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Country Program Evaluation Ecuador 1990-2002

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Acronyms

ADC	Andean Development Corporation
AGD	Agencia de Garantías de Depósitos [Guarantee Deposit Corporation]
BCE	Banco Central del Ecuador [Central Bank of Ecuador]
BEDE	Banco Ecuatoriano del Estado
BNF	Banco Nacional de Fomento
BPP	Best Practices Papers
CCCC	Comisión de Control Cívico de la Corrupción [Civil Commission on Corruption Control]
CGM	Consultative Group Missions
CMI	Monitoring index
COF/CEC	IDB's Country Office in Ecuador
COM	Competitiveness
CONAIE	Confederación de Nacionalidades Indígenas del Ecuador [Ecuadorian Federation of Indigenous Peoples]
CONAM	Consejo Nacional de Modernización del Estado [National Council for Modernization]
COP	Country Papers
COPEFEN	Unidad Coordinadora de Emergencia para Enfrentar el Fenómeno de El Niño [El Niño Emergency Coordinating Office]
CORPECUADOR	Corporación Ejecutiva para la Reconstrucción de las Zonas Afectadas por el Fenómeno El Niño [Corporation for the Reconstruction of areas affected by El Niño]
CP	Country Programming Paper
CP-1990	Country Programming Paper, Ecuador May 1990. CP-86.
CP-1993	Country Programming Paper, Ecuador July 1993. CP-492.
CP-2001	Country Programming Paper, Ecuador December 2001. GN-2169-1
CPE	Country Paper Evaluation
CPM	Country Programming Missions
CS	Conferences and Seminars
CSN	Country Notes
CSR	Country Studies
DIE	Development Impact Evaluations
DO	Development Objective
EAP	Economically active population
EAR	Economic Assessment Reports
ECLAC	Economic Commission for Latin America and the Caribbean
ECM	Economic Consultation Mission
EFA	External audit
EMAAP-Q	Empresa Municipal de Alcantarillado y Agua Potable de Quito
EMBI	Emerging Markets Bond Index
EMELEC	Empresa Eléctrica del Ecuador
ETAPA	Empresa Municipal de Teléfonos, Agua Potable y Alcantarillado de Cuenca
EU	Executing unit, executing agency

EVO	Office of Evaluation
FBKF	Fixed gross capital formation
FEIREP	Fondo de Estabilización, Inversión Social y Reducción del Endeudamiento Público [Stabilization, Social Investment, and Debt Reduction Fund]
FISE	Fondo de Inversión Social de Emergencia [Emergency Social Investment Fund]
FLAR	Fondo Latinoamericano de Reservas [Latin American Reserve Fund]
FUNDACYT	Fundación para Ciencia y Tecnología [Foundation for Science and Technology]
GDP	Gross domestic product
GOB	Governance
GOE	Government of Ecuador
GTZ	Gesellschaft für Technische Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IESS	Instituto Ecuatoriano de Seguridad Social
IFI	Intermediate Financial Institutions
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadísticas y Censos
INECEL	Instituto Ecuatoriano de Electrificación
IP	Implementation progress
ITT	Campos petroleros de Ishpingo-Tambochocha-Tiputini
IVF	Financial inspection visits
IVT	Technical inspection visits
MA	Administration mission
MAG	Ministry of Agriculture [Ministerio de Agricultura y Ganadería]
masl	Meters above sea level
MEF	Ministry of Economy and Finance [Ministerio de Economía y Finanzas]
MIDUVI	Ministry of Urban Development and Housing [Ministerio de Desarrollo Urbano y Vivienda]
MIF	Multilateral Investment Fund
MSME	Microenterprise and small and medium-sized businesses
NFP	Non-Financial Products Program
NFPS	Nonfinancial public sector
NGO	Nongovernmental organization
OCP	Oleoducto de Crudos Pesados
ODEPLAN	Oficina de Planificación [Office of Planning]
OVE	Office of Evaluation and Oversight
PCR	Project completion report
PPF	Project Preparation Facility
PPMR	Project Performance Monitoring Report
PPR	Project Performance Report
PRAT	Programa de Titulación de Tierras [Land titling program]
PRI	Departamento del Sector Privado [Private Sector Department]
RE3	Regional Operations Department 3
RES	Research Department

ROS	Regional Operational Services
SEP	Economic Situation and Perspective
SNCT	Sistema Nacional de Ciencia y Tecnología
SOC	Social
SRI	Servicio de Rentas Internas [Internal Revenue Service]
SSN	Sector Notes
SSR	Sector Studies
TC	Technical Cooperation
TTD	Technical training delivery
UDENOR	Programa de Desarrollo Alternativo Preventivo a la Producción y Trafico de Drogas [Alternative development program for the prevention of drug production and trafficking]
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
USAID	United States Agency for International Development
VAT	Value added tax
WB	World Bank

EXECUTIVE SUMMARY

During the 1970s and 1980s, economic growth in Ecuador became increasingly dependent on commodity exports, a situation that fostered a model of import substitution and State intervention. During the 1980s, this model began to break down. Declining oil prices, the 1987 earthquake and other natural disasters, and an external debt crisis highlighted the country's structural weaknesses: (i) a generally uncompetitive economy with stagnating productivity, (ii) poor governance based on short-term revenue distribution agreements, and (iii) important social and political groups with considerable destabilizing capacity amidst a particularly difficult setting of social exclusion and weak national cohesion.

Throughout the 1990-2002 period, the subject of the present evaluation, Ecuador continued facing these same development challenges: (i) how to move the economy away from its dependency on primary production, (ii) how to improve governance, and (iii) how to reduce social exclusion.

Against this backdrop, the Bank supported a model aligned with the so-called Washington Consensus. However, its application failed to take into account the complex problems facing the country and assumed the existence of conditions not present in Ecuador. Support for this approach peaked between 1994 and 1996, a period during which the Bank approved nearly 40% of all financing for the entire period covered in this evaluation. The Bank's intended support during this three-year period was so intense that a tentative target of US$1.5 billion in financing was set. That target was never met because of the rapid implosion of the reform process.Such lending volume would have been equivalent to 80% of the amount actually approved between 1990 and 2002. The setbacks that ensued after the mid-1990s prompted the Bank to prioritize portfolio management, however the ambitious development objectives set earlier were maintained virtually.

The 1990-2002 period has two clearly defined phases: reform and crisis. The first phase, which ended in 1996, was characterized by a haphazard and sometimes accelerated process of reform and structural adjustment. This phase corresponds to two programming cycles, during which 65% of the portfolio under evaluation was approved. The second phase (1996-2002) was marked by various political and economic crises that interrupted the process of reform—war with Peru, five presidents in six years, and a new constitution. Since 1997, there has been only one IDB country strategy with Ecuador. It covered the period 2000-2002, during which 18% of the program amount was approved. A similar amount of resources was committed between 1997 and 1999, although there was no formal country strategy corresponding to that period.

Overall, between 1990 and 2002 the Bank approved US$1.856 billion in ***loans*** to Ecuador, broken down amongst 41 programs over three programming cycles (1990-1993, 1994-1996, and 2000-2002) and a transitional period (between 1997 and 1999). In addition, 199 nonreimbursable ***technical-cooperation operations*** in an aggregate amount of US$57.1 million were approved. Private sector financing represented a very small share of this activity: the Private Sector Department (PRI) did not grant any loans, and the Inter-American Investment Corporation (IIC) accorded only seven operations totaling US$22.1 million.

The purpose of the present report is to evaluate the Bank's program with Ecuador against five criteria: *(i) relevance, (ii) coherence, (iii) efficiency, (iv) effectiveness, and (v) quality of services.*

The first criterion, ***relevance***, is defined as the extent to which the program related to the country's principal developmental problems. In terms of intent, the program set very broad objectives that remained substantially unchanged throughout the period. These areas converged to differing degrees with the general priorities set by successive administrations in Ecuador. However, these general objectives were transformed into myriad ambitious development objectives while actual priorities were modified over time to address the critical demands arising from each crisis. Accordingly, the Bank was compelled to broaden its approach to encompass 149 different development objectives, which could not be sustained on the limited resources allocated to the operations in each sector. This approach diverted resources from long-term development efforts, particularly those concerned with a more competitive real sector, agreements on governance, and more effective social development instruments. Despite these declared objectives, in practice, the flow of new loans mirrored the country's repayment commitments with the Bank, except in 1994. The unusually high concentration of lending approved in 1994 intensified the implementation problems resulting in changes in the objectives of loans in progress and nearly 10% of the program resources being cancelled or reallocated. *Accordingly, the present evaluation finds that the program was relevant in its intent but lost relevance during implementation. In particular, the problems encountered in carrying out the 1994 reforms found the Bank without an alternative plan, leading it to focus on administrative and financial management that were detrimental to long-term development objectives.*

The second criterion the evaluation measures is ***coherence***, or whether the program incorporated all of the Bank's instruments and coordinated its actions with those of other development actors. The evaluation finds that programming was unable to effectively integrate Bank instruments into a long-term planning horizon, particularly in a context of almost continual crisis. The types of instruments used show that the program's coherence was limited inasmuch as priority was given to high-liquidity instruments not suited to resolving the country's development challenges. The Bank directed 42% of all program resources through highly-liquid mechanisms: 30% in five sector loans and 12% in support for entities under direct control of the highest level of the Executive Branch such as FISE. Such responses to the crisis led to an abrupt shift in sources of financing for Ecuador, with less participation by private investors and more multilateral financing which increased as a share of public external debt from 18% in 1990 to 36% by 2002. There is no evidence, however, that this shift was accompanied by a strategy to attract private capital in the future. The Bank itself adopted a very conservative credit policy on the country's portfolio, although there is no evidence that this conservatism originated in "assessments of the country borrowing capacity" with the fequency called for in its own internal guidelines or that studies of this kind had preceded each programming exercise. Despite this conservative position, the Bank did not narrow the breadth or scope of its declared development objectives, nor establish a robust system to maximize the potential of technical-cooperation operations and private-sector financing, which were not successfully integrated into the overall programming process. Nonetheless, the program gradually became more coherent through greater coordination with other multilateral organizations even though such coordination was not systematically planned and occurred mainly after each crisis. The Bank's response during periods of "market closure" constituted an effective countercyclical support from IDB financing. Coordination with other institutions led to the establishment of a number of consultative groups. *Accordingly, the evaluation finds that the program's coherence was very low in terms of the instruments used and their integration into the program. There was, however, effective coordination with other international organizations, which helped provide effective short-term responses to each crisis.*

The third criterion is ***efficiency***, or whether the Bank's products were supplied in a timely and cost-effective manner. The present evaluation finds that, although the Ecuador program began as one of the Bank's most inefficient, it has improved perceptibly in recent years and now compares favorably in terms of delays and costs with the Bank's aggregate portfolio. This improvement was achieved, however, through an aggressive policy of cancellation and reallocation of undisbursed balances, without any apparent systematic analysis of the disruptions that could be caused or of the cost/benefit of such decisions from a country development perspective. Problems with execution resulting in cancellations were endemic during the period and attributable mainly to ineffective planning in half of the operations and to inappropriate mitigation of risks that adversely affected over three quarters of program resources. As the country underwent repeated crises and this could have interfered with the Bank's capacity to reflect its intentions in its country strategies, OVE searched for evidence of at least some shorter-term strategic objective in the pipelines contained in loan documents and in the portfolio review mission documents themselves. These documents, however, were also found to have the same low level of anticipation that undermined the program during much of the period under review. *Put briefly, then, the program's efficiency is now average, owing largely to an aggressive cancellation policy, however systemic shortcomings persist in planning, risk management, and loan design.*

The evaluation's fourth criterion is ***effectiveness***, or whether the program produced the anticipated development outcomes for the country. Here, it is important to note that the evaluation can not attribute development outcomes, since the IDB is only one of the actors. The problem of attributing outcomes is further compounded by the fact that the Bank makes no systematic attempt to monitor the progress of it's the development objectives it defines. Although the Bank's program with Ecuador set 149 such objectives, the progress of only 20% was subsequently documented by Management. Nonetheless, OVE was able to obtain external information on the remaining 80%. The quality of such information varies and its application is limited by the absence of specific targets and baselines in most of the Bank projects. From the information obtained, however, OVE was able to calculate an approximation based on the improvement or deterarion of each development objective over the period under evaluation. Thus, it was possible to establish that the country realized improvements on between 25% and 75% of the Bank's proposed development objectives, depending on the sector:

- ✓ In the *social* sector, gradual progress was made over the decade, especially in primary education, basic health care, and water and sanitation in large cities. The quality of social spending, however, is still poor and inequitably targeted. Only more recently has the Bank helped to design better tools for targeting social spending and promoted improvements in the mechanisms used to allocate public spending on housing and rural education.

- ✓ In *governance*, some gains have been achieved, but there was relatively less success. Of particular note are improvements in macroeconomic stability and in some areas such as the Internal Revenue Service, as well as efforts to gradually build capacity at the Ministry of Economy and Finance to coordinate public budgets. Challenges persist, however, in such areas as decentralization, modernization of the State, and private-sector involvement in infrastructure, where the potential exists to repeat the errors of the past in terms of to the capture of rents by certain groups.

✓ Efforts to improve *competitiveness* have met with even less success. Despite certain effective reforms such as agricultural liberalization and improved environmental management, the real sector, including the oil industry, has not yet been structurally transformed. Nor has there been greater access to financing or a new structural framework put in place to promote competitiveness in the country.

The fifth criterion concerns the ***quality of services*** in the country program, or the extent to which the program is evaluable, self-evaluation and monitoring systems are functioning properly, and lessons have actually been applied to subsequent Bank activities. An analysis of the projects shows that the evaluability of development objectives is limited, since only one in three has a base or target line, and just one in thirty has specific milestones. The situation is better for outputs expected directly from the operations, although one in three lacks a defined target and only one in nine has a baseline. On an aggregate level, the ex ante evaluability index is 32% for development objectives and 41% for output objectives. Both these figures are well below the optimum value of 100% but in line with OVE findings in other country evaluations. Monitoring and supervision levels are comparable with the average for the Bank. Inconsistencies were detected, however, in the self-evaluation systems: for instance, although the PPMRs rate the attainment of development objectives as "probable" or "highly probable" for 86% of projects, the independent OVE evaluation found that on average the percentage of development objectives accomplished is much lower, approximately 46% of the projects had half or more of their development objectives evolve favorably and only 35% of all the development objectives of the program had evolved favorably.[1] *The evaluation concludes, therefore, that there exists a systemic flaw built into the program, the operations, and the Bank's monitoring and evaluation system in terms of its capacity to demonstrate progress.*

The present evaluation points out that the *lessons learned* in the case of Ecuador are potentially very valuable. Despite their importance, though, few have been identified by Management, and those that have been identified come up repeatedly, suggesting that little corrective action has been taken. Furthermore, the lack of reflection on the problems and challenges faced during the period under evaluation prevented the specific knowledge acquired from being consolidated for the purpose of extracting and learning lessons, therefore various elements are repeated as if they were lessons learned,but do not satisfy the conditions. Likewise, the recommendations made in systemic evaluations such as EVO's 1997 evaluation of the Bank's program in Ecuador did not generate action plans with assigned responsibilities and intermediate benchmarks, and remained mostly unimplemented. Some key issues are not examined sufficiently in depth to derive any lessons, as in the case of the understanding of the economic challenges that precipitated the failure of earlier reforms and how such lessons could still be applicable into the future. Self-evaluation systems such as the PCRs and PPMRs do not reflect or examine in any depth the causes of the problems encountered and were therefore of little help in implementing lessons learned. *This failure to build value added for Ecuador through services and lessons learned impacted negatively on the quality of the program.*

Importantly, the *perception of these challenges in the country*, has led Ecuador's present administration to display a willingness to come to grips with the country's structural challenges. The government has demonstrated a broad-minded approach in seeking solutions to the problems facing the real sector, including the oil industry and public services, as well as in targeting investment in the social sectors. Furthermore, mechanisms for national dialogue to achieve more effective governance have been promoted and efforts are under way to bring about substantial improvements in the use of public resources in general and external financing in particular.

These actions are reflected in initiatives headed by the Executive Branch through the Ministry of Economy and Finance: (i) to eliminate outside executing units as the preferred operating arrangement, (ii) to increase the frequency of portfolio reviews, (iii) to propose a ban on loan extensions, except whe resulting from portfolio reviews, and (iv) to fully implement the requirements of the Fiscal Transparency and Accountability Act, including the requirement that current expenses be funded by local counterpart funds and that staff be hired through open competitions.

The Management of the Bank, through the Country Office in Ecuador, has begun to respond to these initiatives through specific steps. These actions are: (i) to provide training to executing units, (ii) to introduce annual work plans for loan operations in order to introduce a benchmark on which PPMRs can rank performance, (iii) to improve the logical frameworks and PPMRs ratings, and (iv) to conduct special studies to enhance procedures, as in the case of procurement, or to help build consensus on key development issues, such as promoting competitiveness.

Accordingly, the Bank is presented with a great opportunity to increase the value added to Ecuador by implementing a strategy that takes into account the lessons learned and factors in the new challenges represented by dollarization and fiscal transparency.

Recommendations:

To accomplish this goal, in the evaluation recommends that three areas, in order to build a more effective program for the country: (1) knowledge of Ecuador, (2) the Bank–Ecuador relationship, and (3) lessons learned that can be applied to future country programs. In turn, these recommendations should result in specific improvements in the Bank's next strategy with the country.

Knowledge of Ecuador: Help the Ecuadorian authorities to identify, select, and analyze priority development issues based on a program of mutually agreed economic studies and specific activities. In carrying out these tasks, particular consideration should be given to: *transforming the real sector, facilitating agreements on governance, and strengthening social investment mechanisms*.

The Bank–Ecuador relationship: The complex nature of the changes that will arise as a result of the studies mentioned in the preceding paragraph makes it imperative for the Bank to adjust its relationship with the country to facilitate the accomplishment of long-term goals. In so doing, it must pay particular attention to those aspects concerned with the program's *planning horizon, scaling, and alternative scenarios*.

Lessons learned: The recurrence of the same problems makes it necessary for the Bank to focus on coordinating an efficient system of data collection, learning, and practical application of lessons learned, particularly with respect to understanding and considering the *political-economic connection in previous reforms, the systemic problems behind delays in execution in the 1990–2002 period, and the risks encountered*.

The Bank's new strategy with the country: The Bank's new strategy with Ecuador should therefore take into account the implications of the foregoing recommendations and provide specific answers to at least the following key questions for the country:

- ✓ What is the potential of the principal *sectors of the economy* for generating real growth?
- ✓ What are the implications of the challenges presented by *dollarization*?
- ✓ What factors determine *public spending* size and quality?
- ✓ What specific role is the *private sector* expected to play?
- ✓ What conditions determine the *sustainability of the country's external borrowing*?
- ✓ From the point of view of the country, what *added value* does the Bank provide, and what are *its comparative advantages*?
- ✓ What is the relationship between the sizing of the *scenarios planned* by the Bank and the expected fiscal return ascribed to the operations included in each scenario?
- ✓ What are the mechanisms proposed for ensuring a consistent *integration of instruments* and interagency coordination?
- ✓ What procedures and instruments will be put in place to improve the *evaluability and monitoring* of the strategy?

Introduction

This paper evaluates the Bank's program with Ecuador from 1990 to 2002. Country program evaluations (CPE) are independent exercises conducted by the Office of Evaluation and Oversight (OVE) based on the methodology outlined in the "Protocol for the Conduct of Country Program Evaluations (RE-271-1)".

According to the protocol, the function of the CPE is to assess the Bank program against five evaluative criteria. The first criterion is ***relevance*** or whether the program tried to resolve the country's principal development problems. The second criterion, ***coherence***, is the degree to which the program incorporated all of the Bank's instruments and coordinated its actions with those of other development actors. The third criterion is ***efficiency***, or whether the Bank supplied the products promised in a timely and cost-effective manner. The fourth criterion is ***effectiveness***, or whether the program produced the anticipated development outcomes for the country. The fifth criterion concerns the ***quality of services*** in the country program.

The evaluation conformed to a previously established methodology and work plan that included approximately 200 interviews at headquarters and in the country. The Management of the Bank and the Representatives from Ecuador worked closely together in this endeavor, cooperating fully and meeting periodically. All information requested was provided, and interviews were held as scheduled despite the particular time constraints that affected this evaluation. The participants were informed of these constraints, which affected the preparation of this evaluation. OVE considers that the working relationship established contributed to a positive understanding of OVE's mandate as well as the rigor of its objectives and the methodologies applied.

The present evaluation is atypical in the sense that it is the second one conducted on the Bank's program in Ecuador. Thus, it also affords the opportunity to determine how successful the Bank has been in implementing the recommendations made over six years ago in the 1997 evaluation. The previous *Country Program Evaluation: Ecuador (EVO, RE-223, December 1997) already* alluded to a lack of effectiveness in the country programming process: "*In general, the CP was not used as a basic planning and strategy instrument to prepare and implement a plan of action based on agreed upon IDB/Ecuadorian goals. It was used largely as a general reference to justify and to modify the content of some projects, which were already designated a priority by the country. In general, the CP/PMR was not used as a basis to define alternative strategies, to review the current status of measurable achievements and, based on this assessment, define a short, medium, and long-term plan of action. The CP documents had a low evaluability content because they did not present measurable goals or establish time limits within which goals were to be met …The lack of clear and measurable objectives and the absence of specific monitoring and evaluation variables weakened the effectiveness and efficiency of operations in Ecuador"*. The thrust of the recommendations contained in this earlier evaluation was to enhance the country program's strategic and sector concentration, identify opportunities more effectively, boost sustainability, and strengthen long-term institutional capacity.

The present evaluation builds on what was done before, looking at: (i) the country's development priorities, (ii) the Bank's programming objectives, and (iii) how the operations addressed these priorities and objectives. The evaluation is divided into five chapters.

Chapter I examines the evolution of the country's principal **development challenges** in order to assess the relevance of the strategic agenda defined in the program. In the case of Ecuador, the three challenges faced over the last decade continue to be relevant into the future: *(i) "How to reduce the economy's dependence on primary production?," (ii) "How to improve governance?," and (iii) "How to reduce social exclusion?"* Accordingly, the evaluation is structured around these three major themes so that the results can be used as input by Management and national authorities in preparing future activities.

Chapter II evaluates the programming process. First, it examines the extent to which operations converge with the development challenges presented in Chapter I and then analyzes the way in which these development challenges have shaped the **overall program**, the disbursements, the trends in financial flows with the country, and the risks that affected the program.

Chapter III evaluates the extent to which the **operations** carried out responded to the programobejctives. The chapter is based on the aggregate results of a detailed evaluation of each individual operation approved by the Bank for Ecuador between 1990 and 2002. These individual analyses, in a standardized format known as the project brief,[2] were used to extract conclusions on the *relevance*, *effectiveness, efficiency, sustainability, additionality, innovation,* and *evaluation* of the operations.

Chapter IV evaluates the achievement of the Bank's proposed **development objectives** for the country according to the country strategies and loan documents.[3]

Presented in **Chapter V** are the **conclusions** about the programming process and loan execution, as well as the key challenges encountered in each area. Lastly, the conclusions are used to formulate **recommendations** on how the Bank can optimize the value added to Ecuador.

I. ECUADOR'S DEVELOPMENT CHALLENGES

A. Ecuador before 1990

1.1 **The structure of production in Ecuador has been shaped by a commodity-based model, a model that encouraged import substitution and State intervention.** The traditional predominance of a single commodity (cacao between 1900 and 1925, bananas between 1948 and 1970, and oil since 1972) has exposed the economy to exogenous cycles of boom and bust. During the 1970s, soaring foreign-exchange earnings from the country's oil and easy access to external financing set the stage for an accelerated annual growth of 9.1% on average, rapidly elevating Ecuador to the ranks of middle-income countries. The State pursued national investment plans, intervened actively in many product and input markets (fuel, seed, fertilizer, and electricity, to name only a few), accorded tariff protection and imposed special import duties, set prices and granted direct and indirect subsidies, including maintaining real negative interest rates.

1.2 **During the 1980s this economic model began to break down.** Declining oil prices, the 1987 earthquake among other natural disasters,[4] and external debt crises highlighted the country's evident structural weaknesses.[5] By 1990, real per capita GDP had fallen by 8.6% compared with 1981, annual inflation averaged 37.4%, and the country began to experience difficulty in servicing its external debt. The Government of Ecuador (GOE) signed three stand-by arrangements with the IMF, initiating several structural adjustment programs towards the end of the decade. The reforms proposed in the IMF arrangements of August 1986, January 1988, and September 1989, however, went largely unimplemented.

1.3 **Despite these symptons, most of the country's social actors sought to perpetuate the economic model.** The institutional framework was "designed" for a high export-earning country, with a high level of State intervention and expenditures, and a very low tax burden. The crises interfered with the process of income redistribution, limited public and private investment, took capital away from the oil sector, and eventually jeopardized the financial system and undermined the competitive position of all productive activities.Yet, political organizations and social groups reassured their legitimacy on the strengh they exercised in their demands for redistribution over a decreasing stock of national resources. For instance, the country's two main regions (the coast and the highlands) solidified a party system based on "electoral strongholds", thus limiting the development of national lines.

1.4 **Social development was highly dependent on a volatile economic performance.** During the 1970s, the oil boom led to a rapid increase in social spending.[6] Some major quantitative targets such as an increase in life expectancy (from 52 years in 1974 to 64 years by 1990) were reached. Since 1981, however, social spending has begun to diminish as a result of a deteriorating fiscal position. As of 1990, although poverty was generally still a rural problem, a mass exodus to the cities had created a new urban poor.[7] The indigenous population did not yet have proper political representation. Not until 1990 did the first organized indigenous protests take place, a significant advance from the situation in previous decades when such civil rights were denied. Similarly, women were not permitted to hold and own property until the new Civil Code was approved in 1989.

B. The development challenges in the 1990-2002 period

1.5 **In the early 1990s, the effects of commodity-dependant economy were apparent and Ecuador had stopped servicing its external debt.** In 1990 per capita GDP was a little more than US$1,000, inflation had stabilized at an annual rate of around 50%, and the investment as percentage of GDP was just 16%, with one third being financed with external savings. A few commodities accounted for all exports: with oil comprising 46.5% of the total (12.3% of GDP), and four other commodities (bananas, shrimp, coffee, and cacao) making up 36.3%. High oil prices stemming from the first Gulf War led to a temporary improvement in the country's external accounts, and a fiscal surplus amounting to 0.4% of GDP, nearly three percent above the average of previous years. Even with this relative improvement, external debt represented 119% of GDP and it wasequivalent to nearly five years of government revenues, interest on external debt counted for 22.5% of public spending.

1.6 **Two phases are clearly discernable between 1990 and 2002: one of reform and another of crisis.**

The first phase, between 1990 and 1995, was marked by a haphazard, and sometimes accelerated, process of reform and structural adjustment. This process, initiated under the Rodrigo Borja administration and supported by the International Monetary Fund, extended into almost the entire administration of Sixto Durán Ballén, who acted with speed and commitment, approving various reforms, but whose impulse was eventually dampened by the rejection experienced at plebiscites looking to deepen the reform process.

The second phase between 1996 and 2002 was characterized by various political and economic crises that led to a virtual discontinuation of the reform process. Conflict with Peru in 1995 derailed the policy of fiscal discipline[8] and set back a number of reforms on grounds of sefewarding national security. A period of political crisis ensued with the subsequent election of Abdalá Bucaram, and his impeachment the following year, an interim administration under Fabián Alarcón, and a new Constitution in 1998 that sought to bring greater stability to the executive branch. The country returned briefly to the path of reform with the election of Jamil Mahuad in 1998. Although he succeeded in concluding a peace agreement with Peru, putting an end to 80 years of conflict, Jamil Mahuad was forced to step down before the end of his term, under a combination of militar and popular pressure triggered by the magnitude of the 1999-2000 crisis. This episod of crisis ended under the presidency of Gustavo Noboa, who imposed dollarization, worked to normalize relations with international creditors, successfully rescheduled the country's external debt in 2001, and accelerated construction on the Heavy Oil Pipeline (OCP), setting the stage for the 2003 election of Lucio Gutiérrez as Constitutional President.

1.7 **Throughout the 1990-2002 period, Ecuador struggled with the same development challenges it had faced in the past: (i) how to move the economy away from its dependence on primary production?, (ii) how to improve governance?, and (iii) how to reduce social exclusion?** Virtually no improvement was seen in per capita GDP between 1990 and 2002, while extreme poverty did not diminish. Also, economic instability ushered in a period of deep financial crisis, left vulnerable the fiscal balance, and spurred a wave of emigration from the country. Since the introduction of dollarization in 2000 and the Fiscal Accountability Act in 2002, new monetary, foreign exchange, and fiscal regulations have modified the mechanisms for addressing the country's economic challenges, but despite their virtues, these mechanisms alone are unable to resolve the country's development challenges.

1. The economy's dependence on primary production

1.8 **The real sector of the economy did not manage to get transformed.** In real terms, per capita GDP growth has been anemic,[9] increasing at an average annual rate of 0.1% between 1990 and 2002. During the same period, total factor productivity declined at an annual rate of 0.8%.[10] Moreover, the downward trend in gross fixed capital formation declined more sharply in 1999, the year of the crisis, to 18.1% of GDP. Since the introduction of dollarization, investment has recovered, boosted temporarily by OCP construction,[11] touching 24.8% of GDP in 2002, roughly the same as its 1993-1998 level. Foreign investment peaked at 6.3% of GDP in 2001 being more modest than in other countries of the region owing to the absence of a sizable privatization process. Insufficient investment has had an impact on the competitiveness of public services and infrastructure supply in general.

1.9 **The economy continues to be dependent on primary production, and the country's external vulnerability has not been reduced.[12]** The share of each sector in the economy remain virtually unchanged during the period.[13] Exports increased, partly offsetting retrenchments in government spending, while private investment remained unchanged.[14] Yet, exports expanded only moderately, with traditional sectors, particularly oil, continuing to dominate.[15] The country's terms of trade were five times more volatile than the average for the region, becoming even more so after dollarization.[16] In addition, fiscal revenues and exports were highly dependent on oil prices. It is estimated that for every dollar drop in the price of oil, export earnings declined by 0.6%, and fiscal revenues by 0.4%, of GDP.[17] More recently, remittances from Ecuadorians living abroad exceeded US$1.4 billion in 2001 and 2002 (6.7% and 5.8% of GDP, respectively), making them the country's second most important source of foreign exchange after oil.

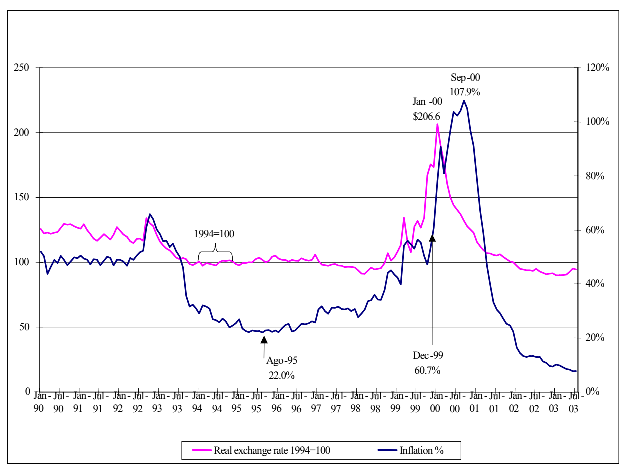
1.10 **Ecuador introduced legislation compatible with many structural reforms, mainly in the areas of trade, finance, and taxation, on the other hand little progress was noted in privatization and labor reform.** Although overall, the index of reform is somewhat lower than the average for the region,[18] major reforms were introduced in 1990 (tax reform and trade liberalization), in 1992 (tariff reductions), and in 1994-1995 (financial deregulation). Yet, no substantial changes were seen in privatization and labor reform. Since 2000, the process of reform in areas such as social security and fiscal accountability, discontinued in 1995, has resumed and is ongoing at this writing.

1.11 **The principal nontradable inputs such as labor and utilities reflected rigidities, leading to high relative values not conducive to the growth of competitive value-added exports.** Between 1991 and 1999, urban unemployment doubled to more than 15% of the economically active population (EAP), subsequently falling off on the heels of economic recovery and emigration. Labor market rigidities are still prevalent: severance costs are the second highest in the region after Bolivia (IDB-1999). Many domestic goods and services markets are uncompetitive. Contractual commitments are difficult to enforce, undermining the security of transactions.[19] Also, commercial utility rates for inputs such as electricity are higher than in neighboring countries. At the same time, residential utility rates are subsidized, producing chronic “deficits” that hamper efforts attract investments to optimize service delivery systems.

1.12 **Commercial lending to the private became scarce and costly, thus undermining business competitiveness.** The opening up of the financial system in the mid-1990s triggered an expansion of the sector.Supervision and regulation inplace was unable to prevent systemic crises, which frequently accompany financial deregulation in developing countries. The deregulation process was characterized by an increasing number of institutions with insufficient capital requirements, related-party transactions, an absence of technical grounds for credit granting, accompanied by inadequate collateralizarion, widespread participation in speculative business ventures other than financial intermediation, and an active presence of off-shore banking activity. In 1999, a series of external shocks highlighted failures in supervision and triggered rent seeking mechanisms within a framework of weak governance in the country,[20] which finally brought the financial system a collapse. By 2002, the stock of credit to the private sector had still not recovered to its previous levels, with a loan portfolio that amounted to just 20% of GDP. In addition, the spread between lending and borrowing rates exceeded 10%, providing small and medium-sized businesses with little incentives to borrow.

1.13 **The real exchange rate index (RERI) acted as a disincentive to exporters during most of the period.** The annual rate of inflation never fell below 22% during the 1990s leading to steady preannounced devaluations and price controls on basic goods and services. Inflation began to take off in 1996, touching levels of 60.7% in 1999 and 91% in 2000, in the midst of a deep recession. The rate has since fallen, to 9% in 2002. At the same time, the RERI appreciated during the first half of the 1990s, when the nominal rate was managed in order to control inflation, depreciating sharply thereafter as a result of the crisis. By 2000, the RERI was nearly 50% higher than in 1994, the base year used by the authorities. Strong inflation in 2000-2001, in a dollarized economy, caused the RERI to move up sharply in 2002, to a level just below its 1994 high. This relative appreciation in nontradable goods has produced incentives that impact negatively the productivity of the economy.

Graph 1.1: Inflation and Real Exchange Rate



Box 1.1: The Financial sector crisis andits lingering effects

Cracks in the system began to appear in 1995 with the intervention of Banco Continental. Since 1997-1998, public sector financing played a more intense crowding out effect.[21] In 1998, a number of analysts noted that 40% of the system, including two major banks, was insolvent. While nearly 70% of the financial system was dollar denominated, while most debtors were paid in sucres, thus exacerbating risk in the event of devaluation.

In the second half of 1998, external lines of credit contracted by 40% as a result of the international crisis, and by October 60% of the system had become illiquid. As early as August, one medium-sized bank had been closed. In the face of the widespread nervousness caused by this event, the government created the Guarantee Deposit Agency (AGD) fully covering all deposits, including those in off-shore branches of local institutions. This action failed to have the expected calming effect and one major bank, Filanbanco, declared insolvency almost immediately. The Central Bank (BCE) injected liquidity into the system, but this fueled the purchase dollars and repayment of external loans. In its efforts to defend the exchange-rate band, the Central Bank consumed massive amounts of reserves, eventually opting to allow the currency to float freely, a move that began a steep and continuous sell off that the Central Bank was unable to contain, despite significantly higher interest rates (170% annually by the end of 1998).

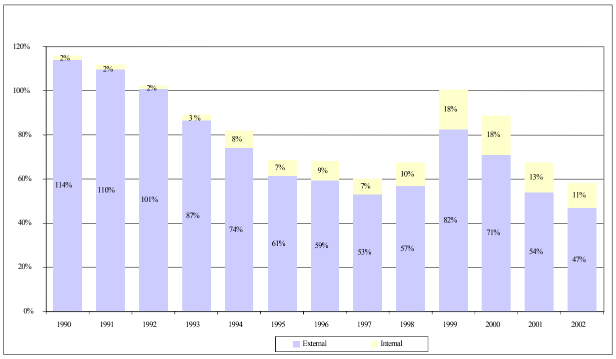
The lack of confidence continued into 1999 when bank deposits were frozen (in March), taxes were imposed on capital flows, which accentuated the capital flight, and a moratorium was declared on external debt (July). The vicious circle worsened and Central Bank efforts to make liquidity available to the banks led in turn to further depreciation and a lack of confidence in the currency, causing further problems for holders of dollar-denominated debt, and hence for the banks which required further liquidity. In late 1999, the government closed 18 banks and financial institutions accounting for nearly one half of all deposits. The introduction of dollarization in January 2000 come about to counter this crisis, being introduced in less than ideal conditions. The dollarization process went some way to restoring confidence and although the structural problems in the financial system remain largely unresolved, deposits have bagun to return.

2. Improved governance

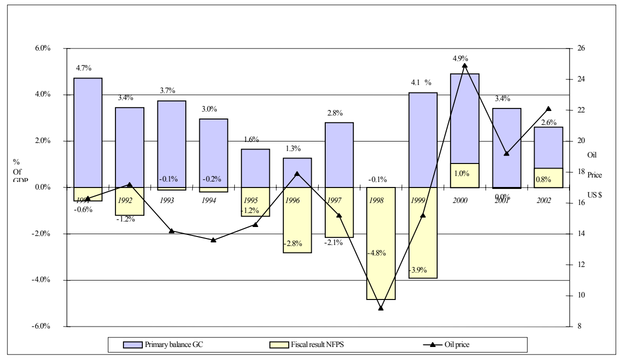
1.14 **Indicators of governance and corruption control have deteriorated steadily between 1990 and 2002.**[22] In Ecuador the problem of governance is a complex one. The inability of the main political actors to build a consensus on national development issues[23] has put the country on an erratic course, compunded by shortages of institutional capital in the public sector. Ecuadorians in general appear to have little confidence in their political system.[24] Ecuador ranks in the lowest quartile of countries in measurements of *respect for the law*. High levels of corruption act as a regressive tax on poor households and microenterprises.[25] Corruption prompted the President to set up a civil commission on corruption control (CCCC). The following year the CCCC was ratified by the National Constitutional Assembly as an autonomous entity having legal status under public law and being economically, politically, and administratively empowered to act on behalf of the people in investigating and preventing corruption. Although a step in the fight against corruption, the effectiveness of the Commission's investigative and procedural mechanisms leave room for improvement.

1.15 **The external debt problems limited the budgetary discretion of successive governments, further exacerbating infighting for resources and political instability.** The 1990s was marked by a recurring inability to service its external debt. Around 1992, approximately one third of outstanding debt consisted of arrears, one half of which was interest. Ecuador was paying only 30% of the interest due on an outstanding balance of US$6.7 billion to commercial banks, until finally even these payments were suspended in July 1992. In 1993 arrears extended to the Paris Club and debt-for-equity swap operations were suspended. In 1994 and 1995 Ecuador joined the Brady Plan, thereby reducing its commercial debt by nearly US$2.468 billion (42%), a move that lowered the debt-to-GDP ratio from 80.6% in 1994 to 67.5% in 1995. Since 1995, widening fiscal deficits have continued to exert pressure on financing and, starting in 1997 when external financing was no longer available, the government went on to expand its borrowing. As a result, internal indebtedness soared from 5.6% of GDP in 1997 to 18.7% of GDP in 1999. Owing to the financial and economic crisis, the country was unable to make payments on Brady bonds in September 1999. Following a round of negotiations, the 1997 Brady bonds and Eurobonds were replaced in 2000 by Global Bonds, which generated savings for US$2.506 billion (38.8%), as the public debt-to-GDP ratio declined to 58% in 2002.[26]

Graph 1.2: Public debt as a % of GDP



Graph 1.3: Fiscal accounts



1.16 **Administrations were generally ineffective in their attempts to systematically reduce spending.** Between 1991 and 1998 current spending expanded on average by 1.4% per annum, whereas total revenue shrank on average by 3% annually, thus causing the structural deficit to widen. In an analysis reflecting the 1990-2002, period, the World Bank reported that "public spending was highly fragmented, poorly coordinated, subject to weak controls, and lacking in transparency". Between 1990 and 2002, government revenues were determined by the following factors: (i) high reliance on oil;[27] (ii) improved tax collections since 2000; (iii) the limited fiscal role played by the oil stabilization funds, both the 1992 one, because rules were not effectively applied, and the most recent FEIREP, which is just starting to accumulate funding; (iv) elevated levels of debt that absorb nearly 35% of government revenues in principal and interest; (v) earmarking of resources, which generates procyclicality, since 30% of every dollar collected is preallocated;[28] and (vi) State-owned enterprises that account for a relatively large share of the fiscal accounts. Due to the earmarking, transfers mandated by decentralization, public servants compensation, benefits, wages and salaries, and debt service, in 2002 only about 10% of all central government revenues was freely available, a problem compounded by the revenue itself being highly volatile.

1.17 **Modernization of the State met with limited success during the period.** The process of transforming the State began with the creation of the National Council for Modernization (CONAM) during the Sixto Durán Ballén administration. Traditional tools, such as privatization, never achieved the momentum or the depth noted in other countries of the region,[29] for a variety of reasons: (i) the idea that there are "strategic" activities, particularly the oil industry, imposing restrictions on private ownership, (ii) the privatization process became increasingly discredited in the eyes of the public, and (iii) a gradual fragmentation of political parties that have hindered the decision-making process.

1.18 **Tax reform has produced positive results since 2000. There was a** substantial improvement in the overall share of nonoil tax revenue[30] since 2000 attributable to three basic factors: (i) dollarization was able to maintain the real value of tax revenues, which were no longer eroded by inflation; (ii) following a period of consolidation, the Internal Revenue Service (SRI) became considerably more effective; and (iii) the tax reforms, one each year since 1998, expanded a traditionally low tax burden. The VAT has been the star of the tax reform, being credited with more than doubling tax revenues from 3% of GDP in the early 1990s to around 7% since 2001. Also, fiscal revenues resulting from social security contributions have been recovering since 2001 to levels not seen since the first half of the 1990s.

1.19 **During the 1990s, decentralization earned a prominent role which culminated in its constitutional recognition in 1998, but the risk of further regional fragmentation and additional government spending remains as decentralization gets implemented.** The road to fiscal decentralization has been fraught with problems: the transfer of resources to subnational authorities was introduced under special legislation in 1997, and began to speed up in 2001, but was not accompanied by a corresponding transfer of responsabilities despite the constitutional mandate of reciprocal equivalence. The country has not yet reached a consensus on an effective decentralization model with the result that: (i) lack of agreement on the tax base allocated at each level; (ii) the lack of practical viability of transfer of responsability mechanism that is being implemented; and (iii) problems in transferring vital areas of social services such as education and health. On the other hand, this contrast with positive, recent initiatives to rationalize and improve the quality of public spending.

3. Reducing social exclusion

1.20 **In this climate of economic volatility and poor governance, Ecuador has been unable to make sustained progress toward eliminating social exclusion.**[31] Despite years of improvements brought about by sustained social spending, at the end of 2002 one third of people in urban areas, 60% of those in rural areas, and 90% of indigenous communities lived on less than US$2 a day. During the 1999 crisis, the number of people in general poverty and extreme poverty[32] rose to 6.9 million and 2.5 million, respectively; in other words nearly 3 million individuals were categorized as poor, one third of whom lacked the means to meet even their basic alimentary needs. These factors underscore the precarious situation of much of the population in the wake of the economic crisis. Recent stability has brought with it substantial improvements in overall poverty rates (declining from 43% in 1999 to 35% in 2003), although extreme poverty is still high (around 17%).

1.21 **Although per capita income levels in 2002 are similar to those of 1990, growing inequality exacerbates poverty.**[33] The poorest 20% of the population receives just 1.7% of total income. The Gini inequality index increased from 0.43 in 1995 to 0.57 in 2001. Between 1995 and 2001, for instance, the proportion of households living in poverty in urban areas was up by nearly 6%. If household income distribution had remained unchanged, the incidence of poverty in urban areas would have edged up from 29% to 31% owing to changes in income. It was because of greater inequality, however, that poverty rose higher, to 34%.

1.22 **Efforts to find better living conditions spurred the migration within the country and emigration.** With migration to the cities, the proportion of the population living in rural areas was down from 45% in 1990 to 39% by 2002, equivalent to 4.4 million and 4.7 million, respectively. At the same time, the number of people living in urban areas surged from 5.3 million to 7.4 million, an increase of 39%. Emigration from the country does much to explain the declining demographics of the 1990s (from 2.2% year-on-year to 2%). Although precise figure are not available,[34] emigration out of the country during the 1992-2001 period shows a net outflow of 628,000 persons, or 5.2% of the total population.

1.23 **While the coverage of basic services increased just 7% between 1990 and 2002, improvement came even more slowly to rural areas and the outskirts of cities, where most of the poor are concentrated.** The deficit in basic services in rural areas has narrowed by less than 5% in the last 11 years. Electricity was the only basic service that showed any significant improvement in rural areas, where coverage expanded by approximately 24%. For other services (water, sewer service, and garbage collection), total coverage hovered around 20% in rural areas, explaining why just one in ten rural households have simultaneous access to water, sewer, and electricity service.

1.24 **In Ecuador, 30% of the population does not have access to basic health care and over two-thirds of the population does not have health insurance.** Infant and maternal mortality rates have improved, but are still high. According to PAHO estimates, infant mortality declined from 52.7 to 43.1 per thousand between 1990 and 2002. A similar improvement was seen in the maternal mortality rate, which fell from 117.2 per 100,000 in 1990 to 80 in 2000[35]. Public spending on health, however, is still insufficient and inefficient, while private spending is distributed unequally, a factor that further compounds the problem for the low-income sectors. In Ecuador, spending on health edged down from 4.3% of GDP in 1990 to 3.6% in 1998, well below the levels of its neighbors (9.4% in Colombia and 6.2% in Peru).

1.25 **Although education, and particularly primary education, has improved, it is still adversely affected by rigidities that undermine efficiency and performance.** Ecuador has made headway in raising net rates of attendance in primary school (92.9%) and secondary school (52.3%). Also, the proportion of spending earmarked for preschool and primary school increased from 34.4% in 1990 to 49.4% in the last three years. Nonetheless, disparities in opportunities between rural and urban areas continue to be high.[36] In addition, public spending on education contracted from 2.8% in 1990 to an average of 1.6% in the last three years, causing a deterioration in the quality of education and infrastructure maintenance. Spending is also unevenly distributed: the poorest quintile accounts for 12% of the total and the highest quintile for 25%.

1.26 **Finally, some vulnerable groups have managed to increase their social participation over the period.** The number of women in the work force rose at a rate of 4.8% year over year, nearly two and half times the rate for the population as a whole. Accordingly, net female participation expanded from 19% in 1990 to 22.8% by 2000. As the indigenous movement grew stronger, it consolidated into a political force during the 1990s. The creation of the Ecuadorian Federation of Indigenous Peoples (CONAIE) turned the indigenous movement into a prominent actor on the social, political, and economical fronts, an actor which hold considerable influence in the strategic oil-producing zones. Despite this progress, indigenous peoples continue to be the segment most affected by poverty and social exclusion.[37]

C. Ecuador in 2003

1.27 **It was not until March 2003 that the new administration of Lucio Gutiérrez managed to enter into an agreement with the IMF.** However, wage and salary increases in the public sector, delays in tax reform, and a failure to review the system for preallocation of resources to subnational authorities and to grant concessions for electricity and telephone service meant that the first review of June 2003 was only partly completed, compromising the second tranche of US$43 million.

1.28 **In addition to the challenges of the past, a series of recent reforms promoted by the government in conjunction with the IMF are introducing new pressures that have an impact on the country's risk profile.** The future of dollarization, legislation on fiscal accountability, and the need to speed up oil production in order to maximize the use of transport capacity are new elements highlighting the need for the country to hasten the pace of transformation.

1.29 **Regardless of thei validity, the views of other economic agents such as international risk rating agencies[38] reflect the highly complex challenges facing the country today.** To some extent, the views of these agencies on Ecuador's challenges have an impact on the perception of international investors, and potentially influence their future decisions. Because any judgment on the validity of these views is beyond the scope of the present evaluation, OVE simply calls attention to them as outside opinions directed at enriching the discussion of Ecuador's challenges. The views of the three main international risk rating agencies: Standard & Poor's (SP), Moody's (M), and Fitch Ratings (F) are presented as elements for discussion.

Table 1.1: Views of rating agencies – Elements for discussion

Rating Agency View	Agency		
	SP	M	F
Show concern about the country's poor repayment record, lack of institutional capacity, and a fragile political dynamics	✓	✓	✓
Note a dependency on international lending institutions in order to continue servicing external debt and the country's precarious liquidity situation[39]		✓	
Show concern about the recent slowdown in the economy characterized by an end to the boom in consumer and construction spending as well as signs of a deterioration in fiscal revenues	✓	✓	✓
Perceive deterioration in the nonfinancial public sector primary surplus	✓	✓	✓
Express reservations about the development of the oil industry in general and the sustainability of the FEREP, the OCP-linked stabilization fund	✓	✓	✓
Expect that the proposed IMF reforms such as civil service reform will be watered down and are therefore unlikely to have any real impact except for disbursement of international financing	✓		
Dollarization is not expected to be sustainable in the long term since it is perceived to have reduced economic competitiveness, which was already poor, because of exchange rate appreciation and rapidly rising labor costs		✓	
Perceive reluctance to make decisions on key policies related to the deepening of trade liberalization, private sector participation in infrastructure, public sector reform, deregulation of the oil industry and decentralization			✓

1.30 **However, the present administration has set in motion major initiatives to alleviate these risks.** These initiatives include: (i) the introduction of a Fiscal Transparency, Stabilization, and Accountability Act; (ii) passage of a Civil Service and Administrative Career Path as well as Public Sector Remuneration and Customs Acts, both of which are designed to streamline public finances; (iii) a Social Front to fight poverty within a coordinated framework that includes the Ministry of Economy and Finance; (iv) reactivation of management tools such as the Integrated Financial Management and the Public Investment Management Systems, to make public resources administration more transparent; (v) progress on free trade negotiations; and (vi) the search for alternative ways of promoting private-sector participation in public utilities such as the program for small hydroelectric dams concessions.

II. DEVELOPMENT OF THE COUNTRY PROGRAM

2.1 This chapter centers on the main features of the **country program** in the 1990-2002 period, evaluating it on three fronts:

1. **Anticipation of the program** defined as the capacity of the country programming process to anticipate risks and activities carried out, and to situate them in the context of medium and long term planning;

2. **Relevance of the program** defined as the degree to which the program's strategic objectives corresponded to the country's needs and the Bank's general priorities;

3. **Quality of the** p**rogram**[40] defined as the extent to which the Bank's comparative advantages have been utilized, the degree to which the Bank's different instruments were employed, the Bank's position among the different providers of foreign assistance, and the qualities of the program evaluative framework, includingtargets and indicators to gauge progress and make use of lessons learned.

2.2 **Between 1990 and 2002, the Bank approved US$1.856 billion in loans to Ecuador for 41 programs over three programming cycles (1990/1993, 1994/1996, and 2000/2002) and one transition period (between 1997 and 1999), during which the formal programming process was altered due to a succession of economic and political crises.** Prior to 1990, the Bank had already granted US$2.3 billion in loans, mainly for investments in agriculture (42%), energy (16.5%), industry (12.5%), and transportation (10%).

A. Anticipation of the program

2.3 **The Bank's strategy was so broad that all initiatives appeared relevant, making it impossible to establish their relative importance.** With the exception of the oil, electricity, telecommunications, and health sectors, which were specifically excluded towards the end of the decade, all sectors were technically eligible.[41] The 1990 Country Programming Paper expressly mentions all sectors. In the 2001 Country Program, general objectives such as the "recovery of the growth capacity" could provide grounds for almost any initiative.

2.4 **Notwithstanding this broad approach, effective priorities varied according to short-term needs.**[42] *In 1990*, the Bank abandoned direct sectorial support in favor of *creating a macroeconomic climate to promote competitiveness*, including activities in science and technology, foreign trade, and private-sector participation in infrastructure. Moreover, preference was given to *poverty alleviation activities*, as the focus shifted from the traditional programs of investment in education and health. *In 1993, modernization of the State and public debt reduction* were accorded priority. *In 2001, efforts were made to increase targeting of actions*, creating three areas of activity and excluding sectors in which the Bank had not managed to participate during the 1990s.

Table 2.1: The Bank's strategic intent between 1990 and 2002

Challenges	Areas of activity	Pre-1990s	1990-93 Cycle	1994-96 Cycle	2000-02 Cycle
How to move the economy away from its dependence on primary production?	Agriculture	✓	✓	✓	✓
	Science and technology		✓		
	Protection of property rights			✓	✓
	Energy	✓	✓	✓	
	International trade		✓	✓	✓
	Private-sector financing	✓	✓	✓	✓
	Policies to support competitiveness		✓		✓
	Industry	✓			
How to improve governance?[43]	Modernization of the State			✓	✓
	Planning and information systems	✓	✓	✓	✓
	Sustainability of public debt			✓	✓
	Tax system		✓	✓	✓
	Development of environmentally sensitive areas		✓	✓	✓
	Urban development	✓	✓		✓
	Decentralization policies and strategies			✓	✓
	Private-sector participation in infrastructure		✓	✓	✓
	Roads and highways	✓	✓	✓	✓
How to reduce social exclusion?	Education	✓	✓	✓	✓
	Health	✓	✓	✓	
	Water and sanitation	✓	✓	✓	✓
	Support for the housing sector		✓		✓
	Poverty reduction		✓	✓	✓
	Support for socially vulnerable groups		✓		✓
	Emergency Management				

Relative shift in priorities over time = Gains Priority = Loses Priority

2.5 **During the 1990-1993 programming cycle, 10 loans were approved, accounting for 27% of resources in the 1990–2002 period.** The 1990 Country Program gives only a general outline of the activities in each sector, while stressing the importance of the short-term operational objective of "reducing the high undisbursed balances and the delays in project execution". The document does not contain a pipeline of projects, although it does indicate that a pipeline level of US$1.5 billion would be appropriate for the 1990–1993 period. In practice, however, such an amount never materialized in the absence of a consensus on trade and financial deregulation. In practice, 86% of resources went to activities related to competitiveness and decentralization, although the latter was not an essential part of the original programming strategy. Other strategic objectives set out in the 1990 Country Programming Paper, such as rationalization of infrastructure, foreign exchange generation, and improved public sector performance did not materialize into any significant loans. The impulse for reform resumed when the Sixto Duran-Ballén administration took office in 1992. Not until late 1993, however, did the new administration's stabilization program begin to bear fruit and a number of reforms were passed, a situation which was in turn interpreted by the Bank as a suitable climate for reinitiating reform.

2.6 **The 1994–1996 Programming Cycle sought to benefit from what was perceived as a window of opprotunity for deepening reform.** In May 1994, Ecuador signed a Stand-by arrangement with the IMF and an agreement with commercial banks, followed by an arrangement with the Paris Club. The July 1993 country program (CP-1993) proposed a number of general reform objectives, but did not include a pipeline of projects. Nonetheless, the June 1994 Programming Mission outlined a program of 17 operations, including sector reform operations and renewed the Bank's commitment to support the country with financing of US$1 billion to US$1.5 billion over the following three years. True to its intent, the Bank rapidly approved four sector reforms and three investment loans in 1994 (amounting to 31% of the entire 1990-2002 program). As early as 1995, however, this program had encountered significant problems that undermined the process: (i) the rejection of special plebiscites on reform, and (ii) an escalation of the conflict with Peru in 1995, which resulted in a defacto interruption of the program. In practice, the 1994-1996 cycle was much more moderate than anticipated, although its initial momentum led to the approval of 11 loans accounting for 37% of the 1990-2002 program. However, these surge of loans got under way in an unfavorable climate for which there were no contingency plans, thus creating problems with execution, rescheduling, and cancellations. To a large extent, this set the tone and limitations for the Bank's activity with the country from then on.

2.7 **Although no formal strategies were formulated between 1997 and 1999, eight loans were approved, equivalent to 18% of program resources for the 1990-2002 period.** Political instability meant that the programming cycles during the Abdalá Bucaram and Jamil Mahuad administrations did not materialize in multiyear programs with the country. In fact, the social and private-sector participation in infrastructure became de-facto priorities throughout the period. The sector reform lending mechanism was temporarily abandoned in the absence of a formal program, although a new instrument, the "emergency loan facility," was created thus providing one third of the resources for the period in a highly liquid form, through entities dependent from the executive branch. The scope of governance and modernization of the State was narrowed to the reform of the tax system and promoting private-sector participation in infrastructure, with the later finding little success. Issues such as support for private-sector competitiveness were abandoned as direct actions, and confined to the indirect effects of possible privatization of public services.

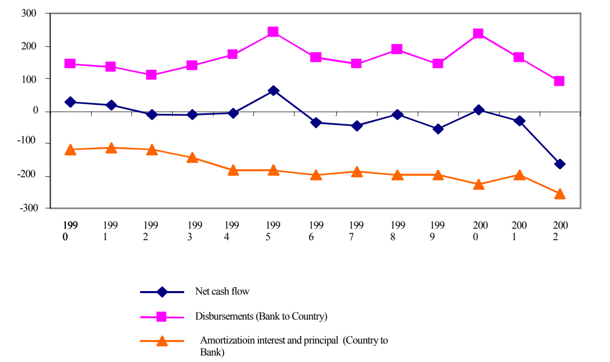
2.8 **The formal programming process was resumed in 2000, as part of a joint effort with the IMF, the World Bank, and the Andean Development Corporation (ADC).** In 2000, an attempt was made to assist Ecuador through the early stages of dollarization, to relieve poverty, and reactivate the process of modernization. The IDB agreed to provide US$620 million to this effort under the umbrella of a US$2 billion financial assistance package for the period 2000–2002. The 2001 country strategy, which reiterates this joint objective, contains a number of important improvements: (i) it includes a matrix linking the Bank's strategy and instruments to actions of the GOE and other agencies, (ii) it introduces a matrix incorporating different lending scenarios, (iii) it presents a list of loans, technical-cooperation projects, and future studies, (iv) it attempts to distill the lessons learned, (v) it presents a format for consulting civil society, although it does not flesh out this instrument fully, and (vi) it outlines a risk analysis without proposing any clear solutions of how to mitigate risk. Despite these improvements, the program does not present any indicators or measurable development targets, which means it is only evaluable in qualitative terms. In practice, 12 loans, representing 18% of the 1990-2002 program, were approved. The period 2000-2002 is characterized by a large sector loan representative of the support provided in 2000, and the acceleration of an active cancellation policy (which included US$30 million of the final tranche of the sector loan itself).

2.9 **During the first half of the decade, Ecuador had one of the Bank's most dispersed portfolios and the second most extensive in the Bank after Brazil (by number of operations).**[44] As noted in the *2000 Strategy Issues Paper*, "growth of the project pipeline has been somewhat chaotic, based on the political priorities of five different governments. The result was an ad hoc pipeline tailored to different interests, and not based on priorities."[45]

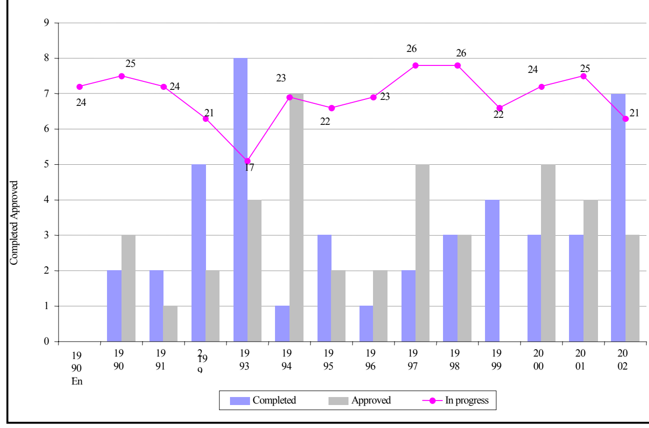
2.10 **During almost the entire period, programming was not effective to frame operations into a long-term planning horizon.** Neither the 1990 nor the 1993 Country Programming Papers contained a tentative program of operations for the corresponding period. The 2001 Country Strategy, however, mentions operations already approved in 2000 and 2001, and anticipates two of the three operations approved in 2002. Faced with this lack of anticipation at the Program level and assuming that the Bank's capacity to set out its intentions in the country strategies could have been adversely affected by the crises, OVE looked for evidence of some shorter term strategic intentions in the pipelines contained in the loan and portfolio review documents. However, these too, reflected the same lack of anticipation that affected the program throughout much of the period under review. Of the loans approved, 43.9% were not anticipated.[46] Moreover, 54.4% of programmed loans did not materialize as planned. As to loans approved and anticipated, 60.5% were anticipated less than one year before approval, and 78.9% were anticipated two years or less before approval.[47] In other words, nearly two of every three projects were not anticipated even one year before they were approved.

2.11 **The strategic intentions were weakened by the urgent demands stemming from the crises, thus undermining long-term efforts, mainly in the real sector and the area of governance.** The Bank has been interested in promoting competitiveness in the real sector since the early 1990s. However, activities in this area were crowded out effect from the program reulting in the real sector receiving only 18% of program resources. Moreover, although the challenges posed by governance were exacerbated throughout the period, traditional loans did not appear to be the most appropriate instruments for resolving the problem.[48] Apart from direct support for macroeconomic equilibrium, which served as a short term palliative, the area of governance received less than 2% of lending during the period. Also, despite an intentional effort in the social sectors, in 2000 only 27% of the portfolio in terms of number and 23% in terms of amount qualified as *social equity enhancing or poverty-targeted* investments.[49]

Graph 2.1: Net Flow of Resources to Ecuador (US$ millions)



Graph 2.2: Flow of Projects 1990-2002



2.12 **The flow of loans coincided closely with the country's repayment commitments to the Bank, except in 1994 when an attempt was made to make use of a "window of political opportunity."** The net flow of funds to Ecuador was neutral or negative throughout the period except in the early years (1990-1991) and in 1995 when the flow turned slightly positive. The close matching of disbursements to the country versus interest, fees, and repayments owed by Ecuador suggest a strategy revolving around ensuringa normal repayment flow. Only in 1994, the Bank earmarked nearly one third of the total 1990-2003 program resources (producing a fourfold increase in the average rate of annual approvals) seeking to capitalize on the political momentum for reform.

2.13 **An unusually large concentration of approvals in 1994 (nearly one third of funds for the 1990-2002 program) added to problems of implementation, leading to changes in the objectives set for loans in progress and to the cancellation or reallocation of nearly 10% of program resources. There is no evidence to suggest, however, that such decisions were based on a strategic analysis.** In terms of the existing number of loans, the Ecuador portfolio has fluctuated between a minimum of 17 operations in 1993 and a maximum of 26 in 1997 and 1998. In 1993 the number of completions peaked at eight, roughly the same as at year-end 2002 (7 operations). In each case, major sector programs were approved the following year. This would suggest that cancellations were geared to "frees up lending capacity;"[50] although here again there is no evidence to suggest that alternatives to continuing with previous loans were evaluated, or wether the effects of discontinuating were assessed.

2.14 **OVE's detailed project analysis that risk management was ineffective, and that 77% of program resources had been placed at risk without adequate mitigation.**[51] *For instance, "delays in providing counterpart resources," the "administration of procurement and the awarding of contracts," the "inefficiency of the executing units and the duplication of efforts" and the "lack of transparency in the management of operations by certain executing units,"* were risks that had not been adequately anticipated or properly mitigated. The "*lack of a political consensus,*" the "*low technical and administrative capacity of the executing units"* and changes in project teams adversely affected nearly one half of all projects. In contrast, the risks of *"opposition from lobby groups," "problems with* *interagency coordination" and problems relating to "legislative reform"* were less serious than anticipated. Government institutions succeeded in formalizing joint activities and in translating them into legislative frameworks in a reasonably acceptable manner. Furthermore, some of the groups involved were expected to mount strong resistance. Yet, the way in which these situations were handled was highly effective that resistance was softened in nearly 50% of the cases. This was accomplished largely by community management and participation initiatives, transparent mechanisms for the selection of beneficiaries, and emphasis on dispersing the project benefits to the community.[52]

B. Relevance of the program

2.15 **The Bank's evident concern with the seriousness of Ecuador's debt problem conflicted with its declared willingness to become involved in many sectors and to pursue ambitious development objectives.** The Bank itself recognized that "*additional public sector borrowing should only be undertaken for programs and projects with a very high social and/or economic return; otherwise, any new borrowing would further exacerbate the debt situation in the medium term, not alleviate it"*.[53] Moreover, a contradiction in objectives is evident "*... a factor that underscores the need to be selective in the quality of new potential investment and its amount is the country's debt situation which given the fiscal crisis and despite the possible need to restrict borrowing does not appear to leave any alternative other than to raise new borrowing."*[54] Furthermore, the Bank was not the only institution experiencing problems in addressing this challenge. A recent World Bank evaluation concludes that "*The (World) Bank committed too much lending too quickly to Ecuador (in 1994)"*[55] and that although *"Ecuador was virtually insolvent during 1997-1998 and not creditworthy for new borrowing…the (World) Bank accelerated lending, knowing that the IDB and the ADC were doing the same…. This rising tide of new lending may have sent a misleading signal to an underperforming borrower, and overwhelmed its weak implementation capacity.*"[56]

2.16 **There is no evidence that the Bank evaluated the country's borrowing capacity as required in its own internal guidelines.**[57] "*Once a year, or more frequently if so justified, an evaluation of the country's borrowing capacity should be carried out"*. There is no evidence that such analyses[58] were conducted in such a way as to lead the Bank to adopt an independent view that encompassed its objectives insofar as these might differ from those of other multilateral institutions. Moreover, except for a few infrastructure projects, there is no evidence that the approval of operations included a cost-benefit analysis of the investments and how these would affect the country's repayment capacity. Very often, the Bank was caught up in negotiations headed by the IMF, with the result that the Bank was ill positioned to give priority to the findings of its own economic analysis when the operations were approved.

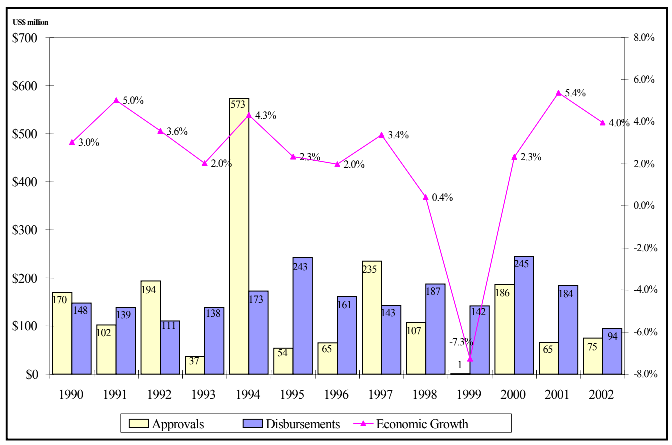
2.17 **In the absence of any systematic evaluation, the Bank adopted an overly conservative response lowering the ceiling on the country portfolio borrowing**. Portfolio limits are set on the basis of the following criteria: (i) *debt service to the Bank must be less than 30% of total debt service*, (ii) *multilateral debt service must be less than 50% of total debt service*, and (iii) *debt service to the Bank must be less than 8% of exports*. In the case of Ecuador, debt service to the Bank as a share of the total averaged around 11%, with a high of 18% in 2002 (much lower than the 30% limit). The same applies to debt service to the Bank as a share of exports. Here, the average was 4%, with a high of 5% in 2002 (lower than the 8% limit).

Box 2.1: Negative net flows to the country between 2003 and 2006?

With the present portfolio, the country's repayments to the Bank between 2003 and 2006 are likely to amount to US$748.4 million. The Bank's projected loan pipeline for the same period was approximately US$600 million. Considering that the undisbursed balance of the present portfolio is about US$300 million, 75% of the resources of the new program would need to be disbursed before 2006 so that the flow of funds to the county is not negative. Given the pace of execution in recent years, it is unlikely that more than 50% of the new loans will be disbursed unless the traditional mix shifts in favor of greater sector lending. Regardless of whether it is justified or not, this reliance on sector lending would relegate the programming process to a secondary role, predicated on the country's repayment pattern.

2.18 **The Bank had limited success in achieving its objective of "promoting macroeconomic stability," but was effective at backing the country in "market closure" Situations.** In considering approvals, we see that in two of every three years between 1990 and 2002, the Bank followed a procyclical pattern, which restricted lending when the level of economic activity declined and vice versa. For instance, the level of approvals was low in 1993, 1995-1996, and 1998-1999, corresponding to periods of slowing economic activity. On the other hand, in the case of disbursements, the Bank was effective in providing counter-cyclical support in periods of crisis. This response of the Bank's was particularly effective during periods of "total market closure" when Ecuador was unable to obtain external private financing. For instance, in 1995 (during the war with Peru) and in 2000 (following the financial crisis), the Bank disbursed US$243 million and US$245 million, being responsible respectively for 36% and 53%, of public investment.[59]

Graph 2.3: Approvals, Disbursements, and Economic Growth



2.19 **The country was, in turn, unable to articulate a long-term vision on the role of external borrowing in its development, or to determine the extent to which the resolution of earlier crises could limit the country's prospects for future growth.** The average Bank loan to Ecuador was prepared and executed under at least three different administrations, which meant changes in priorities and periods of paralysis before and after an administration took office. Once it was approved, the average loan took nearly six years to complete in addition to preparation time. On the other hand, the form in which the Bank provided support to the country during the crises left the Bank and the country without ways of determining how this approach could be limiting the pattern of future growth and the country's future potential to attract private investment. In a similar manner, the Bank did not maximize the use of technical assistance and private-sector financing because it failed to integrate these instruments into a global long-term programming process.

2.20 **The Bank's program allocated resources on the basis of the country's absorption capacity, which in turn limited the allocation of resources to resolve long term development challenges in areas where absorption capacity (implementation capacity) was weak.** A detailed analysis of loan resource allocation for different problems shows that discrepancies exist between allocation and the relative importance of the problems. Issues concerning **the competitiveness of the real sector** (*market distortions, regulatory frameworks for infrastructure, productive financing, and protection of property rights*), **social exclusion** (*social investment and labor market reform*), and **governance** (*quality of public spending, planning, and investment management*) were accorded relatively less importance. On the other hand, the Bank funneled 42% of program resources through highly liquid instruments: approximately 30% of program funds into five sector loans and around 12% into support for agencies in the executive branch such as FISE, agencies which also received the reallocation of undisbursed balances (US$34.2 million from eight slowdisbursing loans) packaged into two El Niño emergency operations.

2.21 **Less than one in every eight loans was targeted to the long-term challenge of "increasing private-sector productivity."** According to the OVE analysis of the program beneficiaries, even *microenterprise and small and medium-sized businesses (MSMEs)*, a traditionally strategic group for the Bank, received only a marginal share of the benefits. Programs with beneficiaries in the productive sectors generally suffered from slow-implementation. Thus they accounted for a smaller share of the Bank's portfolio. *Private sector financing,* which the Bank channelled through multisector and global loans, was discontinued before the distortions affecting private and public banks could be corrected, leaving the productive sector without any viable financing alternative. Theoretically, private investors were invited to participate for instance in public services administration, but this was met with scant success. The *legal, regulatory, and supervisory frameworks* were targeted with specific initiatives mainly "formal," without a real focus on "results." Research and development in export sectors such as agriculture received meager, haphazard, and random support insufficient to meet actual demands from businesses. *Preventing environmental degradation*, one of the Bank's priorities since the early 1990s, accounted for only 5% of all projects.

2.22 **The challenge of "poverty reduction" was verifiable ex post in only 25% of projects, although it was claimed ex ante that nearly 40% of projects would have an impact on poverty.** Shortcomings related to targeting of social sector actions continued to be a challenge throughout the 1990s, preventing any reliable verification of the benefits for the population's poorest quintiles.[60] Nevertheless, some impact assessments were performed, in the housing sector, but their scope was limited to a specific project area. More recently, the "beneficiary identification system" and the "poverty map" sponsored by the Bank open opportunities for a more comprehensive assessment of actions on the social area.

2.23 **The challenge of "institutional development" was not systematically addressed.** According to an earlier OVE evaluation of the Ecuador program, *"The de facto institutional strategy was based on two instruments—the executing units and technical assistance—which together were essentially short-term solutions to faciliate project execution."*[61] The 2000 *Strategy Issues Paper* confirms that *"perhaps the greatest challenge facing both the country and the Bank in the next programming cycle* (referring to

2000-2002) *is to institute serious institutional strengthening and reform …The institutional strengthening process should no longer be considered as a separate loan component with very limited outcomes, and technical cooperation projects in substantial amounts should be designed to address the fundamental problems affecting the institutional framework of the sector in which the Bank plans to target its efforts. This should be a precondition for commencing any new sector projects or programs."*[62]

2.24 **The use of executing units for project execution conspired against the long-term objective of reinforcing the country's institutional capacity.[63]** It is estimated that around 75% of projects were assigned to executing units (EU)[64] whose main function was to administer the operations without any agreement as to how they would subsequently fit in with the country's institutional framework. The Bank deliberately promoted the creation of executing units as a means of expediting execution and to safeguard fund disbursement and control mechanisms.[65] OVE's analysis of the beneficiaries found that suppliers and consultants in particular were another group that inadvertently benefited from the Bank's activity in Ecuador. The technical aspects of the projects were expected to be covered by specialized consultants, whose responsibility was limited to producing technical reports. However, plans to implement recommendations often had to be cancelled because of political maneuvering and negotiation that watered down the recommendations, making technical reports per-se less useful to the country.

2.25 **Also, the Bank adopted a bipolar approach to "modernization of the State": while it financed public investment, throughout the period it cohabited with a public sector that resisted structural change.** More than one half of the Bank's projects focused on *increasing the coverage and quality of public services*. Owing to the relative failure in attracting private sector participation in public service delivery, the Bank ended up financing mainly public investment. Although the emphasis of one out of every four projects was on the quality of public spending, structural change in public spending has not yet been achieved. The process of decentralization with its potential impact on the quality and targeting of spending is still incomplete since there has been no correspondence between the transfer of resources and responsabilities. According to OVE estimates, the central government and subnational authorities have derived benefits from Bank loans in the proportion of 3 to 1, which may in fact have encouraged centralization, the very opposite of the Bank's declared objective.[66] This de-facto prioritization by the Bank may be due to the operational convenience of carrying out fewer operations in larger amounts, a more feasible target with national executing agencies.[67]

C. Quality of the program

4. Other activities

2.26 **Between 1990 and 2002, the Bank approved 199 nonreimbursable technical assistance operations for US$57.1 million.[68]** Nearly one half of this financing (44% or almost US$25 million) was for *governance projects*, whereas *social areas* and *real sector competitiveness* received approximately 28% of total funding, or US$16 million each. Ample use was made of resources from the Multilateral Investment Fund (22 operations for US$18.3 million), as well as technical assistance from other sources, particularly the Fund for Special

Operations and the Country Funds (125 operations for US$24.3 million and 49 operations for US$14.6 million, respectively). Of the 22 MIF operations, only seven have been completed, one was cancelled, and the other 14 are in progress. The MIF[69] lent support for the microfinance sector, private participation in infrastructure, intellectual property rights, worker retraining, foreign trade, financial supervision, and some productive sectors such as crafts, garment making, and tourism.

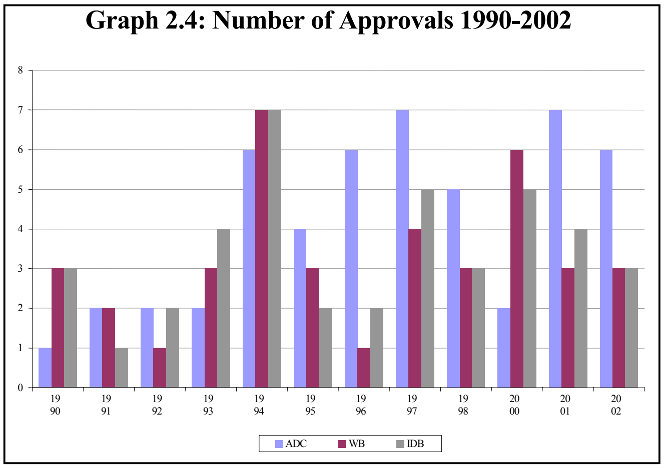
2.27 **Financing for the private sector was extremely modest during the period under review: there were no operations with the Private Sector Department (PRI), and just seven with the Inter-American Investment Corporation (IIC) totaling US$22.1 million.** The IIC has been focusing recently on aquaculture, a sector in which Ecuador continues to have high export potential. In the past, its participation in this sector was fragmented, with penetration in the areas of paper, food, agricultural financial services, and tropical fruit. The PRI was unable to carry out any operations in Ecuador. Previously, the PRI considered operations for such areas as the electric power sector, but chronic sector deficits and subsidies led to strong distortions that prevented it from participating in the sector.

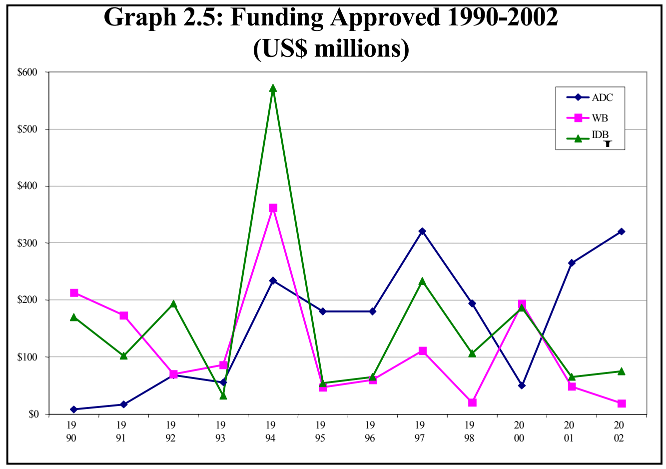
2.28 **The Bank failed to take full advantage of the benefits of technical assistance and private-sector financing because they were not incorporated into an overall programming process.** Although the Bank used concessional technical-cooperation funding to produce the right conditions for loan approval, activities were dispersed over more than 50 areas, with over one hundred executing agencies, so that in general it did not manage to assemble the critical mass of staff and expertise that were needed to get the reforms moving.[70] Many of the studies performed, some of which were extremely useful, became the property of the executing agencies and high turnover of public officials made it difficult to access the data base, either because the studies were lost when employees left or because new staff were unable to provide them because they were not involved directly or familiar with the process. Most of the technical-cooperation operations were in amounts of less than US$150,000 (135 operations) and to a lesser extent between US$150,000 and US$750,000 (49 operations).

2.29 **In addition, a slight decline in the number of "nonfinancial deliverables" was noted, as the annual average dipped from 10 between 1997 and 1999 to 7 between 2000 and 2002.** Nonfinancial deliverables are classified in three main categories:[71] (i) strategies and programming, (ii) evaluation and supervision, and (iii) knowledge generation and dissemination. The country *strategies and programming* were carried out through different activities, including Economic Assessment Reports (EARs), Economic Situation and Perspectives (SEPs), Economic Consultation Missions (ECMs), Consultative Group Meetings (CGM), Sector Studies (SSRs), Sector Notes (SSNs), Country Studies (CSRs), Country Notes (CSNs), Programming Missions (CPMs), and Country Papers (COPs). Yet, this potentially valuable information was not fully tapped. The *evaluation and supervision* activities included project performance reports (PPRs) and development impact evaluations (DIEs) for some projects. The supervision activities specified in the contractual conditions were carried out as contractually agreed, except in 1999, when the portfolio monitoring ratios fell sharply before recovering again in 2000. The aggregate supervision ratio, which measures compliance with contractual conditions was 81%, with annual administration missions (MAs) showing the lowest rate of relative compliance (33%), followed by the external financing audits (71%), portfolio review missions (75%), and technical inspection visits (79%).[72] The activities of *information generation and dissemination* included best practices papers (BPP), technical training delivery (TTD), and conferences and seminars (CS1 and CS2). Also, the County Office in Ecuador (COF/CEC) is conducting a special study on problems affecting executing agencies, and is seeking alternative ways of recruiting internal staff from its host entities (i.e. ministries), as well as competitive mechanisms for outsourcing project management responsabilities.

5. Cofinancing

2.30 **The Bank continues to be the country's most important multilateral creditor with a portfolio of just under US$2 billion, holding 50% of its total multilateral debt. However, in terms of annual approvals, the Bank now ranks second after the Andean Development Corporation, and is gradually approaching the level of the country's third largest creditor, the World Bank (WB).** Interagency coordination is mentioned in country papers[73] and loan documents but not as a central theme. The 1990 Country Programming Paper specifically refers to the possibility of a financial sector loan financed jointly with the WB, the need for joint coordination with other international institutions for health projects, sharing the education sector with the WB, with the Bank being responsible for rural areas and the WB for urban areas. The 1993 Country Programming Paper mentions experiences of the Bank and other donors with health (USAID, NGO, UNFPA and the World Food Programme, and the WB), and water and sewer systems (WB), education (WB, UNESCO, OAS, United Nations, and bilateral assistance from Germany and the United Kingdom), agriculture (WB), electricity (WB), and the environment (WB, GTZ, and the Swiss and Japanese Technical Cooperation Agencies). The importance of coordinating efforts with the World Bank is also noted. "*In preparing future projects, the issues of decentralization, environmental management, and rural development should be discussed with the World Bank, in order to establish a joint strategy*". In addition, the health sector and reform of the State are specifically identified as areas for coordination. Lastly, the 2001 Country Programming Paper mentions that multilateral agencies agreed in early 2000 to work closely together on the financial assistance package for Ecuador. As to coordination with the WB, it notes *"at times that this takes the form of joint support for the policies themselves in the respective projects and at other times means identifying distinct but complementary areas and activities that each bank could support, based on cumulative experience and the priorities of each institution."* Areas in which the ADC is active are also mentioned but no details of the mechanisms for collaboration are given.





2.31 **The cofinancing rate for the Ecuador program was 42%, higher than the average for the Bank as a whole.** Ecuador received cofinancing from the WB in an amount equivalent to 23.8% of the 1990-2002 IDB program. In addition, it received an amount equivalent to 15.1% from the ADC and 3.5% from other international donors and other external sources of financing. The Bank worked closely with other multilateral agencies on macroeconomic stabilization programs,[74] natural disaster assistance, and projects in specific areas such as water supply, highways, the emergency social investment fund, urban development, and global credit.

2.32 **In addittion, the Bank played a leading role in establishing two Consultative Groups.** The first one, in support of the peace agreement with Peru, was called "Binational Plan for development of the Peru-Ecuador border area" and the second one was the "Alternative development program for the prevention of drug production and trafficking" (UDENOR), in the border area with Colombia. In each case, the Bank leveraged its influence and experience, bringing the donors together, raising nonreimbursable resources, and bringing credibility to the technical viability of the projects and transparency to the administrative process.

6. Lessons Learned

2.33 **A 1997 EVO evaluation of the Ecuador country program[75] also found that the country programming process lacked effectiveness.** "*In general, the CP was not used as a basic planning and strategy instrument to prepare and implement a plan of action based on agreed upon IDB/Ecuadorian goals. It was used largely as a general reference to justify and to modify the content of some projects, which were already designated a priority by the country. In general, the CP/PMR was not used as the basis to define alternative strategies, to review the current status of measurable achievements and, based on this assessment, define a short, medium and long-term plan of action. The CP documents had a low evaluability content because they did not present measurable goals or establish time limits within which goals were to be met…The lack of clear and measurable objectives and the absence of specific monitoring and evaluation variables weakened the effectiveness and efficiency of operations in Ecuador.*"[76]

2.34 **Five recommendations contained in this 1997 evaluation have not yet been fully implemented.** The general thrust of these recommendations was to improve the strategic and sector concentration of the country program, enhance identification, provide greater sustainability, better address country needs, and boost institutional capacity over the long term. To achieve these ends, five recommendations were made:

Table 2.2: Extent to which EVO 1997 recommendations were implemented

EVO Recommendations (1997)	Current Implementation Status
"Strengthen the strategic content of the Country Program; provide the rationale for the identification of the priority sectors, the modes of development support and the definition of the measurable goals to be achieved"	*Not implemented* – The Country Programs have not been structured on the basis of a dynamic model of strategic challenges, and do not have criteria for identifying sectors or setting development goals.
Strategic priorities "include a plan of action which focuses on institutional building and on a more efficient use of external credit and counterpart funds"	*Not implemented* – A detailed analysis of the causes of the country's institutional weaknesses was not carried out for any of the Country Programs; nor has a plan for institutional strengthening been formulated. The topics concerned with the efficient use of credit and the quality of public spending were not covered comprehensively.
"Develop a greater degree of cooperation, participation, and ownership during the country planning cycle"	*Low level of implementation* – The Country Programs were prepared more as an initiative of the Bank than the country itself. The evaluation found two main reasons for this: (i) political instability prevented the country from developing its strategic intentions; and (ii) the "political-economiy" within the Bank itself favored the continuity of projects in areas where the Bank's project development capacity was relatively strong.
"Develop a stronger degree of sustainability and an ownership framework during project preparation and negotiation"	*Low level of implementation* – Neither the project types nor their design ensure that the achievements can be sustainable. The projects designed after 1997 do not improved institutional or financial viability. More recently, progress has been made in finding alternatives to an implementation model based on executing units, which could improve future sustainability.
"Strengthen monitoring and evaluation of the achievement of country program effectiveness and of sector and project goals"	*Low level of implementation* – Not until the 2001 Country Programming Paper was there a strategy-monitoring matrix. Not even here were indicators or specific targets established. Therefore, the Country Program designs between 1990 and 2002 are not strictly evaluable since less than 5% of the development objectives have measurable numeric goals. At the project level, improvements have been made in setting development goals (from 17% for projects before 1997 to 57% after 1997), although the identification of baselines for these same indicators is now worse (40% compared with 32%).

2.35 **Moreover, OVE has found no evidence of an action plan for implementation of these recommendations by Management.** The 1997 EVO evaluation took nearly two years of work and included surveys of hundreds of executing agencies in the country as well as the construction of models of debt sustainability and the Bank's impact in the country. However, no mention is made of this evaluation in any programming document or portfolio review. In fact, it is not mentioned in any Management document.

2.36 **The most recent programming cycle under preparation by Management incorporates numerous improvements in procedure and implementation, although there are still contradictions as to the origin and nature of operations that need to be carried out in Ecuador.** The 2001 Country Programming Paper expresses a "preference for smaller projects, but with an impact on development." There is no evidence, however, that subsequent operations were selected on the basis of their "smaller size" or their "impact on development". The social sector program (EC-0216, US$200 million) alone accounts for over 30% of the projected program to 2006. Also, all other operations, except one, are projects with the Bank's traditional executing agencies: Social Investment Fund III (EC-0203, US$40 million), Metropolitan Quito Environmental Sanitation Program (EC-0200, US$40 million), Secondary Roads Program (EC-0211, US$30 million), Coastal Resources Management Project II (EC-0193, US$12.4 million), and Land Management and Titling (EC-0191, US$15.1 million). The use of these executing agencies might result in more predictable and faster disbursements. However, despite the Bank's familiarity with these executing agencies, there is no evidence this knowledge was used to conduct a cost-benefit analysis comparing using the external financing for these operations over other alternatives.

Table 2.3: Approvals since January 2001

Code	Loan	Approved	IDB Amount (US$ millions)
EC-0204	Decentralization support program	31-Oct-01	4.8
EC-0203	Emergency Social Investment Fund (FISE III)	28-Nov-01	39.9
EC-0191	Land Management and Titling	05-Dec-01	15.1
EC-0207	Housing Sector Support Program II	31-Jul-02	24.9
EC-0201	Northern Amazonía sustainable development	04-Sep-02	10.0
EC-0200	Metropolitan Quito Environmental Sanitation Program	25-Sep-02	40.0
EC-0216	Social Sector Program	25-Jun-03	200.0
EC-0211	Secondary Roads Program	17-Dec-03	30.0
EC-0193	Coastal Resources Management Project II	04-Feb-04	12.4

2.37 **The Bank's self-evaluation systems (PPMRs and PCRs) also identify lessons learned that are subsequently not fully utilized.** From the PCRs and PPMRs completed between 1997 and 2002, OVE has compiled a list of all the lessons learned and classified them into 10 groups. This analysis shows that in only 3 of the 10 areas *(institutional capacity of executing agencies, administrative procedures, and environmental impact)* was an improvement noted, with the lessons learned appearing with decreasing frequency over the six years considered in the analysis. In addition, in 5 of the 10 areas, the problems encountered as lessons learned continue to be seen with increasing frequency, an indication that the problem is growing steadily worse. These areas are: *compliance with conditions precedent, logical framework design, approval of legislative frameworks,decrease in priority for the country, and resistance of lobby groups*. Lastly, in 2 areas (*technical capacity of consultants and interagency coordination*) the lessons learned in each area persisted at the same intensity for the entire six-year period. In short, in 7 out of the 10 areas, lessons learned could not be implemented so that the problem could be gradually eliminated.

2.38 **Lastly, the Management of the Bank considers that lessons were learned during the period and has decided to contribute them to this evaluation exercise.** As specified in the protocol for country strategy evaluations (RE-271-1), Management submitted a list of the lessons learned, which are transcribed below:

Box 2.2: Lessons learned according to the Management of the Bank – First Submission

- "Make a clear distinction between the performance of the country and that of the Bank. In spite of their common targets, the strategy evaluation indicators need to define the potential impact of the Bank's activities.
- Regular programming papers are not designed for countries in situations of crisis.
- To help resolve situations of crisis, annual programming exercises must be flexible enough to respond to changing conditions so long as the long-term strategic vision remains rigorous. Targeting the Bank's work consistently over time at certain strategic areas brings substantial value added. Numerous activities spread out piecemeal and randomly over many sectors do not add to the effectiveness of the Bank's work.
- Institutional weakness continues to be a critical factor limiting the effectiveness and sustainability of the Bank's work in Ecuador. In project design and execution, every effort must be made to ensure the functioning and sustainability of institutions carrying out projects and policies. Recent initiatives carried out at the project level by COF, MEF, and the executing units are bearing fruit and need to be deepened.
- The communications and consultative strategy is fundamental to the process of identifying, designing, and implementing operations.
- Nonfinancial instruments are a basic tool of the Bank's work and, more so in times of crisis, have played a key role. Particularly in the case of Ecuador, to help accomplish its strategy with the country, the Bank organized technical dialogue missions, developed a program of economic and sector studies, and supported consultative groups. In periods of crisis, such support was substantial although not readily measurable.
- The synergies of working jointly with multilateral organizations in the country are substantial. Such synergies result not only in coordinated activity that ensures complementarity and avoids duplication of efforts, but they also use the country's institutional capabilities more efficiently."

2.39 **Subsequently, the Management of the Bank submitted additional clarifications as to the Bank's role in the country, as well as references to the new country strategy.** The information received from Management, in accordance with the Protocol for country strategy evaluations (RE-271-1), is also transcribed below:

Box 2.3: Lessons learned according to the Management of the Bank – Second Submission

"Implementation of the Bank's strategy with Ecuador

The volatile economic and political conditions prevailing in Ecuador between 1990 and 2002 made the Bank's programming process more difficult. Sharp fluctuations in oil prices and uncertain access to external financing, the 1998-1999 financial crisis, natural disasters, together with problems of governance defined the context and the constraints on the Bank in designing and implementing loan operations.

Despite this difficult climate, the Bank was successful in maintaining a permanent and relevant presence in the country. The loan and technical assistance program was supplemented by ongoing dialogue with the authorities on vital economic policy issues that helped mitigate the effects of the crisis. Quantitative indicators used to evaluate the strategies with the country are unlikely to capture the impact of this aspect of the Bank's activity.

The Bank and other multilateral institutions were instrumental in supporting the process of dollarization. Through its PBLs, the Bank helped to create a window of opportunity for macroeconomic stabilization and structural reform. Its most significant successes on this front include approval of LOREYFT, streamlining of the tax system, which led to a significant increase in revenues, and support for the peace process with Peru. As to financial sector consolidation, the Bank supported initiatives to resolve the problems of insolvent banks and portfolio recovery of closed banks.

Investment loans and technical assistance supported the development of priority social services (housing, education, and social safety nets) with an eye to maintaining a coherent long-term strategy. Some of the Bank's efforts here included: (i) support for the introduction of SELBEN to target public spending more effectively on the most vulnerable groups; (ii) active ongoing involvement in formulating housing subsidy policies; and (iii) the development of a methodology for resource allocation based on number of students and national child care policy.

In infrastructure, the Bank concentrated its efforts on electricity sector regulation, road infrastructure investment projects (secondary roads), and water and sewer service concessions (Guayaquil). The Bank responded promptly to the El Niño emergency, with assistance for reconstruction of highways, bridges, schools, and public infrastructure works.

Based on the lessons learned in recent years, the new strategy for the 2003-2006 period: (i) is consistent with prudential management of public debt; (ii) encourages balanced multilateral agency financing; (iii) promotes private sector participation; (iv) stresses policy reform during an administration's early years; (v) promotes coordinating Bank instruments within each area of priority; (vi) considers Bank coordination with multilateral institutions and bilateral agencies as a key component of strategy implementation.

With respect to the design of specific operations, experience in Ecuador has demonstrated the need for: (i) flexible programming that responds to the country's changing conditions, while maintaining a long-term perspective, (ii) ongoing dialogue with project beneficiaries and other stakeholders in order to build a consensus on the Bank's work, and (iii) a simple execution plan that prevents institutional weakness from undermining the effectiveness of the Bank's efforts."

III. EXECUTION OF OPERATIONS

3.1 This chapter evaluates how **operations** in the country program were **implemented**. It focuses on loan design and implementation, determining the extent to which operations used the resources **efficiently** and promoted the **sustainability** of institutions and achievements. Also, it looks at the extent to which project design and execution maximized the **additionality** provided by the Bank's actions and their **evaluability**, in such a way that the activities and programs could be monitored and improved.[77] The dimensions of **relevance** and **effectiveness** were also examined at the project level, and the conclusions reached are consistent with the program-level findings presented in Chapters II and IV, respectively.

A. Efficiency of Operations

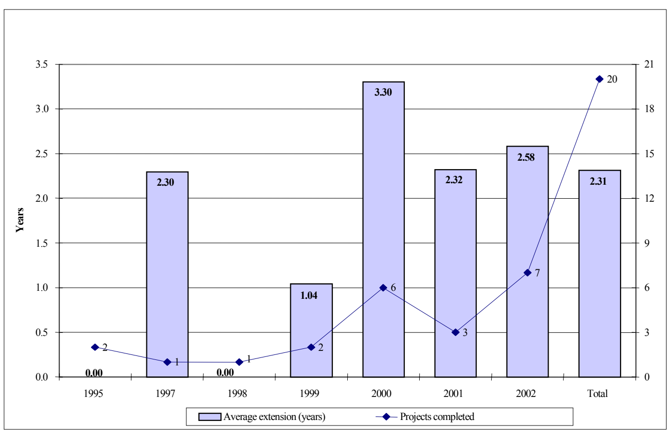
3.2 **The Bank's operations in Ecuador experienced substantial delays.** The Bank's projects in Ecuador cannot be compared directly with projects in other countries unless the conditions prevailing in the country between 1990 and 2002 are considered in detail. However, as a matter of record the average time from preparation of a Profile I to approval of the corresponding operation was 21.2 months. There were on average 5.1 project missions for the country. Anticipation prior to preparation[78] ranged from 7.4 years (for decentralization projects such as urban and rural development and environmental projects) to a minimum of 2.8 years (for governance projects and macroeconomic stability support projects). In addition, the operating cost of the Ecuador program was 2.1 cents per dollar of lending.[79] These amounts are in line with the average for the Bank (2 cents per dollar).

3.3 **Delays were the main cause of operational inefficiency, since they frequently caused nonproductive fixed costs related to the executing units.** Overall, delays occurred in both the design stage (21.2 months) and the negotiation stage (3.8 months), fulfillment of conditions precedent (8.1 months), and execution (23.7 months). Because of delays, the average project in Ecuador takes 60% longer than originally planned, about the same as the Bank average (59%). However, 83% of all projects in the country experience delays. Considering only operations since 1997, the average for Ecuador improves , with the average project taking 43% longer than originally planned, although this improvement is strongly influenced by the active cancellation of poorly performing projects in recent years.[80] In contrast, sector reform projects designed for "fast disbursement" experience much longer delays than the Bank average. Sector reform loans were designed for quick implementation of less than three years, but took nearly double the time, averaging 83% longer than originally planned.

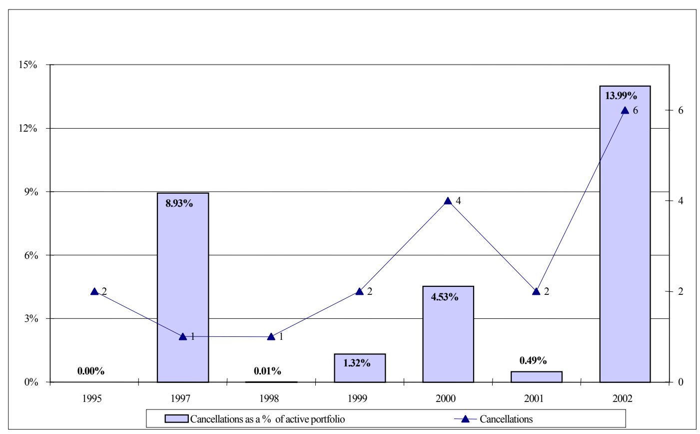
Table 3.1: Average Period for Project Preparation

Theme of project	Profile I to Approval	Approval to Contract	Contract to 1st Disbursement	1st Disbursement to Original Last Disbursement	Original Last Disbursement to actual Last Disbursement
	Average Duration (months)				
Macroeconomic stability	11.93	2.29	1.93	28.53	20.53
Governance	1.51	6.66	9.65	33.04	29.36
Social development	21.22	3.78	7.22	36.63	16.79
Competitiveness	22.88	3.86	9.13	37.81	21.00
Local development and decentralization	36.11	3.88	14.57	44.47	23.09
General average	21.26	3.77	8.08	36.45	23.70
Average - Investment	22.62	4.47	8.98	39.34	21.45
Average - Sector	16.14	0.79	4.38	24.52	31.57

Graph 3.1: Average Extension and number of Completed Projects



Graph 3.2: Financing Cancelled as a Percentage of the Active Portfolio and Number of Cancellations



3.4 **There were numerous reasons for delays and each occurrence was likely to lead to a delay of 12 months on average.** *Procurement and hiring procedures* and *construction works* led to average delays of 12 months and occurred in a third of all projects. *Fulfillment of conditions* precedent to the first disbursement also produced delays of around 12 months. *Resistance from lobby groups*, *private sector lack of interest*, and *midterm evaluation activities* caused delays of approximately 6 moths per event. It was found that over 20% of projects were significantly affected by delays in *implementation of construction works* and nearly 20% by delays in *fulfillment of conditions precedent*.

3.5 **Planning was weak in half of all operations.** The absence of any detailed and/or realistic implementation plan was cited as a cause of delay in nearly half of the operations. For example, "inadequate definition of desired outputs" led to cost overruns in 20% of projects. A much more minor cause of delay related to the definition of the roles of the executing agencies and the availability of human and physical resources, which were better than expected.

3.6 **Weak planning was the reason for the reallocation of approximately 20% of resources to other activities within the same projects.** The Bank and the country demonstrated flexibility in reallocating resources to activities whose priority increased as projects got implemented. Although there are positive aspects to such flexibility, it also meant greater expenses to the detriment of investment, as well as higher administrative costs in processing the changes.

B. Sustainability and Additionality of Operations

3.7 **Although the reforms became more sustainable during the decade, the level of sustainability is still low.** Approximately one quarter of all projects involved macroeconomic conditions linked to agreements with other multilateral institutions. Accordingly, the extent to which conditions were formally fulfilled gradually improved throughout the decade as the country made accomodations in order to access additional funding. Approximately one third of the portfolio was earmarked for water supply, sanitation, and road infrastructure works, areas in which in the majority of the countries subsidies of some kind are expected for sustainability. Lastly, on the social front, funds were funneled to concessional programs, which were not expected to be immediately sustainable. Consequently, the *financial viability* of less than one half of the projects (56%) was classified as *medium to medium-high*, noting that most of these projects are highly dependent on government budgetary support. Given the precarious fiscal situation, the sustainability of institutions of this kind is fragile. However, institutional sustainability based on the availability of qualified staff and political support was slightly better, with 61% being rated with an *institutional viability* of *medium to medium high*.

3.8 **It was found that the *technical capacity of the executing agencies*, the degree of *cost coverage*, *the acuteness unmet demand*, and the *use of economies of scale or scope* were determining factors in an operation's sustainability**. The political consensus and the possibility of having an integrated legislative framework also contributed to sustainability, albeit to a lesser degree. However, the existence of detailed diagnostic assessments prior to an operation, the sequencing of operations in the same area, macroeconomic stability, participation of technical partners, amongst others, were factors contributing to greater sustainability, while in contrast a lack of technical capacity, low cost coverage, and fiscal constraints contributed to low sustainability.

C. Bank Additionality in Operations

3.9 **In a context of constrianed borrowing capacity, it is important to identify the additionality the Bank's action brings apart from mere financing.** The existence of activities in addition to loans (i.e. the activities of the Bank's Country Office staff in Ecuador and of professionals within and outside the Bank who are involved in different activities in the country) would suggest that there are other categories of value added. However, despite its importance, the amount of such additionality and the ways in which it is generated are unclear.

3.10 **To obtain another perception of the value added by the Bank's interventions in Ecuador, OVE examined the results of a survey of more than 100 project executing agencies representing 50.5% of the country's total approved portfolio between 1990 and 2002.**[81] The survey was conducted for EVO's 1996-97 country program evaluation. Although the study was completed in 1996, it covered over half of the program considered by the current evaluation and has the advantage of avoiding distortions in the Bank/country relationship that may have occurred during the period of extreme instability between 1996 and early 2000. As the most recent period is not represented, the findings apply to the previous period and serve as a checklist to assess its possible future applicability.

Table 3.2: Survey of Executing Agencies (EVO – 1996/97)

Stage	Main Findings
Policy Dialogue	• There was little participation in the policy dialogue stage: only one third of executing agencies participated. • The role played by Country Office specialists was less than expected. • Executing agencies have the perception that lesson-learning mechanisms such as PCRs were not used to their full potential.
Preparation	• Executing agencies are aware of the value added by the technical teams but do not feel that they are successful in transferring their expertise to the local level. • The role of the consultants during this stage is unclear, particularly as to whether they represent primarily the interests of the Bank or those of the country. • Executing agencies are of the view that institution-strengthening aspects are overlooked during this stage.
Negotiation	• Executing agencies have the perception that opportunities to increase value added to the country are missed during the negotiations. • Executing agencies feel that their needs are heard, but at the end of the day they complain about conditions that are unnecessary for a project's success and that their voice is not taken into account at the end when the operation is approved in Washington.
Execution	• Executing agencies perceived as satisfactory the advisory assistance provided by the Bank's Country Office in Ecuador to resolve the problems was satisfactory. • They also have the perception that disbursement procedures are too bureaucratic. • They are hesitant to accept the Bank's suggestions on the hiring of international consultants. • In addition, the executing agencies have the perception that their technical teams are not adequately involved and that their monitoring systems are implemented when execution is too advanced, and some are never fully implemented. • Lastly, the executing agencies suggest that the Bank disseminate information on its requirements and make them more flexible. Nearly all stakeholders in Ecuador say they are not familiar with the full range of Bank instruments, with the exception of the Project Preparation Facility (PPF).[82]

3.11 **OVE also explored synergies among projects as another way in which the Bank could add value.** Based on the project analysis, it was found that interaction among projects was low, and that there was no system in place to promote this interaction. The potential lessons learned could have been valuable, although there was no system for acquiring and transferring them. Those areas showing the greatest potential for improvement in the future are the *sequencing of operations, synergies between projects including the delivery of outputs to other projects, the active search for cofinancing with other institutions and the private sector, and the application of technology to optimize project execution*. Also, the Management of the Bank feels that "the value added by the Bank could extend to other key topics such as: (i) contributions to government during discussion and definition of diagnostic assessments and sector policies in order to assist them by providing insights based on international experience and lessons learned; (ii) support for promoting and building consensus between government and society (analysis of stakeholders); and (iii) increased support for establishing indicators to monitor execution and gauge the impact of the projects as part of a strategy to boost the public sector's institutional capacity."

3.12 **The introduction of innovations also added value that extend beyond the supply of resources.** OVE systematically searched for innovation in the Bank's portfolio for Ecuador, and found a relatively high rate of innovation and some notable examples that could be used in future operations. The *application of technology, community management and the outsourcing of project-related services* were some of the innovative aspects frequently identified. *Selection systems, the search for user cofinancing, and incentive systems* also showed innovative applications. Some other innovations were suggested by current executing agencies based on their experience but were not incorporated into the projects, for example *mechanisms for mergers between the executing agency and the host entity, active private-sector participation, and preestablished mechanisms for selection and stability of executing agency staff.*

3.13 **Improvements in management, mainly in recent years, have also added value to the Bank's activities in the country.** In recent years, actions have been stepped up to improve project execution. These include an increased number of training activities for executing units, implementation of annual work plans in loan operations, improvements in logical frameworks and PPMRs, and the evolution of operations management from an *output-based approach to a results-oriented and development-objectives-based* one. These actions and those aimed at cleaning up the portfolio have led to a significant improvement in the execution since 2000.

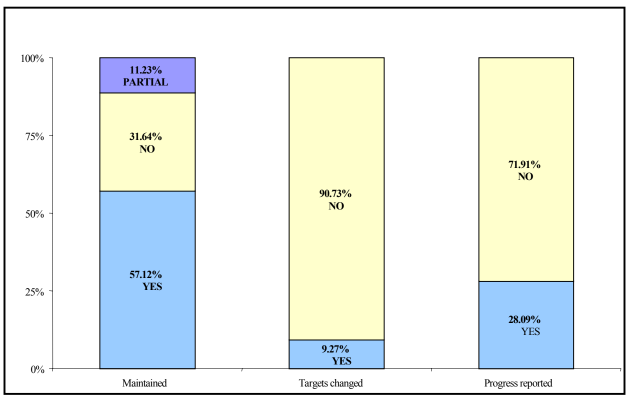
D. Evaluation of Operations

3.14 **Project design is not readily evaluable because in many cases specific targets and a baseline or initial benchmark are not set.** The 1990-2002 Ecuador program contains 875 objectives, 149 of which are *development-outcome objectives* and 726 *product-output objectives*. Only 36% of development indicators had baselines, 3% midterm objectives, and 35% targets. For output indicators, 12% had baselines, 12% milestones, and 62% defined targets. The establishment of output targets is fairly high, but this has more to do with the level of fragmentation, where project activity was converted into an output objective. However, the lack of measurable aspects of the quality of such outputs , e.g., technical studies or legislation, prevent from establishing unambiguously whether or not targets of this kind have been fully attained.

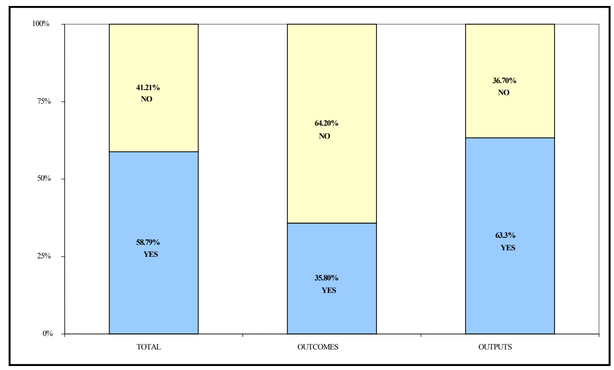
3.15 **The ex ante evaluability of the program, although low, was comparable to levels in other countries.** Overall, the ex ante evaluability rate of development objectives is 32%, whereas the figure for output objectives is 41%. Although these rates fall far short of the optimum (100%), they are in line with OVE findings in other country evaluations. The shortcomings as to the evaluability of development objectives were attributable to the absence of baselines and targets (in 64% and 65% of cases, respectively) and with the absence of proper indicators to depict the objectives in 45% of cases. With respect to output objectives, the absence of baselines was the most serious deficiency (88% of cases), while a lack of appropriate targets and indicators occurred in 38% and 22% of cases, respectively.

3.16 **Monitoring of the indicators set at the outset or even those introduced during project execution was incomplete, thus monitoring systems were unable to determine whether objectives have been fulfilled.** Fewer than 60% of the indicators defined in the project design remain unchanged during execution. Generally speaking, the targets are maintained, although just slightly more than 30% provide measurable information that can be used to determine whether targets have been fulfilled, without additional efforts to gather information from sources other than Bank systems.

Graph 3.3: Information on Progress (Total)



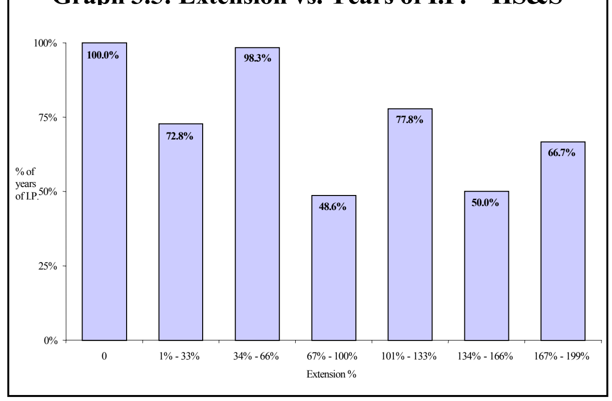
Graph 3.4: Accomplishment of Targets



3.17 **OVE's preliminary estimates, based on a reconstruction of project information obtained from internal and external sources, show a positive improvement in 35% of the development indicators and achievement of 65% of the output indicators.** Fulfillment of development targets cannot be determined because of a general absence of specific targets. Additional trend shows, however, that only one in three projects has actually seen an improvement. This may be a reflection of the magnitude and relatively ambitious nature of the objectives set. On the other hand, two out of every three outputs were accomplished, indicative of some relative operating capacity even in a climate of crisis.

3.18 **The quality of the logical frameworks varied considerably.** Development objectives were often confused with the outputs used to attain them. As a result, identification and monitoring of development indicators such as coverage, quality, or service rates, were ignored in favor of the monitoring of project activities.[83] Nearly all indicators were based on the project activities, while overlooking the context to which these activities were directed.[84]

Graph 3.5: Extension vs. Years of I.P. – HS&S



3.19 **Self-evaluations in the PPMRs were somewhat inconsistent with the evolution of development indicators in the country**

and the repetition of project difficulties. At the project level, PPMR's ranked 86% of all projects as having highly probable or probable Development Objectives (DO) ratings, and 81% received highly satisfactory or satisfactory Implementation Progress (IP) ratings. This finding is inconsistent with the low level of development objectives accomplished and the recurrent problems with portfolio implementation, and is also at odds with the perception of the borrowers. This same pattern of "optimistic" ratings is in IDB operations in other countries, throwing doubts on the validity of the information obtained with this instrument, and at the same time it removes a valuable opportunity for learning.

3.20 **These apparent inconsistencies of the self-evaluation systems may be due to its use as "signaling mechanisms".** Assuming that project delays should be related to the ranking of a self-reported variable such as the IP rating in the PPMRs, apparently erratic behavior is noted as project delays commence. As soon as a project extends beyond its original execution period, the IP ranking falls as if the specialist in charge wished to signal the existence of problems. A little while later, the ranking rises as if to show that the problems had been resolved. This pattern is repeated as the project delay continues and a cycle of problems and apparent solutions emerge, throwing doubts on the objectivity of the information as well as its use as an effective tool for anticipating, identifying, and resolving problems.

3.21 **The same applies to the self-reported ratings on achievement of development objectives, resulting that projects that do not meet their targets are given an equally good rating, as a sort of ex post acceptance that the original objectives were not attainable**. If the extent to which the objectives are achieved is compared to the original objectives, it can be seen that even projects on which very few of the original development objectives are accomplished receive high DO rankings.[85] This detracts from the objectivity of the self-evaluation system, which becomes a sort of moving target. This in turn makes it difficult to learn any lessons from the circumstances that hindered fulfillment of the original objectives.

3.22 **Finally, OVE found that projects that experience delays never manage to "catch up" in terms of achieving its development objectives, despite all the extensions that may be granted to them.** Those projects that are completed in time accomplish approximately 93% of their output and outcome objectives. Projects that are delayed reach a much lower percentage of their objectives, a situation that is not rectified even by tripling the original implementation period via extensions.

IV. ACHIEVEMENT OF DEVELOPMENT OBJECTIVES

4.1 **This chapter describes the progress made by the country in the areas where the Bank has proposed development objectives.** OVE has compiled this information mainly from outside sources since, although formally proposed by the Bank in country strategies and the corresponding loan documents,[86] the Bank's monitoring and information systems **do not collect** information on 80% of these development objectives.

4.2 **Between 1990 and 2002, the Bank's program in Ecuador set 149 development objectives in three main areas:[87] g*overnance, macroeconomic stability and modernization of the State (GOB), competitiveness (COM), and social development (SOC*).** *Governance* absorbed 51% of program resources, with 48 development objectives. *Competitiveness,* however, with nearly the same number of development objectives (49) *received* less than 12% of program resources. *Social development* accounted for 37% of program funding, involving 52 development objectives set by the Bank (mainly in *education, water supply and sanitation, housing, and poverty reduction*).

4.3 **A cause and effect relationship between the extent to which development objectives are accomplished and the Bank's action cannot be established for two basic reasons.** First, the absence of a system for monitoring progress in reaching the development objectives identified makes it impossible to determine the impact of the Bank's activities; and second, the relative size of the Bank financing often represented a small share of the country's global requirements.[88] Accordingly, no attempt is made to establish a direct correlation between Bank projects and the country's development since the existence of such a relationship or its magnitude could not be confirmed without detailed impact assessments. Nonetheless, OVE has managed to obtain outside information on the progress made in the sectors or areas where the Bank identified development objectives. An aggregate summary is outlined in the table below.

Table 4.1: Scope of Development Objectives (1990 – 2002)

Area	IDB Amount (US$ millions)	Loans			Degree of completion[89]		Technical Assistance (TCs)
		Number of loans	Average (US$ millions)	Development objectives	Outcomes	Outputs	
GOB	944.7	22	42.9	48	*Medium*	*59.5%*	73
COM	210.2	7	30.0	49	*Medium*	*58.5%*	58
SOC	701.3	15	46.7	52	*Medium-High*	*73%*	68
TOTAL	1,856.2	44[90]	42.2	149	NA	63.3%	199

A. Governance and modernization of the State (GOB)

4.4 **The Bank acted on five fronts to provide support for governance and modernization of the State**: (i) macroeconomic stability, (ii) planning and modernization of the State, (iii) local development and decentralization, (iv) sustainable development, and (v) private-sector participation in infrastructure. A number of development objectives were set on the

Country Strategies as well as in the Project Documents. The sections that follow describe the Bank's involvement in each development area, followed by a brief description of the progress made by the country.

1. Macroeconomic stability

Table 4.2: Scope of development objectives – Macroeconomic stability (1990 – 2002)

Development objective	Reported	Achievement
Stabilize the economy[91]	No	Medium
Restore growth capacity	No	Medium-Low
Lower the financial cost of public external debt	No	Medium-High
Establish macrofiscal rules for spending	Yes	High
Allocate the bulk of new oil earnings to repayment of external debt	No	High
Eliminate preallocations	No	Low
Raise revenue collection levels	Yes	High
Reduce the level of arrears and evasion	Yes	Medium-High
Average	**37.5%**	**Medium-High**

4.5 **The Bank provided US$509 million to support macroeconomic stabilization, of which over 95% was used to provide fiscal liquidity and the remaining 5% to strengthen tax administration.** In 1994, the Bank approved three sector reform operations for transport, finance, and agriculture, with US$260 million in fast disbursing funds, together with US$25 million in reimbursable technical-cooperation funding. In 2000, the Bank again furnished liquidity to the country under an investment sector program of US$150 million, a program that set ambitious conditions in three areas: (i) promoting private-sector participation in infrastructure, (ii) resolution of insolvent financial institutions, and (iii) social safety nets.

4.6 **Contrary to the aims of the proposed targets, volatility in the economy increased during the period under review and macroeconomic conditions are such that conditions for sustainable growth cannot be assured.** Two external debt repayment crises heightened the country risk premium, further adding to the debt service burden. At the same time, however, the debt-to-GDP ratio declined at an annual rate of 5.6% between 1990 and 2002. In 1994, a Debt Reduction Project (850/OC-EC, US$80 million) turned out to be fairly effective thanks to its narrow targeting and the technical specificity of its design. Nonetheless, the country's public domestic debt soared during the decade from US$210 million in 1990 to US$2.77 billion in 2002, mainly as a result of rescue efforts of the financial system and the use of public debt as an alternative source of public deficit financing. As to spending controls and resource earmarking, not until the passage of the Stabilization, Transparency, and Fiscal Discipline Act on 4 June 2002 was public spending capped by law. The legislation placed an annual ceiling of 3.5% on increases in public spending, although the possibility of expenditure reductions is still limited by earmarkink. The Bank provided highly effective support for strengthening tax administration through two operations (904/SF-EC for US$3.5 million and 1062/OC-EC for US$15.8 million) and a series of nonreimbursable technical-cooperation projects. Revenue collection improved substantially commencing in 2000, although there are now signs of some growing taspayer resistance and the introduction of numerous taxes is making tax collection increasinlgy difficult to administer and enforce.

2. Planning and modernization of the State

Table 4.3: Scope of development objectives – Planning and modernization (1990-2002)

Development objective	Reported	Achievement
Modernize the State / Improve public sector performance	No	Medium-Low
Reduce and redefine State intervention in production	No	Medium-Low
Strengthen the public investment programming system/ Improve public resource allocation to investment projects	Yes	Medium
Improve taxing power as a tool of economic policy	In progress	Medium-High
Enhance technical capacity in the public sector	No	Medium-High
Average	**25%**	**Medium**

4.7 **The State was unable to implement structural reform except in such areas as the Internal Revenue Service**. The Bank's efforts were dispersed, through actions to support many different areas of the State, mainly via 26 technical-assistance operations. Those operations, averaging US$500,000, had little measurable effects, with virtually no monitoring of the outcomes or impacts. Management notes that one large World Bank project (Modernization of the State – MOSTA) occupied the little working room available in the sector. The low level of monitoring of project's development objectives, which would have been essential for programming and continuity of Bank activity in each sector, is also noted. Thus, even though the Bank has promoted since 1993 areas such as the strengthening of public investment management capacity it did not manage to establish a stable counterpart until after 2000. From around 2000, the planning system in Ecuador was made more dynamic, however a long-term perspective was still not adopted and the functions of the MEF are in fact not fully coordinated with those of ODEPLAN (now known as SEMPLADES).

3. Decentralization and local development

Table 4.4: Scope of development objectives – Decentralization and local development (1990-2002)

Development objective	Reported	Achievement
Decentralize – Revenue and Responsabilities	No	Medium-Low
Strengthen local management capacity	No	Medium-Low
Raise living standards in Western Pichincha – improving agricultural production	No	Medium-Low
Raise living standards in Western Pichincha – providing public services	No	Medium-Low
Raise living standards in Western Pichincha – reducing immigration to urban centers	No	Medium-Low
Revitalize business and service activities in Quito's historic downtown core	No	Medium-High
Attract private investment to Quito's historic downtown core	No	High
Reduce pollution in Quito's historic downtown core	No	Medium
Average	**0%**	**Medium**

4.8 **The Bank has not monitored the objectives established in the area of decentralization although this sector has been identified as one of the core elements of its Ecuador program.** In fact, the Bank's support for the process of decentralization was intermittent, and has so far been ineffective in assisting the country to avoid the problems that typically afflict the process. In 2001, the decentralization process took on new momentum, but it got structured around a dialogue between parties with opposing interests, without targets for overall optimization. Consequently, decentralization of resources has won legal backing during the period, but lacks a sequencing for the transfer of responsabilites. A problem compounded by the fact that many subnational authorities still rely heavily on central government resources and suffer from insufficient service delivery capacity.

4.9 **The bulk of the Bank's work with subnational entities went to efforts in Western Pichincha and the Municipality of Quito, two relatively privileged areas, where the Bank made contributions that were extremely low compared with local GDP.** The Bank supported efforts to raise the standard of living of local communities, but with contributions that bore no relation to the proposed targets. In Western Pichincha,[92] the Bank proposed itself to "raise living standards", but made available only US$38 million, or 0.08% of Pichincha's GDP. In fact, the standard of living in the area improved only moderately during the decade and in the rural area the pace was not much above the national average. In addition, the Bank coordinated direct support for a large municipality, Quito, which despite the absence of monitoring by the Bank's systems and according to information obtained by OVE, successfully generated economic development opportunities and attracted private investment, being largely successful in attaining many of the proposed development objectives.

4. Sustainable development

Table 4.5: Scope of development objectives – Sustainable development (1990-2002)

Development objective	Reported	Achievement
Protect the environment	No	Medium
Promote national development of coastal resources – aquaculture	No	Medium
Promote the sustainable use of coastal resources – mangrove conservation	No	Medium
Improve economic opportunities for coastal communities	No	Medium-Low
Reverse environmental degradation in the Galapagos Islands	No	Medium
Support the establishment of sustainable production systems in Northern Amazonía – Raise income levels and promote environmental conservation	In progress	Medium-Low
Promote the development of "life plans" for indigenous peoples	In progress	Medium-Low
Average	**0%**	**Medium**

4.10 **Although the long term rate of environmental degradation is still alarming, the Bank has not consistently monitored its environmental development objectives.** The country's natural wealth is being depleted by the impact of the oil industry, agricultural export activity, forestry, shrimp farming, fisheries, and human settlement. The National System of Protected Areas was created in 1976 and now covers 18% of the national territory. Unfortunately, it lacks the technical and operating capacity to keep environmental degradation in check. The annual rate of deforestation (1.2%) is the highest amongst Amazon countries. Nor is conservation helped by legislation promoting human settlement, since by law at least 80% of the area claimed must be put into production within 24 months, a requirement that often serves as an incentive for depredatory environmental activities.

4.11 **According to outside information obtained by OVE, a number of the Bank's nonreimbursable technical-assistance operations provided invaluable support for institutionalizing the environmental dimension.** In 1993, the Bank approved its first environment operation of the decade. The Coastal Resources Management Program (913/SF-EC) for US$14.9 million included studies for the conservation of mangrove swamps, but did not seek to optimize the functioning of the existing complex institutional environmental structure. Notwithstanding these efforts, the coastal mangroves continued to shrink at an annual rate of 1.6% which, although less than in the previous decade, was still high. At the end of the 1990s, the Bank resumed specific initiatives in critical environmental areas (the Galapagos Islands and the Northern Amazon) where accelerated and aggressive human activity posed a threat to fragile ecosystems. Since 1990, the Bank has steadily carried out technical-cooperation projects (10 in number) in an aggregate amount of US$2.5 million. Although the lion's share of loan financing was used for infrastructure works or consulting services, the technical-cooperation projects made it possible to embark on an ongoing task that led to the compilation of all Ecuadorian environmental regulations as well as ushered in innovative market mechanisms for forestry conservation and help give a formal organizational structure to the Ministry of the Environment.

5. Private-Sector participation in infrastructure

Table 4.6: Scope of development objectives – Private-sector participation in infrastructure (1990-2002)

Development objective	Reported	Achievement
Promote efficient infrastructure management	No	Low
Set rates that ensure cost recovery	No	Medium-Low
Support private investment in electricity, transport, water supply, and sanitation	In progress	Medium-Low
Support public investment in areas where concessions are not feasible	No	Medium-Low
Strengthen regulatory and supervisory capacity and develop suitable regulatory frameworks	In progress	Medium-Low
Restructure the electricity sector including the creation of an autonomous regulatory entity and support for concessions	No	Medium-Low
Restructure and modernize transport services, including to modify the role of the State in the sector, and to open it up to private investment through a comprehensive plan to achieve a proper level of road maintenance and ensure accessibility of secondary roads	Yes	Medium
Support improvements in airports, ports, and urban transport	No	Medium-Low
Average	**16.7%**	**Medium-Low**

4.12 **The Bank has provided continuous support to the transportation sector and has succeeded in attracting some private investment but, as noted in other areas, monitoring of the proposed objectives was minimal.** The sector analysis reveals that a sustainable revenue plan is still lacking, as is comprehensive optimization that includes proper maintenance and that in general the delivery of infrastructure services continues to be adversely affected by high levels of subsidies and inefficiency.[93] During the period, the capacity to attract the necessary private investment to meet demand for services and to promote equal access to services was generally poor except in specific cases such as water and sanitation service in Guayaquil. The current status of the infrastructure sectors is unique in the sense that service is delivered almost entirely by State-owned enterprises that are however structured and regulated on the basis of private sector principles. More recently, alternative ways to develop infrastructure were explored but these do not make improved efficiency in service delivery mandatory. The trusts that collect revenue in the electricity sector and the plans for road concessions are a step closer to finding more viable financial and economic arrangements, although resistance to private-sector participation is still visible.

B. Competitiveness (COM)

1. Policies to support competitiveness

Table 4.7: Scope of development objectives – Policies in support of competitiveness (1990-2002)

Development objective	Reported	Achievement
Improve economic competitiveness	No	Medium-Low
Create a market-based competitive climate	No	Medium-Low
Increase applied research development in areas that are particularly relevant to the country's socioeconomic needs	No	Medium-Low
Improve environmental control and conservation	No	Medium-Low
Average	**0%**	**Medium-Low**

4.13 **The Bank set 49 development objectives and allocated 12% of program resources to direct support for competitiveness although here again an absence of monitoring of, or reporting on, the objectives is evident despite the emphasis in the programming papers.** According to information obtained by OVE, the country lacked a truly all-encompassing and consistent competitiveness policy throughout the period under review. Between 1990 and 2002, public and private investment remained low, a factor that hampered sustained improvements in productivity. Public investment was the adjustment variable during the period, falling from 8.6% of GDP in 1990 to 1.4% in 1999. At the same time, private investment managed to remain around 18% of GDP. Discussion on competitiveness tended to focus on the macro context, legislation, or other external factors, whereas the role of real businesses in national competitiveness was minimized. Since 2000, with the backing of a number of IDB nonreimbursable technical-assistance operations, a public/private group started to develop a national competitiveness agenda. As a result, an extensive list of activities and working groups were established that functioned only as long as international support was forthcoming. They succeeded in making their coordinating agency, Consejo Nacional de Competitividad, an office in the executive branch, that continues working on a competitiveness agenda. However, these actions have received little interest from the business community. Science and technology, on of the areas related to competitiveness, shows that investment by Ecuadorian companies is 10 times less than the average for Latin America.

4.14 **Except for its global credit programs in the early 1990s and its work inagriculture, the Bank's direct support for the real sector was very limited.** The Bank approved only one science and technology program (874/OC-EC for US$24 million), in 1995, to promote private investment in research and development as well as to improve technology infrastructure services. However, the support mechanism for private-sector research projects elicited little interest and over 90% of the proceeds of the loan were in fact used to strengthen the National Science and Technology System (SNCT) and the Foundation for Science and Technology (FUNDACYT). Hence, it was the public, not the private, sector that benefited more directly from the project.

2. Financing for the private sector

Table 4.8: Scope of development objectives – Financing for the private sector (1990-2002)

Development objective	Reported	Achievement
Expand productive activities in the private sector through the use of credit	No	Low
Restructure the financial system and its operational framework	Yes	Medium-High
Allocate credit more efficiently	No	Medium
Deregulate interest rates	Yes	High
Promote a more efficient financial system	No	Medium-Low
Promote a more competitive financial system	No	Medium
Achieve proper prudential supervision	No	Medium-High
Amend the legal framework and redefine the functions of the Central Bank and the monetary regime	Yes	High
Encourage the development of new mechanisms for allocating medium- and long-term savings	No	Medium-Low
Enhance the efficiency of rural financial services - BNF	No	Low
Maximize the efficiency of housing finance – BEV	No	Low
Promote the securities market	No	Medium
Maximize the efficiency of the pensions system	No	Medium-Low
Improve the functioning of the insurance market	No	Medium-Low
Average	**21.4%**	**Medium**

4.15 **The Bank monitored progress towards reforming the formal and legal aspects of the financial sector but performed a weak monitoring of the underlying objectives of such reform.** Using traditional programs, the Bank has sought to deepen lending: a global credit program for microenterprise in 1990 and a global multisector credit program in 1991, followed by a financial sector program (833/OC-EC) in 1994. The purpose of the 1994 sector program was to deregulate and strengthen the sector. According to the PCR: "Most of the program's original objectives were not fulfilled", adding that "given the fragile nature of the political system and weaknesses in regulatory institutions, the financial system deregulation originally supported was possibly not the appropriate course of action to achieve a satisfactory outcome. Probably, a more suitable approach would have been for the program to strengthen financial supervision so that system deregulation could subsequently be promoted". It is also striking that once the first tranche of the sector loan had led to rapid deregulation of the sector, the Bank was not prompted to draw up rigorous contingency plans when the second and third tranche conditions concerned with regulation and supervision were not fully met. It also stands out that Management identifies "failure to fully grasp the political-economic connection set in motion under the program" as one of the factors contributing to the breakdown of this process,[94] a factor that is also identified as important by the country.

4.16 **OVE's sector analysis discloses that in 2002 private sector financing was even more limited and costly than in 1990, since constraints had been placed on State-owned**

banks without ensuring that the private sector was enabled to offer competitive alternatives. The legal framework for the sector was amended in 1992, 1994, and most recently in 2000, when the Central Bank's money-creation function was eliminated. Accelerated reform went hand in hand with supervision, which although strengthened, was unable to stave off the 1999 crisis. The crisis made the sector less competitive, exacerbated system liquidity requirements, and raised spreads, thus making credit less accessible. The distortions caused by State intervention in setting rates were eliminated, but the crisis left behind new distortions such as the absence of a lender of last resort and the need for the system to help cover the current expenses of the Guarantee Deposit Corporation, expenses that are higher than usal due to the corporation's efforts to recover unperforming assetes. State-owned banks have for the most part reduced their portfolios, without however providing viable alternatives for financing the productive sectors. Private banks consist of 26 institutions, which despite their number have not embarked on strong competition that could have maximized the efficiency of the system.

3. Promoting competitive sectors

Table 4.9: Scope of development objectives – Promoting competitive sectores (1990-2002)

Development objective	Reported	Achievement
Open up foreign trade and increase exports	No	High
Support small and medium-sized exporters of nontraditional goods	No	Medium
Redefine the role of the public sector in agriculture and eliminate agricultural price distortions	Yes	High
Improve the level and quality of agricultural and livestock production /Increase phytosanitary capacity and quality of priority crops and livestocks.	No	Medium
Increase productivity of crops and priority livestock operations / Rationalize the use of productive agricultural resources and lay the foundations of effective land management	Yes	Medium-High
Support commercialization of the fisheries reserve / Improve quality / Develop new breeding methods / Improve the fishing fleet and infrastructure / Introduce environmental improvements to fisheries operations	No	Medium-High
Strengthen the institutional framework of the tourism sector / Design mechanisms for cooperation with the private sector in tourism	No	Medium-High
Average	**28.6%**	**Medium-High**

4.17 **The objectives relating to the opening up of foreign trade and increased exports were not monitored, a conduct consistent with the Bank's relative detachment from the real sector.** During the 1990s, Ecuador made great strides to liberalize the foreign trade sector. As a result of the country's active involvement in the Andean Community and its admission to the WTO (1996), equivalent tariffs levels declined from maximum tariffs of 290% and average ad-valorem tariffs of 11.6% in 1990, down by nearly one half (6.5%), although the recent introduction of safeguards has raised the effective tariff rate to 9% of CIF import value.

4.18 **The Bank supported agricultural reform under a sector program that also included technical-cooperation funding of US$12.5 million (832/OC-EC).** This program was successful in opening up agricultural inputs and agricultural markets and in bringing about the institutional restructuring of the agricultural public sector. As to the sustainability of these accomplishments, although considerable progress was made, shortcomings in the sector persist in marketing and infrastructure as well as access to financing for key export sectors (bananas, flowers, and forestry products). There are also matters that have not yet been resolved, such as irrigation and land titling systems. The Bank's support for agriculture continued under an agricultural service modernization program (892/OC-EC),[95] aimed at correcting a notable lack of agricultural services and shortcomings in fitosanitary management. This project proved that mechanisms to support the sector were viable. Also, the project implementation team remained unchanged for nearly 10 years, a factor that led to a follow-up Land Titling Program (PRAT), currently in execution.

4.19 **As a result of international treaties, the State was less active in distribution, as well as in setting agricultural prices and providing inputs (except water for irrigation).** As a share of total exports, agricultural exports lost ground, falling from 31% in 1990 to 23% in 2002, despite brisk growth in nontraditional agricultural exports. Over the decade, the value added by agricultural produce as measured by price per ton declined more than 40%. Per hectare productivity of exports such as bananas and flowers was up by around 3% per year, whereas productivity of goods consumed domestically (maize, potatoes, and sugar) remained stable on average.[96]

4.20 **The Bank did not provide direct support in the form of loans to any other productive sectors, however there were other sectors that experienced high growth.** Fisheries, for instance, became the country's third most important source of foreign exchange (bringing in more than US$1 billion in 1998, before subsequently plunging to US$600 million due to health related issues with the fisheries). Similarly, tourism is one of Ecuador's fastest growing industries and an important source of foreign exchange (generating US$400 million in 2002).

C. Social development (SOC)

1. Health and education

Table 4.10: Scope of development objectives – Health and education (1990-2002)

Development objective	Reported	Achievement
Improve attendance and performance / Reduce primary school dropout rates	Yes	High
Improve quality of rural education	Yes	High
Improve human resources training for vulnerable groups in the early years	No	Medium
Broaden access to primary and secondary education for low-income groups	No	High
Make more efficient use of education infrastructure / Improve the efficiency of primary education / Decentralize delivery of education services	No	Medium
Improve child nutrition	No	Medium-High
Improve growth for children under 6: (i) reduce water-borne diarrheal diseases, and (ii) improve immunization levels	Yes	Medium-High
Average	**42.8%**	**Medium-High**

4.21 **In the 1990s, significant advances were made in primary education, although the system continues to be highly inefficient and highly inequitable for communities in**

rural areas and for low-income groups. The net rate of attendance in primary school was 92.9% but in secondary school the rate is still low (52.3%). Inequality is high. In 2001, people in urban areas over the age of 24 had on average nine years of schooling whereas the average in rural areas was less than five years, and for indigenous people just two. Between 1990 and 2002, years of schooling in rural areas improved slightly from 4 to 4.9 years. However, the quality of education in rural areas has been significantly less than in urban areas: 54.3% of students in rural areas (1993-94 to 1998-99 cohort) passed grades one to six without repeating or dropping out of a certain number of consecutive grades. In urban areas, the rate was 84.3%. In addition, although the student-teacher ratio declined during the decade from 30.2 in 1990 to 26.9 in 1998, some studies rank the Ecuadorian system as one of the weakest in Latin America.[97] The main reasons for this situation include poor teacher training, study materials not readily accessible, and bureaucratic teacher compensation systems. The Bank sought to address the problems of inequity and inefficiency via its support to an Autonomous Rural Schooling Network Program (1142/OC-EC) designed to give autonomy to nearly 20% of schools in rural areas, or approximately 5% of all schools in the country.

4.22 **The Bank supported integrated care for children under 6 through a US$45 million program approved in 1997 (1056/OC-EC).** The program sought to expand service coverage to some 90,000 young children by means of subsidies executed by private providers selected on a competitive basis. The program also sought to involve parents in preventative tasks and give them the possibility of increasing their opportunities for joining the work force. The institutional network put in place under the project will replace the existing one, which was subject to policy shifts, undermining its sustainability. By the end of 2003, the program had completed 85% of rehabilitation projects and program coverage had been extended to 130,000 children through two rounds of bidding. Child care and general health have improved but the institutional framework is still deficient. Moreover, malnutrition continues to be one of the main challenges facing the Ecuadorian health care system. In 1999, approximately 30% of children under age 5 suffered from some kind of malnutrition (chronic, global, or both).

2. Water and sanitation

Table 4.11: Scope of development objectives – Water and sanitation (1990-2002)

Development Objective	Reported	Achievement
Alleviate poverty through better delivery of water and sanitation service	No	Medium-High
Broaden coverage / Expand coverage of water and sewer service in Cuenca, Guayaquil, and Quito	Yes	High
Raise the quality of water and sewer service in Guayaquil / Improve hygiene and health conditions of residents of Quito / Clean up Cuenca river/ Reduce the threat of water damage in areas north of Quito	Yes	High
Reform rate policy / Ensure self-sustaining rates in Guayaquil	No	Medium
Average	**50%**	**Medium-High**

4.23 **The Bank provided ongoing support for water and sanitation, particularly in large cities.** During the period, operations totalling nearly US$300 million were carried out directly with the Quito, Guayaquil, and Cuenca municipal utility companies and the development objectives were monitored reasonably well. The Bank also worked closely with CONAM, MIDUVI, and decentralized agencies in planning, local construction works, and development of alternative national regulations and tariff schedules. The IDB loan for ETAPA in Cuenca (592/OC-EC) for US$12 million resulted in improvements in sanitation, and ETAPA is now beginning to post favorable results. In Quito, support was provided for the merger of the municipal water and sewer utility company, which resulted in a workforce reduction of approximately 20%. Rates per cubic meter (m3) doubled and water supply expanded to 5.1 m3 per second compared with invoiced consumption of 2.4 m3 per second. Although this made it possible to devise a supply horizon to 2020 for Quito, the financing of works accorded priority to seeking out new sources, rather than reducing unmetered water levels. A restructuring of the EMAAP-Q has enabled it to begin exploring alternatives for private-sector participation in business management, the extension of water service into new areas such as the Eastern Parishes, or the private operation of water supply and treatment plants. In Guayaquil, the Bank lent decisive support for a service concession to a private operator, which eventually materialized between April and September 2001. In addition to assistance provided for the concession process, the Bank financed rehabilitation works to be carried out within 48 months after the concession was awarded. A MIF technical-cooperation project was provided in conjunction with worker training efforts for displaced employees. Under the MIF project, 17 nonreimbursable technical-cooperation projects totaling nearly US$3 million were approved for water and sanitation, with which assistance was furnished not only for project preparation but also for ongoing discussion on regulatory issues and tariffs. Lastly, the loan for the Pichincha Slope Protection Program (935/OC-EC) for US$20 million is a fresh approach to flood prevention in an emerging neighborhood of Quito. The project was extremely successful, recovering most of the costs through increases in sewer rates and property taxes. This, in turn, gave rise to replication of a similar component under the Metropolitan Quito Environmental Sanitation Program (1424/OC-EC) for US$40 million for landslide prevention works, this time in a low-income neighborhood on the area's eastern slopes.

4.24 **The sector analysis shows that water and sewer service coverage increased between 1990 and 2002 although the improvement was limited mainly to large cities (where the Bank's efforts were also concentrated), while coverage elsewhere in the country still lags behind and tariffs are not high enough to cover operating costs.** Between 1990 and 2002, water service coverage in Ecuador rose from 38.2% to 47.9% and sewer service from 39.5% to 48%[98]. Despite these efforts, coverage is still low compared with other countries in Latin America. The quality of water has improved, but is still deficient. Water is supplied intermittently from 95% of water supply systems, which in turn increases the risk of contamination in the pipes. Water is disinfected in only 60% of all urban water supply systems. Water utility companies in large cities are more efficient and the water quality is better, but in varying degrees. The company operating the concession in Guayaquil has 3.4 employees per 1,000 water connections. In Quito, the ratio was lowered from 10 in 1990 to 6.5 by 2002.[99] For the country as a whole, tariffs are still low, covering just 67% of operating costs and routine maintenance, with the result that transfer payments are needed from the national and local governments.

3. Support for the housing sector

Table 4.12: Scope of development objectives – Support for the housing sector (1990-2002)

Development Objective	Reported	Achievement
Improve living conditions of low-income groups /Support for creation of physical capital of vulnerable groups	No	Medium-Low
Transform low-income home building sector	In progress	Medium
Improve the equity and efficiency of public investment in housing	In progress	High
Average	**0%**	**Medium-High**

4.25 **In 1997, the Bank approved US$62 million in lending (1078/OC-EC and 1002/SF-EC) in an effort to promote low-income housing by means of direct demand subsidies and legislative reform.** This project was not monitored to see whether the anticipated development outcomes were accomplished. A closer review discloses that although more than 48,000 subsidies were granted, the sector reform process is still not complete.[100] Nearly 90% of program resources were used for demand subsidies in the form of a voucher known as a Housing Incentives System (SIV) for families with monthly incomes between US$240 and US$360 to assist with the improvement or purchase of a home. The system generated interest amongst financial institutions,[101] private sector promoters, and individual builders. The problem of financing the country's housing deficit, however, remains unresolved because of the meager results of Compañía de Titulación Hipotecaria (CTH), which was originally set up to raise long-term financing in the secondary market. The processing costs associated with low-income home building are still high. A recent IDB loan (1416/OC-EC for US$25 million) approved in 2002 no longer contains a component for legal reform, although it does include a new neighborhood improvement component that will absorb nearly 12% of the resources. Despite ongoing problems with financing, there has been success in establishing an institutional framework for the beneficiary selection system reinforced by a decree that was recently transfered the project executing unit to MIDUVI.

4.26 **The housing deficit climbs to approximately 850,000 homes.** In Ecuador urban development rates were on the rise during the 1990s. The deficit in basic residential housing measured as homes lacking at least one basic service (water service, sewer connection, and electricity) out of total housing fell from 70.1% in 1990 to 63.1% in 2002. Although the rate of overcrowding declined from 34% to 26% in the 1990-2002 period, the average number of occupants per room (2.7) remains very close to the threshold considered as overcrowding (3 occupants per room). The percentage of homes with a dirt floor edged down from 17.3% to 16.7%. The proportion of homes without formal title continued to stand at 67% throughout the period, an exceedingly high level for the region.[102]

4. Poverty reduction

Table 4.13: Scope of development objectives – Poverty reduction (1990-2002)

Development Objective	Reported	Achievement
Relieve poverty in low-income urban and rural areas / Lower the rate of unmet basic needs in low-income parishes	No	Medium

Integrate the very poor into the network of basic social services / Design a coherent action plan for low-income groups / Increase targeting of social spending at the lowest quintiles	No	Medium-High
Relieve poverty during the economic stabilization and reform of the State program: (i) poverty rate, (ii) infant mortality, (iii) malnutrition in children under 5, (iv) net primary-school attendance rate, (v) % of households with water connections, (vi) social spending by the State as a % of GDP, (vii) unemployment rate, (viii) per capita income, (ix) access to basic services amongst the very poor, (x) benefits to vulnerable groups (women, indigenous peoples, NGOs)	No	Medium-High
Average	**0%**	**Medium-High**

4.27 **The Bank has not monitored any of the poverty reduction and poverty alleviation development objectives set out in the programming papers. Most of the Bank's efforts for direct poverty relief have been funneled through the Emergency Social Investment Fund (FISE).** In 1994, 1996, and 2001, the Bank approved financing of US$115 million for three operations with FISE. The program consisted mainly of the construction or improvement of educational and health centers and small sanitation works. This effort to deliver an agile social safety net was initially cofinanced with the World Bank, with the ADC subsequently joining in. Audits reported that both the ADC and the World Bank encountered problems with transparency in funds administration.[103, 104] More recently, both institution declined to take part in the more recent operation and cancelled all undisbursed balances from previous operations with FISE. The FISE I loan experienced serious shortcomings: spending on administrative salaries was 600% greater than forecast;[105] resource allocation was highly politicized. However, Ex-post comparisons against the Poverty Map showed that 70% of the resources benefited the two lowest quintiles. It is important to note that FISE did not identify the risk of politicization although it was an ad-hoc organization directly attached to the executive branch. In addition, FISE I and II used centralized procurement systems that reportedly caused inefficiencies (a different arrangement was employed for FISE III). Because of the low level of community participation in the initial programs, the works constructed sometimes ended up not being operated or maintained locally.

4.28 **Since 1999, the Bank has sought to strengthensocial targeting instruments. An area that had repeatedly been identified as a problem but efforts to improve it had been insufficient.** In 1999, a technical-cooperation project (ATN/JF-6366-EC) for US$1 million was prepared for the establishment of an integrated social indicator system (SIISE), which has successfully consolidated most sources of national statistics and is now being used extensively. This system was employed to develop a poverty map at the parish level, and subsequently for the geographical targeting of basic social services. The Bank has provided firm support for more effective targeting by means of a Social Program Beneficiary Identification System (SELBEN) (1261/OC-EC) for US$4.1 million. According to project evaluations, SELBEN is considered the first serious attempt to standardize and depoliticize the allocation of resources for social programs, and it is now being utilized by the Government of Ecuador to improve the targeting of most social programs.[106]

4.29 **Poverty shows a recent improvement in urban areas, but challenges continue in rural areas and for the indigenous population.** Real per capita growth was virtually zero during the period under evaluation. Measured by indicators of consumption, global poverty has declined since 2000 in urban areas but remains high in rural areas, and in indigenous communities. Total social spending averaged 4.7% of GDP between 1990 and 2002, comparable with the average for the region. However, spending was spread over a series of 22 social programs administered by different entities, leading to overlap of objectives and beneficiaries. Education accounted for 65% of total spending, health 22%, and childcare 13%. The most important programs are the Solidarity Bond and School Study Aid programs which together absorbed 60% of social spending. The Solidarity Bond program has the largest budget, but is experiencing numerous problems including a broadening of objectives, its procyclical nature and problems with beneficiary update mechanisms.

5. Emergency management

Table 4.14: Scope of development objectives – Emergency Management (1990-2002)

Development Objective	Reported	Achievement
Normalize socioeconomic development in areas affected by El Niño	No	Medium-High
Develop a disaster prevention system	No	Low
Average	**0%**	**Medium**

4.30 **Ecuador is a country prone to natural disasters. The institutional framework for dealing with emergencies, however, lacks the necessary resources and the Bank itself does not monitor the proposed objectives**. The Bank assisted with efforts at rehabilitation and prevention through two programs (1057/OC-EC and 1138/OC-EC) in an aggregate amount of over US$150 million (including US$34.2 million that was reallocated from eight other loans). Emergency assistance policies have sofar given priority to rehabilitation and reconstruction to the detriment of planning and prevention. In 1997 an effort was made to anticipate the possible occurrence of El Niño, with the creation of the Unidad Coordinadora de Emergencia para Enfrentar el Fenómeno de El Niño [El Niño Emergency Coordinating Office] (COPEFEN). The aims of this office were prevention, repair, and mitigation under the direct authority of the President's Office. COPEFEN received funding from the IDB and other multilateral institutions for reconstruction projects, on the condition that part of the funding would be used to establish an emergency management unit in the future. In 1998, in the aftermath of the disaster, the Corporación Ejecutiva para la Reconstrucción de las zonas afectadas por el fenómeno de El Niño [Corporation for the Reconstruction of Areas Affected by El Niño] (CORPECUADOR) was created to plan and award contracts for rehabilitation works on all principal highways under 1000 masl (meters above sea level) that had been destroyed by El Niño. However, the functions of this body overlap with those of the Ministry of Public Works. In 1998 the Office of Planning (ODEPLAN) was set up, whose functions included the authority to develop plans for emergency situations. In April 2002 an executive decree broadened COPEFEN's functions to include coordinating and planning all economic, administrative, financial, and operational aspects of emergency assistance. In addition, the Civil Defense Department is the body responsible for natural disaster management.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

5.1 The purpose of the present report is to evaluate the Bank's program with Ecuador against five criteria: *(i) relevance, (ii) coherence, (iii) efficiency, (iv) effectiveness, and (v) quality of services.*

5.2 The first criterion, ***relevance***, is defined as the extent to which the program related to the country's principal developmental problems. In terms of intent, the program set very broad objectives that remained substantially intact throughout the period: (i) economic stabilization and recovery of growth capacity, (ii) poverty reduction, human capital training, and social inclusion, (iii) efficient infrastructure management with private-sector participation, and (iv) modernization of the State and sustainable regional development. These objectives coincided in varying degrees with the general priorities declared by successive administrations in Ecuador. However, these general objectives were transformed into many ambitious development objectives that did not capture the complexities of the problems facing the country and assumed the existence of conditions not present in Ecuador. In addition, these objectives were subsequently unsustainable on the limited resources allocated to operations in each sector. In practice, the priorities effectively changed with the critical demands arising after each crisis. Accordingly, the Bank kept a broad focus declaring 149 different development objectives, which diverted resources from long-term development efforts, particularly those concerned with real sector competitiveness, agreements on governance, and more effective social development instruments.

5.3 The flow of new loans mirrored the country's repayment commitments with the Bank, except in 1994, when an attempt was made to take advantage of what was perceived as a "window of political opportunity" for reform. This effort was soon discontinued because it was not fully attuned to conditions in Ecuador. The unusually high concentration of lending approved in 1994 (nearly a third of 1990-2002 program resources) intensified the implementation problems, with the result that the objectives of loans in progress were changed and nearly 10% of program resources cancelled or reallocated. *Accordingly, the present evaluation finds that the program was relevant in terms of the intent of long-term development objectives, but lost its relevance during implementation. In particular, problems in implementing the 1994 reforms found the Bank without an alternative plans, leading it to focus on administrative and financial management to the detriment of long-term development objectives.*

5.4 The second criterion the evaluation measures is ***coherence***, or whether the program incorporated all of the Bank's instruments and coordinated its actions with those of other development actors. The evaluation finds that programming did not integrate Bank instruments effectively into a long-term planning horizon, particularly in a context of almost perpetual crisis. The types of instruments used show that the program's coherence was limited inasmuch as priority was given to high-liquidity instruments not suited to resolving the country's long term development challenges. The Bank directed 42% of all program resources through highly liquid mechanisms: five sector loans (30%) and support for entities in the Executive Branch such as FISE (12%). Also, the Bank did not tap the full potential of technical assistance and private-sector financing, which were not successfully integrated into the overall programming process. Despite obvious concern about the country's worsening debt problem, there is no evidence that the Bank had carried out "assessments of the country's borrowing capacity" with the due frequency called for in its own internal guidelines, or that studies of this kind had preceded the programming exercises. Given the absence of any systematic assessment, the Bank adopted an overly conservative stance on the borrowing limits for a country portfolio. This stance, however, did not translate into a narrowing of its declared development objectives. Nonetheless, the program gradually became more coherent in coordinating crisis response mechanisms, a dimenision never attained in other areas. In practice, a high level of coordination with other multilateral organizations was evident, although such coordination was not systematically planned, and occurred mainly after each crisis. The Bank's response during periods of "market closure" constituted an effective counter-cyclical support from IDB financing. Coordination with other institutions led to the establishment of a number of consultative groups. *Accordingly, the evaluation finds that the program's coherence was very low in terms of the instruments used and their integration into the program. There was, however, effective coordination with other international organizations, which helped provide effective short-term responses to each crisis.*

5.5 The third criterion is ***efficiency***, or whether the Bank's products were supplied in a timely and cost-effective manner. The present evaluation finds that, although the Ecuador program began as one of the Bank's most inefficient, it has improved perceptibly in recent years and now compares favorably in terms of delays and costs with the Bank's aggregate portfolio. This improvement was achieved, however, through an aggressive policy of cancellation and reallocation of undisbursed balances, without any apparent systematic analysis of the disruptions that could be caused or of the cost/benefit of such decisions from a country development perspective.

5.6 Problems with execution resulting in cancellations were endemic during the period and attributable mainly to ineffective planning in half of the operations and to inappropriate mitigation of risks that adversely affected over three quarters of program resources. The direct operating costs of the program, at 2.1 cents per dollar, was comparable to the Bank's other programs. The widespread practice of using independent executing units in nearly three quarters of the projects has created a sort of "parallel institutionality" that is perceived in the country as extremely harmful besides representing an additional administrative cost of 3 cents per dollar executed. *Put briefly, then, the program's efficiency is average, owing largely to an aggressive cancellation policy, but systemic shortcomings persist in planning, risk management, and loan design.*

5.7 The evaluation's fourth general criterion is ***effectiveness***, or whether the program produced the anticipated development outcomes for the country. Here, it is important to consider the problem of attributing outcomes, since the IDB is not the only stakeholder. The problem is compounded by the fact that the Bank makes no systematic attempt to monitor the progress of the development objectives it sets. Although the Bank's program with Ecuador set 149 such objectives, the progress of only 20% was subsequently monitored by Management. Nonetheless, OVE was able to obtain outside information on the remaining 80%. The quality of such information varies and its application is limited by the absence of specific targets and baselines in most of the projects examined. However, OVE was able to calculate a *trend* approximation towards accomplishment of the objectives based on the relative improvement or deterioration of each development objective. Thus, it was possible to establish that the country experienced improvements in between 25% and 75% of the Bank's proposed development objectives, depending on the sector:

- ✓ In the *social* sector, gradual progress was made over the decade, especially in primary education, basic health care, and water and sanitation in large cities. The quality of social spending, however, is still low and inequitably targeted. Only more recently has the Bank helped to design better tools for targeting social spending and promoted improvements in public spending resource allocation mechanisms for the housing sector and rural education.

- ✓ In *governance*, some gains have been achieved, but there was relatively less success. Of particular note are improvements in macroeconomic stability and in some areas such as the Internal Revenue Service, as well as efforts to gradually build capacity at the Ministry of Economy and Finance to coordinate public budgets. Challenges persist, however, in such areas as decentralization, modernization of the State, and private-sector involvement in infrastructure, where the potential exists to repeat the errors of the past in terms of to the capture of rents by certain groups.

- ✓ Efforts to improve *competitiveness* have met with even less success. Despite certain effective reforms such as agricultural liberalization and improved environmental management, the real sector, including the oil industry, has not yet been structurally transformed. Nor has there been greater access to financing or a new structural framework put in place to promote competitiveness.

5.8 The fifth criterion concerns the ***quality of services*** in the country program, or the extent to which the program is evaluable, self-evaluation and monitoring systems are functioning properly, and lessons have actually been applied to subsequent Bank activities. An analysis of the projects shows that the evaluability of development objectives is limited, since only one in three has a base or target line, and just one in 30 has specific milestones. The situation is better for outputs expected directly from operations, although one in three lacks a defined target and only one in nine has a baseline. On an aggregate level, the ex ante evaluability index is 32% for development objectives and 41% for output objectives. Both these figures are well below the optimum value of 100% but in line with OVE findings from other country evaluations. *The evaluation concludes, therefore, that there exists a systemic flaw built into the program, the operations, and the Bank's monitoring and evaluation system in terms of their capacity to verify and demonstrate progress*.

5.9 Monitoring and supervision compliance levels are comparable with the average for the Bank. Inconsistencies were detected, however, in the self-evaluation systems: for instance, although the PPMRs rate the attainment of development objectives as "probable" or "highly probable" for 86% of projects, the independent OVE evaluation found that on average the percentage of development objectives with favorable evolution is much lower, approximately 46% of the projects had half or more of their development objectives evolve favorably and only 35% of the total development objectives of the program evolved favorably.[107]

5.10 Lastly, the present evaluation points out that the *lessons learned* in the case of Ecuador are potentially very valuable. Despite their importance, though, few have been identified by Management, and those that have been identified come up regularly, suggesting that little corrective action has been taken. Likewise, the recommendations made in prior comprehensive evaluations such as EVO's 1997 evaluation of the Bank's program in Ecuador did not produce action plans with assigned responsibilities and midterm milestones, and remained mostly unimplemented. It should also be noted that the challenges faced by the 1990-2002 program furnish important lessons about the workings of Ecuador, since the political economic mechanisms that precipitated the failure of earlier reforms could still apply to future reforms. Self-evaluation systems such as the PCRs and PPMRs do not reflect or examine in any depth the causes of the problems encountered and were therefore of little help in implementing lessons learned. *This failure to build on cumulative experience through services and lessons learned impacted negatively on the quality of the program, placing it below the average for the Bank.*

5.11 In this same vein, it is also important to note that, because of a lack of reflection on the problems and challenges faced during the period, information was not consolidated to acquire a precise understanding from which to extract lessons. Thus, a number of elements are usually referred to as lessons learned though they have not been comprehended to a level that would turn them into actionable lessons. Importantly, the Management of the Bank is of the view that lessons were learned during the period and made these available for the present evaluation (Boxes 2.2 and 2.3 in Chapter 2). However, these lessons hold inconsistencies that underscore the challenges involved in processing them so the Bank can optimize its added value to the country:

Table 5.1: Lessons and Potential Inconsistencies / Challenges to Management

Lessons Learned According to Management	Potential Inconsistencies / Challenges
"Clearly distinguish between the country's performance and that of the Bank, outlining any impact that the Bank's activities may have. In spite of the targets the Bank shares with the country, the strategy evaluation indicators need to define the potential impact of the Bank's activities"	The programs and operations that Management has designed do not make this distinction, and contain generic development objectives without specifying how relevant they are to the operations.
"*Regular programming documents are not instruments designed for countries in situations of crisis*"	Does not indicate what "irregular" programming instruments would be or why they would have been ineffective during the decade.

"To help resolve situations of crisis, annual programming exercises must be flexible enough to respond to changing conditions, so long as a long-term strategic vision is rigorously adhered to," adding that "targeting the Bank's work consistently over time at certain strategic areas provides substantial value added"	Does not indicate how the targeting and definition of strategic areas can be assured over the long term, except with a multiyear programming instrument that identifies medium- and long-term objectives and measures the extent to which they are achieved.
"High level of institutional weakness in the country"	None of the programs analyzes the causes for institutional weakness presents a comprehensive strengthening plan. The issues of efficient use of external credit and the quality of public spending are not fully addressed.
"High value of nonfinancial instruments"	Management considers it "difficult to quantify the impact" of nonfinancial instruments. Therefore, a key element of the Bank's action in the country would remain outside formal management procedures, without mechanisms for identifying them nor organizing internally to maximize their benefit.
"High value of the communications and consultative strategy," as well as *"the synergies of working jointly with multilateral organizations."*	In practice, the task of program preparation was led mainly by the Bank, and inter-agency coordination has been developing de facto, without ever becoming a fully integrated plan.

5.12 By stressing a crisis response role for the Bank, *its identity as a development actor has been diluted*, meaning that a dichotomy exists between the Bank's identity as represented by its intent to assist with nearly 150 development objectives and one that in practice concentrates its efforts on crisis response. In additon, the crises compelled the Bank to coordinate more closely with other actors, without any prior agreement on a development agenda for Ecuador. Consequently, some of the Bank's operations were based on external analysis that strongly determined its timing and size. One of the effects of frequent reprogramming was to have diverse actions in many sectors, with the result that the Bank gradually distanced itself from an operating model that concentrated on a few areas in which it could have become specialized. In fact, there is no evidence either that the Bank, after a succession of crises, became specialized in helping the country to produce preventive actions or in establishing efficient mechanisms for determining analytically the magnitude, form, and timing of the Bank's response in the event of a crisis. Lastly, although the Bank continues to be the country's most important multilateral creditor with a portfolio of slightly less than US$2 billion and 50% of its total multilateral debt, in terms of annual lending, the Bank is now second behind the Andean Development Corporation and it may be on its way to becoming the country's third most important creditor behind the World Bank Group (WB).

5.13 Importantly, the **perception of these challenges in the country**, has led Ecuador's present administration to display a willingness to come to grips with them. The government has demonstrated a broad-minded approach in seeking solutions to the problems facing the real sector, including the oil industry and public services, as well as in targeting investment in the social sectors. Furthermore, mechanisms for national dialogue have been promoted to achieve more effective governance, and efforts are under way to bring about substantial improvements in the use of public resources in general and external financing in particular.

5.14 These actions are reflected in initiatives headed by the Executive Branch through the Ministry of Economy and Finance: (i) to eliminate outside executing units as the preferred operating arrangement, (ii) increase the frequency of portfolio reviews, (iii) to propose a ban on loan extensions, except during portfolio reviews, and (iv) to implement the terms of the Fiscal Transparency and Accountability Act, including the requirement that current expenses be funded by local counterparts and staff be hired through open competitions.

5.15 The Management of the Bank, through the Country Office in Ecuador, has begun to respond to these initiatives through specific steps aimed at resolving these challenges. These actions are: (i) to provide training to executing units, (ii) to introduce annual work plans for loan operations in order to have a benchmark against which PPMRs can rank performance, (iii) to improve the logical frameworks and PPMRs, and (iv) to conduct special studies to enhance procedures (procurement) or to support consensus building on key development issues (competitiveness).

5.16 Accordingly, the Bank faces a great opportunity to augment its value added to Ecuador by implementing a strategy that takes into account the lessons learned and factors in the new challenges represented by dollarization and fiscal transparency. With this in mind, a number of recommendations based on this evaluation are presented below.

B. Recommendations

5.17 The evaluation found three areas that the Bank should strengthen in order to build a more effective program for the country: (1) knowledge of Ecuador, (2) the Bank–Ecuador relationship, and (3) lessons learned that can be applied to future country programs. Recommendations are therefore made in each of the following areas.

1. **Knowledge of Ecuador:** Help the Ecuadorian authorities to identify, select, and analyze priority development issues based on a program of mutually agreed economic studies and activities. In carrying out these tasks, particular consideration should be given to:

   ✓ **Transforming the Real Sector**, by examining ways of deepening the Bank's support and helping the country to achieve greater efficiency in key productive sectors, including the oil industry, making them more competitive.

   ✓ **Developing Agreements on Governance,** by exploring ways of assisting the country's authorities to build a national consensus that overcomes the challenge of *governance* through a process of dialogue based on technical and economic studies.

   ✓ **Strengthening Social Investment Instruments,** by seeking to enhance the quality of social spending, with a focus on the development of pilot programs and formal establishment of effective *social service targeting and delivery instruments* as a condition prior to for undertaking major programs of direct support for social spending.

2. **The Bank–Ecuador relationship:** The complex nature of the long-term challenges that will arise as a result of the anticipated studies mentioned in the preceding

paragraph makes it imperative for the Bank to adjust its relationship with the country, particularly in the areas of:

- ✓ **Planning Horizon** adjusted to provide a response not only to the country's short-term needs but also to faciliate the sequencing of sustained long –term efforts encompassing more than a single programming cycle.

- ✓ **Scaling of the Program** clearly defined by the Bank and the country working together to determine borrowing limits, cash flows, potential access to concessional funds, and conditions that would justify restricting or increasing the availability of future resources.

- ✓ **Alternative Scenarios** put in place so that the development objectives identified can be achieved even in the event of an external shock or crisis, with a special focus on preserving real sector development under all scenarios".

3. **Lessons learned:** The recurrence of the same problems makes it necessary for the Bank to put in place an effective learning system to the practical application of lessons learned, particularly with respect to understanding and considering:

- ✓ **Political-Economic Implications** of previous reforms, to avoid the repetition of inappropriate mechanisms and to increase the likelihood of achieving the objectives of the proposed reforms.

- ✓ **Systemic Problems** behind delays in execution in the 1990-2002 period, while *seeking to anticipate contingency plans and alternative methods of execution* more suited to the development of the country's institutional framework, including making every effort to avoid the unfavorable effects of using independent executing units.

- ✓ **Risks** experienced with operations between 1990-2002 in order to ascertain whether they remain valid or have been eliminated, in order to avoid them in future operations or in operations under way.

4. **The Bank's new strategy with the country:** The Bank's new strategy with Ecuador should therefore consider the implications of the previous recommendations and provide specific answers to at least the following key questions for the country:

- ✓ What is the potential of the principal *sectors of the economy* for generating real growth?

- ✓ What are the implications of the challenges presented by *dollarization*?

- ✓ What factors determine *public spending* size and quality?

- ✓ What specific role is the *private sector* expected to play and what are its macroeconomic effects?

- ✓ What conditions determine the *sustainability of the country's external borrowing*?

- ✓ From the point of view of the country, what *added value* does the Bank bring, and what are *its comparative advantages*?
- ✓ What is the relationship between the *sizing of the scenarios* planned by the Bank and the fiscal return imputed to the operations included in each scenario?
- ✓ What are the mechanisms proposed for ensuring a consisten *integration of instruments* and interagency coordination?
- ✓ What procedures and instruments will be put in place to improve the *evaluability and monitoring* of the strategy?

ENDNOTES

1 According to the PPMRs for the 29 operations completed, 86% were classified as "Highly Probable" (HP) or "Probable" (P) in the semiannual PPMRs, and 89% were classified as "HP" or "P" in the final PPMR. The OVE analysis, however, found that in only 46% of these same 29 operations were at least half of the development indicators on a path to being successfully attained and that just 35% of all development indicators of the overall program were progressing favorably.

2 See Methodology Annex.

3 The information contained in this chapter has been gathered mainly from external sources since the Bank does not make any systematic attempt to monitor the progress of its development objectives.

4 The El Niño climatic event, which occurs at four to seven year intervals, has had devastating social and economic effects on the country. The 1982-83 event was particularly severe. The 1987 earthquake destroyed the country's main oil pipeline, disrupting oil production for five months.

5 The structure of the Ecuadorian State in the early 1990s was configured during the period of rapid oil-based modernization initiated in the 1970s under two successive military governments. The National Planning Board (Junta Nacional de Planificación) was a powerful government body in charge of preparing five-year development plans. Intervention in productive activities (oil and petrochemicals, energy, telecommunications, nonmetal mining, aviation, metalworking, agriculture) was one of the legacies of the "nationalism" that did not begin to be dismantled until 1993, with the emergence of the National Council of Modernization (Consejo Nacional de Modernización), whose broad mandate of redefining the role of the State was only partly fulfilled.

6 The definition of social spending used is the one employed by the Central Bank of Ecuador and includes spending on education, health, childcare, and social security at the central and subnational levels.

7 Macroeconomic Policy, Distribution, and Poverty in Ecuador, Luis Jácome, Carlos Larrea, and Rob Vos, UNDP / IDB / ECLAC Project.

8 The fiscal surplus, which was 0.6% in 1994, started into the red in 1995 becoming progressively worse in subsequent years (1.1%, 2.6%, 2.6%, 6.5%, and 4.0%), a situation that was not reversed until 2000.

9 Caution is called for in analyzing figures in real terms since "constant sucre" data do not have the same meaning as "constant dollar" data because of the effects of a fluctuating exchange rate and different deflators.

10 "Closing the Gap in Education and Technology". World Bank, 2002. The IDB has conducted similar studies in this and other areas mentioned in this chapter. Regional Operations Department 3 (RE3) is compiling an exhaustive list of these studies, a list that at the time of this writing is not yet systematically available or standardized.

11 Construction of the heavy oil pipeline has been completed, and the facility has been operating since September 2003.

12 The current account balance has shown extreme volatility. Between 1990 and 2002, the average as a percentage of GDP has been - 2%, with deficits exceeding 6% in 1991 (opening up of trade) and 2002 (real appreciation) and surpluses in excess of 5% in 1999 and 2000 as a result of falling domestic demand during the crisis.

13 Financial intermediation has been the activity showing the greatest fluctuations between 1990 and 2002, ranging from 3% of GDP in 1993 to 4.4% in 1996, declining to 1.9% during the 1999 crisis and recovering to 2.5% in 2002.

[14] Vos, Rob (2000). Economic Liberalization, Adjustment, Distribution and Poverty in Ecuador, 1988-1999. Exports as a share of demand rose from 53% in 1990 to 58% in 1998. During the same period, public spending contracted from 27% to 19%.

[15] Oil as a share of exports averaged around 34% between 1990 and 2002.

[16] World Bank (2003): Average volatility in terms of trade increased from 19.2% in the 1990s to 23.1% between 2000 and 2002. It was also five times the average for the region (3.4%).

[17] Artana, Daniel (2002): La Problemática Fiscal del Ecuador.

[18] According to the most recent estimates of the reform index conducted by the Bank's Research Department in 2001.

[19] According to "Doing Business", World Bank, 2003, protection of creditors' rights is inadequate, which is consistent with findings for other countries in the region. For example, bankruptcy foreclosures take nearly four years on average and legal collection of a check over 300 days.

[20] RE3 is looking at the underlying causes of the crisis and whether the country's institutional arrangement itself will not culminate in a distributive crisis in the context of financial deregulation: "… the design of the institutional arrangement itself already reflected aspects of governance and the use of the State apparatus in general, and the financial system in particular as an instrument of income redistribution". Also, these same considerations are examined in more depth and extended to the present issue: "Given the state of governance, what are the risks to decentralization?"

[21] For those years in which banks borrowed externally at 5% and placed the funds with the government at 15%.

[22] According to the International Country Risk Guide and the World Bank Institute, including measurements of "accountability," "political stability," "governance," "regulatory quality," "rule of law," and "control of corruption."

[23] This definition of governance is taken from comments by RE3.

[24] According to a survey "Auditoría de la Democracia," Cedatos – Gallup, 2002.

[25] Survey conducted by the World Bank Institute, 2000-2001.

[26] After these events, in early 2003, 38% of the external debt was with multilateral institutions, of which the IDB holds 46%, the ADC 25%, the World Bank 20%, and the IMF 8%, with the remainder being held by FLAR.

[27] Between 1995 and 2000, income volatility was 1.8 times that of expenditure (2.79% vs. 1.52%). Figures from Boletín Anuario No. 23, Central Bank of Ecuador.

[28] Preallocations are another sign of the challenge of national governance. According to comments by RE3: "Preallocations are the result of temporary agreements where, to achieve an agreement in the negotiating process, the budget is used to promise in return for a preallocation, a defined political outcome. When the political situation changes along with the temporary partnership behind the agreement, the preallocation remains permanently in the budget". There are over 80 legislative preallocations, with the most important ones being transfers to subnational authorities and universities.

[29] In the electricity sector, Ecuador lags behind in investment with a lower investment-to-GDP ratio than similar countries in the region (an average annual investment of 0.15% versus 3.61% in Bolivia). After failed attempts to attract viable private-sector participation, the current status of independent State-owned enterprises, rates that do not cover costs, and nonpayment of energy place the sector in a more precarious

position than in 1990. In the telecommunications sector, there was investment in cellular telephones, with penetration more than doubling from 11.6 to 24.6 telephones per 100 inhabitants, although attempts to get the private sector to participate with State-owned enterprises failed.

30 Nonoil tax revenue remained between 12.5% and 13.3% of GDP until 1998, and has been on the rise since 2000 touching 19.3% of GDP in 2002.

31 Per capita income will need to grow on average by more than 2.5% annually in order to reduce extreme poverty by one half between 2000 and 2015 (Millennium Development Goals). The substantial volatility in the country, however, underscores the importance of sustained growth and less inequality in income distribution for this goal to be reached.

32 The definition of poverty and extreme poverty used here is a measurement of income based on poverty lines of US$2 and US$1 a day per person, adjusted to purchasing power parity according to WDIs.

33 Poverty and inequality increased for numerous reasons some of which were exogenous to the social sector. These included natural disasters and political and economic crises. However, the net result of the impact of these events has been particularly severe on the country's lowest quintiles. Three factors may account for this result: (i) El Niño affected mainly rural areas, where the population is predominantly poor, (ii) the real minimum wage (to which the income of most of the population is linked) lost two thirds of its purchasing power between 1995 and 1999, whereas the general average fell only 20% during the same period, and (iii) the unemployment differential between skilled and unskilled workers (accounting for most of the population in poverty) was 35%.

34 There are many problems in determining the percentage of the population that is actually moving from one place to another, and particularly to another country. Generally speaking, official figures count legal migration so that census and household surveys give only approximations of the number of people reported living abroad. However, there is a tendency not to declare the true situation of people who have emigrated illegally for fear that the information could affect their families.

35 Source: SIISE, measured by the direct method.

36 In 2001 the urban population over 24 had on average nine years of schooling, the average for the rural population was less than five years of schooling, and for the indigenous population just two years.

37 Based on INEC figures for 1995, over three quarters (78%) of the indigenous population was living in poverty, compared with 42% for the country as a whole. Access by these people to health care is also uncertain. As to education, the illiteracy rate was 32% compared with 19% for the country.

38 OVE interviewed the main analysts for Ecuador from the three international Risk Rating Agencies, and the view was unanimous as to the "slow pace of reform". For instance, on 29 September 2003 Fitch Ratings changed the *positive outlook* expressed in April 2003, to one of a mainly *stable outlook* because of "slow progress on key structural reforms to support [the] sustainability of [the] macroeconomic framework". It is important to note that changes in expectations do not imply changes in rating and Ecuador continues to have a CCC+ rating. In OVE's files is a separate document containing the results of these interviews.

39 It has not been possible to build up international reserves on a sustained basis because of extreme volatility, with the result that reserves have not represented more than six months' imports since 1990.

40 The concept of "program quality" does not adhere strictly to the Protocol for country strategy evaluations (RE-271-1), although this document is used to cover significant qualitative aspects of the program.

41 In its comments, RE3 says: "During the 12 years covered in this analysis, the standards of country paper preparation and more recently the Bank's strategies with the country have developed significantly. In the past, strategies were statements of direction and general approach and not specific measurable targets.

General and ambitious long-term pronouncements were the basis of a tacit commitment with objectives that could not be reached using a single instrument (external financing) alone.

42 RE3 notes "… the problems encountered by the programming exercise in a totally unstable political environment should be indicated".

43 The topics of "Private-sector participation in infrastructure" and "roads and highways" were classified under the challenge of "Weak governance", since they have to do with the structure of the State and modernization of the State.

44 Portfolio Review Mission, December 1996.

45 Ecuador: Strategy Issues Paper for Country Paper, 8 August 2000, page 2 and page 20.

46 Since 1993, loan documents have contained a pipeline section. All projects listed in this section were monitored. Of a total of 50 projects, only 23 were eventually approved. A further 18 projects were also approved, but never anticipated, to account for the 41 loans approved in the 1990-2002 period.

47 Not included are the three projects approved in 1990 since no project pipeline information was available.

48 The TCs were more versatile tools, with 27 in the area of governance, with support to different branches of the State, not just the executive power. However, the question remains what role could the IDB play in resolving the problem of governance in the country. Notwithstanding its importance and influence in general performance in all areas of the country, in its comments RE3 reaffirms the problems in resolving them: "It is hard to see how the problem of governance in Ecuador can be improved in 12 years, and less so through the activities of a development institution like the Bank".

49 Ecuador, Country Paper, 3 December 2001, page 9. It should be clarified that the Eighth Replenishment targets are not given for each country per se, but at the aggregate level for the Bank.

50 Strictly speaking the Bank's "lendable capacity" in Ecuador was not saturated, but would appear to respond to a "self-imposed limit" on its exposure in the country.

51 OVE examined the components of all of the loans in the 1990-2002 program and established a correlation with the main risks affecting each component. It was found that a number of project components accounting for 77% of total resources, were exposed to risks that had not been adequately mitigated.

52 Some of the mechanisms were found, albeit in their infancy, in nearly one third of all projects.

53 Ecuador Strategy Issues Paper, 8 August 2000, page 9.

54 Portfolio and Pipeline Reactivation Mission Report, April 1997, page 5.

55 Ecuador: Country Assistance Evaluation, Operations Evaluation Dept., World Bank, 4 June 1999, page 5.

56 Ecuador: Country Assistance Strategy, World Bank, pages 6-7.

57 Country Risk Evaluation System - GN-1835. In addition, this risk evaluation system document is cited in Ecuador – Portfolio Review Report – CP-1639-8, 27 January 2003.

58 RE3 notes that debt sustainability studies have been carried out since 2001, including Carrasquilla (June 2001) and Reichmann (in progress).

59 The Bank probably had a stabilizing effect during the different crises by preventing gross public capital formation, which was extremely volatile, from diminishing. Despite the Bank's substantial involvement in 2000 (53% of public investment), Ecuador was left with a net positive flow of funds of just US$9 million, after payments to the Bank during the year of US$128 million in principal and US$108 million in interest.

The instrument used to speed up disbursements in 2000 was a sector program (PBL), whereby 57.4% of the Bank financing was released in 2000.

60 RE3 acknowledges in its comments that "the Bank does not estimate how the benefits are distributed." However, OVE made an estimate of the "executing agencies' perception" of the three groups that were considered to receive most of the project benefits.

61 Country Program Evaluation: Ecuador, EVO, RE-223, December 1997, Summary, page vi.

62 Issues Paper, op.cit, pages 3-4.

63 These units were unable to integrate into the government structure. Most of the staff of the executing units were hired from outside of the "principal organizations", which acted as "hosts" of the EUs. Staff in senior positions within the units received salaries of up to five times more than staff with comparable experience in the host organization. Also, professional staff of the units received additional benefits such as the use of office vehicles and project equipment, per diems for site visits, specialization courses in Ecuador and abroad, and contact with international consultants.

64 Some of the executing units were responsible for more than one operation. For example, the National Council for Modernization (CONAM) or the Emergency Social Investment Fund (FISE) manages resources for many operations and sources of financing. These agencies were counted as though they were independent executing units since they were not part of the institution but created especially for this purpose.

65 In addition, the operations of the EUs absorbed approximately 3 cents per dollar per loan (Analysis of Executing Units – the Bank's Country Office in Ecuador – 2003.)

66 The group of subnational authorities is made up of 219 municipalities and 22 provincial councils.

67 It is important to note that the Bank has made considerable headway in maintaining targeted geographic distribution of these resources at the country level. However, the point is still valid since the entity that will be strengthened directly is the entity active in the national sphere.

68 The Bank's Ecuador portfolio has fluctuated through the years. For instance, nonreimbursable funding accounted for 93% between 1961 and 1963 but only 2% in 2002. The disappearance of the Social Progress Trust Fund in 1967, the minor role played by the Canadian and Venezuelan Funds, and more recently the virtual elimination of the Fund for Special Operations removed any possibility of using large amounts of nonreimbursable funding.

69 OVE has conducted a thematic evaluation of the MIF including some of its operations in Ecuador such as the one in support of tourism and water and sanitation sector reform. The evaluation is available on OVE's website.

70 One exception was the environment, where the Bank was able to introduce reform through a series of technical-cooperation projects. Here, the local specialist's experience, with the support of one of the Bank's international specialists posted in the country, and the approach of senior officials in the Environmental Ministry effectively complemented one another. On the other hand, one example of failure in generating operations was the health sector, where it was not possible to capitalize on the knowledge generated because the Bank gradually lost its position of leadership in the sector.

71 The "Report on the Non-Financial Products (NFP) Program in 2000 and 2001 – GN-216" was used as a benchmark methodology for classifying nonfinancial products.

72 OVE prepared a monitoring index (CMI), on the basis of which the Ecuador portfolio would have been given 88% in 1998, 67% in 1999, 84% in 2000, and 86% in 2001. This represents fulfillment of

Administration Missions (33%), Technical Inspection Visits (79%), Financial Inspection Visits (91%), PPMRs (97%), External Financial Audits (71%), and Portfolio Review Missions (75%).

73 OVE has produced a draft analysis of interagency coordination in Ecuador that is available as a separate document in its files.

74 The loan document for the transport sector loan (EC-0102) states that: "In December 1992, the Government of Ecuador and the Bank and the World Bank agreed to coordinate support for the task of modernization of the State, and that the Bank would be in charge of assisting the government with the process of privatization, restructuring, concessions, joint ventures, and modernization of the public sector in the areas of finance, agriculture, and transport whereas the World Bank would back initiatives for modernization and restructuring of the central government and the energy and telecommunications sectors". This collaboration was extended to areas not initially anticipated such as the 2001 roads and highways program (1518/OC-EC), where, states RE3, "the first attempt at integrating an executing unit into a ministry" was made.

75 The 1997 EVO evaluation consisted of compiling a list of the lessons learned which are consistent with the lessons learned in the PCRs and PPMRs. For example, the PCRs identify the "procurement process" as a problem in one PCR in 1999; yet this same problem is reiterated in the PCRs of eight other projects. The change in "executing agency authorities" is noted in one PCR in 2000, and mentioned again in seven others. A lack of "institutional capacity" appears in seven PCRs, the first one being in 1998. Overall, 18 problems are noted repeatedly in PCRs of more than one project, without the lessons learned appearing to be incorporated in order to mitigate the negative effects.

76 Country Program Evaluation: Ecuador, EVO, RE-223, December 1997, Summary, page v.

77 The work was standardized through the preparation of **Project Briefs** for all loans and reimbursable technical-cooperation loans approved by the Bank for Ecuador between 1990 and 2002. These are available in the OVE files.

78 Measured as the time elapsed between the first mission and the date on which the project is approved.

79 The Bank's costing system has access to data going back to 1996. This figure is therefore the average for approvals between 1996 and 2002, that is, US$731.6 million compared with US$15.6 million in total costs for the same period. Source ROS/DAU.

80 For instance, nearly 10% of existing balances were cancelled in 1997, and 14% in 2002.

81 WP-7/96, Quality of IDB Programming Services and Operations in Ecuador, Office of Evaluation, August 1996. This study evaluates the quality of the Bank's programming and operational services in Ecuador. To this end, a methodology was devised based on surveys and statistical analyses of outcomes. The estimates covered a universe of 500 stakeholders in Ecuador and specialists in the Bank's Country Office that have worked closely with the IDB. Responses were received from 9 specialists from the IDB Country Office and 111 Ecuadorian stakeholders from 37 private and public institutions. Consequently, the findings are statistically valid to a significance level of at least 80%.

82 The country has a conditional revolving credit line (EC-0085) of US$7 million approved in May 2002. Funding has now been drawn on this line to prepare the following projects: EC-0170, EC-0048, EC-0102, EC-0043, EC-0025, EC-0037, EC-0055, EC-0157, EC-0138, and EC-0175. As the amounts used were replaced almost in their entirety, the fund still has US$6.8 million.

83 For example, one of the development objectives in project EC-0102 (support for the Guayaquil Water and Sewer Utility Company) was to "satisfy the water and sewer service requirements of Guayaquil efficiently at reasonable rates with quality service," but no indicators were introduced for coverage, quality, or rates. Yet, the "transfer of services to the private sector in order to improve the operation of the systems and system maintenance" is established as an objective. This objective is the means chosen for supposedly

achieving the development objective, but the design does not verify whether the Bank's development objectives were attained.

84 In project EC-0191 (Land Titling Program) one of the main objectives in formally establishing title is to be able to capitalize the land as an asset, so that it can be used as collateral for financing. The program includes a small subsidy fund. However, the measurement used is a self-referencing indicator that does not take into account the developmental challenge that: "30% of the organizations that apply to the fund for financing must indicate the existence of the fund as one of the three main reasons for registering title."

85 Nor is there any substantial improvement in the case of objectives introduced while a project is "in progress," since such objectives represent only 16% of the total for the Ecuador program between 1990 and 2002.

86 Because no specific numerical targets exist for the development objectives, it cannot be confirmed that they were attained, thus limiting any possibility of analyzing the relative trend in the corresponding indicator. Hence, mentioning "objectives attained" does not mean that further work in this area will not be required.

87 These development objectives emerge from the strategies with the country and the loans approved during the period. The unusual step of including a review of development objectives at the project level was taken because, since program objectives were generally absent, thus OVE attempted to search for them at the project level.

88 For example, the annual budget for public education in Ecuador is more than US$900 million, but the Bank's annual contribution to education reform has been less than US$9 million, a rate equivalent to less than 1% of the overall budget.

89 Only operations whose original disbursement date is prior to 31 December 2003 are considered for this analysis.

90 The total number of loans and nonreimbursable technical-cooperation funding operations was 41, not 44, as indicated in the table. However, three of the sector loans included technical-cooperation components in addition to the financing provided. The amounts earmarked for TCs were split up and allocated to their areas of interest.

91 Appendix II presents a detailed analysis of the progress made towards achieving the development objectives, including references to the Bank's various loans and technical-cooperation projects in each area.

92 The Bank directed its EC-0098 to rural areas of Western Pichincha, including: Santo Domingo de los Colorados, San Miguel de los Bancos, Pedro Vicente Maldonado, and Puerto Quito.

93 Fiscal accounts, for instance, are weighed down by three significant subsidies: (i) liquid petroleum gas has been imported at an average annual price of US$0.73 per gallon, and is sold in the market at an average price of US$0.19 per gallon, resulting in a subsidy of US$186 million in 2003, (ii) energy distribution companies that tend not to pay or to pay late for their fuel purchases received US$200 million in 2003, and (iii) diesel fuel, since the domestic price is below the import price. The difference between the import price and the selling price results in a total subsidy to the electricity sector and the rest of the economy of US$216 million. These three subsidies combined led to a loss of revenue of US$603 million in 2003, or 2.3% of GDP.

94 See Management's comments received by OVE.

95 The Bank carried out other programs with an agricultural bias such as support for the development of Western Pichincha, the land titling program, or the rural roads program. These programs are covered in other sections of the chapter since they also correspond to other strategic interests.

[96] The economic future of indigenous communities correlates closely to these latter crops, which showed no improvements during the decade.

[97] Barómetro Latino (1998), Global Competitiveness Report 2001-02, Harvard University.

[98] Figures for the INEC's Population and Housing Census of 1990 and 2001. These data would appear to indicate that coverage for sewer service is slightly better than for water service, which is atypical.

[99] Good utility companies in Latin America such as the company in Santiago, Chile or the one in Paraná, Brazil, have 1.2 and 2.6 employees, respectively, per 1,000 connections.

[100] Low-income housing receives special consideration under various laws, including a "Low-Income Housing Act", which provide almost total exemptions from tax. The various institutions involved in this area, including the municipalities, do not have any incentives to classify projects as of social benefit because of the prospect of lost revenues. Consequently, the procedures involved in acquiring such a classification are lengthy and tedious, with the result that it is only sometimes used.

[101] A total of 5 banks, 5 credit associations, and 11 credit unions.

[102] Number of households owning their own home as a percentage of the total.

[103] PCR, Page 10, paragraph 2.0, "*During this same period, considerable political pressure was exerted on resource management and administrative irregularities and questionable practices were detected, as a result of the institution's so-called politicization.*"

[104] ADC, which had agreed to take part in FISE II, withdrew from the arrangement on grounds that US$10 million had already been used by FISE under FISE I rules. Eventually, the WB also withdrew. The IDB, however, reallocated US$15.8 million from FISE II to deal with the El Niño emergency.

[105] According to PCR – FISE I: page 11, paragraph 4.0.

[106] In an attempt to complement SELBEN, in 2000 the IDB assisted INEC directly with the "VI Population Census" and "V Housing Census" through financing for human and physical resources required for the two censuses and the creation of a short-term indicator system.

[107] The Bank has begun to arrange a series of discussions on the implications of dollarization, although this has not led to the Bank adopting any specific stance on the issue that reflected itself in the program.