODS), phase II, is implemented by the Ministry of External Trade, Industrialization, Fisheries and Competitiveness, with support from the Multilateral Fund of the Montreal Protocol. The objective of the project is to support the elimination of ODS through industrial conversion activities and institutional development. Ecuador is at an advanced stage of completion of the ODS foreseen in the Protocol, having accomplished the requirement to limit the consumption of chlorofluorocarbons (CFCs) to 1995–98 levels. On the other hand, the Montreal Protocol targets will become increasingly demanding, including a 50-percent reduction in carbon dioxide emissions relative to 1995–98, and a similar reduction in methyl bromide applications. The project is subsidizing conversion efforts by enterprises that are reducing CFCs, and supporting a pilot to demonstrate alternatives to methyl bromide in ornamental horticulture, and working directly with major users.