









Country Program Evaluation

Ecuador 2012-2017





Country Program Evaluation:

Ecuador 2012-2017

Office of Evaluation and Oversight (OVE)
March 2018







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ACRONYMS AND ABBREVIATIONS

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Notes

BCE	Banco Central del Ecuador [Central Bank of Ecuador]
BDE	Banco de Desarrollo del Estado
BDH	Bono de Desarrollo Humano [Human Development Payment]
Bps	Basis points
CAF	Andean Development Corporation
CCL	Contingent Credit Line for Natural Disasters
CGE	Contraloría General del Estado [Office of the Comptroller General]
CME	Cambio de la Matriz Energética [Energy Matrix Transition]
DSL	Development Sustainability Contingent Credit Line
ECLAC	Economic Commission for Latin America and the Caribbean
EIB	European Investment Bank
FERUM	Electrification Program for Rural and Marginal Urban Areas
GAD	Gobierno Autónomo Descentralizado [Decentralized Autonomous Government]
kV	Kilovolt
LAC	Latin America and the Caribbean
MAIS	Modelo de Atención Integral en Salud [Integrated Health Service Model]
MEF	Ministry of Economy and Finance
MIDUVI	Ministry of Urban Development and Housing
MVA	Megavolts-amperes
MW	Megawatt
MWh	Megawatt hour
NFPS	Nonfinancial Public Sector
OVE	Office of Evaluation and Oversight
PIRIs	Planes de Inversión para la Reforma Institucional [Investment Plans for Institutional Reform]
PIRSA	Rural Sanitation and Water Infrastructure Program
PNBV	Plan Nacional del Buen Vivir [Good Life National Plan]
PRODESARROLLO	Investment Program for the Development of Decentralized Autonomous Governments and/or their State-Owned Enterprises
PROSANEAMIENTO	National Investment Program in Water, Sanitation, and Solid Waste
PRSND	Programa de Reforzamiento del Sistema Nacional de Distribución [Program to Strengthen the National Electricity Distribution System]
REER	Real Effective Exchange Rate
SECOB	Servicio de Contratación de Obras [Works Contracting Service]
SENPLADES	Secretaría Nacional de Planificación y Desarrollo [Nacional Planning and Development Department]
SIGEF	Sistema Integrado de Gestión Financiera [Integrated Financial Management System]
SRI	Servicio de Rentas Internas [Internal Revenue Service]
VAT	Value-Added Tax
WEO	World Economic Outlook

As part of its 2016-2017 work plan, the Office of Evaluation and Oversight (OVE) has prepared the Country Program Evaluation for Ecuador for the 2012-2017 period. This will be the third independent evaluation that OVE has conducted of the IDB's country program with Ecuador, and the first to cover the work of the IDB Group. This evaluation covers the IDB Group's program over the 2012-2017 period, which was guided by the IDB's country strategy with Ecuador for 2012-2017 (document GN-2680).

The evaluation was conducted in accordance with OVE's mandate (document RE-238) and the Protocol for Country Program Evaluations (document RE-348-2). Its main objectives are to facilitate accountability and identify lessons learned that can improve the Bank's program in the future. The evaluation uses a wide range of information sources. These include interviews with key sources: current and former government employees, project executors, IDB Group sector specialists, international donors, and members of academia and civil society who are familiar with the country's development challenges and the different sectors in which the Bank operates. The Bank's programming, supervision (PMR, PSR), and evaluation (PCR, XPSR) documents were also analyzed. OVE supplemented this documentation-based analysis with analysis of internal and external databases.

The report is organized into four chapters. Chapter I analyzes the country context in which the IDB program was developed. Chapter II analyzes the financial relevance of the program and its operational portfolio. This chapter also includes an analysis of the efficiency of program implementation. Chapter III analyzes the relevance and effectiveness of individual projects in each of the strategic sectors, together with their contribution to the attainment of the development objectives set out in the country strategy

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Executive Summary

Over the last 10 years, Ecuador has undergone a process of redefining its development model. Major reforms have been pursued in the political, institutional, regulatory, economic, and social spheres. Public investment has served as an engine for economic growth, oriented toward the delivery of public goods and services in the education, health, and social protection sectors, as well as investment and the execution of strategic infrastructure projects to enhance the country's competitiveness. GDP growth averaged 4.8% between 2012 and 2014, with a sharp increase in gross fixed capital formation. Economic growth was driven by the favorable impact of improved terms of trade in the period to 2013, due mainly to an increase in international oil prices.

From 2014 to 2015, the sudden drop in oil prices affected economic activity and the performance of the public finances. Against this backdrop, GDP growth slowed considerably in 2015, and the nonfinancial public sector (NFPS) accounts recorded a significant deficit despite tax measures and fiscal corrections on the expenditure side. In 2016, Ecuador was struck by a high-magnitude earthquake, which dampened economic activity. GDP contracted by 1.6% that year, of which an estimated 0.7 percentage points were attributed to the earthquake. The NFPS deficit continued to increase, to 7.4% of GDP in 2016.

Gross financing needs stood at around 12.5% of GDP between 2015 and 2016; these were covered through external and domestic financing, with a marked increase in the public debt. The main sources of external financing consisted of bond issues on international markets, bilateral debt (mainly with the People's Republic of China), and multilateral disbursements. Domestic financing consisted mainly of net financing from the Central Bank of Ecuador (BCE) and an accumulation of payment arrears

to suppliers. Consolidated public debt stood at 27.2% of GDP at the end of 2016, below the legal limit of 40%. China is the main external creditor, and the IDB is the main multilateral creditor.

The development model pursued by the Government of Ecuador, anchored in the constitutional mandate, placed the State at the heart of institutional reform. Its objective was to restore strategic capacities to ensure effective coordination between policy, economy, and society. Public employment expanded as a result, becoming the largest component of current spending, with a substantial preponderance of the social sectors. There was an improvement in indicators that gauge the effectiveness of public administration, including the civil service development index and the index measuring citizen perceptions of the quality of public services.

Economic growth and increased social spending led to a marked improvement in poverty and equity indicators. Regional inequalities persist, however, together with significant development gaps affecting rural areas and ethnic minorities. Reform processes were launched in the social sectors that facilitated substantial improvements in coverage indicators, but the country still faces challenges in terms of the quality and equity of services. The new government plans to continue its support for social development through the "Plan Toda Una Vida [Whole Life Plan]".

The structure of production in Ecuador lacks diversification and the country's competitive position is relatively weak. Generally speaking, there have been no significant changes in the structure of production or the export profile over the last decade. Ecuador's position in the competitiveness and business climate rankings has not improved significantly, and the country still lags far behind in areas such as processes for starting a business, resolving insolvency, paying taxes, and access to credit. Other issues affecting Ecuador's competitiveness are appreciation of the real effective exchange rate (2014 to 2016), increased labor costs, and labor market rigidities. At the same time, although high levels of public investment (mainly in energy, transportation, and irrigation) have underpinned substantial improvements in the country's production-related infrastructure, limitations persist with respect to service delivery and sustainability of the systems. Lastly, despite the efforts that have been made by State-run banks, the private sector views limited access to credit and the regulations affecting the financial market as the most problematic issues for its development.

The IDB Group was a major financial partner in Ecuador's development during the period under evaluation, and it succeeded in positioning itself in the policy dialogue regarding key sectors. The relevance of the IDB's country strategy with Ecuador for 2012 2017 was enhanced by its alignment with the Buen Vivir National Plan advanced by the Government of Ecuador, as well as the reform processes in several sectors. Between January 2012 and December 2016, the IDB approved US\$3.099 billion in loans and technical cooperation agreements, surpassing the level of approvals established

under the country strategy lending framework. This operational program doubled the volume of funding compared to the previous strategy cycle. The majority of the financed portfolio consisted of investment loans with a strong sector focus, as well as operations to respond to the emergency (natural and macroeconomic), including a programmatic loan and contingent credit lines for development sustainability (DSL) and natural disasters (CCL). The non-sovereign-guaranteed private sector portfolio doubled over the evaluation period, with significant participation by the IIC. Technical cooperation resources were used to deepen the policy dialogue, mainly in the education and energy sectors.

The Bank demonstrated flexibility and an ability to adapt to the country's needs and government priorities, offering a broad range of financial products to satisfy the demand for financing. The funding and technical support provided by the IDB through its contingent credit instruments (DSL and CCL) facilitated an effective response to the external shocks caused by the sudden drop in oil prices and the April 2016 earthquake. As the first organization to respond to the earthquake, the Bank assumed a leadership role in the dialogue with the government and in intersectoral coordination efforts. The Bank leveraged its loan portfolio with substantial bilateral and multilateral cofinancing resources.

Net flows to Ecuador were positive throughout the entire period. The main factors that influenced the increase in disbursements were portfolio management by the Country Office, particularly efforts to overcome the restrictions imposed by the government expenditure control measures implemented in 2015; the CCL financing modality, which helped to cleanse the portfolio by reallocating undisbursed balances; fast-disbursing components under a number of investment loans, such as financing for employee separation processes and school feeding programs; and the high rates of disbursement in the electricity sector portfolio.

Financing under the IDB program was focused on the electricity sector, where its relevance was enhanced by the fact that it was aligned with the government's Energy Matrix Transition strategy (CME) and complemented the electricity generation expansion strategy with highly satisfactory results. The Bank financed investment projects in transmission and distribution that allowed the country to make timely use of the electricity produced by new hydroelectric generation projects financed by the government, while also helping to reduce the fiscal burden of the sector. Financing was also provided for investments in rural electrification that contributed to an expansion in coverage levels. The IDB also extended a programmatic loan to support the institutional changes and regulatory frameworks needed to move the CME forward. In terms of outcomes, the IDB portfolio helped to improve key indicators in the sector, even with respect to operating efficiency and capacity strengthening in sector companies and agencies. Disbursement under the programmatic loan also provided liquidity against the backdrop of a sharp drop in the oil price. The IDB's relevance in the sector was consolidated after the 2016 earthquake as a result of its



The private sector portfolio grew rapidly, focusing on providing financing to companies in the nonoil productive sector.

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quick delivery of support for the rehabilitation of electricity services and, subsequently, for sector reconstruction efforts. Despite the Bank's limited financial presence in the transportation sector, the IDB-financed program to conserve the primary road network introduced a tool that is new in Ecuador, namely, service-level agreement contracts. Progress in the area of regional integration was significant in the case of the electricity sector, but marginal in the transportation sector.

The IDB supported key aspects of institutional management reforms, a sector in which it has a long track record, consolidating its relevance. However, its contribution through its loans to improve the quality and equity of public expenditure was more limited. Among the main sector results has been the implementation of interoperability between the planning, public investment, and budget systems, which has helped to improve public investment planning and alignment of the budget with the government's programs. A significant share of the resources financed expenditures associated with the employee separation process. Although this was not always successful in reducing headcount, it did contribute to significant changes to the profile of public employees in some sectors (education, civil registry). Lastly, the contribution of the IDB's loan operations over the evaluation period to achieving the development objectives set out in the country strategy (a more efficient and progressive tax system and improving the quality and equity of public spending) was more limited.

The IDB promoted an ambitious multisector approach that encompassed issues of water and sanitation and housing and urban development, as well as improvements to public transportation systems, with mixed results. The Bank provided significant support to subnational entities to improve production-related infrastructure (irrigation and roads) and expand access to basic services (water and sanitation). Implementation of these programs came up against institutional weaknesses in the subnational entities, however, and the systems financed face risks to their long-term sustainability. In the case of water and sanitation, although significant efforts were made to improve services in areas with lower coverage, the characteristics of the projects that were ultimately selected affected the scope of the programs, which ended up being focused on a limited number of projects. With respect to the secondary road network, there have been a number of positive results in terms of network expansion, developing road inventories, and training staff in road planning and management. In the case of housing and urban development, with the exception of the relatively successful Social Housing Program, the relevance and effectiveness of IDB interventions was diminished by the reallocation of funds to address the earthquake emergency, as well as by cancellation of the Urban Development Program. The latter experienced serious execution problems that resulted in cancellation of the loan, creating an environmental and social liability. Lastly, in urban transportation, the IDB cofinanced the first Quito Metro line, assuming a leadership role among the agencies funding these large-scale infrastructure works. Progress has been satisfactory in terms of the project's physical targets, but it faces challenges due to changes in the participation of the consortium responsible for construction and the uncertainty that this has created.

Bank support was limited in the areas of social and rural development, and with the reallocation of funds to address the emergency caused by the earthquake, the IDB's operational program made only a marginal contribution to the country strategy objective of expanding access to services. In the execution of social sector projects, there were problems related to lack of coordination between executing agencies, heavy personnel turnover, and institutional changes. In the area of social protection, most of the resources under the early childhood development program were redirected to the emergency, limiting sector progress to building the construction project for the ministries. In the education sector, a large share of loan resources were focused on financing expenses under the school feeding program, while technical cooperation funding supported several elements of the education reform. Results in the health sector to date have fallen short of expectations due to delays in project implementation. In rural development, the scope of IDB interventions was limited in terms of both the amount of financing and geographical coverage. Progress was greatest under the program to support the titling system for rural properties.

The private sector portfolio grew rapidly, focusing mainly on providing financing to companies in the nonoil productive sector. Loans that were channeled directly to small and medium-sized enterprises (SMEs) and large companies demonstrated financial

additionality. However, the relevance of loans channeled through intermediary financial institutions was diminished in the context of regulated interest rates and high liquidity. Projects under the Trade Finance Facilitation Program (TFFP) justified their additionality by providing access to international bank credit lines; however, the amounts have been too small to demonstrate a systemic impact.

In the medium term, one of the key challenges that Ecuador faces is to implement its fiscal consolidation plan, which aims to ensure debt sustainability and balance in the public finances. The government plans to foster competitiveness and private sector development as engines of growth. This requires challenges in the environment for production, the business climate, and access to financing and international markets, as well as issues of regulatory stability. The country also needs to tackle institutional challenges in order to consolidate achievements in the area of State reform and to strengthen the capacity of public entities, particularly at the subnational level. Interventions to underpin sustainability in investments, the quality of public spending, and equitable access to public services will also be important, particularly in the case of the social sectors. Although the significant increase in social spending has facilitated a marked improvement in service coverage, the challenge in the medium term will be to ensure the quality and continuity of services.

Given the environment of fiscal austerity established by the new government, an important challenge for the Bank will be the selectivity and the prioritization of its program. Bearing in mind these issues, and given that the administration is determining its new plan for government, the Office of Evaluation and Oversight (OVE) recommends that Management consider the following:

- 1. Support proposals by the Government of Ecuador that facilitate consolidation of the public finances. Specifically, and based on the new government's policy choices, the Bank could support initiatives aimed at developing a fiscal responsibility framework. The IDB could support sector proposals that improve the efficiency of public spending, prioritizing interventions to improve service quality. The IDB could also place greater emphasis on the sustainability of investments, including mechanisms to ensure the operation and maintenance of infrastructure works.
- 2. Seek opportunities to support private sector development in areas that enhance competitiveness and accelerate the diversification of production. In particular, the Bank could support the implementation of government-led reforms to improve the business climate and the environment for production. The Bank could also assist the government in defining its strategies for financing through public-private partnerships, supporting disciplined management of the fiscal risks associated with these operations, as well as their alignment with

- sector policies. Lastly, the private sector windows should continue financing the nonoil (exporting) productive sector with a view to furthering the diversification of production.
- 3. Continue strengthening the capacities of subnational entities. The Bank has invested significant amounts of resources to support the institutional capacity of subnational governments in the sectors that fall under their remit. Accordingly, OVE recommends that new mechanisms should be explored in the future to continue to support these governments in their efforts to improve the delivery and funding of the social and production-related services for which they are responsible.



Context of the Country Program

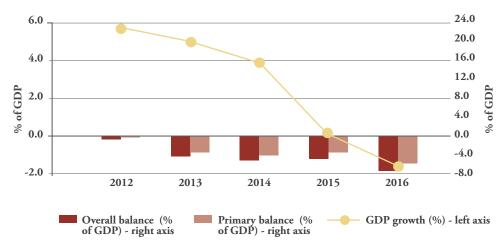
Ecuador is an upper-middle-income country with a dollarized economy that depends on oil revenue. Its GDP of US\$98.614 billion (2017) is the eighth largest in Latin America and the Caribbean (LAC). With a population of 16.6 million, per capita income at purchasing power parity is estimated at US\$11,185 (2017), which is below the LAC average of US\$15,649 (World Economic Outlook (WEO)). Over the last 10 years, Ecuador has undergone a process of redefining its development model, as enshrined in the Magna Carta (2008) and the Buen Vivir National Plan. Public investment has served as an engine for economic growth, oriented toward the delivery of public goods and services such as education, health, and social protection, while also fostering investment and the execution of strategic infrastructure projects to enhance competitiveness. Major reforms have been pursued in the political, institutional, regulatory, economic, and social spheres.¹

A. Macroeconomic and public finance context

GDP growth averaged 4.8% between 2012 and 2014, with a sharp increase in public investment and gross fixed capital formation. Economic growth was driven by the favorable impact of an improvement in terms of trade in the period to 2013 due mainly to an increase in international oil prices, as well as a significant increase in public investment (Figure 1.1). Gross fixed capital formation rose from 6.5% of GDP in 2007 to 15.9% in 2013, declining thereafter to 14.7% in 2014. The growth in investment meant that between 2010 and 2014, Ecuador had one of the highest ratios of total investment to GDP in the region: 28.1%, compared to an average of 22.1% for LAC as a whole (WEO).

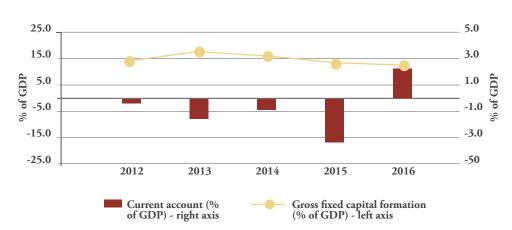
FIGURE 1.1
Economic growth and the NFPS deficit

Source: Central Bank of Ecuador



From 2014 to 2015, the sudden drop in oil prices had a major impact on economic activity, the performance of the public finances, and the balance of payments. The average price for Ecuadorian crude fell from US\$84.1 per barrel in 2014 to US\$35 in 2016. This led to a reduction of almost 4.5% of GDP in oil revenue in 2015, accompanied by a reduction in nonfinancial public sector (NFPS) capital spending. Private consumption stagnated and public investment declined significantly, to 12.2% of GDP in 2015 (Central Bank of Ecuador). Against this backdrop, the rate of economic growth slowed from 3.8% in 2014 to 0.1% in 2015. The NFPS balance remained negative, with a deficit of 5.2% of GDP in 2014.² In 2015, the government implemented tax measures and expenditure cuts, but the fiscal deficit remained high.³ The current account deficit of the balance of payments, which averaged 0.5% of GDP in the 2012-2014 period, rose to 2.1% in 2015 due to the drop in the oil price and lower nonoil exports (Figure 1.2).

Public sector gross fixed capital formation and current account of the balance of payments



In 2016, Ecuador experienced an earthquake of high magnitude, which dampened economic activity and increased pressure on the public finances. GDP contracted by 1.6% that year. The earthquake is estimated to have accounted for 0.7 percentage

points of the recorded decline in GDP in 2016, and it created additional fiscal costs of US\$3.344 billion associated with reconstruction of the affected areas. The government responded by adopting new fiscal measures in 2016 to fund the additional expenditures.⁴ Nonetheless, the NFPS deficit continued to increase, reaching 7.4% of GDP in 2016. A surplus of 1.5% of GDP was recorded in the current account of the balance of payments in 2016; this was due mainly to measures to restrict imports, and an increase in foreign remittances.

Gross NFPS financing needs totaled around 13% of GDP in 2016. The main sources of external financing comprised US\$4.4 billion in bilateral financing (including US\$3 billion in both loans from the People's Republic of China and advanced sales of oil), US\$2 billion in disbursements from multilateral institutions, and US\$2 billion in international bond issues.⁵ Domestic financing consisted mainly of net financing from the Central Bank of Ecuador (BCE). The consolidated public debt rose from 12.8% of GDP at the end of 2010 to 27.2% at the end of 2016, a level that remains below the ceiling of 40% of GDP.⁶ The external debt component was equivalent to 95.8% of the total at the end of 2016. China is the main external creditor, with 31.7% of total external debt.⁷ The IDB is the main multilateral creditor, with 56.3% of multilateral debt (18.1% of total external debt).

B. Institutional management and public administration

The development model promoted by the Government of Ecuador places the State at the heart of institutional reform, with the aim of restoring the strategic capacities that ensure effective coordination between policy, economy, and society.8 In 2011, the government initiated implementation of a Plan de Reestructuración Pública de la Gestión Institucional [Public Restructuring Plan for Institutional Management] (Model R). This plan sought to redesign the organization and functions of the Executive based on a reengineering model for management, processes, and human talent that ensures continuous improvements in priority public institutions. 9 By 2015, 70% of Model R had been implemented, with the most significant progress seen in the areas of process management, the institutionalization of results-based government, and optimization of human talent (96% of planned separations were achieved in the first phase). Progress under Model R in the planning of institutional organization and the management of plans, programs, and projects was more limited. The government plans to deepen reform through the Programa Nacional de Excelencia [National Program for Excellence]. Although the agencies in charge of this reform were dissolved, responsibility for modernization process has been transferred to the General Presidential Secretariat (Presidential Decree 005-2017).

Against this backdrop, public employment continued to expand, with an impact on current spending. The number of government employees rose significantly, to around 500,000 in 2015.¹⁰ Public employment remained at around 9% of total

national employment and 18% of national salaried employment (National Statistics and Census Institute (INEC), 2016). Spending on wages grew to become the largest component of current spending, with the social and security sectors accounting for a significant share of this. ¹¹ Social Security payments also grew to almost 5% of GDP in 2016, while contributions fell.

Indicators of the effectiveness of public administration have generally improved significantly in recent years. With regard to Worldwide Governance Indicators, the Government Effectiveness indicator has shown a marked improvement (Figure 1.3), although the score remains negative. During the early years of the reform (2012 to 2014), there was an improvement in the indicator that captures perceptions of the quality of public services, 12 while the indicator measuring the quality of the civil service improved markedly between 2011 and 2015 (Figure 1.4). The latter was due mainly to the optimization of personnel spending in relation to the overall budget; progress in the merit-based selection system for civil servants; and changes in staff profiles. 13 The Informe a la Nación [Report to the Nation] (2007 2017) reported that 407 administrative procedures had been simplified, generating estimated savings of US\$20 million for citizens.

FIGURE 1.3
Government effectiveness

Source: World Governance Indicators

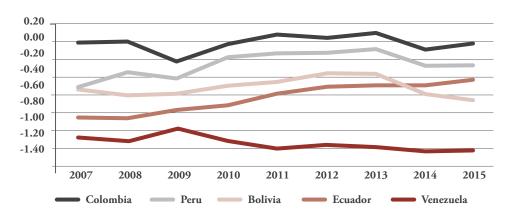
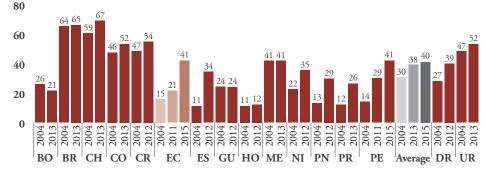


FIGURE 1.4
Civil service development index

Source: IDB Note: Low (0-39), medium (40-49), and high (60-100)*



(*) Countries are classified into three levels of civil service development. Low: "significant levels of discretionary authority in HRM decision-making, very low or no acceptance of the merit principle, severe difficulties in attracting and retaining staff, and minimal general strategic coherence." Medium: "greater strategic coherence, which is reflected in a wider acceptance of merit criteria and, to a certain extent, application of performance incentives. The leadership units within the civil service agencies are more robust, although not necessarily more consolidated." High: "solid strategic coherence and greater acceptance of the merit principle, as well as flexibility." Countries at this level "have apex agencies with the technical capacity to design and implement effective policies." Regulatory and technical instruments are applied throughout the entire public administration, and are institutionalized."

C. SOCIAL DEVELOPMENT AND POVERTY REDUCTION

Institutional reform processes were launched in the social sectors that facilitated improvements in coverage indicators, but challenges remain in terms of the quality and equity of services.

- The education sector has seen the greatest progress in terms of coverage and quality. With respect to coverage, the average enrollment rate improved at all levels, and inequalities were reduced. ¹⁴ In terms of quality, the sector undertook substantive reform through enhancement of the status of the teaching profession. Ecuador is one of the Latin American countries that has seen the greatest improvements in student performance on reading and math tests. ¹⁵ Nonetheless, challenges remain in consolidating these reforms.
- In the health sector, the government made progress toward consolidating the Integrated Health Service Model (MAIS), while the reform introduced principles of universal coverage and free services as guaranteed under the 2008 Constitution, with a substantial increase in the government budget for the sector. Although advances were made in terms of health insurance coverage and health care provided in public facilities, the modest improvement in impact indicators such as maternal and child mortality rates suggest that progress toward improving the quality and effectiveness of services has been limited. Out-of-pocket spending has remained at around 50% of total expenditure.¹⁶
- Progress was made with respect to service coverage for water and sanitation,¹⁷ but there are persistent disparities between urban and rural areas, particularly in the coastal and Amazon regions. Another challenge faced by the sector is the quality and financial sustainability of services.¹⁸
- In the housing sector, although there has been some progress in terms of coverage, the qualitative housing deficit remained at 34% throughout the entire period, with substantial differences between urban and rural areas. ¹⁹ This has created a pro-urban dynamic that is characterized by unchecked and frequently illegal land occupation, legal uncertainty, and informality.

Economic growth and increased social spending led to a marked improvement in poverty and equity indicators. Per capita income rose by 8.3% in real terms between 2011 and 2015 (WEO), while the poverty rate fell from 27.3% in 2012 to 23.3% in 2016 (BCE). Extreme poverty fell from 11.2% to 8.5% over the same period, and the Gini coefficient dropped from 0.477 to 0.466.²⁰ Regional inequalities persist, however, together with significant development gaps affecting rural areas and ethnic minorities (particularly indigenous peoples and Afro-descendants).²¹ Meanwhile, although total social spending averaged around 9.8% of GDP during the evaluation period (double the level seen in 2007), it still remains below the LAC average (20.2% in 2013).²²

The sources of income that have contributed most to the reduction in poverty and inequality have been labor income and transfer programs. From 2006 to 2014, labor income contributed more than 70% of the reduction in poverty and more than 90% of the reduction in inequality (World Bank and INEC, 2015). Growth in Ecuador's minimum wage has outpaced both inflation and the rate of increase in other countries in the region. There are significant inequalities in the labor market in terms of access to formal employment, and turnover is high. High levels of informality lead, in turn, to low levels of social security coverage.²³ Although there has been progress in formalizing the workforce, the quality of employment has deteriorated over the last three years, and the rate of underemployment rose from 12.9% (2014) to 19.9% (2016) (BCE). Social protection programs that include cash transfers, such as the Bono de Desarrollo Humano [Human Development Grant] (BDH), contributed almost 20% of the total reduction in extreme poverty and income inequality, with a more modest impact in the case of moderate poverty (12%). Starting in 2013, significant efforts were made to improve the targeting of the BDH,²⁴ and both the number of beneficiaries and the budget for the program began to decline from 2014 onwards. The government plans to continue its support for social development through the Toda Una Vida Plan.²⁵

D. COMPETITIVENESS AND PRIVATE SECTOR DEVELOPMENT

The structure of production in Ecuador lacks diversification and the country's competitive position is relatively weak. Despite the government's efforts to diversify the production matrix, there were no significant changes, generally speaking, in the structure of the country's production or exports. ²⁶ The composition of the export basket is concentrated in commodities, reflecting the lack of diversification in production. The World Economic Forum's Global Competitiveness Report (2016-2017) ranks Ecuador 91st out of 138 countries (compared to 86th out of 144 in 2012), while the World Bank's Doing Business Report (2017) places it in 114th position out of 190 countries (below the average for LAC, but above the 2012 ranking of 130th out of 192 countries). The areas in which the country lags the furthest are processes for starting a business, resolving insolvency, paying taxes, and access to credit. In 2015, Ecuador approved a tax incentive law aimed at promoting public-private partnerships (PPPs) by ensuring contract stability. Another issue affecting Ecuador's competitiveness is appreciation of the real effective exchange rate (REER).²⁷ Real wages in Ecuador have grown at a faster pace than labor productivity, and unit labor costs have increased more quickly than in the countries that are Ecuador's main trading partners.²⁸

High amounts of public investment have brought about marked improvements in the country's production-related infrastructure. However, there are still limitations with respect to service provision and sustainability of the systems. Over the last decade, the public investment push to alter the power generation matrix and modernize the transmission and distribution system has been transformational, placing Ecuador in a relatively advantageous position in this sector compared to what might be expected given the country's level of per capita income. The country has managed

to significantly increase electricity service coverage in both urban and rural areas.²⁹ Power projects that have come on stream have allowed Ecuador to reduce the fiscal burden of the sector and become a net exporter of electricity (Annex, Box 1.1). In the transportation sector, advances in road infrastructure account for the improvement of 37 places in the country's ranking on the road quality indicator (World Economic Forum) between 2011 and 2016, although it remains behind in the areas of logistics performance and the quality of urban transportation services. Similarly, although substantial investments have been made in irrigation and flood control projects, gaps need to be narrowed between the areas in which equipment has been provided and those that are effectively irrigated, and the organizations providing these services also need to be strengthened. There have been fewer advances in terms of technological innovation.

Box 1.1 Main outcomes with regard to electricity sector reform

Ecuador has engaged in comprehensive reform of its electricity sector over the last decade. The main objectives of this reform have been to expand supply; substitute the use of fossil fuels in electricity generation with renewable energy sources; and reinforce the overall reliability of the system and strengthen energy sovereignty. This process of transformation has involved changes in the legal, regulatory, and institutional frameworks for the electricity sector, as well as implementation of an investment plan with an overall value of more than US\$7.5 billion—equivalent to almost 8% of national GDP. Electricity generation capacity has doubled over the last decade, from 4,070 MW in 2006 to 8,226 MW in 2016, and is expected to reach 8,569 MW in 2017. This increase was achieved through substantial public investment in nine flagship projects, eight of which are hydroelectric. The most notable of these is the Coca Codo Sinclair hydroelectric plant, which was completed in 2016 and is the largest hydroelectric project in the country's history. Effective capacity is 7,608 MW, compared to 3,767 MW in 2006 (Ministry of Electricity and Renewable Energy, Rendición de Cuentas 2016 [2016 Government Accountability Report] and Plan Maestro de Electrificación [Electrification Master Plan] 2016-2025).

Investment in hydroelectric plants has helped to reduce the consumption of oil derivatives in grid-connected electricity generation, and, consequently, the imports and subsidies associated with this consumption. In terms of the balance of payments, an evaluation of scenarios with and without the Energy Matrix Transition strategy suggests a net reduction in imports of at least US\$1.1 billion per year from 2017 onwards, due to the displacement of thermal capacity. Completion of the nine hydroelectric projects will reduce carbon dioxide emissions by 6.29 million tons per year. Investments in transmission, distribution, and rural electrification have helped to expand the coverage and quality of services. In parallel, the government is implementing sector initiatives aimed at reducing the consumption of oil derivatives, and these have been included in the National Energy Efficiency Plan (PLANEE).

Total energy subsidies and subsidies to the electricity subsector have both fallen significantly in recent years. According to IDB estimates, rising consumption and an increase in international prices for oil derivatives meant that the total annual burden of fuel subsidies averaged between 2.9% and 7.6% of GDP over the 2007-2014 period, depending on the methodology used (Ecuador-Desafíos para Desarrollo del Pais [Ecuador-Country Development Challenges], IDB Country Department Andean Group) Subsidies for Liquefied Petroleum Gas (LPG) and fuels used for thermal generation accounted for 15%-20% of this total from 2007 to 2014. After the sharp decline in prices for oil and oil derivatives from 2015 onward, total energy subsidies in Ecuador are estimated to have fallen to between 0.8% and 2.6% of GDP in 2016 (depending on the methodology used). At the same time, subsidies to the electricity sector have been lowered significantly as a result of initiatives in recent years aimed at increasing the share of hydroelectricity, reducing the volume of diesel and fuel oil used in thermal generation, and substituting GLP subsidies through the Programa de Eficiencia Energética para Cocción por Inducción y Calentamiento de Agua con Electricidad [Energy Efficiency Program for Induction Cooking and Water Heating Using Electricity] (PEC). On the fiscal front, the net contribution from the reduction in subsidies is estimated at a minimum of US\$250 million per year. (EC-L1160 loan proposal).

One of the main objectives of the Ministry of Electricity and Renewable Energy is to interconnect the electricity systems of the Andean countries, thus developing the commercial exchange of electricity to facilitate the optimum use of energy resources and reliability in the electricity supply. To this end, the government is fostering integration of the Andean Electric Interconnection System (SINEA) through investments in the national transmission system that will help to increase energy exchange. In April 2017, the Commission of the Andean Community approved Decision 816 establishing the Regulatory Framework for the Subregional Interconnection of Electricity Systems and the Community Exchange of Electricity. The objective of this decision is to strengthen the security of electricity supply and the sale of surplus electricity in the region. The flagship projects that are now operating have allowed Ecuador to become a net exporter of electricity, with a surplus of US\$29 million in 2016.

Limited access to credit and regulations affecting financial and labor markets are the most problematic issues for business sector development. Interest rate ceilings, among other factors, have tended to restrict credit.³⁰ Productive credit for small and medium-sized enterprises (SMEs) contracted from 12% in 2010 to 9% in 2014, in terms of total credit in the financial system. In 2015, credit to SMEs was equivalent to only 1% of GDP. The supply of credit is concentrated in the private banking system (67.3%), and is oriented toward financing working capital for terms of less than one year in the country's main cities (Economic Commission for Latin America and the Caribbean, 2017). State-run banks represent less than 10% of credit supply, and they provide medium and long-term loans (of between two and eight years) to finance production and investment projects. The geographical distribution of these loans is

more homogeneous, but they are more limited in scope. The business community has identified restrictive labor regulations and inadequate workforce education as the main obstacles to production and doing business in the country.³¹

E. MEDIUM-TERM PROJECTIONS AND KEY CHALLENGES FOR THE NEW IDB COUNTRY STRATEGY WITH ECUADOR

In the medium-term, the main challenge faced by Ecuador is to meet targets for reducing the fiscal deficit in order to lower financing needs and ensure debt sustainability. The government is planning a significant reduction in the fiscal deficit over the medium term. Specifically, growth under the government's macroeconomic scenario for 2017—which serves as a point of reference for the 2017-2020 Fiscal Program—is projected at 0.7%, driven by nonoil exports and reinforced by the signing of a trade agreement with the European Union. This is followed by an increase in the annual growth rate to 2.5% in 2019-2020 due to a recovery in domestic consumption.³² The projections assume a moderate increase in the oil price. In the fiscal area, the scenario anticipates a significant reduction in the government's budget deficit, allowing the NFPS to fall below 2% of GDP in 2021.³³ Accordingly, the consolidated public debt is expected to increase further over the next few years but will stabilize at levels of close to 34% of GDP in 2020.

The government plans to foster competitiveness and private sector development as engines of growth. This requires challenges to be overcome in the environment for production, the business climate, and access to financing and markets, as well as issues of regulatory stability.³⁴ Although Ecuador has a tax incentive law aimed at promoting PPPs, there are still weaknesses in these arrangements, particularly in terms of the management of fiscal risks.³⁵ Looking ahead, the government should ensure both the sustainability of investments (operation and maintenance) and the quality of production-related services, while also moving forward with the regulation of contingent liabilities.

The country will also need to address institutional and social challenges. In the area of institutions, the country faces challenges in consolidating achievements in the area of State reform and strengthening the capacity of public entities, particularly at the subnational level. The government plans to work toward improving the quality and efficiency of services. This is particularly relevant in the social sectors, because although a significant increase in spending has facilitated good progress in terms of coverage of basic services, the challenge in the medium term will be to ensure the quality and continuity of these services.



The objectives of the country strategy with Ecuador for the 2012-2017 period were aligned with the government's Buen Vivir National Plan, and the result was an ambitious but not very selective strategic proposal. However, the program that was actually implemented focused more on sectors in which the IDB found niches of relevance.

The IDB's Strategy with Ecuador

A. THE IDB'S STRATEGIC POSITION WITH ECUADOR

The objectives of the country strategy with Ecuador for the 2012-2017 period were aligned with the government's Buen Vivir National Plan. The 2012-2017 country strategy included eight sectors: energy, transportation, social development, access to finance, fiscal management, urban sustainability, rural development, and natural disaster risk management, as well as crosscutting issues such as diversity and climate change and environmental sustainability. In addition, the following three areas of dialogue were identified: competitiveness, citizen security, and labor markets (Table 2.1). The strategy established specific objectives for each sector in alignment with the Buen Vivir National Plan, but the result was an ambitious strategic proposal that was not very selective. However, the program that was actually implemented focused more on sectors in which the IDB found niches of relevance.

In practice, the Bank's operational program in Ecuador had a strong sector focus. More than 40% of sovereign-guaranteed loans approved during the evaluation period were concentrated in the electricity sector, while 24% were channeled to the area of fiscal management and support for public administration. The rest of the program encompassed the areas of urban sustainability, with 13% (including potable water and sanitation interventions); transportation and logistics, with 10% (including loans to support construction of the Quito Metro); and social development, with 9% (Table 2.1). Undisbursed amounts from the sovereign-guaranteed legacy portfolio³⁶ are concentrated in the areas of public administration (26%), transportation (19%, mainly conservation of the road network), and urban sustainability (15%, mainly housing).

Tabla 2.1: Objetivos estratégicos sectoriales y programa operativo 2012-2016

IABLA 2.1: UBJETIVOS ESTRATEGICOS SECTORIALES Y PROGRAMA OPERATIVO 2012-2016		
Operational	l Program 2012-2016	
Sovereign Guaranteed Loans	Technical Cooperation Operations	
ENERGY Create a long-term energy strategy that fosters a adequate power supply and improves access to a	a sustainable energy framework, and that facilitates electricity.	
EC-L1128 Electrification Program for Rural and Marginal Urban Areas of Ecuador II [2013] U\$\$30,000,000 EC-L1117 National Transmission System Strengthening Program [2014] U\$\$150,000,000 EC-L1136 - Program to Strengthen the National Electricity Distribution System in Ecuador [2014] U\$\$20,000,000 EC-L1147 - Program to Strengthen the National Electricity Distribution System in Ecuador II [2015] U\$\$80,000,000 EC-L1140 - Support for the Transition of the Energy Matrix in Ecuador (PBL) [2015] U\$\$500,000,000 EC-L1160 - Investment Plan to Support the Transition of the Energy Matrix in Ecuador [2016] U\$\$143,000,000 EC-L1219 - Program for the Reconstruction of Electricity Infrastructure in Areas Affected by the Earthquake in Ecuador [2017] U\$\$60,000,000.	EC-T1259 - Measuring Impacts of Rural Electrification Projects in Ecuador [2012] US\$400,000 EC-T1279 - Analysis of the Implementation of the Smart Grid Program in Ecuador [2013] US\$450,000 EC-T1280 - Support for the Electrification Program for Rural and Marginal Urban Areas of Ecuador II [2013] US\$150,000 EC-G1001 - Rural Electrification with Renewable Energy Sources in Remote Areas of Ecuador [2013] US\$909,090 EC-T1297 - Support for the Transition of the Energy Matrix in Ecuador [2014] US\$500,000 EC-T1312 - Support for the Development of the National Energy Efficiency and Renewable Energy Plan [2015] US\$350,000 EC-T1318 - Experience Sharing/Development and Monitoring of Geothermal Fields [2015] US\$11,200 EC-T1313 - Support for the Preparation of the National Energy Agenda of Ecuador [2015] US\$300,000 EC-T1315 - Production of Energy from the Recovery of Municipal Solid Waste [2015] US\$500,000 EC-T1329 - Support for the Development of the National Energy Efficiency and Renewable Energy Plan [2015] US\$350,000 EC-T1327 - Measuring the Benefits of Rural Electrification in Ecuador [2016] US\$400,000	
TRANSPORTATION AND LOGISTICS Maintain and expand the national intermodal t	ransportation and mobility system.	
EC-L1111 - Quito Metropolitan Transportation System – First Line of the Quito Metro [2012] US\$100,000,000 EC-L1124 - Quito Metropolitan Urban Transport [2013] US\$100,000,000 EC-L1125 Provincial Road Support Program for Decentralized Autonomous Governments - PROVIAL [2013] US\$60,000,000 EC-L1116 - Improvement of Border Crossings in Ecuador [2014] US\$16,000,000	EC-T1260 - Strengthening of the Quito Metro Public Company [2013] US\$950,000 EC-T1300 - Support for the Border Crossing Program [2014] US\$300,000 EC-T1308 - Institutional Strengthening of the MDMQ in Passenger Transport [2014] US\$12,900 EC-T1286 Program on Energy Efficiency in the Transport Sector [2015] US\$195,000 EC-T1320 - Strengthening of Ecuador's Ministry of Transportation and Public Works in Road Maintenance [2015] US\$12,000 EC-T1332 - Support for Consolidation of PPPs in Ecuador [2016] US\$750,000	
	h an integrated social promotion and protection system. ildren aged three to four and increase baccalaureate	
EC-L1107 - Program to Support Comprehensive Early Childhood Development [2012] US\$3,653,528	EC-T1246 - Basic Education Quality Improvement [2012] US\$750,000	

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Sovereign Guaranteed Loans	Technical Cooperation Operations	
EC-L1129 - Intersectoral Social Coordination Strengthening Program [2014] US\$80,000,000	EC-T1295 - Infrastructure Program for the Universalization of Quality Education [2013] US\$10,800	
EC-L1155 - Sector Support for Quality Education in Ecuador [2016] US\$160,000,000	EC-T1288 - Preventive Education in Sexual and Reproductive Health for Adolescents and Youth [2014] US\$950,360	
EC-L1145 - Development Sustainability Credit Line [2014] US\$300,000,000	EC-T1325 - More Education Less Teen Pregnancy [2015] US\$750,000	
	Closing Gaps: EC-T1281 -Teachers Closing Gaps: The Impact of Teaching Quality on Learning Outcomes [2013] U\$\$546,909; EC-T1275 - Closing Gaps II: Impact of Teaching Quality on the Learning Outcomes of Poor Students [2013] U\$\$1,500,000; EC-T1282 - Closing Gaps III: The Impact of Teaching Quality on Learning Outcomes [2014] U\$\$2,400,000; EC-T1322 - Closing Gaps: The Impact of Teaching Quality in Early Schooling [2015] U\$\$1,000,000; EC-T1335 - Closing Gaps: Impact of Teaching Quality in Early Schooling [2016] U\$\$1,000,000	
	EC-T1241 Support for the Construction of the National Equity and Social Inclusion System [2013] US\$500,000	
	EC-T1323 - Capacity Building for Analysis, Evaluation, and Dissemination of Effectiveness [2015] US\$430,000	
	EC-T1311 - Performance Index of Educational Institutions in Ecuador [2016] US\$300,000	
ACCESS TO FINANCE Foster financial inclusion.		
EC-L1110 - Financial Inclusion Support Investment Program [2012] US\$10,000,000	EC-T1254 - National Payments System and Financial Inclusion [2012] US\$250,000	
	EC-T1269 - Training on Monitoring Credit Unions and Financial Safety Nets [2012] US\$8,506	
	EC-T1302 Strengthening the Technical Capacity of the Superintendency of Banks and Insurance [2014] US\$12,704	
	EC-T1287 - Implementation of Basel II and III in Current Regulations and Procedures [2014] US\$150,000	
FISCAL MANAGEMENT Move toward a more efficient and progressive to Strengthen and coordinate planning processes were strengthen as the strengthen and progressive transfer		
EC-L1118 Program to Improve Public Service Quality [2013] US\$270,000,000	EC-T1268 – Building the Technical Skills of SENPLADES Staff [2012] 16,711	
EC-L1119 - Program to Improve the Control Function of the Office of the Comptroller General of the Nation [2013] US\$20,000,000	EC-T130 and EC-T1301 Ministry of Finance Institutional Strengthening Program for Debt Management and Risk Management [2014] US\$150,000 and US\$350,000, respectively	
EC-L1120 - Internal Revenue Service Improvement Program [2014] US\$30,000,000	EC-T1321 - Strengthening of the Public Policy Evaluation System [2015] 299,666 EC-T1294 – Improving the Quality of Statistics in	
URBAN SUSTAINABILITY Urban development and housing: Support comprehensive urban development interventions that improve conditions of habitability, space, and security. Water, sanitation, and solid waste: expand service coverage. Urban transport: foster improvements in public transportation systems.		
EC-L1113 - National Social Housing Program – Phase II [2012] US\$100,000,000	EC-T1252 Development of Subnational Governments and/or State-owned Enterprises [2012] US\$500,000	

Sovereign Guara	anteed Loans	Technical Cooperation Operations	
EC-L1112Investment Program for the Development of Decentralized Autonomous Governments and/or their State-owned Enterprises - Phase I [2012] US\$100,000,000 EC-L1122 - National Investment Program in Water, Sanitation, and Solid Waste [2014] US\$150,000,000		EC-T1277 - Cuenca Sustainable City - Implementation Methodology, Action Plan, and Preinvestment [2013] US\$1,100,000 EC-T1310 - Strengthening of the State-owned Metropolitan Water Supply and Sanitation Company [2015] US\$948,000 EC-T1328 - Strengthening of Urban Analysis and Preparation for Habitat III [2016] US\$150,000 EC-T1330 - Strengthening of Service Managers [2016] US\$900,000	
RURAL DEVELOPMENT Promote production activities that improve living conditions for the rural population and drive value added. Increase sector productivity by improving the functioning of the land market. Support the conservation and sustainable development of the Galapagos Islands.			
EC-L1121 - Chimborazo Rural Development Investment Program [2013] US\$15,000,000 EC-T1266 and EC-T1276- Support for the Chimborazo Rural Development Investment Program [2013] US\$400,000 and US\$350,000, respectively EC-T1299 - Institutional Strengthening in Agricultur Technological Innovation [2014] US\$13,410			
RISK MANAGEMENT: Reduce social and environmental vulnerability to natural and man-made processes that create risk.			
Crosscutting issues	Diversity: improve living conditions for indigenous and Afro-Ecuadorian peoples. EC-T1331 - Reduction in Birth Under-registration and Identification in Amazonia and Suburban Areas [2016] US\$690,000 Climate change and environmental sustainability: Strengthen sustainable forest and biodiversity management, EC-T1306 - Support for the Socio Bosque Social Conservation Incentive Program [2015] US\$300,000 EC-T1326 - Support for the Socio Bosque Conservation Incentives Program [2015] US\$200,000		
Areas for dialogue	Competitiveness and innovation: issues relating to the promotion of entrepreneurship and private sector investment in innovation. Labor markets: issues of efficiency, pensions, and informality. EC-T1253 - Support for the Design and Evaluation of Labor Market Policies [2012] US\$350,000 Citizen security, in issues relating to improved levels of public safety and violence prevention.		

The Bank-financed portfolio consisted mostly of investment loans and operations to respond to the earthquake emergency. In terms of instruments, 60% of the total amount approved between 2012 and 2016 consisted of investment loans (22 operations for US\$1.837 million), while 26% comprised fast-disbursing loans, including the US\$500 million programmatic policy-based loan (PBP) to support the energy matrix transition (16%), and the US\$300 million development sustainability contingent credit line (DSL) (10%). The 34 loans extended by the Bank's private sector windows (the Structured and Corporate Financing Department, Opportunities for the Majority program, and Inter-American Investment Corporation) accounted for 14% of the portfolio.

IDB action through its contingent credit instruments was important for responding to the country's financing needs against a backdrop of economic crisis and the earthquake. In response to the drop in oil prices in 2015, the IDB activated a US\$300 million DSL, which was approved in 2014. Combined with the US\$500 million PBP for the energy sector (approved in 2015) and other disbursements that year, Bank financing helped to mitigate the impact of the crisis by performing a countercyclical role. Ecuador was also the first country to receive disbursement under a CCL, which was partially funded by redirecting undisbursed balances in the investment portfolio. The earthquake of 16 April 2016 activated the contingent operation, with the IDB disbursing US\$160 million five days later. The IDB's fast and timely response was acknowledged by the government and helped to consolidate the relationship of trust and dialogue. In the wake of these events, the country strategy's relevance as a programming instrument was diluted.

The non-sovereign-guaranteed (NSG) private sector portfolio doubled during the evaluation period. The strategic position of the private sector windows was not discussed in the country strategy, and interventions focused mainly on the area of access to finance. The private sector portfolio doubled compared to the previous period, with a substantial participation by the IIC. The private sector portfolio focused on the area of access to finance. Funds were channeled through financial intermediaries (mainly for the microfinance sector), through local private banks for external trade operations, or in the form of direct corporate financing to SMEs in the productive sector (nonoil and agro-industrial). Consistent with the guidelines, the country strategy does not include strategic objectives or specific indicators for the private sector, or financing volumes for its interventions. The evaluation found some examples of synergies between the public and private sector windows in the energy sector.³⁷

Technical cooperation resources were used to deepen the policy dialogue, mainly in the education, energy, and water and sanitation sectors. The IDB approved technical cooperation operations in the amount of US\$28.8 million during the 2012-2016 evaluation period. Almost 40% of resources were focused on the area of social development, with significant amounts used to evaluate teacher quality and the impact of education reform (Cerrando Brechas [Closing Gaps]). The energy sector received substantial amounts of technical cooperation resources that were mainly used to support the energy matrix transition process promoted under the PBP, as well as to develop tools for measuring the impact of rural electrification programs, and to strengthen companies and institutions belonging to the sector. In the water and sanitation sector, the technical cooperation agreement supported the reform process and strategic approach that led to the National Water and Sanitation Strategy. Technical cooperation resources funded knowledge products that were positively received by clients.³⁸

The 2012-2017 country strategy identified risks to program execution that materialized during the evaluation period, leading to the activation of mitigation measures. The country strategy incorporated most of the recommendations from the last Country Program Evaluation. The strategy identified a possible decline in oil prices and weak institutional capacity and coordination as risks to program implementation. To mitigate these, the strategy proposed to focus the program on providing support for development of the nonoil economy and on maintaining a close dialogue with the government. Nonetheless, despite the IDB's efforts in the area of institutional strengthening, weaknesses in a number of agencies affected program execution, and the Bank's contribution to supporting development of the nonoil economy was limited. Although the country strategy incorporated most of the evaluation's recommendations, the sector concentration of the operational program reduced its effectiveness (Box 2.1).

Box 2.1 – OVE Recommendations regarding the 2008-2011 country program and their incorporation into the 2012-2017 program

and their incorporation into the 2012-2017 program		
OVE evaluation recommendation (2008-2011)	Incorporation into the 2012-2017 country strategy	
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.	Management partially agreed with this recommendation. According to Management, the authorities have not sought dialogue in that regard.	
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: a. Redesign support so that it leverages other investments. b. Expand support to help address urban and rural inequalities. c. Avoid demands in which economic benefits did not clearly justify the Bank's support.	Management agreed with this recommendation. According to OVE's evaluation, the Bank has made significant efforts to leverage resources. In terms of reducing inequalities, the IDB has made progress in this direction through its social development and urban and rural development portfolios. In PPPs, for example, the IDB focused its interventions on areas with low service coverage. The IDB. However, the redirection of resources from the social portfolio to tackle the emergency meant that some of these interventions were not executed.	

OVE evaluation recommendation Incorporation into the 2012-2017 (2008-2011)country strategy The Bank should continue Management agreed with this strengthening the country's planning, recommendation. The IDB provided evaluation, and monitoring capacity support to SENPLADES both by working with the Secretaría directly, through technical cooperation Nacional de Planificación y Desarrollo operations, and indirectly, by (SENPLADES), the entity responsible participating in prioritization of the for originating the National Plans that programs for the approval of budgets and are the framework for the country expenditures. strategy. The Bank should continue promoting sharing of experience and common Management agreed with this training programs for national and recommendation. The OVE evaluation subnational executing agencies. In confirms that the Bank has continued addition to technical cooperation at to provide direct support to executing the appraisal phase of projects, the agencies by organizing seminars aimed Bank could contribute to the country's at improving their capacity for the capacity to handle Bank projects by management of fiduciary risk and the promoting seminars and workshops with financial aspects of procurement. the personnel responsible for executing Bank's projects.

B. THE IDB'S FINANCIAL RELEVANCE IN ECUADOR

From January 2012 to December 2016, the IDB approved US\$3.099 billion in loans and technical cooperation operations: US\$2.665 billion in sovereign guaranteed operations and US\$434 million in non sovereign guaranteed operations. This surpassed the level of approvals set out in the country strategy's lending framework.³⁹ The strategy had anticipated a baseline sovereign-guaranteed financing scenario of US\$2.1 billion (approvals of US\$350 million annually)⁴⁰ under a scenario with projected average growth of 4.1%, an average annual increase of 6% in the multilateral debt stock, and an average fiscal deficit of 3.8% of GDP. Higher financing levels responded to the needs arising from the economic slowdown and the impact of the earthquake. Average economic growth was lower than expected, while the fiscal deficit and the multilateral debt stock exceeded the projections contained in the country strategy.⁴¹

Although financing approved by the Andean Development Corporation (CAF) over the evaluation period was higher than that of the IDB, the Bank led both financing and the policy dialogue in a number of sectors. The CAF approved total lending of US\$3.981 billion in the 2012-2016 period, compared to US\$3.099 billion approved by the IDB. The World Bank and the European Investment Bank (EIB) approved US\$868 million

and US\$773 million, respectively. In terms of sector distribution, the CAF focused more than half of its portfolio on infrastructure (mainly transportation) (53%), urban sustainability (35%) and access to finance (12%). The IDB led multilateral financing in the energy and public administration sectors. Due to the large volumes of public investment, multilateral disbursements were a small percentage of total investment.

Given restrictions associated with the IDB's lending limit with Ecuador, the Bank made substantial efforts to leverage cofinancing resources. In total, the IDB has leveraged around US\$900 million in bilateral (China and Korea) and multilateral (EIB, World Bank, and CAF) cofinancing for its portfolio.⁴² The Bank has led dialogue and the execution of projects with cofinancing, and in many cases IDB rules have been applied to the entire financing package.

Net flows to Ecuador were positive throughout the entire period. Bank disbursements doubled over the country strategy period compared to the previous period (2007-2011). Net flows to the country were positive, with a peak in 2015 resulting mainly from disbursements under the DSL and PBP. The main factors that influenced the increase in disbursements were portfolio management by the Country Office, the CCL financing modality, the rapid pace of execution of the energy portolio, and fast-disbursing components under a number of investment loans.

- Since 2012, the Bank has been engaged in a process of continuous portfolio review with the participation of the Ministry of Economy and Finance (MEF) and project executing agencies, and action plans have been negotiated with sector authorities at the highest levels. 43 The IDB has invested substantial amounts of technical cooperation resources (US\$2.6 million) in providing technical and operations support, including support for procurement and financial management systems, and numerous training workshops on procedures.⁴⁴
- Resources disbursed under the CCL were a combination of both undisbursed balances reallocated from existing projects and funds from the regular lending program. Of the US\$160 million, US\$70 million was covered by the reformulation of undisbursed project balances. The IDB and the government agreed on a list of lower-priority projects with execution problems. This reallocation of funding helped to cleanse the IDB's portfolio and reduce the country's credit fee payments. The remaining amount (US\$90 million) was taken from lending program resources.
- The excellent performance of the energy portfolio in terms of execution and disbursement. The five energy sector operations approved between 2013 and 2015 had disbursed close to or in excess of 90% of resources by the end of 2016. Disbursements were made just a few months after the contract was signed, showing that design and bidding processes were already well along. Rapid project execution was supported by workshops on administrative and fiduciary management and close collaboration with the MEF.

 A significant share of investment loans (26%) included fast-disbursing components, including the school feeding component and the education loan (US\$130.3 million) and the employee separation component under the public sector restructuring loans (US\$360 million).

C. EFFICIENCY OF THE OPERATIONAL PROGRAM AND USE OF COUNTRY SYSTEMS

Preparation and execution costs and times for investment projects were reduced during the country strategy. Preparation costs per U.S. dollar approved fell from US\$226,142 in 2012 to US\$92,574 in 2015, while execution costs per U.S. dollar disbursed declined from US\$139,375 to US\$125,660 over the same period. These costs were the lowest in the IDB's Country Department Andean Group. Preparation times for projects approved between 2012 and 2016 averaged 17 months, which was below the average of 20 months in the previous period (2008 2011). The energy portfolio has performed best in terms of execution and disbursements.

Box 2.2 describes the main factors that affected implementation of the IDB's portfolio in Ecuador, as well as the Bank's response. These include: (i) the expenditure control measures introduced by the government, which affected execution of the entire portfolio; ⁴⁵ (ii) the creation of new public institutions such as the Servicio de Gestión Inmobiliaria del Sector Público [Public Sector Property Management Service] (INMOBILIAR) and the Servicio de Contratación Pública [Public Procurement Service] (SERCOP), which had a particular impact on the social sector (health); (iii) staff turnover in the ministries, as in the case of the Ministry of Urban Development and Housing (MIDUVI), which mainly affected the urban development portfolio; and (iv) financial and technical limitations in subnational governments and management limitations at the Banco de Desarrollo del Estado (BDE), which affected project execution in the areas of water and sanitation and secondary roads.

There was some progress in relation to the use of country systems over the country strategy period. The use of country systems has focused more on financial administration systems (100%)—budget, treasury, and accounting—the information for which is drawn from the Sistema Integrado de Gestión Financiera [Integrated Financial Management System] (SIGEF). In terms of procurement, in 2014, the IDB, the central government, and SECOB signed an agreement for the use of country systems. This began with seven Bank-financed operations that used the country's electronic procurement system. In May 2016, the IDB submitted an evaluation to SECOB regarding the first year of use of the system, with recommendations for moving forward. Recently, the government has expressed its interest in continuing the interagency dialogue with a view to continue strengthening the national public procurement system. Progress has been limited with respect to internal and external audit systems.⁴⁶

Box 2.2 Key factors affecting IDB implementation and response

Institutional framework for the budget process and expenditure control measures implemented from **2015 onwards.** The government's fiscal position in 2015 forced it to adopt measures to control and cut spending, such as the endorsements system and the Comprobante Unico de Registro [Single Registration Confirmation] (CUR) for payments. In 2016, these processes added around four months to the standard execution period for projects, according to IDB estimates. The complicated fiscal situation also influenced the documentation of eligible expenditures for advances of project funds. Moreover, the increase in the valueadded tax in 2016 forced institutions to request budget changes, affecting project execution.

The IDB, through its country office, engaged with the Ministry of Economy and Finance (MEF) to verify budgets and reduce payment delays. This situation began to improve in mid-2016, but there are still some arrears. The temporary VAT increase meant that several works contracts had to be modified.

Institutional changes in public sector administration. The main changes include the creation of new entities such as INMOBILIAR and SERCOB. SERCOB, created in 2013, centralized all procurement, execution, and control processes for government works, meaning that some contracts had to be modified. This affected social sector (health) infrastructure projects in particular.

To expedite procurement processes, the following measures were implemented, among others: (i) hiring of a specialized team in SERCOP; (ii) development of a works monitoring system; (iii) high-level meetings; and (iv) training in procurement policies for SERCOP employees and technical committees. Despite these efforts, significant delays were experienced in works.

Turnover among line ministry

staff. The most acute case was the Ministry of Urban Development and Housing (MIDUVI), which as of 2011 has seen five ministers, seven vice ministers, and 10 project coordinators/ managers in different regional offices (Guayaquil, Quito). There were also several changes to technical counterparts.

Staff turnover, changes of approach, and serious execution difficulties in the resettlement project executed through the MIDUVI ended in cancellation of the loan and a request for reimbursement of the funds.

The government's decision not to finance project coordination units.

Although this is a good practice, in that it fosters stronger country institutions, the execution of some projects (potable water and sanitation) was affected by budgetary limitations in a number of institutions (Secretaría Nacional del Agua [National Water Department] (SENAGUA)), which hindered their ability to provide counterpart resources or access the human resources necessary to execute the projects. Another factor that affected execution was the permanent staff's lack of knowledge of IDB policies.

The IDB made a substantial effort to train staff in the institutions executing projects.

Financial and technical limitations in subnational governments and management weaknesses in Banco de Desarrollo del Estado (BDE). There

were considerable delays in some projects in the roads and potable water and sanitation sectors, due to both financial and technical limitations in the Decentralized Autonomous Governments (GADs) and the BDEs limited managerial capacity to serve the GADs (particularly at the beginning of the period).

The IDB supported the BDE and GADs by means of specialized consultancies. The BDE has improved its capacity, and now has specialized management teams at the central level to execute the portfolio with the GADs, although weaknesses remain in the regional offices.

Determining the technical scope of technological products in the context of the government's promotion of open-source software. October 2016 saw the approval of the so-called Código de Ingenios [Ingenuity

Code], which establishes the criteria and parameters for using open-source software.

This affected operations in which the IDB had to decide whether to cancel components that included technological platforms (EC-L1098) or adapt contracts to the new requirements.



Financing under the IDB program was focused on the electricity sector, where its relevance was enhanced by the fact that it was aligned with the government's strategy and complemented the electricity generation expansion strategy with very good results.

Relevance and Effectiveness of the Operational Program

This section analyzes the relevance and effectiveness of IDB interventions in the strategic sectors identified in the country strategy, as well as their contribution to the achievement of country strategy objectives. Given that the country strategy results matrix was not published, this section analyzes the dimensions of relevance and effectiveness at the level of individual projects for each one of the strategic sectors.

A. PORTFOLIO RESULTS BY STRATEGIC OBJECTIVE

1. **Energy.** Country strategy objectives: Develop a long-term energy strategy that fosters a sustainable energy framework, facilitates adequate power supply, and improves access to electricity.

The IDB approved US\$1.123 billion for the electricity sector over the 2012-2016 period. The relevance of IDB activities was enhanced by the alignment of their objectives with the government's Energy Matrix Transition strategy, and by the complementarities between the Bank's transmission and distribution projects and the government's investments in generation. The government promoted a strategy of transformation in the energy matrix, and allocated significant amounts of national resources to the financing of hydroelectric generation projects. Generation capacity doubled from 4,396 MW (2016) to 8,226 MW (2019). The IDB financed investment operations in transmission and distribution that allowed the country to make use of the electricity produced by the generation projects while also contributing to improvements in key sector indicators. The Bank maintained its relevance in the sector after the earthquake, responding to the emergency and supporting reconstruction efforts (Box 3.1).

Box 3.1 IDB's response to the earthquake in the electricity sector

The 2016 earthquake affected the electricity sector, with a total estimated cost of US\$196 million (US\$46.6 million for emergency and rehabilitation and US\$138.7 million for reconstruction). The IDB supported the immediate earthquake response by approving the Contingent Credit Line (CCL), which provided US\$25.5 million for addressing the energy emergency in the affected provinces. The Bank's rapid response helped to ensure that 90% of services were reestablished by 22 April and 97% by 11 May. In January 2017, the Bank also approved the Program to Rebuild Power Infrastructure in Areas Affected by the Earthquake in Ecuador (EC-L1219), in the amount of US\$60 million. This operation financed part of the Comprehensive Reconstruction Project for Affected Zones (PRIZA), launched by the government for a total of US\$103.5 million (the remaining US\$43.5 million are covered with funds from the Solidarity Act). IDB funds cover substations and subtransmission and distribution lines. The characteristics of the new electrical infrastructure were determined in collaboration with the IDB, to ensure that it is both resilient and earthquake resistant.

In the area of transmission, the Bank financed two operations (for US\$214.7 million) to strengthen the national transmission system and adapt it to the new energy supply, with satisfactory results. The first project (EC-L1070) was approved in 2010 and completed in 2015. It financed 12 transmission works that were successful in meeting more than 60% of incremental demand (62,000 MWh per month), fulfilling the established target and increasing reserve capacity to 1,295 MVA (above the target of 1,074 MVA).⁴⁷ Between 2001 and 2015, the IDB is thought to have financed 50% of 138 kV and 230 kV works under the Transmission Expansion Plan. The National Transmission System Strengthening Program (EC-L1117) was approved in 2014. It financed the construction of four new systems (300 km of transmission lines), the development and repowering of 12 electrical substations, and the preliminary designs and environmental studies for a 500 kV transmission interconnection between Ecuador and Peru. With 90% of funds disbursed, progress under the project has been satisfactory in terms of the key outputs in each component.

Regarding distribution, the Bank financed two programs (PRSND I and II) for a total of US\$300 million to strengthen the national electricity distribution system; progress under these was satisfactory in terms of system expansion. PRSND I (EC-L1136), which was approved in June 2014, disbursed more than 90% of funds. It financed 184 km of the subtransmission network, and 3,254 km of the distribution network, thus surpassing the targets set for 2018 (178 km and 2,747 km, respectively). Satisfactory progress has also been made in implementing other outputs (2016 Progress Monitoring Report). The project helps to improve operations and maintenance in the electricity distribution companies, and it supports implementation of the Programa de Eficiencia Energética para Cocción Por Inducción y Calentamiento de Agua con Electricidad [Energy Efficiency Program

for Induction Cooking and Water Heating Using Electricity]. PRSND II (EC-L1147) was approved in 2015, and 90% of funds have been disbursed. Progress has been satisfactory with respect to implementation of the main outputs for expansion of the system and improvement of its efficiency and reliability (digital architecture and intelligent networks).

The IDB approved two operations for a total of US\$70 million under the Electrification Program for Rural and Marginal Urban Areas (FERUM), with satisfactory results in relation to revised targets. FERUM I (EC-L1087) was approved in 2011 and completed in 2014. It benefited 103,172 households (with 30,874 households receiving electricity connections for the first time and service improving for a further 72,298). Although these results were below the original target of 240,000 households, they surpassed the revised target of 57,290 households. By reducing losses and interruptions, 49 the program contributed to an improvement in service quality in rural and marginal urban areas, as well as a reduction in coverage gaps. Execution of FERUM II (EC-L1128) has provided continuity to the program, and to date physical progress stands at 90% in grid extension projects and 37% in off-grid projects. As of the end of 2015,14,606 households without services had been served (out of the 15,857 planned). 50

In February 2015, in response to the fiscal difficulties experienced by Ecuador, the Bank approved the first loan under the programmatic series Support for the Transition of the Energy Matrix in Ecuador (EC-L1140), for US\$500 million. The intention was that this operation would be the first loan in a programmatic series of three consecutive operations. After the first disbursement, however, no new operations were approved. The programmatic series was discontinued because of a change in the IDB's strategy with respect to financing instruments for Ecuador, with greater emphasis on investment loans to moderate the use of resources and facilitate monitoring of the operations.

Although the main impact of the first operation was to help maintain liquidity in the context of a sharp drop in the oil price, policy conditions under the programmatic series were relevant and the government made progress toward the triggers, thus consolidating the reform process. The program's general objective was to support transformational reform in the country in terms of altering its energy matrix, thereby contributing to the consolidation of its fiscal and external accounts by reducing the importation of petroleum products and replacing the associated subsidies. The full loan amount was disbursed immediately, as the policy conditions had been met. However, and despite the fact that the subsequent loans were not approved, the government has continued to implement measures that are aligned with the triggers established under the programmatic series, thus confirming the relevance of the policy reforms. Box 3.2 in the Annex describes the status of fulfillment of the reform conditions under the first operation and analyzes the government's progress in relation to the triggers under each component, which contributed to their consolidation.

Box 3.2 - Fulfillment of policy commitments and sector progress by component.

Component 1 - Sustainable electricity sector: Support was provided to prepare policy commitments and monitor actions to redirect energy subsidies, as well as to formulate the National Energy Agenda and planning and monitoring instruments for sector investments. The following conditions were fulfilled: (i) decision approved supporting implementation of the initiative to replace the use of liquefied petroleum gas (LPG) with electricity in the residential sector; (ii) design of the project to replace subsidized LPG with electricity, reaching out to vulnerable populations with no access to electric service; (iii) design and approval of a rate schedule for transitioning from LPG to electricity in the residential sector; (iv) execution of a policy for the optimization of electric power generation in hydrocarbon activities; (v) approval of a proposed methodology for the National Energy Agenda of Ecuador; and (vi) publication of the 2014 National Energy Balance Sheet.

From 2015 onwards, the government continued to implement initiatives included in the triggers for the subsequent programmatic operations, particularly the Energy Efficiency Program for Induction Cooking and Water Heating Using Electricity (PEC); the rate schedule for transitioning from LPG to electricity in the residential sector; and the initiative to reduce demand for diesel in hydrocarbon activities through the program to optimize electricity generation (executed by Petroamazonas). The National Energy Agenda and the National Energy Balance Sheets for 2015 and 2016 were also published. However, the policy for replacing LPG subsidies with electricity—a delicate issue in political terms—has still not been determined. As mentioned previously, the PEC has also been implemented at a slower rate than planned, and the targets for replacing stoves were extended until 2023.

Component 2 - Strengthening of the electricity subsector: Support was provided for efforts to fulfill sector efficiency and sustainability commitments. Specifically, this component supported actions to reduce the consumption of liquid fuels in generation and expand generation capacity using renewable sources and natural gas. At the same time, support was provided for modernization of the electricity subsector and for improving the sustainability of distribution services. The following conditions were fulfilled: (i) approval of the Plan for Expansion and Development of the National Electricity Network 2013-2022, published on the National Electricity Council (CONELEC) website; (ii) approval by the National Assembly of the Public Electric Power Service Act (LOSPEE); (iii) approval of the policy for reducing the rate deficit by increasing electricity rates (2014 Rate Schedule); (iv) approval of a ministerial agreement for creating an Interagency Committee to implement the National Intelligent Networks Program; (v) decision issued by SENPLADES for the development of the Distribution Improvement Program to facilitate implementation of the PEC; (vi) approval of a sustainability methodology for financing rural electrification projects; and (vii) approval of the strategy for evaluating the impact of rural electrification projects.

Additional progress has been made since 2015. In particular, the target established under the third programmatic operation for the commissioning of hydroelectric projects (2,000 MW) has been surpassed; there has been a significant increase in natural gas production; and two natural gas power plants have come on stream. The indicator for total electricity losses has fallen to 12.2% (2016), while the Cash Recovery Index has increased to 87% (compared to 2018 targets of 12.1% and 80%, respectively, in the results matrix for the policy-based loan). However, the general regulations for the Public Electric Power Service Act have not yet been approved, partly because the decision was taken to await approval of the public-private partnerships (PPP) law and the definition of incentives for developing PPPs in the electricity sector.

Component 3 - Support for regional electrical integration: Assistance was provided for coordinating the regional agreements for the Andean Electric Interconnection System (SINEA); these should help to increase the exchange of electricity in the region and secure national supply, reducing the local use of thermal generation. The following conditions were fulfilled: (i) binational agreement on the scope of the proposed project for a high-voltage (500 kV) transmission line connecting Ecuador and Peru; and (ii) drafting of a proposed policy for regulatory harmonization to increase electricity exchanges with Peru.

The consultant subsequently completed the preliminary designs for the 500 kV Ecuador-Peru interconnection project, and these have now been finalized. The approval is expected soon of joint regulations for the regional electricity market, under the auspices of the Andean Community; this would allow further development of this project. The government has also approved regulations aimed at intensifying the exchange of electricity with Peru using the existing 230 kV connection.

In this sense, IDB operations contributed to the attainment of the development objectives included in the country strategy and, accordingly, to improvements in key sector indicators. Transmission programs supported a significant reduction in recorded power losses in the sector. Total power losses fell from 23% in 2011 to 12% in 2016, making Ecuador the country with the seventh lowest level of losses in the region. The distribution programs contributed to an improvement in electricity service quality, as measured by the reduction in interruptions. The total duration of interruptions per installed kVA fell from 19.25 hours per year in 2011 to 6.34 in February 2017, while the average frequency of interruption per installed kVA (FMIK) fell from 18 power cuts per year to 5.57 over the same period. FERUM helped to reduce the gaps in rural coverage mentioned in paragraph 1.13. Lastly, the PBP supported the development of an energy strategy that will be sustainable into the long term.

2. Fiscal management. Country strategy objectives: (i) move toward a more efficient and progressive tax system; (ii) enhance the equity and efficiency of public spending and raise the quality of the public investment cycle; (iii) strengthen

and coordinate planning processes with the budgetary cycle, including the implementation of a comprehensive system of results-based management at the national and subnational levels.

The IDB's actions in the sector were relevant, as it was the only multilateral agency to support implementation of several critical aspects of the government's Restructuring Plan for Institutional Management (Model R). The IDB provided crosscutting support to the institutional management restructuring process, and it addressed specific restructuring and process optimization needs in key institutions. As part of this crosscutting support, and with a view to enhancing the efficiency and effectiveness of public administration, the Bank had two investment loans: the Public Administration Institutional Reform Program (EC-L1094, approved in 2011 for US\$250 million), and its successor, the Program to Improve Public Service Quality (EC-L1118, approved in 2013 for US\$270 million).⁵¹ In terms of support for specific institutions, the Bank had three loans from the previous country strategy: Modernization of the National Civil Registration, Identification, and Documentation System (EC-L1083, US\$78 million), approved in 2010; the Program for Strengthening the Preinvestment Cycle (EC-L1084, US\$35 million), approved in 2011; and the loan to implement the National Citizen Security Strategic Plan (EC-L1098, US\$10 million), approved in 2011. Two investment loans were approved under the current strategy to improve management and support technical modernization in two entities: the Office of the Comptroller General (CGE) (EC-L1119) for US\$20 million (2013), and the Internal Revenue Service (SRI) (EC-L1120) for US\$30 million (2014).

IDB operations supported key aspects of the institutional management reform. In financial terms, a significant share of the resources financed expenditures associated with the employee separation process. Results of the loans to provide crosscutting support to the institutional management reform (EC-L1094 and EC-L1118) include implementation of a variable remuneration system for senior public servants; the strengthening of interoperability between the planning, public investment, and budget systems (Sistema Integrado de Gestión Financiera [Integrated Financial Management System] and Sistema Integrado de Planificación e Inversión Pública [Integrated Planning and Public Investment System]), evaluations of the quality of public services, and international certification processes. Additionally, nine Investment Plans for Institutional Reform (PIRIs) were approved and implemented in line ministries,⁵² and progress was made toward institutionalizing the results based governance tool. Lastly, support for the process of simplifying administrative procedures led to improved efficiency in public service delivery. The implementation of Model R in the prioritized institutions reached around 70%, surpassing the target in the Buen Vivir National Plan (57% in 2015). Around half of the total amount of resources approved for the sector (US\$360 million)⁵³ was used to finance expenditures associated with the separation of some 10,000 public employees.⁵⁴ Although a number of studies (IAG Group, 2015) showed that the separations did not have a significant impact on public-sector staffing as they were offset by temporary hires, a study of the education sector carried out by the IDB confirmed that the processes did lead to optimization, as they fostered the renewal of teaching staff, lowered the average age, and imposed more demanding entry conditions that had an impact on the quality of learning.⁵⁵ Nonetheless, the employee separation program did not include any actuarial studies of labor liabilities.

Projects to support specific institutions are still in execution, with varying degrees of progress. Processes were successfully optimized through the simplification of requirements and a reduced number of transactions for users of the Civil Registry (EC-L1083), allowing a reduction in waiting times for services such as birth certificates (from 4 hours to 15 minutes) and identity cards (from 8 hours to 45 minutes).⁵⁶ The Civil Registry has become a model institution in terms of operational efficiency and the quality of citizen services, and it has secure information systems and technological autonomy.⁵⁷ IDB support to the Ministry of the Interior (EC-L1098) helped to redefine protocols with a view to standardizing policing operations across the country, while also improving the capacity to analyze crime and violence data and supporting police units in generating strategic responses to reduce crime levels. However, it did not succeed in creating a technological tool to analyze crime data, thus limiting the impact of the operation. Under the Program for Strengthening the Preinvestment Cycle (EC-L1084), the employees in the National Preinvestment Institute (INP) were trained in designing sector analysis methodologies, developing manuals, and executing preinvestment studies for medium-sized projects. However, the National Preinvestment Institute was eliminated at the end of 2015 and its functions were absorbed by SENPLADES, with a limited transfer of capacities. IDB assistance to the Internal Revenue Service (EC-L1120) to support development of a technological platform suitable for the different tax administration processes has not so far achieved the expected results. Although there have been a number of improvements in taxpayer services (online services, the "SRI móvil" app for tax queries, and apps for debt payments), the experience with the provider of the technological platform was unsatisfactory and the system is not in operation. The loan for the CGE (EC-L1119) is currently under execution, but the only progress to date has been in constructing buildings for provincial delegations and a few institutional strengthening activities (assessments of critical processes and the optimization of a number of processes).

The IDB operational program made a significant contribution to the achievement of country strategy objectives in the sector, but there is still a need to intensify efforts. Crosscutting programs to support institutional management helped to improve public investment planning⁵⁸ and alignment between government programs and the budget.⁵⁹ However, the IDB needs to intensify its efforts if progress is to be made toward the country strategy objectives of a more efficient and progressive tax system and improved quality and equity of public spending.

3. Urban sustainability. Country strategy objectives: (i) expanding the coverage of water, sanitation, and solid waste management services; (ii) supporting comprehensive urban development interventions that improve conditions of habitability, space, and security; and (iii) fostering improvements in urban public transportation systems.

The IDB's portfolio in the water and sanitation sector was aligned with country strategy objectives, and its relevance was enhanced by its focus on areas with lower coverage. The Bank approved two investment loans during the country strategy period: the Investment Program for the Development of Decentralized Autonomous Governments and/or their State-Owned Enterprises (PRODESARROLLO, EC-L1112) in 2012 for US\$100 million; and the National Investment Program in Water, Sanitation, and Solid Waste (PROSANEAMIENTO, EC-L1122) in 2014 for US\$150 million.60 Of the total amount under both loans, US\$220 million was for the water and sanitation sector. In addition, the Rural Sanitation and Water Infrastructure Program (PIRSA, EC-L1081) is close to completion; this was approved in 2010 for US\$30 million (supplemented by a US\$20 million grant from the Spanish Fund for Cooperation for Water and Sanitation). The interventions provide financing through the BDE for project portfolios in the Decentralized Autonomous Governments (GADs). The IDB targeted its interventions toward rural localities with less than 50,000 inhabitants under PIRSA, and toward urban areas with between 10,000 and 100,000 inhabitants under PROSANEAMIENTO and PRODESARROLLO. All of the targeted areas met these criteria, and coverage in the GADs that participated in the IDB programs was below the national average.⁶¹

However, the characteristics of the projects in the final selection, together with the modification of one of the loan contracts, narrowed the scope of the programs. Resources were focused on a limited number of projects with a diminished impact on the attainment of country strategy objectives. The pool of projects that was ultimately financed was different to the one used in the design phase. Given that the costs associated with the new pool of projects were higher, their scope was narrowed. In practice, almost half of the resources allocated to the sector (US\$100 million) were used to finance a single project (Improvement and Expansion of the Regional Potable Water System for Esmeraldas and Surrounding Areas), which—though it benefited three of the country's cantons—limited the IDB's contribution to reducing the coverage gaps described in chapter 1 section C.62

In terms of results, progress has been greatest under PIRSA, though it has fallen short of program targets. PIRSA provided water supply to 10,000 households and financed sewer and wastewater connections for more than 23,000 households. Despite this progress, the final targets for coverage under the program are not likely to be met. Less than half of resources (39%) have been disbursed under the other two operations, meaning that no results have yet been reported. The San Cristóbal landfill has been completed under PROSANEAMIENTO, and this has expanded by 2,500 the number of households that dispose of their solid waste in a landfill. However, as the works have advanced, issues relating to the sustainability of the systems have arisen.

Although the IDB has traditionally been one of the main multilateral partners in the housing and urban development sector, the relevance of the Bank's intervention was diminished by the cancellation and/or reallocation of resources from the operations, and its contribution to the attainment of country strategy objectives was limited. The National Social Housing Program – Phase II (EC-L1113, US\$100 million) was approved in 2012 to support social housing provision, and it was implemented in a satisfactory manner during the evaluation period. Nonetheless, given the limited nature of this intervention, its contribution to reducing the housing deficit was marginal. The National Urban Development Program (EC-L1099) approved in 2011 for US\$71 million was canceled at the beginning of 2017, with an agreement that the government would return the US\$20 million that had been disbursed. Weak performance under the Program of Protection and Recovery of Cultural Heritage Assets (EC-L1097), approved in 2011 for US\$37.8 million, resulted in its resources being reallocated to the contingency loan for natural disasters in 2016.

With respect to the results of the National Social Housing Program (EC-L1113), the greatest progress has been seen in the provision of housing construction subsidies, while there has been no improvement in the area of institutional strengthening. The program's objective was to facilitate access to adequate housing for poor and vulnerable Ecuadorian households by providing subsidies of US\$6,000 for the construction and/or improvement of single-family homes (on their own land) in rural, urban, and urban fringe areas. The project targeted households in the country's two lowest income quintiles, and gender and vulnerability criteria were included in allocation of the subsidy. As of December 2016, the program had awarded 10,955 subsidies in rural areas (83% of the original target and 97% of the revised target); 1,708 in urban fringe areas (62% and 132%); and 3,786 in urban areas (600% and 90%). Subsidies for water provision in rural households were canceled due to insufficient demand. As of December 2016, there had been no progress under the institutional strengthening component for the MIDUVI, which included a technological platform for process optimization (SIDUVI).

In the case of the National Urban Development Program (EC-L1099), serious execution problems led the Government of Ecuador to request the complete and retroactive cancellation of the loan. This project aimed to improve housing and socioeconomic conditions for low-income families living in an environmentally sensitive area. The main component included population resettlement. The implementation problems and subsequent cancellation of the program have created an environmental and social liability for the families that were resettled, who are currently living in unfavorable conditions. The fallout from a failure to implement the remedial policies recommended in the evaluations conducted by the IDB could perpetuate these conditions in the targeted areas (Box 3.3).

In urban transportation, the IDB cofinanced the first Quito Metro line, assuming a leadership role among funding agencies. Physical progress has been satisfactory, contributing to attainment of the country strategy objective. In 2012 and 2013, two loans were approved (EC-L1111 in 2012 and EC-L1124 in 2013) for the Municipio of Quito and the management company (Empresa Pública Metropolitana Metro

de Quito), for a total of US\$200 million; more than 60% of resources have been disbursed.⁶⁸ Despite delays in contract signature and eligibility (around 30 months), physical progress stood at over 30% in July 2017 (including station construction and the cladding of tunnels), and inspection reports had also been prepared. This major operation—which has an estimated cost of US\$1.062 billion, is cofinanced by the EIB, CAF, and World Bank, which signed an interinstitutional collaboration agreement. This coordination mechanism, which is new among multilateral agencies, was led by the IDB and allowed the executing agency to deal with just one interlocutor, thus unifying processes.⁶⁹ Project execution has been satisfactory, but it faces challenges relating to possible changes in the participation of the consortium responsible for construction (Acciona-Odebrecht).

Box 3.3 Cancellation of the National Urban Development Program

The National Urban Development Program (EC-L1099) was developed in response to a request by the President to address problems of informal urbanization in Guayaquil—particularly in the northwest sector, where settlements are located close to the diversion canal that supplies water to the city. In 2010, this area was declared a "Reserved Security Area for the Santa Elena Aqueduct Water Plan" due to its environmental fragility and strategic importance for Guayaquil. The IDBfinanced program sought to improve the housing and socioeconomic conditions of low-income residents of the northwest sector of Guayaquil, promoting their access to basic services and decent housing. The census conducted in the area in 2011 found that a total of 3,622 families would need to be resettled. In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), the program was classified as category "A." With Bank support, the government prepared an Involuntary Resettlement Plan and an Environmental and Social Analysis Report. The program was approved in December 2011 and reached eligibility in September 2012. The first disbursement—in the amount of US\$20 million—was made that same month to support the resettlement of an initial group of around 850 families (of the 3,622 identified) in Ciudad Victoria.

Serious implementation problems were experienced in the program owing to both exogenous and endogenous factors. Among the main exogenous factors that adversely affected execution of the operation were difficulties experienced by beneficiaries in obtaining loans, and changes in MIDUVI leadership and priorities. The main endogenous factors included limited social monitoring and support for families, and weaknesses in IDB supervision and monitoring of the program.

A Management mission in 2016 concluded that social, environmental, and disaster risk assessments were required in accordance with the safeguards stipulated in operational policies OP-703 and OP-710. The social assessment revealed, among other things, that (i) 7 or 8 out of each 10 applicants had failed to meet copayment obligations; (ii) works were left incomplete, abandoned, or in a state of progressive deterioration; (iii) there were frequent breakdowns in the wastewater pumping

equipment; (iv) main and secondary access roads to Ciudad Victoria were in poor condition; (v) a public health clinic was incomplete; and (vi) beneficiaries lacked legal title to their new homes. This assessment included potential remedial measures to tackle the situation in Ciudad Victoria, underlining the marked deterioration in the social environment and the habitat. With respect to the environmental assessment, this concluded that there was a high probability that a new process of informal population reentry would commence (or continue), because implementation of a management plan had not begun. It also emphasized the urgency of beginning the determination of land tenure and of moving ahead with a regularization process for properties in the area (consistent with using the allocated land as a protected area). It found, furthermore, that measures had not been implemented to reforest or regenerate the affected zones—particularly those close to the Santa Elena diversion canal.

In response to this situation, the IDB's technical team recommended immediate implementation of the remedial actions, but the Government of Ecuador's final decision was to completely and retroactively cancel the loan. In the case of the environmental issues, the studies and actions would take between 2 and 12 months to complete (depending on complexity), at an estimated cost of US\$7,622,248. The studies and remedial actions in the social area were expected to take between 3 and 12 months, with an estimated budget of US\$1,240,000. Overall, the remedial measures would require US\$8,862,248 over a total period of 12 months. These assessments also identified remedial measures for the complicated Las Marías resettlement. Ultimately, the government requested the complete, retroactive cancellation of the loan.

4. Transportation and logistics. Country strategy objectives: *Maintain and expand the national intermodal transportation and mobility system.*

The IDB's financial relevance in the sector has been limited, and the interventions contributed partially to attainment of the country strategy objectives. The IDB approved only two loans for US\$76 million over the 2012-2017 period: US\$60 million under the Loan for the Provincial Road Support Program for Decentralized Autonomous Governments (EC-L1125, 2013) and US\$16 million for regional border crossings (EC-L1116, 2014).⁷⁰ Execution of the US\$350 million Road Transport Infrastructure Program and First Road Infrastructure and Maintenance Program (EC-L1065) from the previous strategy was also completed. The IDB has made important technical contributions in the areas of primary road network maintenance, road safety, and the strengthening of subnational-level institutions. The program's contribution to attainment of the country strategy objectives in the subsectors of logistics and regional integration has been limited.⁷¹

In terms of results, the greatest progress has been achieved under the primary road network conservation program. Progress has been slow in the area of subnational infrastructure, but some results have been achieved. In 2009, the IDB approved a Conditional Credit Line for Investment Projects (CCLIP) for the Road Infrastructure

Program (EC-X1005), and the Road Transport Infrastructure Program and First Road Infrastructure and Maintenance Program (EC-L1065) was the first operation approved under this credit line. The operation financed the development and implementation in Ecuador of an innovative mechanism of service-level road maintenance contracts, covering 883.7 km of corridors (surpassing the target of 810 km).⁷² Coordination failures between the various actors involved (the IDB, BDE, the GADs, and the Consorcio de Gobiernos Provinciales de Ecuador [Consortium of Provincial Governments of Ecuador]) account for the weak performance in implementing PROVIAL, under which only 21% of resources have been disbursed. To date, however, 7.5 km have been improved and/or rehabilitated in Cañar and contracts have been signed for an additional 61 km of secondary road network in the Province of Manabí. Progress was also made under the institutional strengthening component managed by the Consortium of Provincial Governments, with 18 of the 23 programmed road inventories completed and 879 staff trained in road planning and management. These steps were important, as the country lacked inventories for the secondary road network. The BDE also highlighted the Bank's contribution in the area of process transparency, the introduction of results-oriented methodologies, and greater emphasis on project sustainability and environmental management systems.

5. **Rural development.** Country strategy objectives: (i) promote production activities that improve living conditions for the rural population; (ii) increase sector productivity by improving the functioning of the land market; and (iii) sustainable conservation of the Galapagos Islands.

The IDB's rural development program financed activities that are relevant to the sector, but they have been of limited dimension and scope compared to the objectives set out in the country strategy. The program was partially aligned with the country strategy. In the 2012-2017 period, the IDB approved the Chimborazo Rural Development Investment Program (EC-L1121), consisting of a US\$15 million loan. A US\$90 million loan from the previous country strategy was executed during the period, aimed at supporting land titling and regularization. Under the country strategy, the private sector windows were expected to support the integration of small-scale producers into production chains. The private sector windows approved two loans and five technical cooperation projects for US\$3.3 million, mainly using Multilateral Investment Fund (MIF) and Social Entrepreneurship Program (SEP) resources; these were aimed at strengthening production chains and product differentiation. The operational program was partially aligned with the country strategy objectives, as no operations were included for the Galapagos Islands. The rural development program's contribution to the country strategy objectives was marginal in terms of improving living conditions for the rural population.

Progress was most significant under the rural cadastre program, but the scope of this operation is limited. The National System for Rural Land Information and Management program sought to regularize land tenure in 50 of Ecuador's 221 cantons. Despite delays in implementation, the program surpassed most of its targets, with 1,004,221 rural properties registered (surpassing the target of 800,000), 55 cantons with assessment maps, and 54 cantons equipped with systems. The program implemented the Sistema Nacional de Administración de Tierras [National Land Administration System] (SINAT)—opensource software for cadastral management of rural properties. Given the characteristics of this system, other GADs that did not participate in the project requested that it be installed and their staff trained in its use, as they believe that the information generated is valuable for policy design.

Progress under the IDB operation for the Province of Chimborazo has been limited. This operation seeks to enhance the technical capacity of rural producers and improve roads and irrigation systems. With 79% of resources disbursed, the following progress has been made under EC-L1121: improvements to 8 of the 19 irrigation systems originally planned for 2017 and 14 km of the 52 km originally proposed for the road network. Technical assistance was also provided to 2 of the 19 irrigation associations originally planned.⁷³ Budget restrictions faced by the government in financing some of the roads could limit the extent of project results.⁷⁴

6. Social development. Country strategy objectives: (i) foster opportunities for poorer families through an integrated social promotion and protection system; (ii) improve the supply of education services for children aged three to four and increase baccalaureate enrollment; (iii) expand access to effective health services.

The IDB's program in the social sector was of limited relevance given the ambitious objectives included in the country strategy for access to services. The program's contribution to the achievement of these objectives was curtailed by the redirection of part of the resources to tackle the earthquake emergency, as well as by weak execution in some projects. The Bank approved three investment loans for the social sector in the 2012-2017 period, for a total of US\$280 million. The IDB's operational program offered only limited coverage of the challenges identified in the country strategy, and the restricted scope of the operations—together with the redirection of part of the resources to the contingent credit line—means that changes in the country strategy indicators cannot be attributed to the Bank's interventions. Two loans were approved in the social protection sector: the Program to Support Comprehensive Early Childhood Development (EC-L1107, 2012) for US\$40 million, of which almost US\$38 million was reallocated to the contingency loan; and the Intersectoral Social Coordination Strengthening Program (EC-L1129, 2014) for US\$80 million, which seeks to improve cross-sectoral coordination by funding building infrastructure for the social ministries.⁷⁵ In the education sector, the Bank approved the program "Sector Support for Quality Education in Ecuador" (EC-L1155, 2016) for US\$160 million, the objective of which is to ensure access to quality education.⁷⁶ In practice, most of the loan resources were used to finance the school feeding component. In health, the portfolio includes a loan from the previous strategy: Support for Expanding Social Protection and Comprehensive Health Care (EC-L1076, 2010) for US\$100 million. Its objective is to upgrade service infrastructure by improving primary and secondary facilities. Although the project is aligned with the country strategy objectives, it is limited in scope.

Operations in the social area were implemented against a background of institutional reform and change that hindered execution and limited their effectiveness.⁷⁷ The main developments were as follows:

In the area of social protection, progress related mainly to the construction of buildings for the sector ministries. With more than 75% of funds disbursed, project EC-L1129 has made headway with respect to building construction that is scheduled for completion in 2019. There has also been progress in designing models for interinstitutional interoperability; updating the Master Registry of Beneficiaries (Social Registry); designing and implementing the Sistema Integrado de Conocimiento y Estadística [Integrated Knowledge and Statistics System]; and a model for referrals and counterreferrals in social service networks. Due to the redirection of resources, only US\$2.1 million of funds were executed under EC-L1107, financing four child care centers with capacity for 100 children, and training for 1,420 early childhood educators and 4,590 health professionals.

In education, the main progress was seen in relation to school feeding. In the school feeding component, the project has attained 100% budget execution within the planned time frame, delivering 93,705,909 meals in compliance with the established target. The target for the number of teacher performance evaluations was also met. The program has been in execution for two years, and actions to improve school completion rates and the quality of education (Educación Básica para Jóvenes y Adultos [Basic Education for Youth and Adults] (EBJA))78 have so far benefited only 40.2% of the planned number of students in the basic general education cycle and 79.9% at baccalaureate level. Graduation rates fell short of targets (62.2% and 65.5% compared to 90% and 88% in the basic education and baccalaureate cycles, respectively). At the same time, a large portion of the technical cooperation funds in the sector were channeled to the Cerrando Brechas [Closing Gaps] research project.⁷⁹

Results were limited in the health sector. To date, 82.5% of resources under the program have been disbursed, and completion is expected in March 2018. There is no information regarding the indicators in the results matrix. In terms of infrastructure, of the three hospitals considered, and given the complexity of the construction process, a strategic decision was taken to replace this activity and instead provide the hospitals with equipment for maternal and child health care. In terms of outputs, progress was greatest with respect to the target for the number of graduates from education programs; the number of studies covering the implementation and/or situational assessment of health centers, medical staff, and trained support; and the number of strategic health management tools developed and implemented.

Access to finance: Country strategy objective: foster financial inclusion and access to financial services.

Although the IDB's private sector window made only a limited contribution toward achievement of the country strategy objectives, it did provide significant funding to support access to financial services; however, the scope of this funding was limited. The Bank approved just one investment loan during the country strategy period: a US\$10 million public sector project to support the Central Bank in implementing the financial inclusion strategy (EC-L1110). This was approved in 2012 but canceled in 2013.80 The private sector windows dedicated more than half of the total value of their operations to improving access to long-term financing for production. A total of 26 non-sovereign guaranteed loans were approved for a total of US\$350 million (US\$229 million through financial institutions and US\$86 million in direct loans to companies), in addition to five Trade Finance Facilitation Program credit lines for a total of US\$35 million.81

Loans that were channeled directly to SMEs and large companies demonstrated financial additionality and acquired relevance by supporting the real sector of the economy. The financial additionality of these operations is justified by the fact that they offer loans at tenors that are unavailable in the domestic market. While local private banks mostly offer tenors of less than one year, the average term of IDB operations for this segment was around seven years. These loans targeted leading companies in the market with great potential for exports and job creation; most of these were also in receipt of external financing from other multilateral agencies such as the CAF or the International Financial Corporation. These loans supported capital and working capital investments for companies in the manufacturing (53%) and agro-industrial (24%) sectors.

The relevance of loans channeled through intermediary financial institutions was diminished in the context of regulated interest rate and high liquidity. The IDB Group approved 13 operations using intermediate financial institutions for a total of US\$229.2 million, 9 of which were approved in the 2012-2017 period for US\$174 million. The objective was to channel resources to those population segments with limited access to financial system (particularly SMEs) by means of loans for investment or working capital. The operations yielded limited results in terms of expanding the SME credit portfolio, as their contribution to the objective of financial deepening was limited by the distortions created by regulation of the interest rates offered by financial institutions,84 as well as high levels of liquidity in the system limited their contribution to the objective of financial deepening. Operations targeting the microfinance sector were more successful due to the experience of intermediate financial institutions in this segment and the less distorted nature of the market. Although positive results have been reported under these operations in terms of expanded financial infrastructure (through nonbank correspondents), there are no indicators to enable the measurement of improvements in financial inclusion in rural areas or additionality in terms of tenors. Projects to support external trade (TFFP) justified their additionality by providing access to international bank credit lines, yet the small amounts involved limit their impact.

B. IDB RESPONSE TO EXOGENOUS SHOCKS

Ecuador has been the only country to receive IDB contingent loan disbursements to deal with exogenous shocks, for both macroeconomic events and natural disasters:

- In December 2014, the Bank approved a DSL for up to US\$300 million.85 The objective of this was to add contingent financial resources to help minimize the effects of exogenous systemic economic events impacting the country on the sustainability of expenditures in programs targeting the poor and vulnerable population. The program included five triggers relating to macroeconomic indicators, 86 and it provided protection and sustainability to the BDH and two pension programs for senior citizens and people with disabilities. Under the program, an estimated minimum of US\$300 million per year was expected to be channeled into eligible social programs over a three-year period (ending in 2018). This amount covered around 13% of the cost of protected programs over the three-year period, or 40% of projected social expenditure for 2015. The operation entered the pipeline in August 2014, was approved in December 2014, and was disbursed in full in February 2015.
- In February 2012, the Bank approved a CCL (EC-X1008) in the amount of US\$100 million, and in August 2014 Ecuador requested an increase of a further US\$200 million in the loan amount. The objective of the program was to cushion the impact that a severe or catastrophic disaster could have on the public finances, by increasing the availability, stability, and efficiency of contingent financing. On 16 April 2016, Ecuador experienced an earthquake of high magnitude. On 18 April 2016, the Government of Ecuador submitted a disbursement request for US\$160 million, and this disbursement took place on 22 April 2016.

The evaluation confirmed compliance with the DSL in terms of protecting social programs in a complex year for the country's public finances. The speed with which DSL funds were disbursed led to criticism that the operation appeared to be more of an emergency loan than a contingent credit line (ex ante). MEF reports confirm compliance with the protection of social programs. In the period between the inclusion of the DSL in the pipeline and its approval, the crude oil price plummeted from around US\$100 per barrel to less than US\$50 per barrel. Several of the triggers were activated before it was approved (spot price for Ecuadorian oil, three-month LIBOR rate in U.S. dollars, and installed refinery capacity). This led to discussion by the IDB Board of Executive Directors regarding the selection of the triggers and the period during which the triggers could be considered activated, bearing in mind that the DSL was designed with the expectation that it would be approved before any exogenous shock occurred.

CCL implementation was successful, and important lessons were learned for future operations. The main lessons are summarized in Box 3.4. The main results were as follows: (i) in education, 55,000 students resumed educational activities and 25 provisional schools were established; (ii) in health, 10 health centers were rehabilitated and equipment, medicines, and inputs were purchased; (iii) in roads and debris, 39.5 km of roads were rehabilitated and 5,000 buildings were demolished; (iv) in energy, electricity services were reconnected and repairs carried out to substations, transmission lines, primary and secondary networks, transformers, conductors, posts, etc.; (v) in water and sanitation, 9 systems were rehabilitated, water purification plants and tablets were purchased, and hydrovacs were rented; and (vi) in humanitarian response, 26 shelters were setup and 10,471 affected families received payments to cover accommodation and food expenses. The Ministry of Finance hired a firm to verify the eligibility of the expenditures submitted by the different executing agencies. The audit determined that the expenditures submitted by the Ministry were reasonable in all material respects.

Box 3.4. Main lessons learned from implementation of the Contingent Credit Line (CCL)

The following lessons learned were identified by OVE based on the interviews conducted during the mission, the Evaluation Report on Reconstruction costs prepared by SENPLADES, the Expenditure Eligibility Report prepared by the MEF, and the independent audit report prepared by Deloitte:

The IDB succeeded in transforming its financial strategy from a reactive one (ex post) into a preventive one (ex ante). This element was particularly important given the fiscal situation faced by Ecuador at the time of the earthquake.

The parametric design of the CCL was efficiently implemented. An estimate of losses and disbursements linked to the eligible event was produced quickly, thus eliminating discretion. The crisis situation was successfully managed by the Bank's team, leading to the immediate disbursement of funds.

As the first organization to respond to the earthquake, the Bank played an important role in the dialogue with the government and in coordinating the different sector agencies. In addition to supplying liquidity to address the first phase of the disaster, the Bank organized coordination workshops with the MEF, the Technical Secretariat for Risk Management, and other priority institutions.

The Bank financed eligible public expenditures of an extraordinary nature in order to address the crisis and initial rehabilitation needs. The Bank also made other, complementary instruments available to the government for use in the rehabilitation and reconstruction phases. These instruments include (i) a US\$20 million Immediate Response Facility (EC-L1218) to rehabilitate roads and water and sanitation systems; (ii) a US\$75.8 million multisector loan (EC-L1219) to support reconstruction in the energy sector and early warning systems; and (iii) a technical cooperation operation (EC-T1354) for US\$1.5 million to improve the seismic resilience of infrastructure and strengthen institutional capacities. The support provided by the World Bank and the Development Bank for Latin America (CAF) focused mainly on rebuilding the affected areas.



4 Conclusions and Recommendations

The IDB Group was a major financial partner in Ecuador's development during the period under evaluation, and it succeeded in positioning itself in the policy dialogue relating to key sectors such as energy and institutional management. Although the country strategy constituted an ambitious strategic gamble, the IDB's operational program was enhanced by its alignment with the reform processes in several sectors. The IDB's operational program for the 2012-2017 period doubled the volume of funding compared to the previous strategy cycle. The Bank leveraged its loan portfolio with substantial bilateral and multilateral cofinancing resources. The IDB program focused its financing on the electricity sector, in alignment with the government's Energy Matrix Transition strategy and as a complement to the electricity generation expansion strategy spearheaded by the government with positive results. The IDB also supported key aspects of institutional management reforms, a sector in which the IDB has a long-standing involvement. A significant share of these resources financed expenditures associated with the employee separation process.

The Bank demonstrated flexibility and an ability to adapt to the country's needs and government priorities, offering a broad range of financial products to satisfy the demand for financing. The funding and technical support provided by the IDB through its contingent credit instruments (DSL and CCL) facilitated an effective response to the external shocks caused by the sudden drop in oil prices and the April 2016 earthquake. As the first organization to respond to the earthquake, the Bank assumed a leadership role in the dialogue with the government and in intersectoral coordination efforts.

The country strategy promoted an ambitious multisector approach that encompassed issues of water and sanitation, housing and urban development, and improvements to public transportation systems, with mixed results. The Bank provided support to subnational entities to improve production-related infrastructure (irrigation and roads) and expand access to basic services (water and sanitation). Implementation of these programs came up against institutional weaknesses in the subnational entities, however, and the systems financed face risks to their long-term sustainability. In the case of housing and urban development, with the exception of the successful Social Housing Program, the relevance and effectiveness of IDB interventions were diminished by the reallocation of funds to address the emergency, as well as by cancellation of the Urban Development Program. This program experienced serious execution problems that resulted in cancellation of the loan, creating an environmental and social liability. Lastly, the Bank cofinanced the first Quito Metro line, adopting a leadership role among financing agencies in the case of this major program with considerable sector relevance. Progress has been satisfactory in terms of the project's physical targets, but it faces challenges that include possible changes in the composition of the consortium responsible for the works.

Bank support was limited in the areas of social and rural development, and the redirection of part of these resources to tackle the emergency meant that the operational program made only a marginal contribution to country strategy objectives. In the social area, a significant share of funds under the IDB programs focused on financing infrastructure and school feeding expenditures. Funding was also provided for medical equipment and the training of health professionals. However, the scope of the interventions was limited compared to the ambitious objectives set out in the country strategy for expanding access. In rural development, the scope of IDB interventions was limited both in terms of the level of financing and geographical coverage.

The private sector portfolio grew rapidly, but its contribution to fostering financial inclusion was limited by the context in the financial market. Loans that were channeled directly to SMEs and large companies demonstrated financial additionality and acquired relevance by supporting the real sector of the economy. The relevance of loans channeled through intermediary financial institutions was diminished in the context of regulated interest rates and high liquidity, and the IDB Group's contribution to the objective of fostering financial inclusion was therefore limited.

In the medium term, one of the key challenges that Ecuador faces is to meet fiscal consolidation targets in order to ensure debt sustainability and balance in the public finances. The government plans to foster competitiveness and private sector development as engines of growth. This requires challenges to be overcome in the environment for production, the business climate, and access to financing and markets, as well as issues of regulatory stability. The country also needs to tackle institutional challenges in order to consolidate achievements in the area of State reform and

to strengthen the capacity of public entities, particularly at the subnational level. Interventions to underpin the sustainability of investments and the quality and equity of public services will also be important, particularly in the case of the social sectors. Although the significant increase in spending facilitated a marked improvement in service coverage, the challenge in the medium term will be to ensure the quality and continuity of services.

Given the environment of fiscal austerity established by the new government, an important challenge for the Bank will be the selectivity and the prioritization of its program. Bearing in mind these issues, and given that the administration is determining its new plan for government, the Office of Evaluation and Oversight (OVE) recommends that Management consider the following:

- 1. Support proposals by the Government of Ecuador that facilitate consolidation of the public finances. Specifically, and based on the new government's policy choices, the Bank could support initiatives aimed at developing a fiscal responsibility framework. The IDB could support sector proposals that improve the efficiency of public spending, prioritizing interventions to improve service quality. The IDB could also place greater emphasis on the sustainability of investments, including mechanisms to ensure the operation and maintenance of infrastructure works.
- 2. Seek opportunities to support private sector development in areas that enhance competitiveness and accelerate the diversification of production. In particular, the Bank could support the implementation of government-led reforms to improve the business climate and the environment for production. The Bank could also assist the government in defining its strategies for financing through public-private partnerships, supporting disciplined management of the fiscal risks associated with these operations, as well as their alignment with sector policies. Lastly, the private sector windows should continue financing the nonoil (exporting) productive sector with a view to furthering the diversification of production.
- 3. Continue strengthening the capacities of subnational entities. The Bank has invested significant amounts of resources to support the institutional capacity of subnational governments in the sectors that fall under their remit. Accordingly, OVE recommends that new mechanisms should be explored in the future to continue to support these governments in their efforts to improve delivery and funding of the social and production-related services for which they are responsible.

- The most significant reforms for implementation of the IDB strategy are as follows: the Civil Service Act; the State-Owned Enterprise Act; the Public Planning and Finance Code; the Production, Trade, and Investment Code; the Tax Reform; the Oil Revenue Recovery Act; the amended Hydrocarbons Act; and consolidation of the Integrated Health Service Model. New institutions were also created, such as the Servicio de Gestión Inmobiliaria del Sector Público [Public Sector Property Management Service] (INMOBILIAR) and the Servicio Nacional de Contratación Pública [Public Procurement Service] (SERCOP), among others.
- The increase in oil income from 2010 to 2014 was insufficient to offset the expansion in current and capital spending. This expansion was facilitated by the elimination of oil stabilization funds (2008), the resources from which were incorporated into the general budget. The Constitution states that permanent outlays must be financed by means of permanent revenue.
- On the revenue side, the measures adopted by the Government of Ecuador in 2015 included increases in excise taxes and the elimination of certain exemptions, stronger controls to prevent value-added tax (VAT) fraud, customs surcharges on imports, and a tax amnesty. On the expenditure side, capital spending was reduced and the investment budgets of the oil companies were cut. There was a small reduction in current spending, despite continued expansion in the wage component. The government suspended most fuel subsidies.
- These measures included a temporary increase in the VAT rate from 12% to 14%, a wealth tax of 0.9% on individuals with net wealth of more than US\$1 million, and a solidarity tax applied to wages above US\$1,000 per month and corporate profits. The government also announced a series of fiscal benefits for residents of the affected areas. The emergency tax package yielded an estimated 0.7% of GDP.
- Between 2014 (when Ecuador returned to the international markets) and August 2017, the country issued US\$9.25 billion in bonds through nine operations. Ecuador's spread over U.S. treasury bonds rose from 530 basis points (bps) in June 2014 to 1,700 bps in January 2016, before falling to 641 bps in August 2017. Standard & Poor's credit rating for Ecuador stands at B- with a stable outlook.
- The definition of consolidated public debt excludes government liabilities to public entities—particularly the Instituto Ecuatoriano de Seguridad Social [Ecuadorian Social Security Institute] and Corporación Financiera Nacional. The debt figures do not include other government obligations such as payment arrears to suppliers and debt corresponding to advance sales of oil.
- Debt to the People's Republic of China rose from US\$4.7 billion (2009) to US\$8.1 million (2016).
- Reestructuración de la Gestión Pública Institucional [Restructuring of Institutional Public Management], Ministerial Agreement 966 (19 December 2011).
- The plan prioritized 15 public institutions that together accounted for 40% of the government budget and 80% of all public sector employment. Resultados de la implementación del Modelo de Reestructuración de la Función Ejecutiva [Results from implementation of the Executive Restructuring Model], IAG Group (2015). According to the IDB's Civil Service Assessment (2015), these processes helped to create a more balanced government workforce in both quantitative and qualitative terms.
- The official number of civil servants in 2015 was 487,885 (figure from the national budget).
- It should be noted that personnel expenditure has declined as a proportion of the overall budget in recent years. Civil Service Assessment, IDB (2015).
- ¹² Indicator capturing perceptions of the quality of public services. Sistema Nacional de Información [National Information System], INEC.
- IDB (2014). Serving Citizens: A Decade of Civil Service Reforms in Latin America (2004-13). See also Diagnóstico institucional del servicio civil en América Latina: Ecuador, IDB (2015).

- 14 From 2006 to 2014, net enrollment rates rose from 48.3% to 64.7% at middle-school level, from 65.9% to 81% at secondary level, and from 89.4% to 93% at primary level (INEC). Of particular note is a reduction in the gap in net coverage rates for basic education between the different income levels, and a reversal of the gap seen in the Afro-Ecuadorian community.
- ¹⁵ Third grade students in Ecuador were below the regional average in 2006, while by 2013 they had attained a similar level of performance to the regional average.
- National health insurance coverage rose from 21.3% (2006) to 41.4% (2014), while the proportion of health care provided in public facilities increased from 17.4% to 33.1% over the same period (INEC). Infant mortality declined from 20.1 per 1,000 live births (2012) to 18.4 (2015) (World Development Indicators), but it remains above the levels in other countries such as Colombia or Peru. Maternal mortality has declined from 59.9 per 100,000 births (2012) to 44.6 (2015).
- The proportion of households with access to piped water from the public network increased from 69% (2009) to 79% (2016), while the share of households with access to sewerage services rose from 57.6% to 70.5% over the same period (INEC).
- According to an evaluation conducted by Banco de Desarrollo del Estado, 28% of the municipios served consume water that does not meet minimum quality standards, while 18% experience low continuity of water services (less than 12 hours per day). In financial terms, 64% of municipios fund less than 60% of service-related expenditures with their own revenues.
- According to the National Survey on Employment, Unemployment, and Underemployment, the quantitative housing deficit (coverage) improved from 21.2% in 2011 to 12.3% in 2017 (projected), with differences between rural areas (22.6%) and urban ones (7.7%). However, the qualitative housing deficit remained at around 34% (40% in rural areas and 32% in urban ones). The Toda Una Vida Plan includes the "Casa para Todos [A Home for Everyone]" program aimed at tackling these challenges.
- Total and extreme multidimensional poverty fell from 37.8% and 18.2%, respectively, in 2012 to 35% and 14.8% in 2016.
- The rural population constitutes 30% of the total population, and 60% of the poor live in rural areas. In contrast to the average 16 percentage point reduction observed between 2006 and 2014 for the non-indigenous population, the reduction for the indigenous population was only 6 percentage points (Report on Consumption-Based Poverty, Ecuador 2006-2014) (World Bank and INEC, 2015).
- Social Pulse in Latin America and the Caribbean 2016: Realities & Perspectives (IDB). Total spending includes expenditures on health, education, social security, social assistance, housing, and other minor social expenditures as classified by ECLAC.
- Almost 40% of over-65s do not receive any pension, while 62% of pensions are less than US\$2.5 per day (Alaimo et al., 2016).
- Based on a ministerial agreement, those beneficiaries that were above a minimum level of welfare according to the Encuesta del Registro Social [Social Registry Survey] were graduated from the database. This measure succeeded in reducing the number of beneficiaries by 63% between 2013 and 2014, and transfer expenditure fell by 59%.
- 25 "Plan Toda Una Vida" targets groups that have unsatisfied basic needs and are at risk. It consolidates social programs, and includes Misión Ternura, Impulso Joven, Mis Mejores Años, Menos Pobreza Más Desarrollo, Casa Para Todos, Las Manuelas, Las Joaquinas, and Plan Mujer.
- There has been no significant change in the structure of production over the last 10 years (2007 to 2017). The most significant contributions to growth have essentially come from a number of services (trade, restaurants and hotels, and community, social, and personal services), as well as infrastructure-related sectors (construction, transportation, and communications) (BCE). It should be noted that construction has been declining since 2015.

- Appreciation of the REER was largely due to real appreciation of the U.S. dollar with respect to the country's trading partners. This appreciation was partly offset by a 3.8% depreciation in the REER in 2016 (2017 Annual Bulletin, BCE).
- IMF Article IV report (September 2015), Annex II (external sector). The costs of hiring a worker formally are 45% higher on average than the resulting production (Alaimo et al., 2015).
- The investments have led to an increase in electricity service coverage at the national level, reaching an estimated 97.2% of the country's population in 2016 (Ministry of Electricity and Renewable Energy, 2016). Coverage rose significantly in rural areas, reaching 95.5% in 2016 (although there are still differences between cantons).
- The Monetary and Financial Policy and Regulation Board establishes ceilings on interest rates. These maximum rates are mandatory and are based on the type of credit activity. Resolution 154-2015-F of 25 November 2015.
- According to the 2016 Global Competitiveness Report, Ecuador ranks 123rd out of 138 countries in terms of labor market efficiency. Its position is particularly low with respect to hiring and firing practices (131) and the cost of redundancy (126). Another limitation is inadequate workforce education (Alaimo et al., 2015).
- Draft Budget for the 2017 Fiscal Year, 2017-2020 Four-Year Program. The government also expects to renew the Generalized System of Preferences with the United States (which is set to expire in December 2017), and it plans to sign new trade agreements with Russia and Japan.
- The projected improvement in the fiscal position is largely based on the gradual maturing of major public investment works, and this is expected to substantially reduce public sector capital expenditure as a percentage of GDP. At the same time, public sector wage spending is expected to grow at a slower rate than nominal GDP, while purchases of goods and services are projected to stabilize.
- 34 The government created a Consultative Council on Production and Taxation made up of civil servants and private sector representatives, the aim of which is to promote changes in the production matrix.
- 35 This risk could be mitigated by including the Ministry of Economy and Finance in the Interagency Committee for PPPs.
- The legacy portfolio includes loan operations that had an undisbursed balance of 60% or more of the originally approved amount as of 1 January 2012. The undisbursed amount of the legacy portfolio as of January 2012 was US\$925.5 million.
- 37 The IIC supported one of the first private hydroelectric projects (of less than 50MW) included in the Master Plan for Electrification.
- These included electricity loss reduction studies; analysis of tools for promoting direct foreign investment; design of a hedging program to mitigate fiscal risks; and impact evaluations in the education sector.
- The data as of November 2017 showed a total of US\$3.593 billion in loans and technical cooperation operations, of which US\$3.168 billion are sovereign-guaranteed operations and \$425 million are non sovereign guaranteed (with US\$35 million spread across five TFFP credit lines). These amounts include the DSL, which is not technically part of the lending framework established in the country strategy.
- Positive net capital flows to the country under this scenario were estimated at US\$198 million, consistent with an increase in the IDB's share of multilateral debt (from 45% to 48%), a reduction in multilateral debt as a proportion of total external debt (from 42% to 25%), and stability in the country's ratio of IDB debt to GDP (3.5%).
- 41 As of December 2016, Ecuador's debt with the IDB represented 56% of the multilateral debt stock.

- Cofinancing resources included US\$110 million from the China Cofinancing Fund for water and sanitation (EC-L1122) and energy projects (EC-L113 and EC-L1136); US\$25 million from the Korea Infrastructure Development Cofinancing Facility for Energy (EC-L1160); US\$39 million from the EIB for the Intersectoral Social Coordination Strengthening Program (EC-L1129); and more than US\$700 million from the CAF, EIB, and World Bank for the Quito Metro (EC-L1111). Japan also provided parallel financing for one project in 2017.
- ⁴³ Between 2012 and 2017, 247 meetings relating to portfolio review were held, representing a substantial workload for the IDB and the government. The Ministry of Finance had a contact person responsible for managing relations with the IDB and facilitating execution processes (endorsements, single registration code, etc.).
- From 2013 to 2017, 25 large-scale workshops were held on fiduciary management (financial and procurement), with the participation of all project teams. There were also 236 specific workshops to support the management of operations. Ecuador pioneered the implementation of project launch workshops using the Project Management for Results methodology and the certification of agencies.
- In 2015, the Ministry of Finance introduced a system of endorsements ("avales") requiring the project execution units that already had budgets to obtain recertification from the Ministry to obtain the endorsment to proceed with the payment process. The Ministry of Finance controlled transfer decisions though the Comprobante Único de Registro [Single Registration Voucher] (CUR) for payments.
- In the case of external audit, a pilot program was carried out in 2014 involving six operations, but results fell short of expectations as the Office of the Comptroller General (CGE) lacked the necessary technical capacity to audit Bank projects. In the case of internal audit, financing has been provided to train staff and progress has been made in strengthening capacities, but systems continue to lack uniformity.
- The economic evaluation for the project calculates the net present value at US\$66.8 million and the internal rate of return at 22% (at market prices).
- The target was surpassed because the Ministry of Electricity and Renewable Energy was able to efficiently identify households with substandard electricity services by using the distribution companies' databases. Additionally, competitive bidding processes resulted in lower construction costs.
- ⁴⁹ The project completion report attributed a loss reduction of 0.19% to the program—equivalent to additional annual revenue of US\$3.3 million.
- In August 2016, the Bank approved the US\$143 million project "Investment Plan to Support the Transition of the Energy Matrix" (EC-L1160), which seeks to provide continuity in transmission, distribution, and rural electrification projects. So far, 60% of project resources have been disbursed, and no results have been reported.
- The Bank also used technical cooperation operations to support this process: EC-T1108, Support for Constitutional Reforms (2007); EC-T1159, Support for State Reform (2008); and EC-T117, Support for Formulation of the Draft Territorial Organization Law (2008); CT INTRA—EC-T1273 and EC-T1268 (2012)—to allow staff of the National Planning and Development Department (SENPLADES) to learn from international experience in reorganizing the Executive branch; EC-T1321 (2015), supported SENPLADES in strengthening the public policy evaluation system; EC-T1228 generated institutional assessments for the Public Administration Institutional Reform Program.
- These include seven plans approved under EC-L1094 (the Ministries of Education, Health, Justice, Finance, the Interior, and Labor, and the Mining Regulation and Control Agency) and two under EC-L1118 (the Ministries of the Environment and Industry and Productivity).
- 53 US\$20 million under EC-L1083, US\$200 million under EC-L1094, and US\$140 million under EC-L1118.

- The 2017 Progress Monitoring Report for EC-L1094 indicates a total of 9,615 separations: 5,297 in the Ministry of Education, 2,275 in Health, 1,083 in Justice, 84 in Finance, and 876 in Interior. The semiannual report for EC-L1118 for the second half of 2014 reported that 3,536 public employees had been separated. The Civil Registry reported that 496 employees had been separated.
- In the 2016 Ser Maestro [Becoming a Teacher] test, younger teachers (i.e. those that entered after 2012-2013) tended to have higher scores than the rest.
- Three systems were developed: Sistema Integrado de Depuración y Verificación de Datos [Integrated Data Cleansing and Verification System], Sistema Integrado de Resoluciones y Subinscripciones Sistematizadas [Integrated System for Systematized Resolutions and Supplemental Registrations], and Resolución Integral de Trámites y Estadísticas [Comprehensive Resolution of Administrative Procedures and Statistics]. This technological platform was implemented in central, provincial, and cantonal offices.
- The Civil Registry won the 2016 Prácticas Ejemplares Ecuador [Ecuador Exemplary Practices] competition organized by Corporación Líderes para Gobernar, in the category of "Simplification of Administrative Procedures for Citizens." It also ranks second in terms of perceptions of the best public services (National Survey of Employment, Unemployment, and Underemployment, 2016).
- ⁵⁸ The proportion of the investment budget that was effectively executed in the 15 priority institutions rose from 32% in 2013 to 90% in 2015.
- ⁵⁹ The indicator of the degree of correlation between budgetary programs and the government's programs rose from 2 to 3 between 2008 and 2015 (with 5 being the top score).
- The Bank used technical cooperation resources to support the design and execution of PRODESARROLLO; finance the institutional strengthening of service providers (through the state-run water company, Empresa Pública del Agua); and support Quito's municipal sewerage and potable water company (Empresa Metropolitana de Alcantarillado y Agua Potable de Quito) in the management and operation of wastewater treatment services.
- Seventy-five percent of the GADs have less than 50,000 inhabitants. In rural areas, the IDB projects financed GADs with potable water coverage of less than 77% and sanitation coverage of less than 71%. In urban areas, financing was provided for GADs with potable water coverage of less than 92% and sanitation coverage of less than 80% (Agua Potable y Alcantarillado para Erradicar la Pobreza en Ecuador [Potable Water and Sewerage for Poverty Eradication in Ecuador], SENPLADES 2014).
- In the case of the multiple works program (PRODESARROLLO), contract modifications and changes in the basket of projects were accompanied by a significant increase in funds allocated to water and sanitation projects compared to the original plan; these increased from 2% of the program total to 50%, with a more balanced allocation of funds among the rest of the sectors.
- Two technical cooperation operations were also approved: Cuenca Sustainable City Implementation Methodology, Action Plan, and Preinvestment (EC-T1277), approved in 2013 for US\$1.1 million to finance the implementation of the Emerging and Sustainable Cities Initiative methodology; and Strengthening of Urban Analysis and Preparation for Habitat III (EC-T1328), approved in 2016 for US\$150,000 to strengthen the country's capacity to achieve the urban targets established in the Sustainable Development Objectives. The results of these interventions were limited. Implementation of the National Program for Social Housing Infrastructure (EC-1074) was also completed, though as less than 40% of funds were undisbursed, this operation was not included in the legacy portfolio. A non-sovereign guaranteed operation was canceled before any disbursements had occurred.
- 64 Although the country strategy had proposed a target of 120,000 beneficiaries (results matrix), the program only benefited 10%.
- In allocating the subsidies, priority was given to households that were female-headed, had disabled members, or had three or more dependent children.

- 66 The program's success in urban areas resulted from the government's decision to focus on this sector in order to support the process of urbanization at the national level.
- ⁶⁷ The IDB hired a consulting firm to supervise the conditions of the homes. Positive aspects have included improved living conditions for beneficiary households; the empowerment of families who have their own homes (including their desire to invest in improving their asset); job creation in rural areas through an expansion in construction activity; and improvements in the lives of beneficiaries with disabilities.
- 68 A US\$950,000 technical cooperation operation was approved in 2013 to support strengthening of the Empresa Pública Metropolitana Metro de Quito.
- To facilitate this collaboration agreement, the IDB and World Bank both approved exceptions under their operations. The World Bank approved a partial exception allowing it to use the IDB's procurement policies, while the IDB approved a partial exception to its procurement policies (concerning contracts ineligible for financing and the eligibility of firms and individuals).
- The Bank supported the transportation sector through two other multisector projects: (i) the Chimborazo Rural Development Investment Program (EC-L1121) for US\$15 million, 50% of which corresponded to the transportation sector (the project financed road and irrigation infrastructure in the Province of Chimborazo, and was a "double-booking" operation with the Environment, Rural Development, and Disaster Risk Management Division); and (ii) the Investment Program for the Development of Decentralized Autonomous Governments and/ or their State-owned Enterprises Phase I (EC-L1112) for US\$100 million, 22% of which was earmarked for the transportation sector. Seven technical cooperation operations were also approved for US\$1.98 million.
- There has been little progress in the area of regional integration (less than 2% of resources have been executed under the border crossings project) and no logistics operations have been approved.
- Despite the success of the operation, interviewees mentioned the complexity of creating a market of companies able to implement these types of service-level agreement contracts, given the risks that contracts of fixed terms and values entail for smaller companies.
- Still pending are the road system in the cantons of Pallatanga-Guamote (the 34.4 km Cuatro Esquinas-San Juan-Rodeo segment and the 4.5 km Rodeo-Vaquería Buschcud segment) and training activities (model farms, irrigation system management plans, and techniques for managing groundwater recharge areas). During the interviews conducted by OVE, a possible reduction in the targets for irrigation systems was mentioned.
- Rodeo-Vaquería Buschcud segment of the Pallatanga-Guamote road was to be financed through the central government budget, but this did not occur due to budget restrictions.
- 75 The purpose of this project is to bring together five social ministries— the Coordinating Ministry for Social Development, and the Ministries of Public Health, Economic and Social Inclusion, Urban Development and Housing, and Sport—in a single service center to reduce administration costs and improve customer service.
- The private sector window approved two loans for US\$23 million.
- In the case of EC-L1107, execution problems relating to a lack of coordination between executing agencies, together with high staff turnover and the dynamic of the reform process, hampered the start of activities under the loan and resulted in more than 90% of resources to be redirected to the contingent credit line. The health program (EC-L1076) was also affected by the context of institutional reform, which altered processes (organizational restructuring of the Ministry, and a new institutional framework for land acquisition and regularization and contracting of infrastructure works) and led to requests for extensions.
- The National Basic Education for Youth and Adults (EBJA) Project targets young people aged 15 and above that have not completed school, and involves providing funding to hire teachers to help these individuals complete the basic general education and baccalaureate cycles.

- The IDB finances this project through a technical cooperation operation that as of 2016 had a budget of US\$12.6 million. It involves a longitudinal study following two cohorts of children at the basic education level. The children were randomly assigned to different classrooms in approximately 200 schools. The evaluation mainly measures the impact of teacher quality.
- The loan was supported by the National Payments System and Financial Inclusion technical cooperation operation (EC-T1254), which was executed by the IDB. C & D funds were also used to support the BCE in drafting the financial code and evaluating legal and regulatory issues relating to the National Payments System and mobile transactions. In February 2013, the government decided to replace IDB funding with the BCE's own resources, and canceled the remainder of the loan (US\$7.5 million).
- Between January 2014 and May 2017, 641 individual external trade transactions were supported for a total of US\$104.8 million. This included US\$3.4 million through the issuance of credit guarantees (two operations) and US\$60 million through "A" loans (eight operations). The rest were syndicated loans that mobilized US\$40 million that was channeled through financial institutions. The credit lines facilitated financing for exports of tuna, shrimp, quinoa, and other agricultural products, and imports of construction materials, clothing, vehicles, parts, food, fertilizers, and soybeans.
- In 2014, 75% of private bank credit for production had a tenor of less than one year, and only 13% offered tenors of between two and eight years. Although the state-owned banks offer longer terms (of between two and eight years), they account for only 3% of total credit volumes in the financial system. Source: Inclusión Financiera de las Pymes en Ecuador [SME Financial Inclusion in Ecuador], 2016. United Nations ECLAC.
- A total of 18 operations were financed for US\$196.6 million, 17 of which were approved in the 2012-2017 period. Of these operations, four included nonreimbursable technical assistance focused on corporate governance issues.
- 84 Interest rates could be driving potential creditors with a high risk profile from the market, encouraging the banks to alter the composition of lending in search of higher profitability.
- 85 The DSL was approved for Ecuador and El Salvador, but El Salvador ultimately canceled its operation.
- The macroeconomic triggers were based on the occurrence of the following events: (i) spot prices for Ecuadorian oil that fall below their mean by more than one standard deviation over a 90-day rolling window; (ii) a 3-month LIBOR rate that exceeds its mean by more than one standard deviation over a 180-day rolling window; (iii) Ecuadorian oil export volumes that are below the mean by more than one standard deviation over a three-month rolling window; (iv) crude processing in refineries that is 70% below installed capacity for two consecutive months; (v) cumulative external debt disbursements during the previous six months that fall below 50% of external debt disbursements during the same six months of the preceding year, and a differential of less than 364 basis points between Ecuador's EMBI and the EMBI for Latin America.