

Country Program Evaluation

Ecuador

2007-2011



ABSTRACT

This evaluation reviews the relevance, efficiency and results of the IDB's Country Program with Ecuador for 2007-2011. The period under evaluation was characterized by an important political and institutional shift in Ecuador, embodied in the new Constitution of September 2008. Working within the framework provided by the Government's Plan Nacional para el Buen Vivir, the IDB program was in alignment with the country's development agenda. However, IDB's efficiency in executing the Program has been mixed: despite improvements in timeliness and cost, the institutional capacity of agencies responsible for the execution of IDB projects has been varied. Regarding results, available outcome indicators show progress in Ecuador's development path; however, it is difficult to establish to what extent IDB's interventions contributed to those improvements. In light of the findings, the IDB is advised, as one of the country's main lenders, to engage more actively in policy dialogue; prioritize sectors that can address problems of competitiveness, inequality and social exclusion; strengthen Ecuador's planning, evaluation, and monitoring capacity; and promote the establishment of training programs for national and subnational executing agencies.

Country Program Evaluation

Ecuador

2007-2011

OFFICE OF EVALUATION AND OVERSIGHT, OVE



Inter-American Development Bank

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ACRONYMS

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ACRONYMS

ATPDEA	Andean Trade Promotion and Drug Eradication Act
CAB	Current Account Balance
CAF	Andean Development Corporation
CCP	Centros Comerciales Populares
CEC	Country Office of Ecuador
CEDLAS	Center for Distributive, Labor and Social Studies
CELEC	Corporación Eléctrica del Ecuador
CTH	Compañía de Titularización Hipotecaria
ECLAC	Economic Commission for Latin America and Caribbean
EMAAP-Q	Metropolitan Quito Water and Sewage Company
ENENDUR	Encuesta de Empleo, Desempleo, y Subempleo en el Área Urbana y Rural
ERR	Economic Rate of Return
FDI	Foreign Direct Investment
FLAR	Fondo Latinoamericano de Reservas
FRR	Financial Rate of Return
FECASALC	Fondo Español de Cooperación para Agua y Saneamiento en América Latina y el Caribe
GDP	Gross Domestic Product
HDI	Human Development Index
IFAD	International Fund for Agriculture Development
ILO	International Labor Association
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadística y Censos
LAC	Latin America and the Caribbean
MAGAP	Ministerio de Agricultura, Ganadería, Acuicultura y Pesca
MCDS	Ministerio de Coordinación y Desarrollo Social
MEDUC	Ministerio de Educación del Ecuador
MIF	Multilateral Investment Fund
MSME	Micro Small and Medium Enterprise
MTOP	Ministerio de Transporte y Obras Públicas
NSG	Non Sovereign Guaranteed
OVE	Office of Evaluation and Oversight
PAHO/WHO	Pan American Health Organization/World Health Organization
PCR	Project Completion Report
PMR	Project Monitoring Report
PNBV	Plan Nacional para el Buen Vivir
PND	Plan Nacional del Desarrollo
PPMR	Project Program Monitoring Report
PSR	Project Supervision Report
SENPLADES	Secretaría Nacional de Planificación y Desarrollo
SIIE	Sistema Integrado de Indicadores Sociales del Ecuador
SME	Small and Medium Enterprise
TAME	Transportes Aéreos Militares del Ecuador
TFFP	Trade Finance Facilitation Program
USAID	United States Agency for International Development
UTEPI	Unidad Técnica de Estudios para la Industria

This document was prepared by a team headed by José Claudio Linhares Pires (Lead Specialist Economist) that included Caio Piza (Research Fellow), Tulio Cravo (Research Fellow), Simon Lodato (Research Fellow) and Alejandra Palma (Consultant). Amanda Telias and Pablo Adam also provided valued contribution to the document. The document was elaborated under the general supervision of Cheryl Gray (Director). The team thanks the comments and suggestions received from the following reviewers: Inder Ruprah, Michelle Fryer, Anna Crespo and José Ignacio Sembler.

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backphoto

Central Old Quito, in 2011.

The period under evaluation (2007-2011) was characterized by an important political and institutional shift in the country.

@ Shelly Perry, 2011

Executive Summary

This report presents an evaluation of the Bank’s Country Program in Ecuador over the period 2007–2011. This timeframe encompasses the period from the end date of the preceding Country Program Evaluation (CPE 2000–2006) to the end date of the current Country Strategy (2008–2011). The evaluation team reviewed the documentary evidence provided by the Bank and other sources as well as information gathered from interviews with government officials, representatives of civil society, and Bank staff at headquarters and in the country office.

The period under evaluation was characterized by an important political and institutional shift in the country embodied in the new Constitution of September 2008. The new administration that took office in 2007 considered that stabilization and structural adjustment policies promoted by multilateral financial institutions had been responsible for both institutional weakness and socioeconomic crises suffered by the country in the past two decades. To overcome this situation, the government launched a *Plan Nacional para el Buen Vivir* (PNBV) [National Plan for Good Living] aimed at promoting the “Citizens Revolution,” a new political and economic agenda for proactive State intervention in the economy, with special focus on social and infrastructure sectors.

Originally, the government intended to fund this agenda using internal resources generated by oil and tax revenues. It reduced the country’s foreign debt through a default and repurchase of sovereign global bonds. Its dialogue with the World Bank and the International Monetary Fund (IMF) was limited, though it maintained its links with the Andean Development Corporation (CAF) and the Inter-American Development Bank. It also diversified its borrowing portfolio, turning mainly toward

China to address financial needs not fulfilled by internal or traditional multilateral sources.

During the evaluation period, Ecuador has seen improvements in infrastructure coverage, and poverty and inequality have declined markedly, though rural and urban disparities remain. These achievements reflect continued economic growth and rapidly increasing investment in infrastructure and social programs. The sustainability of these improvements is a concern, given the significant dependence on oil revenue for public revenue and public investment. Ecuadorian oil production has not been particularly dynamic in recent years, though rising oil prices have helped support increased public investment. Private investment has declined and such investment will be needed to complement public financing of needed infrastructure improvements.

A comparative analysis of the goals and objectives of the most recent and the previous Country Strategies does not show substantial differences among them. In fact, their goals have been broad enough to provide flexibility to the Bank as it learns how to work in a context of shifting political preferences. Working within the PNBV's framework, the Bank's program was aligned with the country's agenda. The Bank managed to keep the program active in this complex and changing context. The Bank's three Country Strategy pillars — productive infrastructure, access to financing, and social inclusion — drew on the Bank's core competencies (transportation, electricity, and microcredit) and accumulated experience (water, sanitation, and urban modernization). In all these pillars the Bank also financed institutional components of projects and technical cooperation.

After the financial crisis of 2008, the country requested Bank funding to help finance the country's extensive investment plan. The lack of agreement between the country and the IMF inhibited Bank provision of either policy-based or emergency loans, and the Bank provided support through sovereign- and non-sovereign-guaranteed investment operations, non-reimbursable technical cooperation, and investment grants. In terms of donor coordination, the limited dialogue between the government and both the World Bank and the IMF reduced the interaction between the Bank and other donors. In the past, the Bank has coordinated its programs with both the World Bank and the IMF and to a lesser extent with the CAF, which increased its financing to Ecuador markedly.

The 2008-2011 Country Strategy was launched at the time of consolidation of the PNBV and the government's political and economic reforms. This was also a time marked by substantial institutional change in the country, including high staff turnover in the ministries and execution units for Bank projects. This led to a significant mismatch between the program's intent, as presented in the Country Strategy document, and the assistance that was actually provided to the country.

The Bank's efficiency has been mixed. Timeliness of preparation and delivery of programs in Ecuador have shown signs of progress compared with the previous 2000–2006 period. Both preparation and execution costs have fallen, although they are still above Bank averages.

Despite improvements in timeliness and costs, the quality of project execution raises concerns. During 2007–2009, the number of projects that signaled implementation problems in their Project Performance Monitoring Reports (PPMRs) increased compared with 2000–2006. The share of PPMRs reporting problems in achieving development objectives grew from 8% to 11% between these periods, higher than the Bank's average in 2007–2009 (8%). There are clear imbalances in the institutional capacity of agencies responsible for the execution of Bank projects.

Overall, available outcome indicators suggest progress in the development path of Ecuador in the period. Yet assessment of the Bank's effectiveness is complicated by two factors. The Country Strategy update included indicators to address the lack of evaluability of the Country Strategy launched in 2008, but the indicators are general in nature and it is difficult to establish to what extent the Bank's interventions contributed to improvements in baseline indicators. At the project level, the young portfolio and the lack of documented information on projects completed or executed during the period hindered assessment of results. Only 6 of 27 projects disbursed during the evaluation period presented information regarding results, and those that did were linked particularly to the Social Inclusion pillar. These were implemented primarily in the previous strategy period and included the *Quito Urban Rehabilitation Project*, the *Water and Sewage Projects*, and the *Cuenca Urban Rehabilitation Projects*.



Several projects were focused on the rehabilitation of urban historical districts, such as Quito's downtown buildings -in the picture.

(C) David Mangurian, 2009

Based on these findings, OVE has the following **recommendations for management**:

- **The Bank should be bolder in engaging in policy dialogue.** As one of the country's main lenders, the Bank should be in a position to contribute to the government's efforts to define a national agenda to reduce the country's economic vulnerability to exogenous factors and to improve the business climate and competitiveness indexes.
- **The Bank should continue prioritizing sectors that can address problems of competitiveness, inequality and social exclusion.** Given the Bank's limited capacity to meet the country's financing needs, the Bank should:
 - **Redesign support so that it leverages other investments**, for example by:
 - helping to improve regulatory frameworks for infrastructure sectors to attract public-private partnerships and foreign investments;
 - continuing to finance institutional components of projects, learning from past experience; and
 - contributing to improve corporate governance in oil and electricity companies.
 - **Expand support to help address urban and rural inequalities.** The Bank should continue its support for health, education, water and sanitation programs in poor urban and rural areas, benefiting from the Bank's accrued experience in these areas.
 - **Avoid demands in which economic benefits did not clearly justify the Bank's support**, such as the *Transportes Aéreos Militares del Ecuador* (TAME) Project.
- **The Bank should continue strengthening Ecuador's planning, evaluation, and monitoring capacity by working with the *Secretaría Nacional de Planificación y Desarrollo* (SENPLADES), the entity responsible for originating the National Plans that are the framework for the Country Strategy.**
- **The Bank should continue promoting sharing of experience and common training programs for national and subnational executing agencies.** In addition to technical cooperation at the appraisal phase of projects, the Bank could contribute to the country's capacity to handle Bank projects by promoting seminars and workshops with personnel responsible for executing Bank's projects. The aim is to strengthen the agencies that have lower institutional capacities and reduce the imbalances among them, thereby contributing to greater efficiency and effectiveness in project execution.

MANAGEMENT COMMENTS

Management is appreciative of the work that went into preparation of this document. The document provides a sound analysis of Ecuador's needs and the Bank's work in the country.

General Comments

Generally speaking, we consider the diagnostic and recommendations in the document to be appropriate. However, we suggest revising certain assertions concerning the **quality of execution of Bank projects** in the country.

The assertion that there are signs of deterioration in the quality of project execution (paragraphs 4.4, 4.5, and 6.3) should be revised for the following reasons: (i) the country strategy cycle under review is 2007-2011, so conclusions based on partial information from project performance monitoring reports (PPMRs) for the period 2007-2009 are necessarily incomplete. This is all the more true considering that the period in question was one of far-reaching political and economic reforms with institutional changes under the new Constitution and heavy turnover of ministry and executing agency staff; (ii) the 2007-2009 PPMRs made judgments that execution progress (not the quality of execution) for certain projects was hindered principally by weak institutional capacity of some executing agencies, insufficient interagency coordination, and delays in fulfillment of contractual conditions, problems that are normally magnified during a major change such as the one described above; (iii) the pace of project execution was much greater once the reforms were in place; disbursements in 2010 and 2011 were US\$636.9 million; (iv) the PMR information reported as of 30 September 2011 shows an average performance index (PI) for the 26 projects in the portfolio of 1.5, highly satisfactory according to the Bank's current parameters.

Specific Comments

The executive summary, as well as paragraphs 3.24 and 3.25, describe a weakening of coordination between the IDB and other donors. In keeping with the comments made in previous rounds, this reading fails to reflect the Bank's efforts to coordinate actions with the other institutions operating in the country. For example, the IDB is working with the European Investment Bank (EIB) on energy and transportation issues, and coordinated with the Overseas Private Investment Corporation (OPIC), Eximbank, and the Export Development Corporation of Canada (EDC) on the Quito International Airport project. This point is particularly relevant as it pertains to the Andean Development Corporation (CAF), with which the Bank has coordinated interventions, especially in the transportation, energy, and housing sectors where some type of coordination was necessary.

OVE's RECOMMENDATIONS	MANAGEMENT'S RESPONSES
<p>The Bank should be bolder in engaging in policy dialogue. As one of the country's main lenders, the Bank should be in a position to contribute to the government's efforts to define a national agenda to reduce the country's economic vulnerability to exogenous factors and to improve the business climate and competitiveness indexes.</p>	<p>Partially agree. The Bank has played an active role in designing certain sector policies, principally through investment loans and technical cooperation operations. This dialogue should continue and be fostered in the future. However, it is much more difficult to impact the country's macroeconomic management because the authorities have not sought dialogue in that regard.</p> <p>Although the Bank is one of the country's main lenders, as stated in the report, the volume of resources mobilized hardly gives it the leverage described in the report. In the period 2007 to October 2011, nonfinancial public sector investment was US\$29.7 billion, whereas the Bank disbursed US\$1.136 billion. This means that the Bank financed just over 0.5% of public sector investments.</p>
<p>The Bank should continue prioritizing sectors that can address problems of competitiveness, inequality and social exclusion. Given the Bank's limited capacity to meet the country's financing needs, the Bank should:</p> <ul style="list-style-type: none"> a. Redesign support so that it leverages other investments, for example by <ul style="list-style-type: none"> i. helping to improve regulatory frameworks for infrastructure sectors to attract public-private partnerships and foreign investments; ii. continuing to finance institutional components of projects, learning from past experience; and iii. contributing to improve corporate governance in oil and electricity companies. b. Expand support to help address urban and rural inequalities. The Bank should continue its support for health, education, water and sanitation programs in poor urban and rural areas, benefiting from the Bank's accrued experience in these areas. c. Avoid demands in which economic benefits did not clearly justify the Bank's support, such as the <i>Transportes Aéreos Militares del Ecuador</i> (TAME) Project. 	<p>Agree. The Bank has gained substantial experience in the areas of competitiveness, inequality, and social exclusion in Ecuador, which remain priorities under the new country strategy now in preparation. We also agree that, given the limited volume of resources the Bank is able to contribute, efforts should be made to emphasize the institutional and policy component of projects, so as to catalyze other investments for the country.² We also believe the Bank's new country strategy should continue addressing the inequalities between urban and rural areas.³ Moreover, project programming and preparation activities include an exhaustive analysis of the strategic relevance, performance, and additionality of each project.</p>

OVE's RECOMMENDATIONS	MANAGEMENT'S RESPONSES
<p>The Bank should continue strengthening Ecuador's planning, evaluation, and monitoring capacity by working with the Secretaría Nacional de Planificación y Desarrollo (SENPLADES), the entity responsible for originating the National Plans that are the framework for the Country Strategy.</p>	<p>Agree. SENPLADES—the National Planning and Development Secretariat—is a key institution with which the Bank has been working directly through several operations contributing, for example, to helping the government identify the potential of public-private partnerships as efficient management mechanisms.⁴ It should also be noted that SENPLADES is involved indirectly in all Bank programs, since they are subject to its review prior to approval. We therefore agree that the Bank needs to continue working with SENPLADES under the new country strategy.</p>
<p>The Bank should continue promoting sharing of experience and common training programs for national and subnational executing agencies. In addition to technical cooperation at the appraisal phase of projects, the Bank could contribute to the country's capacity to handle Bank projects by promoting seminars and workshops with personnel responsible for executing Bank's projects. The aim is to strengthen the agencies that have lower institutional capacities and reduce the imbalances among them, thereby contributing to greater efficiency and effectiveness in project execution.</p>	<p>Agree. The new country strategy is taking this recommendation into account. The Bank has provided direct support for executing agencies through a series of capacity-building seminars focusing on financial management of procurement and fiduciary risk management. For example, 37 workshops were held in 2010 and 2011 to help all executing agencies implement the new integrated project management model.</p>



1

1 Introduction and Context

This evaluation covers the period 2007–2011. This timeframe encompasses the period from the end date of the preceding Country Program Evaluation (CPE 2000–2006) to the end date of the current Country Strategy (CS 2008–2011).

The evaluation reviews the documentary evidence provided by the Bank and other sources, as well as information gathered from interviews with government officials, representatives of civil society, and Bank staff at headquarters and in the country office. It covers all projects approved, disbursed, and completed during the Country Strategy's period, representing 27 sovereign and non-sovereign guaranteed loans. This task required office and field work in which the Bank's management and Ecuadorian government representatives provided excellent collaboration with the Office of Evaluation and Oversight (OVE) team.

This evaluation is divided into five chapters in addition to this introduction:

- The first chapter provides both the **context** in which the Bank's program was implemented and the **country's development challenges**.
- The second reviews **the Bank's program**, assessing the Bank's relevance to the country's needs.
- The third examines the **Bank's efficiency** in program implementation.
- The fourth gauges **the Bank's development effectiveness**, evaluating both Country Strategy and project results.
- The last chapter presents the **evaluation summary and recommendations** for the Bank's future strategy with Ecuador.

SUMMARY

Ecuador have seen improvements in infrastructure coverage, and poverty and inequality have declined:

- These achievements reflected economic growth and rapidly increasing investment in infrastructure and social programs.
- The sustainability of these improvements is a concern, given the dependence on oil revenue for public revenue and investment.
- Ecuadorian oil production was not particularly dynamic, though rising oil prices helped support increased public investment.
- Private investment declined and it will be needed to complement public financing of needed infrastructure improvements.



Main cities in Ecuador.
The IDB continued supporting urban
upgrading projects across Ecuador.
(C) Hendrik De Bruyne, 2009

COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

A. Political Context

The election of the new administration in 2007 brought important shifts in Ecuador's political context. Since this election, the administration has won successive popular referendums and has consolidated its political agenda. In September 2008 a new Constitution was approved, changing the country's institutional framework. The President was reelected to a new mandate that ends in 2013, with the possibility of one more reelection. This has been a period of unusual political stability for a country that has had its president replaced by the vice-president four times in the past 10 years.

The new administration immediately repositioned the country on the external front. The government scrutinized its relationship with multilateral organizations and declared that the country's needs should be funded to the extent possible by internal resources generated by oil and tax revenues.¹ During the period, the country maintained minimum dialogue with the IMF and the World Bank, and in 2008 it defaulted and repurchased on about US\$3.2 billion of 2012 and 2030 sovereign bonds.² Ultimately, the government maintained its link with the Andean Development Corporation (CAF) and the Bank but also diversified its financing, turning to China to address financial needs gaps not fulfilled by internal, CAF or Bank sources. In 2011, China

¹ See *Plan Nacional Para el Buen Vivir 2009-2013*, in particular Chapters 3 and 4.

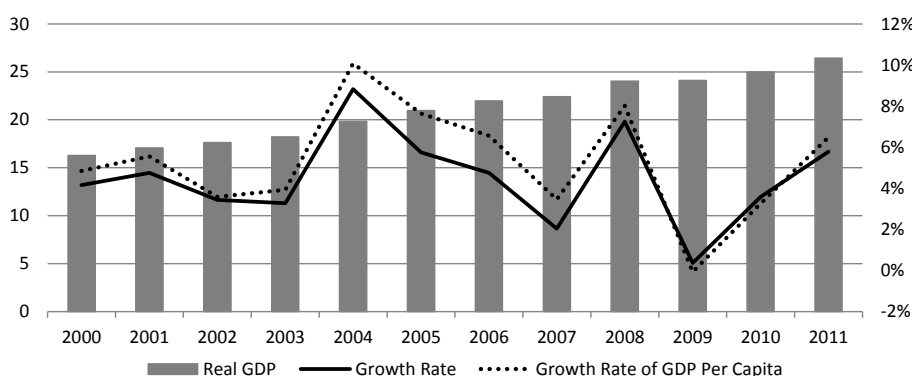
² For a conceptual analysis of the rupture with the so-called Washington Consensus and orthodox approaches of development, see *Plan Nacional Para el Buen Vivir 2009-2013*, Chapter 3.

became the main foreign creditor of Ecuador after lending about US\$2.25 billion to finance construction of a hydroelectric power plant.

Ecuador's imports and exports are highly concentrated in a small group of countries. More than 84% of Ecuador's oil exports are to the United States (55%), Peru (13%), Panama (10%), and Venezuela (6.2%) and about 50% of nonoil exports go to the United States (22.7%), Colombia (9.8%), Russia (8.7%), and Venezuela (8.5%). The figures for imports are very similar.³

B. Macroeconomic Context

Comparisons of several macroeconomic indicators between two periods, 2007–2011 and 2000–2006, and with peers in Latin America suggest that the country's macroeconomic performance has been reasonably good, particularly in light of the global financial crisis in the latter period. Average growth rates of real gross domestic product (GDP) were 4.2 percent in the period 2007–2011, 0.8 percentage point lower than the former period (2000–2006). Similarly, GDP per capita (in purchasing power parity) grew 6% on average during 2000–2006, one-fourth higher than during 2007–2011 (see Figure 1).⁴ Ecuador's economic growth during 2007–2011 was below the median for its regional peers, and its inflation was at the median (Table A-2.1). The unemployment rate averaged 7.7 during 2007–2011, 2.7 percentage points lower than 2000–2006. The unemployment rate decreased steadily from 2004 to 2008 but was negatively affected by the contraction in economic activity (Figure 2) that followed the global financial crisis of 2008. Figure 2 also reveals a sharper positive association between employment and growth since 2007 (see also Figure A-2.1).



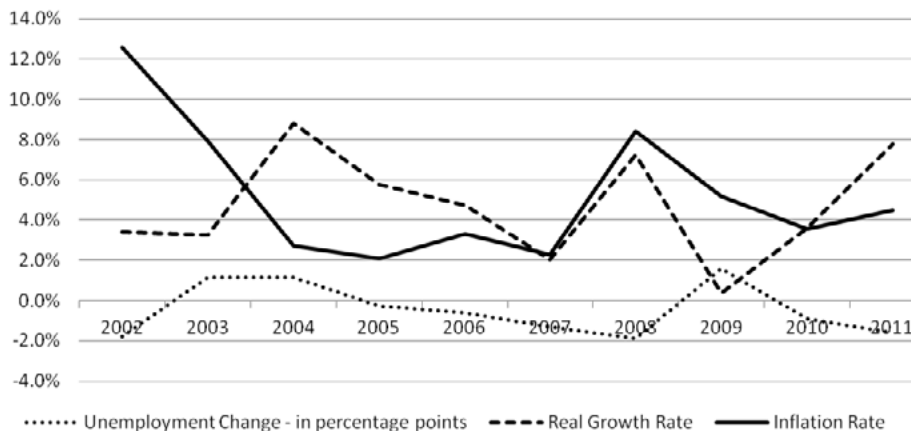
Source: IMF, World Economic Outlook 2011. 2005=100

FIGURE 1
GDP and GDP Growth Rate
over the Decade

³ Central Bank of Ecuador, June 2011.

⁴ The data come from the IMF World Economic Outlook of April 2012.

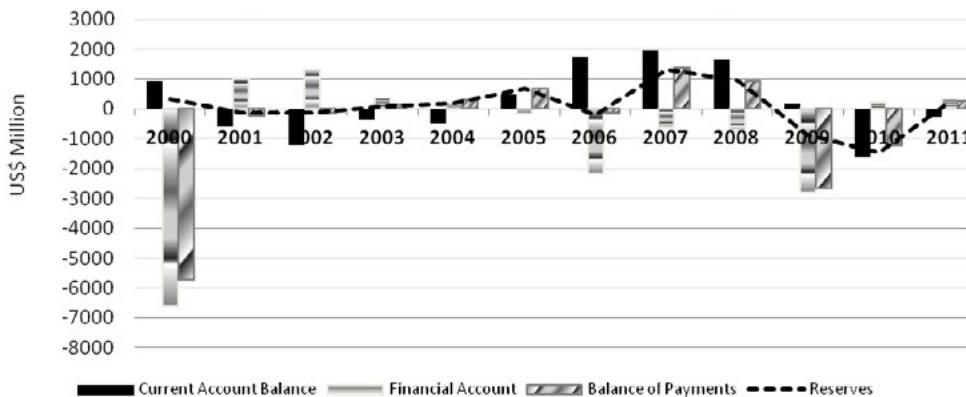
FIGURE 2
Growth, Unemployment and
Inflation Rates



Source: IMF, World Economic Outlook Database, April 2012.

Figure 3 shows the evolution of Ecuador’s balance of payments since 2000. The performance of the balance of payments has been aligned with the current account balance (CAB) since 2007 (with the exception of 2009), and the country’s reserves have shown a more cyclical behavior. The high price of oil and inflow of dollars into the Ecuadorian economy via oil exports did not result in accumulation of reserves. In a dollarized economy with low capital inflows (primarily due to low levels of foreign direct investment), the money supply evolves *pari passu* with the CAB and the stock of reserves.⁵ A sharp fall in oil prices would imply lower inflow of dollars to the country, negatively affecting the performance of CAB and the country’s money supply.

FIGURE 3
The Ecuadorian Balance of
Payments



Source: Central Bank of Ecuador, Quarterly Bulletin of Balance of Payments of Ecuador.

5 For a comprehensive analysis of foreign direct investment in LAC countries, see ECLAC 2011. Another important source of dollars for Ecuador is the remitted money sent by families living abroad. Although unilateral transfers flattened at approximately US\$500,000 across the period, from 2008 onwards there has been a marked reduction in the inflow of remittances from Ecuadorian migrants, particularly from the United States and Spain (see Figure A-2.2).

C. Development Challenges

1. Fiscal Policy

Oil plays an important role in the Ecuadorian economy and accounts for an increasing share of public revenues, though the oil sector has not been a particularly dynamic sector in terms of production in recent years. In 2011 the oil sector accounted for about 40% of central government revenue and about 60% of total exports, as illustrated in Figures 4 and A.2.4. Although oil prices dipped during the global financial crisis of 2008 (see Figure A-2.3), they recovered and have remained strong in recent years.

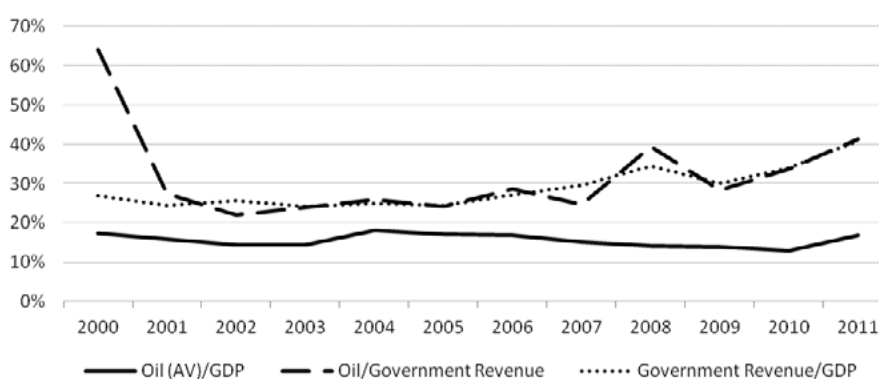


FIGURE 4
The Oil Dependence

Sources: Central Bank of Ecuador, Ministerio de Finanzas del Ecuador and World Economic Outlook, Apr 2012.

Note: Oil (AV) holds for added value of oil on total GDP and it includes refining and extraction of petrol.

Table 1 summarizes the evolution of fiscal indicators of the non-financial public sector. The table shows a sharp increase in current expenditures as a share of GDP, as well as in both primary and nominal deficits, between 2007 and 2011. Though government revenue increased during this period, government expenditure increased even faster.⁶

The third and last columns of Table 1 show the country's fiscal performance for two periods, 2000-2006 and 2007-2011. From 2007 to 2011, total expenditure as a share of GDP increased about 82% after staying virtually flat during 2000-2006, though part of this increase result from a change in the accounts consolidation methodology. This financed the rapid increase in social spending from 2007 to 2010 (see Figure 5) and the sharp upward trend in public investment during the same period (see Figures A-2.5 and A-2.8).

Table 1 also illustrates Ecuador's falling levels of debt and the increasing share of multilateral institutions in Ecuador's total external debt. The Bank and the CAF are

⁶ The country fiscal indicators deteriorated despite the upward trend in real GDP and the increase of government revenues due to both the high oil price in the international market and the higher efficiency in tax collection.

TABLE I – EXPANSIONARY FISCAL POLICY IN ECUADOR

	2000	2006	2000-2006 (Var %)	2007	2008	2009	2010	2011	2007-2011 (Var %)
Flow Indicators - NFPS									
Total Revenue/GDP	25.3	27.2	7.5	29.0	40.0	35.3	40.0	47.8	64.5
Total Expenditure/GDP	23.9	23.6	-1.0	26.9	39.3	39.6	41.6	48.8	81.7
Current Expenditure/GDP	19.0	19.0	-0.1	19.4	26.4	26.8	29.2	33.9	74.3
Primary Result/GDP	7.9	5.8	-26.6	4.2	1.9	-3.6	-0.9	-0.2	-105.8
Fiscal Balance/GDP	1.5	3.6	148.6	2.3	0.6	-4.3	-1.6	-1.0	-143.7
Stock Indicators									
Internal Debt/GDP	17.3	7.9	-54.3	7.1	6.7	5.5	8.0	6.8	-4.0
External Debt/GDP		69.0	24.5	23.4	18.6	14.2	15.0	15.2	-34.7
Total Debt/GDP	86.3	32.4	-62.5	30.5	25.3	19.7	23	22	-27.9
Multilateral Institutions									
World Bank/External Debt	7.8	7.5	-3.8	6.6	6.2	7.4	5.4	3.8	-42
IMF and FIDA/External Debt	1.4	0.4	-71.4	0.1	0.1	0.2	0.1	0.1	0.1
IDB/External Debt	17.6	18	2.3	18.5	19.6	27.9	24.6	23.4	26.5
CAF/External Debt	8	11.8	47.5	17.6	17.3	24.1	24.9	24	36.4
FLAR/External Debt	2.6	2.9	11.5	1.7	0.0	6.5	4.9	1.8	5.9

Source: Central Bank of Ecuador and Ministerio de Finanzas del Ecuador.

two important foreign lenders, accounting for about 25% of the country's external debt each and have increased their relative exposure in recent years.

2. Poverty and Inequality

Income poverty and inequality in Ecuador have fallen markedly since 2006 (see Table A-2.2), though urban-rural disparities remain. Poverty stood at 38% overall in December 2006, 26% in urban areas and 61% in rural areas. The incidence of poverty declined by 24% from December 2006 to December 2011, 33% in urban areas and 16% in rural areas. The high incidence of rural poverty remains one of the most urgent challenges for the country in the near future. Income inequality, as measured by the Gini coefficient, fell by 12% over that same period, from 0.54 to 0.47 (Table A-2.2).

The Gini index and poverty incidence are income-based measures and change in response to temporary shocks in the economy, such as reduction in real GDP. Alternatively, one can look at the evolution of the human development index (HDI). According to United Nations classification, since 2000 Ecuador has reached the category of countries with high HDIs. In that sense, Ecuador has performed comparably to Colombia, Peru, and Brazil in terms of human development, though it has flattened from 2005 onward (Figure A-2.6).

Access to public goods differs by rural vs. urban location and ethnic group. In 2010 school attendance among children between the ages of 5 and 14 reached 96%, 98% and 93% at national, urban and rural levels, respectively. For youth (15 to 17), the rates are lower at 81%, 88% and 70% at national, urban and rural level, respectively. The lowest attendance rates are among *montubios* (59%) and indigenous (about 70%).⁷

The government has been making efforts to reduce urban-rural disparities through its expenditures on social programs. One of the best known initiatives is the *Bono de Desarrollo Humano* [Human Development Bonus], a cash transfer program that provides US\$35 for households with a monthly income below the poverty line and with children between six and 15 years old. In 2010, 30% of households benefited from the program; 61% were in rural areas, about 67% were indigenous, and nearly 33% were Afro-Ecuadorians.

Another important poverty-related issue in Ecuador is financial inclusion and access to credit for poor people and SMEs. In 2010 the SME sector comprised 83% of Ecuador's firms, according to INEC. This segment is less productive than larger firms, and wages are lower.⁸ Surveys of enterprises and microenterprises show that the lack



Fisherman digging up clams (Saca Mano, El Oro). Although urban-rural disparities remained, poverty and inequality steppedly declined during the evaluated period.

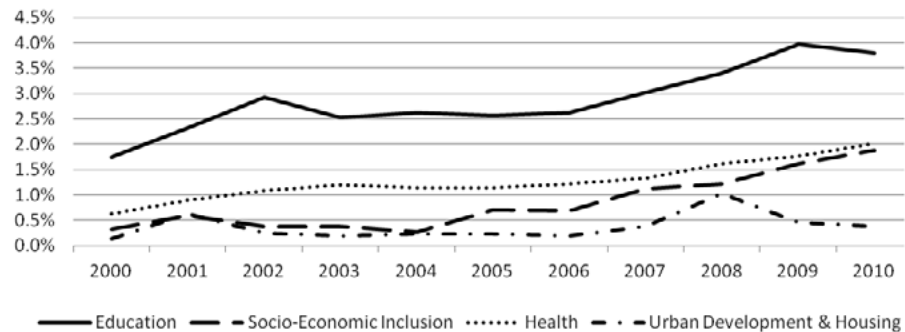
(C) IDB/David Mangurian, 2008

7 The greatest proportion of people below the poverty line are indigenous (42%) and Afro-Ecuadorians (19%) living in rural areas. In January 2011 the program covered about 1.2 million households. The numbers are from INEC and elaborated by MCDS-SIISE.

8 R. La Porta and A. Shleifer, The unofficial economy and economic development. Brookings Papers on Economic

of access to credit constrains many SMEs in Ecuador. The financial sector incurs high costs in financing these segments due to the high degree of informality of both rural and urban companies and non-market based interest rates.⁹ The microfinance portfolio nationwide reached US\$2.430 billion, accounting for 1,469,461 operations that represented 4% of GDP¹⁰. The Law on Economic Solidarity (*Ley de Economía Solidaria*) approved in April 2011 is an effort of the government to ease access to finance for small producers and micro entrepreneurs.¹¹

FIGURE 5
Social Expenditures as
Percentages of GDP



Source: Ministry of Finances - SIGEP and Central Bank of Ecuador.

Infant mortality (one year old or younger) was 11.6 infants per thousand live births in 2008, about 13% less than in 2006. Among children under 5 years old, the mortality rate was 16 per thousand live births, 12% less than in 2006. Although the neonatal mortality declined by 10% in the same period, the maternal mortality (death of mothers shortly after the pregnancy) was about 57 mothers per 100,000 of live births, 19% per cent higher than in 2006.¹²

Public spending on health and education has followed an upward trend since 2000 (see Figure 5), with a particularly sharp increase since 2007. In 2010 the government spent about 4% of GDP on education and 2% each on health and socio-economic inclusion, almost 60% more than in 2006. Government spending on housing and urban development has not surpassed 0.5% of GDP except in 2008. Official figures estimate that the qualitative housing gap today is about 1.3 million units. [INEC (2011)].

Activity, 2 (2008), pp. 275–363.

9 See Stevenson et al. 2007.

10 Data from *Boletín de Microempresa 2010-2011*, Superintendencia de Bancos Y Seguros del Ecuador: http://www.sbs.gob.ec/ptractg/sbs_index?vp_art_id=157&vp_tip=2.

11 Registro Oficial No.- 444, del 10 de Mayo de 2011. The Ley de Regulación del Costo Máximo del Crédito, (Registro Oficial N° 135) is another initiative of the government that aims at increasing access to finance for the poorest segments of the population.

12 The numbers are from INEC and elaborated by MCDS-SIISE.

3. Employment and Competitiveness

According to official numbers, the unemployment rate in Ecuador was 4.2% in 2010 (5.1% in urban areas), though underemployment was still close to 57.1% (46.6% and 77.8% in urban and rural areas, respectively). At the same time, Ecuador has adjusted the real wage annually according to real GDP growth and inflation rates. The spikes in Figure A-2.7 show the magnitudes of the adjustments in real wages in each of the four years analyzed. Nationally, real wages grew 25.6% between December 2007 and December 2011. Low labor productivity is a common phenomenon in Latin American and the Caribbean and a particularly critical one in Ecuador [UTEPI, 2007]. According to the International Labor Organization (2011), labor productivity in Ecuador fell sharply from 2008 to 2009 and in 2010 was the second lowest among South America countries.¹³

Ecuador needs private investment to spur growth and employment and help finance needed infrastructure, but private investment has been declining in recent years (Figure A-2.8). Average annual foreign direct investment (FDI) was about 31 percent lower in 2007-2011 than in 2002-2006. Figure A-2.9 shows that China has been the main FDI investor since 2009, though on average European Union was the main FDI source for the period 2007-2011. Ecuador moved from 90th to 101st position on the Global Competitiveness Index from 2006-2007 to 2011-2012.¹⁴ Cross-country governance indicators also indicate concerns with the institutional environment, in particularly rule of law and regulatory quality.¹⁵ The government intends to improve the business climate through the Production Code approved in 2011. A more stable institutional setting would positively affect private-sector decision-makers by providing incentives for them to engage in long-term projects and to work more closely with the public sector in public-private partnerships.¹⁶

4. Infrastructure and Environment

As noted earlier, the oil sector has not been particularly dynamic, and oil's share in the country's total GDP has been declining in recent years. As shown in Figure 6, total production in May 2011 was slightly lower than that of November 2007, though in recent months it appears to have increased slightly, possibly reflecting the renegotiation of oil contracts between the government and some private companies.¹⁷

The country faces major challenges in extending the coverage of sewage connections, piped water and drinking-water, mainly among rural households. With regard to sewage connection, coverage has improved since 2006 but is still less than 60%. In

13 International Labour Organization, 2011 - Key Indicators of the Labour Market (KILM), Seventh Edition.

14 The World Bank, The Global Competitiveness Reports 2011-2012.

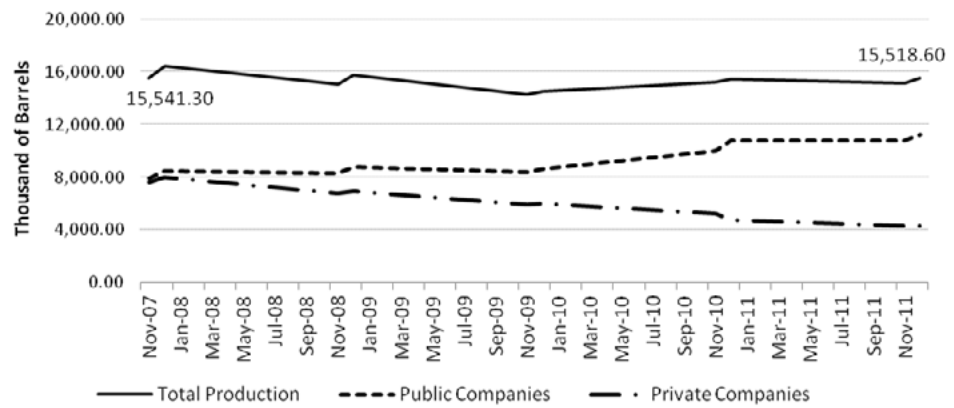
15 See World Bank Governance Indicators Report, 2011.

16 The government recognizes the challenges related to infrastructure and competitiveness in the Code of Production of 2011.

17 Data from the Ecuadorian Central Bank, *Cifras del sector petrolero*.

rural areas and among indigenous (19.9%) and *montubios* (16.3%), coverage is less than 20%.¹⁸

FIGURE 6
Public and Private Oil
Production



Source: Central Bank of Ecuador.

Ecuador suffers from inadequate infrastructure in the power sector despite some advances in electricity coverage.¹⁹ Power production fluctuated between 2003 and 2006 and then fell sharply until 2009 (Figure 7). In 2009, the country had to impose electricity rationing. From 2006 on, per capita demand for electricity has grown faster than electricity production.²⁰ The government provides electricity subsidies along the production chain and regulated prices for final consumers.²¹ In 2010, public spending on energy subsidies was estimated at US\$278 million. Yet between 5% and 10% of the population still does not have access to electricity [CONELEC, 2011].

The primary road network is has improved in recent years, though gaps remain,²² According to the *Ministerio de Transporte y Obras Públicas* (MTO), from 2007 to 2011 public investment in the sector more than doubled compared with 2000–2006. MTO reports that as a consequence of the Emergency Plan for the sector, the public sector has improved about 2,900 km of roads, and 2,300 km of those roads are in very

18 These numbers come from PAHO, Progress on Sanitation and Drinking-Water: Country Estimates for 1990, 2000 and 2008, and from INEC (elaborated by MCDS-SIISE). For a more detailed analysis of the inequality of access of Ecuadorian population to health services, see López-Cevallos DF and Chi C. (2010).

19 The government stressed the issue in Code of Production of December 2010, stating that there will be tax incentives for initiatives that contribute to the diversification of the energy matrix of the country.

20 These numbers referred to accumulated rates. From 2006 to 2010, consumption per capita increased 20% whereas production per capita increased by 16%, see CONELEC website: <http://www.conelec.gob.ec/indicadores/>. This suggests either that the country is using idle capacity of the sector—since production increased faster than consumption from 2003 to 2007—and/or that the country has been facing difficulties to respond to the demand. In other words, although the production level remains higher than the aggregate demand, from 2008 on, the demand for electricity has grown faster than electricity production, narrowing the reserve margins of the system.

21 In 2009, public electricity cost 10.70 US\$ cents per kWh, whereas industrial, commercial, and residential sectors paid 6.70, 7.80, and 9.00 cents per kWh, respectively. See CONELEC, 2009, Table 21, p.31.

22 Avellan (2010) and Cueva et al. (2007). Unfortunately, little is known about local and provincial roads, which is why they were not covered in this document.

good condition. The country also faces challenges concerning urban transportation. It is estimated that about 65% of the population uses urban public transport, but the stock of private autos has followed an upward trend. This seems to be a result of (i) the boost in demand for transport from the periphery to central areas, explained by a growing number of people living in peripheral areas, and (ii) the shortage of public transport to meet the demand in peripheral areas. The inefficiencies caused by the excess use of private autos are well known, ranging from air pollution and noise to traffic congestion and accidents.

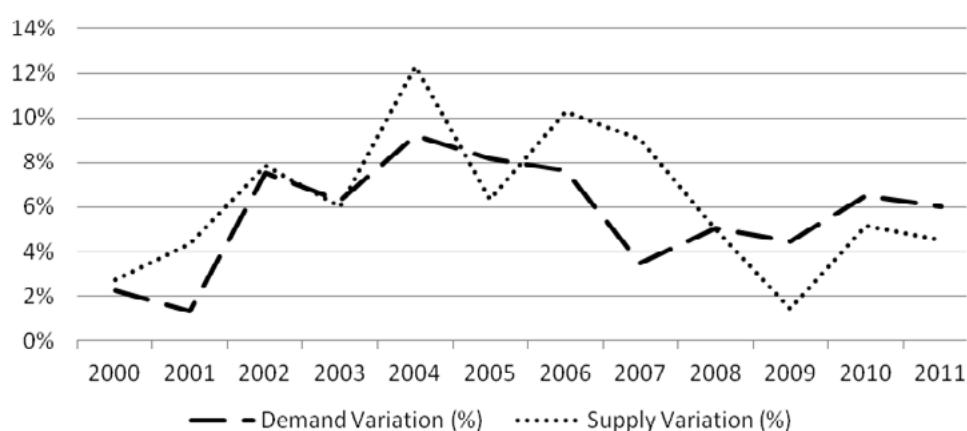


FIGURE 7
Demand and Supply Electricity

Source: CONELEC, 2011.

The dependence on fossil fuels creates environmental challenges.²³ Oil production requires constant investments to prevent oil spills, and oil, mining, and other extraction activities pose risks to the environment as they discharge hazardous waste. The water, sewage and waste collection sectors also need investments to protect the environment.²⁴ Ecuador has rich biodiversity and also faces big investment challenges to protect its coastal areas and prevent deforestation.

In sum, Ecuador has seen significant reductions in poverty and inequality in recent years, due to both continued economic growth and large increases in social and infrastructure spending. Many challenges remain in sustaining that progress – including strengthening the oil sector, ensuring an investment climate that will attract private and foreign investment, and tackling remaining infrastructure and productivity gaps.

²³ According to the Ministry of Electricity and Renewable Energy, the government plan to have 9 additional hydropower plants in operation until 2016 to reduce dependence on fossil fuel.

²⁴ In 2006, for instance, only 5% of residual waters had sewage treatment. Source: PNBV. With regard to environment degradation, there is also evidence of negative effect of water contamination on fish and shrimp population, and damages caused by an unordered urban occupation that increase wasting generation, increased demand for an effective sewage system, and air pollution. See PNBV and Llaguno et al. (2008).



Farms in Ecuador. The IDB continued supporting the country competitiveness and diversification agenda.

(C) Rob Broek, 2008

2 The Bank's Relevance

A. THE BANK'S COUNTRY STRATEGY

Working within the framework of the PND, which defined the country's priorities for 2007–2010, updated by the PNBV²⁵, the Bank's Country Strategy was aligned and consistent with the country's agenda. The PNBV's assessment stressed that the stabilization policies, structural adjustments, and reduction of government size promoted by multilateral financial institutions were the main reasons for the institutional weakness and socioeconomic crises suffered by the country in the past two decades. To reverse that situation, the PNBV aimed at promoting the "Citizens Revolution", a new political agenda that consisted of pro-active intervention of the State in the economy focusing on social and infrastructure issues.²⁶ The PNBV defined a broad list of 12 development objectives with 95 related goals (Box A-3.1).

The Bank undertook 23 diagnostic studies to identify areas of support that could guide dialogue with the country. Based on these studies, the Bank's Country Strategy defined three strategic pillars: (i) productive infrastructure (oil, power, and transportation); (ii) production development and access to financing (strengthening of financial system supervision and access to financing for micro, small, and medium-sized enterprises, or MSMEs); and (iii) social development and economic inclusion. For each of these pillars, the Country Strategy also identified a series of government strategic objectives that could be matched with the Bank's interventions during 2008–2011 (Box A-3.1).

A comparative analysis of the goals and objectives of the most recent and previous Country Strategies does not show substantial differences among them.²⁷ In fact, their

25 In the PNBV, the Government of Ecuador updated the goals and objectives of the PND.

26 See the government document Plan Nacional de Desarrollo (PND) page 40, and "Presentación Plan Nacional de Desarrollo", SENPLADES, available at <http://plan2007.senplades.gov.ec/>.

27 These three strategic programming frameworks focus on competitiveness, economic performance, and social inclusion issues. The 2000–2002 Country Strategy focused on "helping Ecuador to accelerate crisis recovery, stabilize its economy, and implement the dollarization plan", with the complementary support of the rest of the multilaterals, such as the IMF, World Bank, and CAF. Since 2003, increasing crude oil prices and the incipient economic stability provided by dollarization opened new challenges for Ecuador. In turn, the 2004–2006 Country Strategy stated as its main objective to "make the country less vulnerable to external and internal shocks." The annual growth during 2000–2007 was 4.5%, mainly as a result of favorable external conditions and a strong oil sector; this process allowed social indicators to return to levels prior to the 1999 crisis. However,

SUMMARY

The period under evaluation was characterized by an important political and institutional shift in the country, embodied in the new Constitution of Sept. 2008. In this context:

- The Bank was flexible in aligning its agenda to the country's planning framework;
- The three Country Strategy pillars –productive infrastructure, access to finance, and social inclusion– drew on the Bank's core competencies and accumulated experience.
- The program has been relevant and has had an important role in helping to finance the country's investment plan since the financial crisis of 2008.



The government has been making efforts to reduce urban-rural disparities through its expenditures on social programs.

(C) IDB, 2009

goals were broad enough to provide flexibility to the Bank as it learns how to work in a context of shifting political preferences. When the Bank and government negotiated a new strategy in 2007, the Bank approved an amount of about US\$503 million in loans, Trade Finance Facilitation Program (TFFPs), technical cooperation, and Multilateral Investment Fund (MIF) operations (Table A-3.1). These operations were based on specific requests from the new authorities.²⁸ In particular, the Bank determined that the consolidation of its relationship with the new government crucially depended on the Bank's capacity for timely delivery of projects requested by the government that year.²⁹

Ecuador's political landscape and economic environment have undergone many changes, and the country has had a high turnover of ministers responsible for units executing Bank projects.³⁰ These shifts in the political environment have greatly affected the Bank's programming work. The 2008-2011 Country Strategy recognized the governments' weak capacity to "manage demands under a consistent medium-term strategy line" but did not define mechanisms to mitigate these risks.³¹

The evaluation found that most projects were in areas in which the Bank either has core competencies (transportation and electricity) or has both accrued experience and dialogue in the country (water, sanitation, and urban modernization). Choosing these projects, the Bank was following a "safe route" to implicitly mitigate the risks of operating under high uncertainty. The Bank also identified new areas for operations, such as a multi-year program supporting Petroecuador.

Most of the Bank's selected areas were also in line with the CPE's previous recommendations that the Bank should (i) continue supporting the country competitiveness and diversification agenda; (ii) identify areas in which it could add value in a context of losing market share to CAF mainly in infrastructure; (iii) continue supporting education programs in rural areas, and (iv) emphasize technical dialogue and assistance to improve the quality of government expenditure and strategic planning.³² As will be analyzed in the next section, the Bank did not go forward with the PBL on Competitiveness. It did support some technical cooperation projects aimed at strengthening the country's strategic planning. The Bank fell short in programming education programs in rural areas but funded support through non-programmed projects.

as the 2008–2011 Country Strategy noted, in 2006 the Ecuadorian economy began a downward trend, owing primarily due to bottlenecks in the energy sector (power and oil) and infrastructure and to the decrease in private investment.

28 See IDB Operational Program Report (2009). Ecuador Lending Program Update, Annex IV, p. 9.

29 See "President Moreno Briefing for Meeting with Minister Fausto Ortiz," IDB memo, October 2007, p. 2.

30 The average ministerial turnover during 2007-2011 was about 3.1 per ministry. The Ministry of Transport and Public Works had the most turnovers, with six ministers during the period (See Table A-3.2).

31 "IDB Country Strategy with Ecuador: 2004-2006", p. 22..

32 The other CPE recommendation is not related to the Bank's programming. It recommended that the Bank monitor the country office modernization implemented since 2003.

B. THE BANK'S BUSINESS MODEL

Although the Bank did not explicitly identify mitigation mechanisms to address the risks of programming under uncertainty, it implicitly defined a business model to handle this particular context by adapting to the country's preferences. As in the definition of Country Strategy's objectives, the Bank was cautious in defining the financial instruments to support the achievement of the strategy's objectives. The Bank envisaged a combination of policy-based loans (PBLs), sovereign and non-sovereign guaranteed (NSG) investment loans, technical cooperation, and grants in all program areas. Surprisingly, the Bank's Country Strategy anticipated public-private partnerships for infrastructure projects without identifying actions to address the country's weak institutional and regulatory framework. As discussed below, the partnerships never materialized.

The Bank approved lending during the period 2008–2011 of about US\$1.7 billion, including sovereign and NSG loans (US\$1.643 billion), MIF operations (US\$11.6 million), and technical cooperation (US\$26.2 million). Pillar II received the largest number of loans (50%) and MIF operations (83%), while Pillar III received the largest number of technical cooperation projects (59%). In terms of approved loan amounts, Pillar III led with 42%, followed by Pillar I (31%) and Pillar II (27%).

The Bank tried to address the deficiencies of national institutional capacity—as identified in the Country Strategy—by providing technical cooperation with most loans. These technical cooperation projects were implemented either before or during project preparation. The exception is the *La Internacional NSG* loan, in which the previous technical cooperation was not related to the operation itself. MIF technical cooperation supported the same goals as NSG operations, all of which related to the financial sector (microcredit, mortgages, and cooperatives), including the *Banco Pichincha*, *Compañía de Titularización Hipotecaria* (CTH), and *Cooperativa de Ahorro y Crédito Jardín Azuayo* projects. Finally, the Bank also promoted knowledge products and capacity-building activities involving the private sector, academia, and civil society.³³

The Bank's relevance in meeting the country's financial needs has increased as financing options for the country's extensive investment plan have narrowed. At the beginning, the government's strategy was to reduce public borrowing and to finance priority programs with fiscal resources. Not surprisingly, there was only one approved project in 2008, the year in which the country approved the *Recovery of State Petroleum Resources for Public Use Act*. In accordance with the Act, all funds associated with oil revenues were placed in the government's general budget as capital income to be used to finance investment expenditures according to the priorities of the PNBV.

US\$ **1.634** BILLION

Approved Lending
during the Period 2008-2011

³³ For a description of these activities, see the IDB Country Program Document 2011, p. 4.

The country resumed borrowing from the Bank in reaction to the 2008 global financial crisis (Figures A-3.1 and A-3.2). However, the Bank faced some constraints in its financing. In 2008, the country asked the Bank to double the amount of the second operation of the PBL on Competitiveness.³⁴ The country and the Bank negotiated this loan for almost one year. In the end the Bank denied it, arguing that the country's regulation of interest rates in the financial markets hindered the operation. The Bank's position was consistent with its previous dialogue and technical cooperation efforts in strengthening both the efficiency and institutional transparency of the financial system.³⁵ The monitoring of the PBL's first operation had already indicated moderate risks related to lack of institutional consensus on structural reforms and legislation for the functioning of the financial system. Ultimately, these were the main factors that prevented an agreement on the second operation. Subsequently, the expiration of the IMF's agreement with the country inhibited further Bank provision of either policy-based or emergency loans.

The Bank managed to maintain its investing lending program despite complexities. After political changes in the municipality of Quito, the Bank reformulated contractual clauses of the *Quito Historic Downtown Modernization Project* with the new authorities. As discussed in Chapter IV, this reformulation made feasible the project's completion, even with changes in project components. The Bank also overcame an impasse in the *Quito Airport Project* (Box A-3.3).

1. Pillar I: Productive Infrastructure

As discussed in Chapter II, infrastructure represents an important bottleneck to Ecuador's competitiveness. Previously, the Bank had faced difficulties approving public loans to these sectors owing to both uncertainties in regulatory frameworks and lack of definition of the country's execution entity.³⁶ During the 2008–2011 period, perceiving that the government did not envisage a role for the private sector in infrastructure, the Bank adopted an implicit model to handle this strategic sector for the country. The aim was to restart dialogue with the country, which was on hold after the cancellation of the NSG loan *Baba Hydroelectric Power Project*. First, the Bank financed some government needs in transportation, electricity transmission,

³⁴ Originally amounting to US\$50 million, the Bank's financing rose to US\$100 million to fulfill the country's financial needs of US\$401 million. The remaining US\$301 million could be complemented by the CAF. Source: IDB-OP-147, June 10, 2008, p. 2.

³⁵ See "*Informes de Visita*" of September 22 and October 7, 2009. The "*Informe de Visita*" of September 22 reports the pending actions necessary to carry on negotiations on the second tranche of the Competitiveness PBL, such as (i) The *Junta Bancaria* should have sent the new methodology for the calculation of financial services fees, (ii) the *Superintendencia de Bancos* del Ecuador should have presented the documents with the methodology for the calculation of the interest rate ceiling and the market-based rationale of the methodology, and (iii) the *Superintendencia* should have presented a document with the planning and results of the supervision process about transparency of financial institutions in Ecuador. Nevertheless, the "*Informe de Visita*" of October 7 confirms that the required information, related to the rules and transparency of the financial sector, was not sent to the Bank.

³⁶ In the electricity sector specifically, the Bank postponed the approval of the Transmission Power Project loan because of the lack of definition regarding the entity that could be responsible for project execution.

and the oil sector. The projects were relevant but small in scale vis-à-vis the country's needs. Second, the Bank selected some components in which it could add value - such as environmental safeguards in the oil sector, strengthening of planning in electricity, and performance-based contracts for road maintenance - to support the sustainability of investment in these sectors.

The Bank decided to signal a long-term approach to the country—for instance, approving the first tranche (US\$350 million) of a conditional credit line for road transportation (US\$1 billion).³⁷ However, the Bank was cautious in its country dialogue and did not identify the main roots of sector problems it aimed to address with the Bank's loans. For instance, even though the power outage occurred one year before approval of the *Support for Transmission of Electricity Program* (EC-L1070), outages were not addressed in the loan document.³⁸ Likewise, the litigation process between private companies and the government regarding renewal of oil exploitation contracts was not identified at the appraisal of the *Quito Pipeline Modernization Project* (EC-L1040).

2. Pillar II: Productive Development and Access to Financing

The Bank used mostly private instruments—NSG loans and MIF projects—to address the objectives of the Productive Development and Access to Financing Pillar. Providing long tenures (10 to 12 years) and mobilizing B lenders,³⁹ the Bank identified private clients that could promote development objectives in the country through its support. As a complement, the Bank supported technical cooperation and dialogue in order to strengthen the country's financial and trade sectors.

The *La Internacional Project* (EC-L1063) approved in December 2010 involved both A and B loans—US\$10 million and US\$15 million, respectively. The NSG loan consists mainly of the financing of capital expenditures to install a new denim (textile) production line and a new turbine for the plant's small hydroelectric power plant. The project aimed to increase the competitiveness of the textile industry, promote the use of renewable energy, and generate employment.



Beneficiaries of the *Credit for Community Development* (EC-L1082).

In 2010, the Small and Medium Enterprises sector comprised 83% of Ecuador's firms.

(C) IDB, 2010

³⁷ This project was designed to finance the construction of the Babahoyo River Segment Bridge, performance-based road maintenance contracts, and infrastructure management and road safety. In particular, the Bank recognized US\$39 million of expenditures made by the Government of Ecuador from budget resources prior to the effective date of the loan contract signed with the Bank. Loan Proposal, EC-L1065, p. 14.

³⁸ The general objective of the project is to reliably and efficiently expand and improve the quality of energy supply in various regions of the country to meet demand and promote medium and long-term economic growth. The project is in line with the Master Plan for Electrification of Ecuador 2009–2020, which intends to expand and improve the quality of energy supply in various regions.

³⁹ The Ecuadorian legislation establishes that any external debt, when repaid, should include 2% in taxes, except in cases where the financing comes from a multilateral bank. Interviews conducted by OVE with private sector clients in Ecuador identified this feature as a strong incentive to replace the Bank's B lenders with other financial sources.



Plaza de San Francisco, in Quito
The Government of Ecuador requested
additional support in social housing,
urban upgrading and several social
sectors.

(C) Michael Gray, 2012

Concerning access to credit, the Bank worked with the *Banco Pichincha*, the largest bank in Ecuador, to address the housing gap by expanding access to microcredit. The project (EC-L1061) provided a US\$50 million NSG loan to the facility to contribute to extending the tenure of its lending for housing financing and medium-term financing for MSMEs in Ecuador. The project was preceded by an MIF operation to improve bank financial methodologies and technologies to better serve SMEs.

The *Credit for Community Development* (Project EC-L1082) was the first project of the Opportunity for the Majority Initiative in Ecuador. The project's objective is to expand access to financing for social infrastructure works that benefit low-income people in the provinces of Azuay, Cañar, El Oro, Loja, and Morona Santiago. This project, approved in November 2010, consists of two NSG loans, an A loan of US\$3 million and a subsequent B loan of US\$6 million.

The final NSG loan that targets this pillar's objectives is the *CTH Warehouse Facility Project* (EC-L1031). The project was approved in September 2009 and aims to increase the liquidity of CTH SA to support the mortgage market for low-middle and middle-income social groups.

The Bank also approved sovereign guaranteed loans to address Pillar II. The *Rural Land Information and Management Project* (EC-L1071) aims to support government efforts to provide property rights in rural areas, the lack of which prevents farmers from accessing credit to improve their competitiveness. Fishery sector competitiveness is supported by loan EC-L1059.

3. Pillar III: Economic and Social Inclusion

The Bank's approach for this pillar was twofold. First, it addressed ad hoc government requests for national programs. Second, it followed up on previous interventions in the country, at both the national and subnational levels.

Regarding ad hoc requests, the country asked for financing for housing solutions. The Bank supported the country by approving the *National Program for Social Housing Project* (EC-L1074) in December 2009, as well as by the *Modernization of the National Civil Registration Project* (EC-L1083). The latter is a relatively new project, approved in December 2010, which supports expansion of the civil registration, identification, and documentation modernization plan.

In terms of following up on previous operations, the new *National Infrastructure Program for the Universalization of Education with Quality and Equity* (EC-L1075) was approved in July 2010. Its loan document suggests that it complements the efforts of project EC-L1018, which aimed to support the universalization of basic education and improving educational quality and management, with an emphasis on border, rural and poor urban areas. Likewise, the project *Social Protection and Health Care* (EC-L1076), approved in October 2010, complemented the efforts of *Universal Health Insurance Program-PAUS* (EC-L1025), a US\$ 90 million project approved in June 2006 and nearly 100% disbursed. Its objective was to improve access and quality of health services for the two poorest quintiles of the population by providing them with a basic package of health insurance. Finally, the Bank approved the *Rural Sanitation and Water Infrastructure Program* (EC-L1081) in January 2011. Its objective is to increase the coverage of efficient and sustainable water and sanitation services in rural communities, which was also the objective of the Bank's previous interventions in rural areas of the country.

C. DONOR COORDINATION

Regarding donor coordination, the limited dialogue between the government and both the World Bank and the IMF reduced the opportunities for the Bank to interact with other donors. In the past, the Bank has coordinated programs with both the World Bank and the IMF and to a lesser extent with the CAF.⁴⁰ It is worth noting that the Bank and the CAF have common areas of intervention, mainly in the transportation and water and sanitation sectors, as indicated by the donor coordination matrix in the most recent Country Strategy. No overlap has emerged among them during this period, in which the CAF became the largest multilateral lender to Ecuador.

There are several providers of technical cooperation in Ecuador, such as *Fondo Español de Cooperación para Agua y Saneamiento en América Latina y el Caribe* (FECASALC) in the sanitation sector; the United States Aid Agency for Development (USAID) for environmental impacts of small-scale fishing; and the Pan-American Health Organization / World Health Organization (PAHO/WHO) for social protection and integrated health care. The Bank has shared designs for technical cooperation projects targeting these sectors, but has not coordinated significantly with others in their execution.

⁴⁰ See *CPE Ecuador 2000-2006* (RE-341), chapters 2 and 4.

3



Panama hats from Ecuador, also known as Montecristi hats.
(C) iStockPhoto, 2009

3 The Bank's Efficiency

A. THE STRATEGY'S LINKS WITH SUBSEQUENT LENDING

Only 33% of the Bank's approved loans and 39% of its approved technical cooperation projects were previously anticipated in the IDB Country Strategy Document with Ecuador (GN-2490). An even lower percentage of MIF operations were anticipated (13%). These numbers emphasize the uncertainty when the strategy was prepared.

Regarding the loan portfolio, the conditional credit line for transportation projects and the modernization of Petroecuador's pipeline project were anticipated in the Country Strategy Document under Pillar I. Four of the 8 projects anticipated in the Country Strategy Document for Pillar II were approved during the period analyzed.⁴¹ However, the largest project by dollar value (US\$90 million) was not: the *National System for Rural Land Information and Management Project* (EC-L1071). Finally, in Pillar III, none of the five approved projects were anticipated in the Country Strategy Document.

Regarding the technical cooperation portfolio, only 1 of the 3 anticipated projects under Pillar I was approved (EC-T1180). This project focuses mainly on supporting the transport sector investment program. The anticipation rate was higher in the case of Pillar II: 4 of the 9 anticipated technical cooperation projects were approved. These projects address issues such as strengthening supervision of financial institutions (EC-T1174), implementation of financial institution resolution processes (EC-T1172), strengthening trade logistics and trade facilitation (EC-T1173), and preparation of public management reform (EC-T1228). Finally, regarding Pillar III, 8 of 11 anticipated technical cooperation projects were approved, supporting children's symphony orchestras (EC-T1102), universalization of basic education (EC-T1161),

SUMMARY

- The quality of project execution continues to raise concerns despite some improvement in timeliness and costs;
- The country needs to continue strengthening its project execution capacity to better benefit from the Bank's support in key developmental areas.

⁴¹ The projects are the following: EC-L1031, EC-L1059, EC-L161, and EC-L1063.



Ecuadorians buying in the popular Sunday market in Cayambe, Ecuador.
(C) Victor Hugo Villamil Avila, 2011

design and execution of social policies (EC-T1161 and EC-T1123), risk management capacities in Esmeraldas (EC-T1081), modernization of the civil registry (EC-T1198), strengthening social security information system (EC-t1234) and enhancing quality primary education (EC-T1234).

B. QUALITY OF PROJECT EXECUTION⁴²

Program execution has been mixed in Ecuador.⁴³ During 2000-2006, an average of 40% of loans in execution disbursed less than originally projected. This proportion fell to 30% for 2007–2010, 18% below the Bank average for the same period.. Figure A-4.1 shows the active portfolio, approvals, exits and cancellations in the country from 2004 to 2011. At the end of 2006, the undisbursed balance of Ecuador amounted to US\$ 457 million, with 20 loans in execution.⁴⁴ At the end of 2010, the undisbursed balanced was \$US1,009 million, an increase of 221%.

The Bank's monitoring reports show signs of deterioration in the quality of loans under implementation during the 2007-2009 period (the most recent data available

⁴² This section is based on Table A-4.1.

⁴³ For all investment projects that are between 1% and 99% disbursed for all years since 2000, OVE compared the ratio of elapsed duration/anticipated duration to the ratio of disbursed amount/current approved amount. OVE then fit this data with a logistic curve to describe the average disbursement performance of programs Bank-wide. Points above this fitted curve represent projects disbursing quicker than the Bank average and points below represent projects disbursing slower.

⁴⁴ Investment, PBL and, NSG loans.



given the phase-out of the PPMR instrument in the Bank). During 2000–2006, 20% of projects reported implementation problems in their PPMRs; this increased to 32% in 2007–2009, compared to the Bank’s average of 16%. The percentage of projects that reported problems in achieving their development objectives in their PPMRs increased from 8% to 11% between these periods, compared to a Bank average of 8%.

Table A-4.2 provides an overall picture of the main implementation risks. The following implementation risk indicators have worsened: executing agency institutional capacity, inter-agency coordination, contract condition compliance delays, and procurement difficulties. Sovereign loan project preparation and post-approval times (Table A-4.3) reveal imbalances among the country’s execution units. The *Modernization of the National Civil Registration Project* (EC- L1083), managed by the *Ministerio de Coordinación y Desarrollo Social* (MCDS-DIGERCIC), presented the shortest preparation time and took only one month after the project sign-off to be eligible for the first disbursement. In contrast, project EC-L1040, executed by Petroecuador, had the longest times in all categories. The EC-L1065 and EC-L1070 projects also have times longer than the country’s average. They are executed by MTOP and *Corporación Eléctrica del Ecuador*, respectively. For instance, the first disbursement of the transportation project (EC-L1065), which was approved in October 2009, occurred only in the second quarter of 2010. The PMR system indicates that sign-off on the project was delayed, and there is uncertainty in two components regarding some work and services that will be implemented.⁴⁵ Education project EC-L1018,

⁴⁵ The uncertainties are related to the definition of maintenance contracts of three “corridors” and definition of pilot

approved in 2007, also took longer to be both approved and signed off. However, three years later, education project EC-L1075 took less time to be approved than the Bank's average, showing improvements in the procedures Education Ministry to address the Bank's project preconditions.

Overall analysis of the Bank's portfolio underscores problems in projects that have been under implementation for a long time. This is the case with the *Urban Modernization Project* in Quito (approved in June 2006) and the *Quito Airport Project* (approved in 2005). Both projects suffered from political changes in the municipality, which led to the reformulation of the project and delays in execution. Likewise, the *Quito Municipal Modernization Phase I Project* (EC-L1017) was approved in June 2006 and is not yet complete (61% disbursement rate).⁴⁶ Finally, the *Coastal Resources Management Stage II Project* (EC-0193), which was approved in February 2004, still has 2% of its original disbursement pending.⁴⁷ The PPMR (2009) suggests that these delays are related to problems with changes in the executing unit.

C. THE BANK'S DELIVERY COSTS⁴⁸

Although still above Bank averages, preparation and execution costs have decreased compared with the 2000–2006 period. Preparation costs steadily decreased after 2005, but increased again in 2010. For 2007–2010, preparation costs in Ecuador fell by 60% from costs in 2003–2006, decreasing from US\$5,414 to US\$2,293 per million approved (Figure A-4.2). For 2007–2010, Ecuador's average preparation costs were above but very close to the Bank average.

Execution costs also decreased during 2007–2010 from the previous strategy period (2000–2006). On average, execution costs in Ecuador amounted to US\$3,721 per million disbursed, representing a 40% decrease. Even though these costs are still above the Bank's average (US\$2,376), Ecuador appears to be more cost-effective in execution than 15 other member countries (Figures A-4.3).

“corridors” to implement solutions for road signs.

⁴⁶ The project's PMR (2009) rates the Implementation Progress Summary of the project as satisfactory, which is backed by data for the components of the project presented in the PPMR, despite delays in some project components. The project objective was to strengthen governance in the municipality of Quito by increasing the efficiency and transparency of municipal management and improving local physical and environmental conditions to develop low-income neighborhoods of Quito. The document also states that implementation of the Modernization of Municipio del Distrito Metropolitano de Quito (MDMQ) component was delayed by problems with the strategy proposed by the consultancy firm, in contrast to good progress in the Habitat component of the project.

⁴⁷ Its objective is to improve and expand integrated coastal management by transferring responsibilities for land-use planning and management of the coastal zones to local authorities.

⁴⁸ See Figures A-4.2 for an analysis of preparation costs and A-4.3 for execution costs.

Net Bank financing flows to Ecuador were negative during 2007–2010 (US\$45.6 million),⁴⁹ meaning that the country repaid the Bank more than the Bank disbursed to it. The previous CPE states that “by virtue of its quicker project preparation times, lower transaction costs, and lighter technical requirements, the CAF has emerged as Ecuador’s premier finance alternative.”

⁴⁹ See the fourth chart in Figures A-4.1



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Fishermen began catching Dorado after a temporary ban on fishing. Santa Rosa, Salinas, Santa Elena Province, Ecuador. The Bank continued supporting the improvement of integrated coastal management as well as others sustainable development projects.

(C) Kseniya Ragozina, 2012

4 The Bank's Effectiveness

Two methodologies are used in order to evaluate the Bank's effectiveness in achieving the development outcomes in each strategic area in Ecuador. First, in the top-down approach the indicators for the strategic goals set up in the Country Strategy documents are considered (see Table A-5.2). Second, in the bottom-up approach the results based on indicators defined for each individual project are analyzed. OVE analyzed all loans approved between 2007 and 2010 and all loans approved before 2007 that were disbursed during the period of analysis, totaling 27 projects.⁵⁰ Box A-5.1 provides a description of the both evaluative approaches.

Assessment of the Bank's effectiveness is complicated by two factors. The Country Strategy update included indicators to address the lack of evaluability of the Country Strategy launched in 2008. However, the indicators proposed are general in nature, and it is difficult to establish to what extent the Bank's interventions contributed to improvements in baseline indicators. At the project level, the young portfolio and the lack of documented information on projects completed or executed during the period hindered assessment of results.⁵¹

A. PILLAR I: PRODUCTIVE INFRASTRUCTURE

The Country Strategy indicators related to the Bank's interventions in infrastructure suggest progress in this strategic area, though it is unlikely that these improvements

SUMMARY

Regarding Effectiveness:

- The available Country Strategy's outcome indicators suggest progress in the development path of Ecuador in the period.
- However, it is difficult to establish to what extent the Bank's interventions contributed to this progress since the strategic indicators are general in nature.
- The young portfolio and the weakness of documented information hindered the assessment of results, except in a few projects within the social inclusion pillar.

50 OVE classified the projects approved before 2008 by Pillars in accordance with their similarity of objectives with each one of the Country Strategy Pillars.

51 The projects approved in 2010 present a low disbursement rate. They were approved in the second semester of the year, with little time to fulfil all preconditions to start the disbursement and generate a substantial disbursement rate and results at the time this document was prepared.

The electricity coverage index has increased in both urban and rural areas in the period 2009-2010, although the Bank's sector intervention is more recent.

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are directly related to Bank interventions. As discussed in Chapter II, the electricity coverage index has increased in both urban and rural areas. It went from 86% in 2009 to 87.3% in 2010 in rural areas and from 93% to 93.5% in urban areas in the same period. This improvement is not directly related to the Bank's intervention in the sector, since the *Support for Transmission of Electricity Program* (EC-L1070), is a new project with no disbursement for the period.⁵²

The transport system in Ecuador depends heavily on highways and roads, and its improvement is essential to the country's competitiveness. The Country Strategy document set a target of 79.2% of highways and roads to be in good condition by 2013.⁵³ In 2007, 51.4% of highways and roads were in good condition; this proportion rose to 67.5% in 2010. However, progress to date is not related to the Bank's interventions since the *First Road Infrastructure and Maintenance Project* (EC-L1065) is a new project. The first disbursement for the project occurred in the second quarter of 2010, allowing little time for the interventions to substantially influence the indicator. In any case, good results associated with the road quality indicator cannot be attributed solely to the Bank, as Bank interventions cover only a section of the national road system.⁵⁴

52 This was also the case with the Modernization of Pumping Stations—Esmeraldas Project (EC-L1040), which was approved in December 2010 (US\$58 million) but has not been disbursed yet.

53 The project encompasses only the central government road network. The indicator for the condition of roads is constructed by the Ministry of Transport and Public Works.

54 For instance, the second component of the loan document, the performance-based road maintenance contracts covers approximately 810 kilometers (or 9%) of paved roads of the national road system.

The strategy results matrix also proposed indicators for the “improvement of energy efficiency mitigating the environmental impact downstream for Ecuadorean oil,” expressed by the “capacity of transportation derived by hydrocarbons via multiproduct pipelines at the national level (barrels per day).” Results for the proposed indicator have not been reported.⁵⁵

There is only one project in the pillar of production infrastructure that presents ex-post results to enable an objective analysis of the project. It is related to the *Renewal of TAME's Air Fleet Project* (EC-L1045), which was approved before the launch of the Bank's strategy. Results reported in the project's PCR show that 6 of 7 measured indicators improved. There was a significant reduction in delays, offline time for aircraft, and number of flights cancelled. There was also a substantial gain in the company's operating margin, which can be directly related to the Bank's interventions. However, its developmental impact was jeopardized by the cancellation of routes that boosted local development and justified the Bank's support. The lessons learned from this operation led the Bank to deny the country's request for a *TAME II project*. In particular, the Bank argued that the project's negative economic rate of return vis-à-vis a high financial rate of return did not justify the Bank's participation and indicated that the project could instead be financed by the private sector.⁵⁶

For the other projects, the analysis is limited because it is based only on the monitoring and supervision reports' observations. The complex *Quito Airport operation* (EC-L1005) is a US\$75 million loan approved in 2005 and 66% disbursed to date. This project suffered from many unforeseen problems, mentioned in Box A-3.3 of Chapter III and reported in detail in the Project Supervision Report (PSR-2008). As a result, the Bank's disbursements were cancelled until formal reformulation of the project was completed in February 2011.

The *Early Warning System and Natural Hazard Project* (EC-L1003) was approved in December 2005 and has disbursed 100% of the US\$5 million approved. The project's objective was to reduce the vulnerability of the regions affected by the activities of the volcanoes Cotopaxi and Tungurahua and improve the risk management of natural disasters in the region. The PMR suggests that the project contributed to the creation of a new institutional standard regarding natural disaster risk management in Ecuador, though specific indicators were not available to OVE.

55 See IDB, “Country Program Document 2011.”

56 IDB, *Mision Especial Ecuador*, Renovacion de Flota de TAME, Ayuda Memoria, May 19, 2011.

B. PILLAR II: PRODUCTIVE DEVELOPMENT AND ACCESS TO FINANCING

In the area of production development and access to financing, the Country Strategy indicators related to the Bank's interventions also suggest progress at the country level. For instance, the indexes of depth of microfinancing and banking access have improved (see Table A-5.2). This is related to the objectives of *Banco Pichincha Lending Facility Project* (EC-L1061), approved in 2008, which aimed to provide more access to housing and MSME financing.⁵⁷ The Bank also implemented an MIF operation to strengthen Banco Pichincha's financing of SMEs though the project lacks monitoring reports and information on the indicators related to their specific objectives.

The burden of starting a firm in the country was slightly reduced. According to the most recent figures in the World Bank's *Doing Business* report, the process of starting up a firm takes on average 56 days, a reduction of nine days relative to the baseline. Nevertheless, it is unknown to which extent the Bank's interventions through the *Competitiveness Improvement Project* (EC-L1004) helped to reduce the amount of time necessary to start a business in Ecuador. One component of this project established one-stop service windows at the *Superintendencia de Compañías* (Superintendent of Companies) in Manta, Esmeraldas, Ibarra, and Riobamba, following encouraging experiences in Quito and Guayaquil.⁵⁸ Overall, in 2011 Ecuador scored 130 out of 183 countries on the World Bank's ranking of Ease of Doing Business, 3 positions below its score of 2010.⁵⁹

The remaining projects in this strategic area are not related to any measured Country Strategy indicators, and the Bank's monitoring and evaluation systems generally lack information about the achievement of results. Some limited information is contained in project monitoring reports. The PMR for the *Support for a Coastal Artisanal Fishing Project* (EC-L1059) suggests that Ecuador reached a certain level of development that allows public entities such as the *Subsecretaría de Recursos Pesqueros* [Department of Fishing Resources] to form management teams for the execution of the program. The PBL on Competitiveness Improvement (EC-L1004) approved in 2006 had some information in the monitoring reports. The PPMR (2007) rated the implementation of the project as satisfactory and presented evidence that the components of the projects were implemented.⁶⁰ However, it is unclear whether the project's sustainability

57 The performance of the financial system might have been influenced by other factors, such as the Financial Security Law of 2008 that was supported by the Bank.

58 The PPMR (2007) presents evidence that one-stop windows at the Superintendencia de Compañías were created in Manta, Esmeraldas, Ibarra, and Riobamba following good practices based on experience in Quito and Guayaquil. Unfortunately, the project does not present measured results in its monitoring reports, thus it is unknown exactly to which extent the intervention helped to reduce the amount of time necessary to start a business in Ecuador. Nevertheless, the reports rate the project's implementation as satisfactory and indicate that the development objectives are likely to be achieved.

59 Data available at <http://www.doingbusiness.org/Custom-Query/ecuador>

60 The PPMR (2007) rates the implementation progress as satisfactory and indicates that compliance with all thematic areas of the components (Institutional Framework for Competitiveness, Transaction Costs for Firms,

was secured since the risks identified in the last PPMR as moderate did materialize. As discussed in Chapter III, these factors led to the non-approval of the Competitiveness Improvement II Project.

C. PILLAR III: ECONOMIC AND SOCIAL INCLUSION

Like the previous pillars, the Country Strategy indicators related to the Bank's interventions in economic and social inclusion also show progress at the country level. This pillar, which encompasses the most projects disbursed during the period of analysis (14 of 27), has more results available to assess the Bank's contribution to the Country Strategy and projects.

The country advanced on education indicators, in particular enrolment rates. The Bank supported initiatives to improve education in Ecuador, though it is unknown to what extent it helped the country achieve national educational targets. The *Support for the Universalization of Basic Education Project* (EC-L1018) was approved in November 2007 and was intended to improve basic education coverage. This was a US\$296.4 million project, of which 96% has been disbursed.

The country also progressed in drinking water and sewer access, as tracked by the Country Strategy matrix. The results for the *Potable Water and Sanitation for Cuenca Project* (EC-L1019) illustrate the Bank's contribution to this target. According to the PMR, drinking water access increased from 90% to 94% and has already reached the target of 92.4% coverage by 2012. The sewer access coverage rate increased from 78% to 82%. The PPMR (2009) report suggests a delay in the contractual procedures related to the construction of sewage systems. The PMR reports that 77 direct discharges into rivers or streams were prevented as a result of the construction of sewer installations.

Country Strategy indicators show improvement in the percentage of institutionalized births, from 52% in 2007 to 55% in 2010.⁶¹ The performance of this indicator is related to the *Universal Health Insurance Program—PAUS Project* (EC-L1025). This was a US\$90 million project approved in June 2006 and 100% disbursed. Its objective was to improve access to and quality of health services for the two poorest quintiles of the population by providing a basic package of health insurance for these segments of society.⁶²



Classroom in the South of Ecuador. The Bank contributed with the “Support for the Universalization of Basic Education Project”, but it is unknown to what extent it helped the country to achieve national education targets.

(C) Rob Broek, 2008

Competitive Development of SMEs, Transparency of the Financial System, and Access to Finance) were attained.

61 Institutionalized birth or hospital birth refers to births assisted by health professionals as opposed to births assisted by nonprofessional midwives.

62 Also, as an effort to reach the poorest (specially the first and second quintiles) the projects provided support to the “Aseguramiento Universal de Salud” and deployed health teams to the poorest and more vulnerable areas.

Assessment of the Country Strategy's indicators reveals that the percentage of inappropriate housing fell from 43.61% in 2008 to 40.04% in 2010. Contrary to the projects analyzed previously, it is unlikely that this indicator was influenced by the implementation of the *National Program for Social Housing* (EC-L1074) approved in December 2009. Despite the fact that the project is clearly linked to the strategy's indicator, it as yet has a low disbursement rate (34%).

Regarding the bottom-up approach for projects with measured results, Figure A.5.1 shows mixed results for the *Quito Historical Center Project* (EC-L1006). It shows progress in 5 of 11 evaluable outcomes, as reported in the PCR of the project. Figure A.5.1 suggests a significant increase in the number of tourists, the value of property tax, the percentage of traders that consider the *Centros Comerciales Populares* [Popular Trade Centers] as the best retail space, percentage of the population that does not consider purchasing goods on the streets, and the interest of private investors in the Historical Center of Quito. Importantly, the project was expected to reduce night crime by improving public spaces and lighting, but this objective was not achieved; results suggest a substantial increase in night crime in the areas of intervention.⁶³

Another project related to urban rehabilitation, the *Renewal of Downtown Areas in Cuenca Project* (EC-L1021), registered positive performance in all evaluable indicators in its PCR, including a sharp increase in the number of tourists (though these numbers have not been independently validated by OVE). Also, the cost of litter collection dropped substantially. It is difficult to attribute the results for the property value indicator in the *Mercado 9 de Octubre* and *Plaza San Francisco* to the Bank's interventions, since the component of the project that planned interventions in the Plaza San Francisco was compromised.⁶⁴ Despite the fact that part of the project was cancelled, the interventions that were implemented might have affected the performance of the evaluable indicators.⁶⁵

The ex-post analysis for the *Environmental Sanitation Program – Phase II* (EC-L1022) suggests that progress was made in sanitation conditions in Quito and in the efficiency of the Metropolitan Quito Water and Sewage Company (EMAAP-Q). The main improvements relate to the outcomes of the project designed to reduce the proportion of unaccounted-for water use (e.g., expansion of macro- and micro-metering) and to strengthen EMAAP-Q (e.g., preparation of the 2007–2010 strategic plan and design and implementation of an information technology plan). There were relative

⁶³ Figure A-5.1 is complemented by Figure A-5.2 that also presents the intended (targeted) relative improvement (green line). Out of 33 indicators presented in the figures, 24 presented improvement and among them 15 indicators also achieved the target defined by the respective projects.

⁶⁴ The interventions included (i) construction and recovery of buildings to house a public market for approximately 144 vendors of nonperishable goods, currently located in the plaza; (ii) renewal of the plaza; and (iii) a parking facility for approximately 130 vehicles. The interventions were cancelled because the counterpart money (from the municipality) was not received, thus not all planned resources were used and the intervention in the Plaza San Francisco was compromised.

⁶⁵ For instance, the interventions in the *Mercado 9 de Octubre* were completed.

improvements in the index of water metering, control of drinking water usage, and operating margin.⁶⁶

The *Sustainable Development – Northern Amazon Region Project* (EC-0201) was approved in 2002 and finalized in 2010. The project's development objectives were to support production activities that will raise the incomes of small-scale rural producers; improve basic health and sanitary conditions; protect natural resources, biodiversity, and genetic heritage within the Cuyabeno Wildlife Preserve and its buffer zone; and improve information systems. The project PCR (not validated by OVE) reports that the project effectively promoted the development objectives. Also, it reports a meaningful improvement in family income from agricultural sales. In nominal terms, this indicator went from US\$700 in the baseline year to US\$1,300 in May 2009.

Other projects in this strategic area do not present measures of specific indicators proposed in the loan document. The *Modernization of the National Civil Registration Project* (EC-L1083) is a relatively new project (approved in December 2010) with a low rate of disbursement—only 14% to date. This project aims, among other things, to reduce late registration of births. According to the Instituto Nacional de Estadística y Censos (INEC), the percentage of births registered in the year in which they occurred has been increasing; it went from 52.8% in 2007 to 59.8% in 2009. There is no evidence that the good performance of this indicator was reinforced by this project.

The *Coastal Resources Management Project II* (EC-0193) was approved in February 2004. Its objective is to improve and expand integrated coastal management by transferring responsibilities for land-use planning and management of the coastal zones to local authorities. According to the PPMR (2009), 86% of municipalities on the coast implemented Integrated Coastal Management in May 2009. In addition, 31% of these municipalities reportedly implemented spatial planning of their beaches.

In sum, the available country's strategy development indicators suggest progress in the development path of Ecuador. However, it is difficult to establish to what extent the Bank's interventions contributed to this progress since the strategic indicators are general in nature and only six of the 27 projects documented information regarding results.⁶⁷



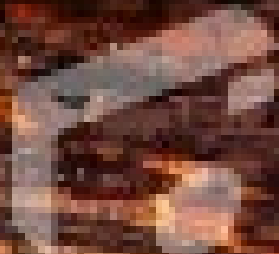
The Economic and Social Inclusion pillar, which encompassed the most projects disbursed during the period of analysis, had more results available to assess the Bank's contribution to the Country Strategy.

(C) Shelly Perry, 2009

⁶⁶ Represented by the third, fourth, and fifth spikes of the project EC-L1022 in Figure A-5.1, respectively.

⁶⁷ The project portfolio analyzed is relatively new, for instance, six projects were approved in 2010. This also hinders tangible evaluation as the projects had little time to generate results. Yet, regarding the measured results, it is difficult to identify the degree to which advances in project indicators are related to the Bank's interventions. For instance, the indicator for the number of tourists in project EC-L1021 showed a meaningful increase; however, it is difficult to disentangle which part of this outcome is related to the Bank's interventions and which is related to favorable macroeconomic conditions that allow people to spend more on leisure. On the other hand, the substantial reduction in aircraft operation cost is intrinsically linked to Bank intervention that provided funding for the renewal of TAME's fleet.

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Quito's downtown district at dusk.
Urban rehabilitation projects in Quito and Cuenca were amongst the few presenting results during the evaluation period.
(C) Ammit, 2012

5 Summary and Recommendations

During the evaluation period Ecuador has seen improvements in infrastructure coverage. Poverty and inequality have declined markedly, though rural and urban disparities remain. These achievements reflect increasing investment in infrastructure and social programs. The sustainability of these improvements is a concern, given the reliance on oil revenues for public investment. Oil production has not been particularly dynamic in the country in recent years, though rising oil prices have led to increasing public revenues. Private investment has also declined, in part due to perceived weaknesses in the investment climate. Such investment will be needed to complement public financing of needed infrastructure improvements.

A comparative analysis of current and previous Country Strategy goals and objectives does not show substantial differences among them. In fact, their goals are broad enough to provide flexibility to the Bank as it learns how to work in a context of shifting political preferences. Working within the PNBV's framework, the Bank's program was aligned with the country's agenda. Even in this very complex context, the Bank managed to keep the program active. The Bank's three Country Strategy pillars—productive infrastructure, access to financing, and social inclusion—drew on the Bank's core corporate competencies (transportation, electricity, and microcredit) and accumulated experience and dialogue in the country (water, sanitation, and urban modernization).

The Bank's efficiency has been mixed. Timeliness of preparation and delivery of programs in 2007-10 have shown signs of progress compared with the previous 2000–2006 period or with Bank averages. Likewise, disbursement performance in Ecuador has substantially improved. However, despite the improvements in timeliness, costs, and disbursements, the quality of project execution raises concerns. During

2007–2009, the number of projects that signaled implementation problems in their Project Performance Monitoring Reports (PPMRs) increased compared with 2000–2006. Likewise, problems in achieving development objectives reported in the PPMRs grew from 8% to 11% for the same period, which is higher than the Bank’s average. Furthermore, the efficiency analysis also shows imbalances regarding the institutional capacity of the agencies responsible for the execution of Bank’s projects.

Overall, the available Country Strategy’s outcome indicators suggest progress in the development path of Ecuador in the period. However, it is difficult to establish to what extent the Bank’s interventions contributed to this progress since the strategic indicators are general in nature. Few projects presented results and those that did were linked particularly to the Social Inclusion pillar; these were implemented mainly in the Country Strategy’s preceding period and included the *Quito Urban Rehabilitation* Project, the *Water and Sewage* Projects, and the *Cuenca Urban Rehabilitation* Projects.

RECOMMENDATIONS

Based on these findings, OVE has the following recommendations for management:

- **The Bank should be bolder in engaging in policy dialogue.** As one of the country's main lenders, the Bank should be in a position to contribute to the government's efforts to define a national agenda to reduce the country's economic vulnerability to exogenous factors and to improve the business climate and competitiveness indexes.
- **The Bank should continue prioritizing sectors that can address problems of competitiveness, inequality and social exclusion.** Given the Bank's limited capacity to meet the country's financing needs, the Bank should:
 - **Redesign support so that it leverages other investments,** for example by
 - helping to improve regulatory frameworks for infrastructure sectors to attract public-private partnerships and foreign investments;
 - continuing to finance institutional components of projects, learning from past experience; and
 - contributing to improve corporate governance in oil and electricity companies.
 - **Expand support to help address urban and rural inequalities.** The Bank should continue its support for health, education, water and sanitation programs in poor urban and rural areas, benefiting from the Bank's accrued experience in these areas.
 - **Avoid demands in which economic benefits did not clearly justify the Bank's support,** such as the *Transportes Aéreos Militares del Ecuador* (TAME) Project.
- **The Bank should continue strengthening Ecuador's planning, evaluation, and monitoring capacity by working with the *Secretaría Nacional de Planificación y Desarrollo* (SENPLADES),** the entity responsible for originating the National Plans that are the framework for the Country Strategy.
- **The Bank should continue promoting sharing of experience and common training programs for national and subnational executing agencies.** In addition to technical cooperation at the appraisal phase of projects, the Bank could contribute to the country's capacity to handle Bank projects by promoting seminars and workshops with personnel responsible for executing Bank's projects. The aim is to strengthen the agencies that have lower institutional capacities and reduce the imbalances among them, thereby contributing to greater efficiency and effectiveness in project execution.