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Ecuador: Country Program Evaluation, 2000-2006

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CONTENTS

ANNEX

ABBREVIATIONS

ATPDEA	Andean Trade Promotion and Drug Eradication Act (Andean Tariff Preferences)
BCE	Central Bank of Ecuador
BSC	Balanced Scorecard
CAF	Andean Development Corporation
CPE	Country Program Evaluation
CS	Country strategy
CTR	Reimbursable technical cooperation
ERER	Equilibrium real exchange rate
FODI	Fondo de Desarrollo Infantil [Child Development Fund]
GSP	Generalized System of Preferences
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadística y Censos [Ecuadorian Statistics and Census Bureau]
IPMS	Integrated Project Management System
LAC	Latin America and the Caribbean
LOREYTF	Ley Orgánica de Responsabilidad, Estabilización y Transparencia Fiscal [Accountability, Stabilization, and Fiscal Transparency Law]
MEF	Ministry of Economy and Finance
MIF	Multilateral Investment Fund
NDP	National Development Plan
NSS	New Supervision System
ORI	Operación Rescate Infantil (National Community Daycare Centers Program, Ministry of Social Welfare)
PBL	Policy-based (sector) loan
PCR	Project completion report
PETROECUADOR	Empresa Estatal Petróleos del Ecuador
PRI	Private Sector Department
RER	Real exchange rate
SIISE	Sistema Integrado de Indicadores Sociales del Ecuador [Ecuadorian Integrated Social Indicators System]

SRI	Ecuadorian Internal Revenue Service
TC	Technical cooperation
UBN	Unmet basic needs

EXECUTIVE SUMMARY

Introduction

This report presents the Office of Evaluation and Oversight's country program evaluation (CPE) assessing the Bank's Ecuador program in 2000-2006. The overlap of the span examined here with the 1990-2002 period covered by the previous CPE[1] is necessary because of the short time elapsed since the most recent country strategy approval (November 2004) and, particularly, to enable OVE to analyze the impact of major changes in Ecuador's economy over that interval. Consequently, this CPE takes in the Bank's programming exercises charted in its country strategies for 2000-2002 (GN-2169-1) and 2004-2006 (GN-2338-1), and references the previous CPE's analysis, conclusions, and recommendations.

The country backdrop

Four elements stand out in the Ecuadorian economic, social, and political landscape over the 2000-2006 period reviewed here: (i) the 1998-1999 crisis; (ii) dollarization of the economy; (iii) the rise in oil prices, and (iv) political instability.

The late-1990s crisis manifested itself on a number of fronts: (i) failure of the nation's leading banks; (ii) economic recession; (iii) external debt default; (iv) increases in unemployment and underemployment; (v) real-wage declines; (vi) worsening of poverty; (vii) social unrest, and (viii) larger outflows of migrants, from more parts of the country and society.

In January 2000 Ecuador replaced its currency unit, the sucre, with the U.S. dollar. By all available evidence, the main results sought with dollarization—stabilization of inflation, economic growth, and a lowering of interest rates—were largely achieved. To judge from the available data, the currency shift has not hurt Ecuador's competitiveness, but there continue to be risks for the economy. Specifically, given Ecuador's relatively undiversified economic base (see the next subsection of this report) and natural disaster vulnerability, dollarization does leave the economy susceptible to the recessive adjustments and unemployment that so often follow an adverse external shock.

In recent years Ecuador has reaped the benefits of one very positive external shock—the hike in world oil prices. Increases in crude oil output and prices over the period examined here have corroborated its economy's reliance on oil sector performance.

The years 2000-2006 were marked by continual political upheaval in Ecuador and a succession of governments. Nevertheless, it is noteworthy that however fragile and unstable the political system over that interval, constitutionally mandated processes were largely followed after each change in administration, vice presidents having replaced the elected presidents and served out their terms.

Recent macroeconomic indicators signal strong improvements in several areas: (i) sharp drops in inflation and interest rates, the first falling to world levels and the second approaching them; (ii) improved external sector performance and current account surpluses in 2004 and 2005; (iii) slashing of the external debt; (iv) considerable improvements in the fiscal accounts, the nonfinancial public sector having posted positive fiscal results not just for the primary surplus but for the overall surplus as well throughout the entire 2000-2006 span; and (v) economic growth performance well ahead of the preceding two decades.

From the available data it would appear that Ecuador is only now recovering from the social aftermath of the crisis. Though poverty levels have come down sharply since that episode of turbulence, poverty incidence is still high, close to the pre-crisis figures. What is more, the aggregate indicators mask disparities between indigenous and Afro-Ecuadorian communities and the rest of the population, as well as the significantly worse social conditions of indigenous people.

Lastly, Ecuador still has severe transportation and electric energy infrastructure deficiencies.

The Bank's programming

With regard to the overall programming intent, our evaluation found, not surprisingly, that political instability greatly affected the programming exercise. Though the Bank's country strategies (CSs) were relevant, the premier challenge for the Bank was to find a way to keep its program relevant in such an unstable political-institutional environment. Moreover, its program was consistent and coherent. The technical cooperation (TC) portfolio, in particular, is aligned with pipeline or active operations and with the CSs' thrust and focuses.

As for IDB Group private-sector supports, the evidence available in the two CSs indicates that the Bank was not able to program MIF activity in Ecuador and, though both strategies underscored the importance of engaging Ecuador's private sector, they were cautious as to the viability of a scaled-up Private Sector Department (PRI) and Inter-American Investment Corporation (IIC) program. That caution appears to have been warranted, particularly for the early part of the period examined here.

As the previous CPE had noted, the 2000-2002 CS was not evaluable, not having provided measurable indicators and targets. The 2004-2006 CS matrix did provide quantifiable indicators and baselines but charted trends, not targets: for this second CS to have been evaluable it would at least have to have provided milestones, rather than general indications about "increasing the number," "increasing the level," "reducing", and so on. Such definitions do not denote trends and, moreover, they imply that any change—however slight—in the indicator that matches the proposed "sign" would be considered positive. Striking for their absence in the 2004-2006 CS are indicators and targets bearing directly on poverty reduction and ethnic minorities.

With regard to the country program's efficiency, the present evaluation found that: (i) the investment projects approved during the review period were prepared relatively efficiently: the average time to disbursement eligibility for investment projects was shorter than the Bank average and the comparator-country average; (ii) average project implementation time is quite a bit longer than the Bank average and slightly longer than the comparator Group D country average; and (iii) disbursements trended down until 2006, both in absolute terms and as a percentage of active loans.

Partly as a result of the implementation efficiency problems, the negative net Bank-country funds flows in 2002-2005 were the largest on record at least since the early 1990s.

It is important to note that the Bank recognized the problems of its Ecuador portfolio and worked proactively to change the structural determinants of the inefficiency problems that were within its control. Region 3 launched a portfolio adjustment process in the form of: (i) loan proceed cancellations and project closeouts and (ii) Country Office reengineering and reworking of process logic and management tools. The Country Office retooling exercise, which began with the Ecuador and Peru offices, can be credited as the Bank's most significant attempt to rework its project management model. The Region 3 changes anticipated a number of approaches that the IDB realignment exercise would go on to propose. Nevertheless, how these changes and tools introduced in the reengineering exercise will be affected by the Bank's new matrix structure remains to be seen.

Outcomes

The above-noted strong macroeconomic gains notwithstanding, Ecuador still faces stiff challenges in the spheres of competitiveness, diversification of its economy, and susceptibility to domestic and external shocks—all these having been core focuses in the country strategies of the period.

OVE has found positive outcomes in virtually all the areas and issues in which the Bank engaged—a somewhat surprising finding considering the unstable political-institutional environment in which the projects in question were operating, and the programming and implementation problems observed.

The apparent explanation of this finding is a common thread that shows up in almost every work-focus area evaluated: the Bank's interventions were consistent and complementary over time. This may have been the product of a medium-term planning process, such as in the Bank's involvement in the water and environmental sanitation sector in Quito; or it may have happened without any explicit recognition or articulation of previous experiences, as appears to be the case for the Bank-backed rural development projects, or organized by another intervention—as occurred in the social sector, where the Social Sector Program tied together, leveraged, and gave coherence to the Bank's different social-sector interventions in Ecuador. Complementary actions are observed in the areas of water and sanitation, human capital formation/education, housing, tax administration, and rural development. The evaluation team also looked at isolated decentralization-related interventions. However, if all the experiences in the above-mentioned operations areas yielded positive outcomes, the same cannot be said—at least thus far—of outcomes of the Bank's decentralization support, or in the finance area (two sector loans) which did not produce positive outcomes.

Lastly, the evaluation observed a Bank presence in rural areas—home to Ecuador's highest poverty rates and largest concentrations of indigenous populations—in the form of rural development, education, and social investment programs.

Recent developments and trends

In 2007 and the early part of 2008—after the period examined in this evaluation—Ecuador has seen some major changes in key economic indicators: (i) a sharp increase in inflation since November 2007, driven largely by rising food prices; (ii) a drop in crude oil exports beginning in 2006 though, thanks to oil price increases, oil export earnings have continued to climb; (iii) shrinking of the nonfinancial public sector (NFPS) primary surplus to 4.12% of GDP, down from 5.46% in 2006; an important change in this regard was the hefty increase—roughly three percentage points of GDP—in total NFPS revenue; (iv) by Central Bank of Ecuador (BCE) estimates, real economic growth of 2.65% in 2007, compared to about 3.9% of GDP in 2006—this decline, according to BCE, having been driven by two factors: a drop in petroleum sector output and changes in the country's institutional framework mandated by the Constituent Assembly. The uncertain political landscape is having an impact on investors' decisions. The IMF is forecasting 2.9% growth for Ecuador in 2008; and (v) in early April 2008 the Constituent Assembly passed sweeping amendments to the Accountability, Stabilization, and Fiscal Transparency Law (LOREYTF), removing the cap on annual real growth in public spending and abolishing the autonomous petroleum funds, directing that these monies go into the budget.

There have been two noteworthy changes in the country's political economy: (i) the new administration has bolstered the State's planning role, evidenced chiefly in the strengthening of the National Planning and Development Secretariat (SENPLADES) and the SENPLADES-coordinated charting of a National Development Plan for 2007-2010; and (ii) the Correa government came away with a solid majority in the September 2007 Constituent Assembly elections, which has facilitated passage of the government's reform bills.

Recommendations

Overall, OVE observed that the Bank followed the general lines of the previous CPE recommendations.

Two patterns stand out in the recent changes in the Ecuadorian economy summarized in the previous subsection: (i) the economy lost some of the momentum it had gathered in 2000-2006, and (ii) government revenues and disposable resources are up considerably. These considerations should drive the new country strategy development exercise, and they suggest that the technical support the Bank is able to deliver will be even more relevant in the coming years.

The Bank's support for competitiveness enhancement and diversification of the economy is still relevant for Ecuador, notably because the renewal of U.S. Andean tariff preferences is not assured and the current European Union Generalized System of Preferences rules are in effect through December 2008. If, for instance, the Bank pursued as a major support focus the narrowing of Ecuador's infrastructure gap, it would find itself up against the challenge of Andean Development Corporation (CAF) competition in that sector; this means that the Bank will have to be able to establish areas in which it can contribute value-added.

Given the importance of education to reduce current ethnicity-based labor market disadvantages in Ecuador, particularly for the indigenous population, support for rural education quality enhancement should continue to be part of the agenda for the Bank's engagement with Ecuador, delivered in the form of loans or technical assistance. In light of the government's decision to fund the bulk of social sector expenditure through the budget, the Bank should emphasize technical dialogue with the sector and assistance to the government for assessing quality of expenditure.

The Bank should support Ecuador as it develops and institutes a strategic planning process. To that end the Bank should develop a close collaborative relationship with SENPLADES to strengthen that agency's planning role and National Development Plan monitoring and evaluation work. The Bank's successful experience with Ecuador's Internal Revenue Service suggests that when there is political will within an institution—as appears to be the case in SENPLADES—very successful and sustainable institution-strengthening outcomes can be delivered.

This evaluation has found that—though not a necessary or sufficient condition—the best outcomes occur when the Bank works in coordinated, complementary operations. For now this would mean reducing the number of areas in which the Bank should or could engage. It also might entail a conceptual rethinking in some of its interventions that were underpinned by some Washington Consensus premises.

The foregoing indicates the need to support analytical and sector work to map out medium-term work focuses.

The Country Office's endeavors since 2003 to devise guidelines, tools, and organizational processes for its work should be aligned if possible to the Bank's new organizational structure. Though it is still early to draw any robust conclusion as to the outcomes of that effort, there is evidence that they have been positive. The Country Department Andean Group (CAN) should keep on with and monitor the initiatives begun by Region 3 and, as appropriate, disseminate the management and information tools.

Lastly, the Bank's experience in Ecuador shows that political economy analysis should be an integral part of the programming process and not just a facet of risk analysis.

I. THE BACKDROP: ECUADOR IN 2000-2006

A. Introduction

1.1 This report presents the Office of Evaluation and Oversight's country program evaluation (CPE) assessing the Bank's Ecuador program in 2000-2006. Note that this evaluation span overlaps with the 1990-2002 period[2] covered by the previous CPE, this being necessary because of the short time elapsed since the most recent country strategy approval (November 2004) and particularly to enable OVE to examine the impact of major changes in Ecuador's economy over that interval. Consequently, the present CPE takes in the Bank programming exercises charted in the country strategies for 2000-2002 (GN-2169-1) and 2004-2006 (GN-2338-1), and references the previous CPE's analysis, conclusions, and recommendations.

1.2 In the next chapter we evaluate programming exercises over the 2000-2006 span, and in chapter III the efficiency of delivery of Bank products. Development outcomes achieved in the country strategy focus and programmatic areas are discussed in chapter IV. Chapter V sets out the conclusions and recommendations of this report.

B. Overview of Ecuador

1.3 With a land mass of about 277,000 square kilometers, Ecuador is one of South America's smallest countries. Its 2006 population of over 14 million is the continent's sixth largest (Ecuadorian Statistics and Census Bureau—INEC).[3] According to census data, between 1990 and 2001 its population rose 2.1% annually, on average, as a relatively high—albeit declining—overall fertility rate (3.28 children per woman of childbearing age in 2001) combined with falling mortality rates.[4] The country's population thus is relatively young: one third of Ecuadorians are under 15, and less than 3.5% are over 65.

1.4 According to 2001 census numbers, the majority of the population (77%) is of mixed race (mestizo); the two largest ethnic minorities are indigenous people (roughly 7% of the total) and Afro-Ecuadorians (5%).[5] These minority communities' economic and social indicators are far worse than the country average: approximately 95% of indigenous people and 70% of Afro-Ecuadorians are living below the poverty line, measured by the unmet basic needs (UBN) yardstick.[6]

1.5 Oil is a huge part of the Ecuadorian economy: in 2006 petroleum sales accounted for some 27% of the government budget and 60% of all export sales. Ecuador also is the world's leading banana producer and a major exporter of cut flowers. The economy's very heavy reliance on commodities (over 80% of total exports) leaves it highly vulnerable to external shocks.

1.6 Ecuador's 2005 GDP was the eighth largest of the Bank's 26 borrowing member countries—an estimated US$36.5 billion,[7] but it ranked seventeenth for per capita income that year (US$2,800), behind the member country average.

1.7 Ecuador also is characterized by geopolitical cleavages that have their origins in marked differences in the land occupation and production development histories of the three major regions into which continental Ecuador can be divided: (i) the Coast region that stretches from the western range of the Andes to the Pacific Ocean; (ii) the Sierra region, in the central plateau between the two ranges of the Andes that bisect the country from north to south, and (iii) the Amazon region in the eastern part of the country.[8] Whereas the Coast economy has traditionally depended on large-scale export agriculture, production structures in the Sierra have been domestic market based, with a traditional agrarian oligarchy.[9] Eastern Ecuador had little economic or political weight until the dawn of the oil boom some 30 years ago.

1.8 The differing interests and ideologies generated by those economic models show up in continual political confrontations between the two main regional poles: Quito (the Sierra) and Guayaquil (the Coast). These tensions explain in large measure the political instability that has marked Ecuador's republican era,[10] even though time has virtually erased the structural differences in the two poles' economies.[11]

1.9 The 1970s oil boom spurred rapid economic and social modernization and the growth of the State, and ultimately the design of a new Constitution in 1979 whose aim was to integrate the nation politically by strengthening the executive branch and consolidating national political parties. But these efforts failed, the resource scarcity created by the 1980s crisis having triggered fresh conflicts between emerging rural forces, the Sierra, and the Coast, and the electoral system at the time continued to foment party-politics-based regional factionalism.[12] With this combination of factors at play, the main drivers of political instability in the country remained in place.

C. Ecuador in 2000-2006

1.10 Four items that stand out in the Ecuadorian economic, social, and political landscape in the 2000-2006 period examined here were: (i) the 1998-1999 crisis; (ii) dollarization of the economy; (iii) the rise in oil prices, and (iv) political instability.

1. The late-1990s crisis

1.11 An obligatory part of any review of the years 2000-2006 in Ecuador is a look at the impact of the late-1990s economic and financial system crisis which, typically for upheavals of that magnitude, was triggered by the interplay of a series of domestic economic factors and external shocks.[13] Among the domestic factors were: (i) the prevailing poor fiscal and monetary management in the 1990s; (ii) rising inflation and the ensuing loss in value of the sucre;[14] (iii) the accumulation of dollarized debt by a weakly regulated financial system in a liberalizing financial climate,[15] and (iv) political instability, which intensified in the second half of the decade.[16] Chief among the external shocks were: (i) world oil and commodity price drops;[17] (ii) the shrinking of external credit in the wake of financial market turbulence in Asia in 1997 and Russia in 1998; and (iii) the economic and social toll taken by the El Niño weather event, which hit Ecuador particularly hard in 1997-1998.[18]

1.12 The following are some of the manifestations or aftermaths of that late-1990s crisis:

a) **Financial system collapse.** This was the most acute expression of the crisis. A number of leading financial institutions—Ecuador's largest bank among them—were shut down between 1998 and 2000, and in March 1999 the government ordered bank deposits frozen.[19] An estimated 72% of the nation's banking system collapsed, the cost topping 15% of GDP.[20]

b) **Recession.** In 1999 Ecuador's per capita GDP fell more than 7% as its economy suffered its sharpest contraction in at least 30 years. It took until 2004 for per capita income to move back to pre-crisis levels.

c) **Debt default**. In September 1999 Ecuador stopped interest payments on its Brady bonds. In the first half of 2000 the IDB suspended disbursements to the country for 37 days on technical-default grounds.[21]

d) **Soaring unemployment and underemployment**. The unemployment rate doubled in the space of about a year (from 8.5% in May 1998 to 16.9% in June 1999). According to Ecuadorian Social Indicators System (SIISE) data, the underemployment rate jumped from 42% in 1998 to about 57% in 1999 and to 60% in 2000.

e) **Real-wage declines**. Over the course of 1999 the average real private-sector wage fell approximately 25%, hitting bottom in March 2000 (down 40% from January 1999).

f) **Increased poverty**. The available data consistently show poverty worsening as the crisis unfolded, which is not surprising given the above-mentioned swelling of the ranks of the unemployed and real-wage declines. SIISE figures show a 32% increase, between 1995 and 1999, in the proportion of the population living below the poverty line, from 39.4% to 52%. The effects on indigence over that interval were more severe still—a 47% jump in the extreme poverty rate, from 13.8% to 20.3%.

g) **Social unrest.** The year 1999 was marked by nationwide strikes, protest demonstrations, and declaration of a state of emergency. The unrest continued into the first part of 2000 and led to the removal of president Jamil Mahuad.

h) **Larger outflows of migrants, from more parts of the country and society.** Fueled by the crisis, migration shifted from a regional to a national phenomenon.[22] The "new emigration" current is composed of people from a variety of ethnic backgrounds and socioeconomic brackets, and a considerable proportion of women. According to SIISE data, the number of Ecuadorians who left the country to find work more than tripled between 1998 and 2000, from roughly 34,000 to 121,000.

2. Dollarization

1.13 Ecuador was the first country in the region to adopt the dollar as its currency, replacing the sucre.[23] That January 2000 move had one immediate goal—keep the spiraling price increases recorded since 1998 from sparking hyperinflation (see Figure A-1.1 which, with the other figures and tables, is in the Annex),[24] and two broader aims: stabilize the macroeconomic climate to push interest rates down toward world levels, and achieve sustained economic growth.[25]

1.14 By the close of the period examined in our evaluation, inflation had come down to world levels (2.9% annualized in December 2006), but price increases had not been immediately contained. Indeed, not only did observed annual inflation during the first 18 months of dollarization top the rates recorded prior to the 1998-1999 price hikes, but inflation rates continued to climb throughout 2000, peaking at 108% in September of that year (Figure A-1.2).

1.15 The main driver of high dollar inflation after 2000 was the overshooting devaluation of the sucre in the months leading up to the currency switch: over the course of 1999, with inflation running at 60%, the sucre depreciated about 300%.[26] Consequently, in the months preceding the dollarization of its economy Ecuador experienced inflation measured in sucres and price drops measured in dollars—the result being lagging dollar inflation, which led to a realignment of relative prices.[27] [28]

1.16 Another result of dollarization was a lowering of Ecuadorian domestic interest rates to levels more in line with world market rates. In December 2006 the benchmark lending rate was about 9.9% per annum in nominal terms, or 7% in real terms.[29] But whereas the Central Bank of Ecuador base rate was slashed immediately following the move to the dollar (from 91.16% per annum in December 1999 to 13.75% in January 2000—see Figure A-1.3),[30] bank market lending rates were slower to drop. Though the benchmark dollar lending rate was on a definite downtrend (see Figures A-1.4 and A-1.5), it was mid-2002 before it was back at pre-crisis levels.[31]

1.17 Interestingly, in contrast to lending-rate behavior, the benchmark deposit rate continued to slide in the early months of dollarization. Owing to the interplay of these two patterns, the post-financial-crisis spread uptrend continued even after dollarization (and into the early part of 2002; see Figure A-1.6). This indicates that dollarization in and of itself did not—at least in the short term—change bank perceptions about private-sector risk, bank sector concentration, and efficiency problems in the private commercial financial system.[32]

1.18 As Figure A-1.7 illustrates, after dollarization the economy grew much faster than in the two preceding decades, on a par with growth rates in the oil boom era (1970-1981). Since the early years of the new millennium were marked by robust performance of the global economy and rising oil prices (see the next subsection), OVE estimated two econometric models to explain Ecuador's growth trend and drivers.[33] In this modeling, inflation control via dollarization comes out consistently as the prime explanation for per capita income growth since 2001[34]—more important than investment, government spending, the opening of the economy, or the terms-of-trade shock triggered by oil price hikes.

1.19 Real exchange rate (REE) overshooting is a serious risk of dollarization in Ecuador. This risk exists not just because the exchange rate is no longer controlled at home but also, as discussed earlier, because the country experienced high dollar inflation and the price of oil—the nation's premier foreign currency earner—soared following dollarization. This has the potential to inflict Dutch disease effects on the economy. Fortunately, the available data indicate that if the real exchange rate is in fact somewhat overvalued today, it is not by much. As Figure A-1.8 shows, the average REE for 2006 ranged from roughly 2.9% overvalued to 1.5% undervalued.[35]

1.20 In recent years the depreciation of the dollar against the currencies of the largest consumer markets for Ecuadorian products has kept the country competitive,[36] but its exports are becoming increasingly dependent on the U.S. market—their U.S. market share having climbed from 38% in 1997 to 40% in 2002 and 53% in 2006, to the detriment of other major markets such as the European Union and Colombia, traditionally Ecuador's second largest trading partner.

1.21 To sum up: by all available evidence, Ecuador has largely achieved the main outcomes sought with dollarization: stabilization of inflation, economic growth, and lower interest rates.

1.22 Nevertheless, it is well to remember that the risks to the economy have not gone away (e.g. loss of competitiveness and Dutch disease). If, on the one hand, dollarization insulates the economy from political crises by removing a government's capacity to finance the deficit by printing currency, on the other hand it deprives the nation of an economic policy tool and, consequently, subjects it to U.S. economic policy shifts and priorities, which may not match up with Ecuadorian interests. Perhaps more important still for an economy as undiversified and natural disaster prone as Ecuador's (see the next subsection), dollarization leaves the economy open to external shocks that can take a direct adverse toll in the form of recessive adjustments and unemployment. Moreover, the move to dollarization has not been without cost, nor has its impact been evenly spread across different segments of the population. By World Bank estimates, in mid-2003 the cost of a basic consumer basket had dropped 20% for nonpoor households but barely 2% for poor households.[37] The heavy concentration of income observed in 2000 and 2001 was reversed in the following years with inflation control.[38]

3. Oil price increases and the external sector

1.23 Ecuador has 4.5 billion barrels in proven oil reserves—the third-largest stock in

South America, albeit well below Venezuela's and Brazil's proven reserves of 80 billion and 11.8 billion barrels, respectively. The Brazil figure does not include the recently discovered Tupi field.[39]

1.24 In the past decade or so Ecuador has reaped the benefits of a very positive external shock triggered by the increase in world oil prices. Between its December 1998 low and July 2006 peak the barrel price of Ecuadorian oil soared more than 780%.[40] The annual average per barrel price began to skyrocket in 2002, with huge hikes in 2005 and 2006 (Figure A-1.9).[41]

1.25 Price increases were not the only reason for Ecuador's stronger oil performance: oil output also jumped some 60% in the 2000-2006 span (see Figure A-1.10) after the September 2003 turn-on of the new heavy crude pipeline removed one of the main bottlenecks in the sector. As Figure A-1.11 shows, this output growth can be credited with 39% and 73% of the increase in Ecuador's oil exports in 2003 and 2004, respectively.

1.26 Nevertheless, the country's petroleum output increases after 2003 are below the transportation capacity generated by the new pipeline.[42] An IDB study[43] posits as a reason for this low oil-industry productivity the low-intensity exploitation of the country's most profitable fields, operated by the State oil company PETROECUADOR. Moreover, the entire increase in oil output since 2005 can be traced to the private operators of the least profitable oilfields: between 1994 and 2005 PETROECUADOR's output dropped from 330,000 barrels a day to around 200,000 barrels a day.[44] The private companies also have accounted for virtually all oil sector investment since the late 1990s.[45]

1.27 With these crude oil output and price increases, the Ecuadorian economy became ever more reliant on oil sector performance. Oil and petroleum product shipments made up close to 60% of the nation's exports in 2006—up about two thirds from 1996 (36%).[46] And it is fundamentally oil export growth (61% in real terms) that drove the near-34% increase in Ecuador's total export shipments during the period examined here. Omitting oil and petroleum products from the list of the five leading export items, exports trended down between 2000 and 2006, as Table A-1.1 in the Annex illustrates. Particularly striking is the falloff in exports of bananas, Ecuador's top export commodity after oil, which can be traced to a number of factors including falling prices, flat international demand, and low productivity relative to the country's chief competitors.[47]

1.28 Table A-1.1 and Figure A-1.12 also show how concentrated Ecuador's export base has become: in 2006, just five items accounted for 81.5% of total exports, whereas 10 items accounted for 89%—in other words, the next five items in the export basket made up just 8% of 2006 exports by volume.[48] The table and chart illustrate also the economy's reliance on commodities and hence its susceptibility to external shocks.

1.29 Aggregate external-sector data reveal a recovery in the current account, which was in surplus in 2004 and 2005 after several years of deficits (Figure A-1.13). That performance can be attributed mainly to oil-driven trade-balance improvements and mounting remittance inflows from Ecuadorians working outside the country.[49]

4. Political instability

1.30 As discussed earlier (see paragraphs 1.7-1.9), Ecuador's history has been marked by strong geopolitical cleavages that have created chronic political instability. Unfortunately, several decades of political reforms have not succeeded in eliminating the main drivers of this instability, and since Sixto Durán Ballén's 1992-1996 presidency, no national leader has served out a complete term. This political turmoil continued into the 2000-2006 period.

1.31 The period analyzed here began, literally, with a political crisis and coup d'état that removed president Jamil Mahuad from office in January 2000, less than 18 months into his mandate.[50] His replacement, vice president Gustavo Noboa, served out Mahuad's term. Sticking to an orthodox economic policy platform, Noboa implemented the dollarization plan and renegotiated the external debt following the Brady bond moratorium ordered by former president Mahuad, and Ecuador completed the first standby arrangement with the International Monetary Fund (IMF) since the 1980s.

1.32 Lucio Gutiérrez was elected president in 2002 but assumed office with the backing of barely a quarter of the members of congress.[51] The government lost further political clout when its party garnered few votes in the 2004 local elections. Attempts to dissolve the Supreme Court of Justice and reorganize the Supreme Electoral Court and Constitutional Court, and to stay legal proceedings against former presidents Bucaram and Noboa, triggered protests and demonstrations.[52] Removed from office by Congress in April 2005, Gutiérrez was replaced by his vice president, the physician Alfredo Palacio, who completed his presidential term in January 2007.[53] Palacio's replacement, economist Rafael Correa, was elected the new Constitutional President of the Republic in November 2006. Table A-1.2 presents salient events of the 2000-2006 span.

1.33 It is important to point out that however fragile and unstable the political system over that interval, constitutionally mandated processes were largely observed following each change in administration, vice presidents having replaced the elected presidents and served out their terms.

1.34 This severe instability inevitably had an effect on the operation of government. Between 2000 and 2006 Ecuador had 14 successive finance ministers, whose term in office averaged about six months (see Table A-1.3).

D. Public sector and debt

1.35 Ecuador's fiscal accounts improved considerably from 2000 forward. Throughout the 2000-2006 period the public sector posted primary and overall surpluses every year—a first in over 20 years (Figure A-1.14).

1.36 On the revenue side, the more than 50% increase in tax revenue intakes since the 1997 creation of the Internal Revenue Service is the main reason for the recovery in revenue availabilities to finance the nonfinancial public sector (Figure A-1.15).[54]

1.37 Public expenditure performance was mixed (see Figure A-1.16). On the one hand, interest expenditure was slashed to roughly 2.2% of GDP, the lowest proportion since the 1980s. On the other hand, wage expenditure rose and public investment trended down (in both cases as a proportion of GDP, and despite robust growth in gross output).

1.38 Those spending increases occurred despite the June 2002 entry into effect of the Accountability, Stabilization, and Fiscal Transparency Law (LOREYTF)[55] with its technical prescriptions for keeping the fiscal accounts in balance and the public debt sustainable. The law capped annual real growth in total primary expenditure (total expenditure excluding interest payments) at 3.5%. The government far overshot this ceiling in 2004 and 2005, posting real primary expenditure increases of 10% and 14%, respectively.

1.39 The new statute also established the Stabilization, Social and Production Investment, and Public Debt Reduction Fund (FEIREP) as a countercyclical tool that taps excess oil revenues. FEIREP monies were to be apportioned as follows: 70% to buy back external and domestic public debt, 20% to stabilize oil revenues, and 10% for human capital investment (education and health).

1.40 Complying with a law that capped increases in overall spending was akin to playing a zero-sum game between current and capital expenditure. Since current expenditure tends to be very rigid—particularly payroll costs, with their statute-mandated increases, the new law created incentives for adjustments on the capital spending side. This is in fact what happened in 2003 and 2004: despite a 10% increase in overall primary expenditure, capital outlays dropped in real terms by more than 9% in 2003 and rose just 1.9% in 2004.

1.41 This state of affairs, combined with the stance of the newly sworn-in Palacio administration (April 2005) that the LOREYTF favored debt payments over public investment and the social sectors, prompted a review of the law and of the Stabilization Fund. The capital spending growth ceiling was removed but the cap on current expenditure increases was kept (for a discussion of the Stabilization Fund changes see Box A-1.1). But these amendments produced no significant change in the public spending dynamic and, in the end, public expenditure has continued to favor current expenditure (see Figure A-1.17): public investment rose sharply in 2005 (15% in real terms) but fell back (-2.7%) in 2006, whereas current expenditure climbed 16% in real terms in 2005 and 4% in 2006, exceeding the LOREYTF caps.[56]

1.42 Ecuador's external public debt stock as a proportion of GDP plummeted during the period examined here, from 80% of gross output at 31 December 1999 to 25% at end-December 2006. But these numbers should be viewed with caution, given the robust growth in nominal GDP over that interval. In nominal terms the external debt was cut by just under 24% during that period, 76% of the reduction having been achieved through debt reschedulings with private Paris Club creditors in 2000 (see Figure A-1.18).[57]

1.43 Prior to the late-1990s crisis, private creditors' claims had made up the bulk of Ecuador's external debt (about 57%). Following the 1999 default, the proportions were reversed. In December 2006, 58.5% of the nation's external debt was to official creditors. Multilateral lenders' share of the total, in particular, went up from 27% at 31 December 1999 to 40.5% at end-2006.

1.44 The IDB is Ecuador's largest external creditor, with just over US$1.8 billion in outstanding debt at end-2006, which was 18% of the country's external public debt stock and about 44% of its multilateral debt that year. The IDB share of the multilateral debt declined over the years examined here (it had been 52% at the start of the period) (Figure A-1.19). Over that same interval the Andean Development Corporation (CAF) share of Ecuador's debt to multilaterals edged up from 23% to 29%.[58]

1.45 A final development of note is Ecuador's renewed access to international credit.[59] Rising oil prices and a much-shrunk external debt stock have lowered the perceived credit risk and, consequently, have narrowed Ecuadorian sovereign bond spreads. Even so, Ecuador's Emerging Markets Bond Index Plus (EMBI+) spread, used as a yardstick of sovereign risk, is still the region's highest. According to available data for 2005, Ecuador's debt ratios—debt service to exports, for example—and reserves in months of imports also trail most countries in the region.[60]

E. Social indicators

1.46 The available data suggest that Ecuador is only now recovering from the social aftermath of the crisis.[61] As discussed earlier, that turbulent chapter swelled the ranks of the poor and indigent: in 1999 over half the country's population (52%) lived in poverty and one fifth in extreme poverty. Though poverty rates have come down sharply since then they still are high (38%) and on a par with pre-crisis rates (39% in 1995). As Figure A-1.20 illustrates, poverty gap and poverty severity indicators for 2006 likewise resemble the pre-crisis numbers. The same pattern holds for extreme poverty indicators (Figure A-1.21).

1.47 Statistics Bureau (INEC) estimates using Katzman's classification confirm those findings:[62] a considerable share of households (approximately 33%) are living in chronic poverty, i.e., under prolonged conditions of deprivation; but 5.4% of the households are "new poor" and 21% are above the poverty line but are still categorized as poor because they have unmet basic needs; in other words, they have not yet managed to satisfy their accumulated unmet basic needs.

1.48 There are a number of factors behind Ecuador's declining poverty rate: slower inflation, revival of the economy, real-wage recovery (see Figure A-1.22), and migration. Migration has helped reduce poverty by boosting non-migrating family members' consumption thanks to the remittance money they receive, and by raising wages in sectors experiencing labor shortages.[63] Estimates put total 2006 remittance streams from Ecuadorians living outside the country at around US$3.2 billion, or 7.8% of GDP,[64] making these inflows the country's second largest foreign currency generator, after oil exports, and a major source of funding for private consumption.[65]

1.49 Education data show that Ecuador is on a sound course, though indicators still are fairly low in rural parts of the country (see Table A-1.4). The available data indicate that the country is on track to reach the Millennium Development Goal of universal primary education: its net primary enrollment ratio in 2006 was 94.3%, up from 90.3% in 1999.

1.50 Traditional health indicators (infant mortality, child mortality, life expectancy at birth) are improving overall, though some problems still are observed (see Table A-1.5).[66][67] The infant (under-one) mortality rate and child (under-five) mortality rate went back up in 2000, likely as a result of the crisis. Recent Living Standards Survey (LSS) data point up problems in measles immunization for children: measles vaccination coverage has dropped and is too low to keep infection rates below the epidemic threshold. That there is no observed improvement since 1999 is a particular concern.

1.51 Though the poverty rate may be coming down generally, as noted at the start of this chapter (paragraph 1.4), poverty rates are significantly higher in indigenous and Afro-Ecuadorian populations than in other ethnic groups. Aggregate indicators mask disparities between those groups and the rest of the population, as well as the significantly worse social conditions of indigenous communities (Table A-1.6).[68]

F. Infrastructure

1.52 Along with the oil-sector constraints discussed earlier (paragraph 1.26), Ecuador's transportation and electric power infrastructures are severely deficient. Most domestic freight and passenger traffic relies on roads and highways; rail transport is virtually nonexistent and river transport is confined to very small areas in the country. Though in spatial terms transportation system coverage may be considered adequate, the available data for the early years of the millennium indicate that barely 13% of the nation's primary and secondary road system is paved, and tertiary and access roads make up about 77% of the national road grid, concentrated in the Sierra region and very often impassable.[69] The entire road network is plagued with maintenance problems.

1.53 Ecuador's electric energy output increased by a very modest 0.44%, on average, between 2001 and 2005, with negative growth rates of close to -4% in 2004 and 2005 owing to scant investment, mounting electric power imports, and the growing use of fuels for thermoelectric power production. The loss rate of around 23% is one of the region's highest, and over half are nontechnical losses. Though Ecuadorian electricity tariffs are higher than in some other South American countries, inefficiencies have meant that rate revenues are too low to cover power companies' costs, hence the heavy domestic debt creation in this sector and massive government transfers.[70]

II. IDB PROGRAMMING IN 2000-2006

2.1 The period analyzed in this evaluation report encompasses two relatively short programming exercises—2000-2002 and 2004-2006, the first country strategy having been approved in December 2001 and the second in November 2004,[71] mainly owing to the uncertain political landscape and/or changes at the ministerial level as the CSs were being developed.

2.2 Since OVE evaluated the 2000-2002 CS in its previous country program evaluation (CPE) (document RE-295), we focus the analysis in this chapter on the 2004-2006 CS and the connection between the two strategies over the period covered by the present evaluation.

2.3 In the previous CPE, OVE noted some considerable process improvements in the 2000-2002 CS compared to previous strategies: "*(i) it includes a matrix linking the Bank's strategy and instruments to actions of the [Government of Ecuador] 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.*"[72]

2.4 The 2004-2006 CS, in turn, reveals further major improvements: (i) it outlines a sequential vision for delivery of the strategy; (ii) it makes explicit the connections between the Bank's priority strategy focuses and its product menu, and with current active projects; (iii) it offers a candid assessment of the difficulties the Bank's program encountered, and (iv) it attempts a review of the previous strategy's accomplishments, though the effort is unsuccessful because the 2000-2002 CS did not provide the requisite indicators. As the previous CPE had noted (p. 30): "*the program does not present any indicators or measurable development targets, which means it is only evaluable in qualitative terms*."

A. The programmatic intent

1. Strategy framework

2.5 The two country strategies' stated overarching objectives reflect changes in the Ecuadorian economy over the years examined here. As the previous CPE noted, the Bank's program for the first years of the millennium was designed to help Ecuador rally from the crisis and restructure its economy, and implement the dollarization plan, in coordination with the leading multilateral organizations (IMF, World Bank, and CAF).[73] The 2004-2006 CS, for its part, had as its objective "*make the country less vulnerable to external and internal shocks*" (GN-2338-1, p. 22). Thus, both strategies focused on competitiveness and economic performance issues, though they did map out other action areas, and they thus can be said to be consistent.

2.6 In fact the two programs' strategy frameworks are quite similar, so much so that we can draw direct lines between the three dimensions of the 2004-2006 strategy—(i) structural dimension: help lay the foundations for energizing the productive structure; (ii) social dimension: promote social development and protect the most vulnerable groups, and (iii) institutional dimension: support for enhanced government efficiency, as a cross-cutting component of the foregoing two dimensions—and the 2000-2002 CS's four specific objectives: (i) stabilization of the economy and revival of growth; (ii) poverty alleviation, human capital formation, and social inclusion; (iii) efficient infrastructure management with private-sector participation, and (iv) modernization and decentralization of the State and pursuit of sustainable regional development.

2.7 As discussed in the previous chapter, political instability was a constant not just throughout the period reviewed here but also in the years before. Not surprisingly, that shifting political landscape greatly affected the Bank's programming work, as the two CSs and portfolio review reports expressly acknowledged.[74] [75] Though the CSs were relevant *ex ante*, the great challenge for the Bank was how to **keep** its program relevant in such a setting.

2.8 Despite the continual political and administration changes in that unstable political-institutional environment, there is no discussion in the country strategy papers of the period about the feasibility or acceptability of alternative strategy models for the medium term, even though the papers did: (i) make reference to the governments' weak capacity to *"manage demands under a consistent medium-term strategy line"* (2004-2006 CS, p. 22) and (ii) recognize that "*Part of the success in implementing the strategy is due to the fact that, for most social sectors (housing, education, water and sanitation, and services for vulnerable groups), the Bank has provided medium-term support, in an attempt to maintain a strategic aim in its actions"* (2004-2006 CS, p. 16).[76]

2.9 Moreover, and perhaps as a result of the aforementioned circumstances, the information presented in the country strategy papers suggests that the Bank has had difficulty charting its strategy focus, having opted for different courses during the period:[77] whereas the 2000-2002 CS underscored the need to "*focus the Bank program on crucial areas where smaller projects have a significant impact in a relatively short term"* (p. 9), the 2004-2006 CS "*favors structural reform operations involving large amounts in the priority areas of the [IDB country] strategy"* (p. 24).[78]

B. The operations program: proposed and delivered

1. Lending

2.10 Between 2000 and 2006 the Bank approved roughly US$1 billion in lending for 28 Ecuador projects and programs, which represented 4.8% of its project approvals by number over that interval and 2.3% by lending volume. Predictably, given the size of the Ecuadorian economy, average project approvals for this country tend to be smaller than the Bank-wide average. However, if we take a group of comparable Group D countries as a comparator, Ecuador loan approvals average out slightly above approvals for that group.[79] [80]

2.11 Twelve of the 28 loans (US$326.5 million) were approved between 2000 and 2002, three (US$232.9 million) in 2003, and 13 (US$447.3 million) during 2004-2006 (see Table A-2.1).

2.12 Table A-2.2 consolidates basic data about loan operations presented and proposed in the two country strategies of the period. Because the 2000-2002 CS was approved toward the end of 2001, the nine 2000 and 2001 loans listed in that CS were already-approved operations, not pipeline loans. Thus, only the 11 loans the first CS lists for approval in 2002 and the 12 listed in the 2004-2006 CS can be considered programmed operations.[81] As Table A-2.2 shows, only 8 of those 23 actual pipeline loans were ultimately approved.

2.13 The fact that nine loans had already been approved and a further three were approved in 2003—the transition year between the two CSs—means that only 16 of the 28 approvals could have been programmed by the two CSs. However, half of those approvals were not contemplated in the programming papers (see Table A-2.3).

2.14 The low approval/pipeline ratio (8/23) and high proportion of unprogrammed approvals (50%) is not surprising, particularly for the 2004-2006 CS span, given the change in administration (Palacio replacing Gutiérrez as president) short months after the strategy was approved.

2.15 Table A-2.4 lists 2003 loan approvals. The Social Sector Program (EC-0216, 1466/OC-EC)—at US$200 million, the largest loan approved in the period—explains that year's relatively high approvals figure.

2.16 Between 2000 and 2006 the Bank approved loans addressing all its core action focuses: social sectors (five projects), infrastructure (two projects), urban development (seven projects), agriculture (one project), environmental protection (four projects), State reform and modernization (five projects), and competitiveness and private sector (four projects). There is no indication that the 2004-2006 CS's stated intent to focus the Bank's program on four priority areas made for any significant lessening of the thematic dispersion of projects[82]—a product of the tension that is virtually a given in Bank programming exercises between the conceptual strategy focus and project demands originating in the Bank's operational departments or the country's line ministries.

2.17 The 2004-2006 CS maps out a logical sequence for two-stage delivery of the Bank's program: the first stage was to focus on policy reforms and build on previous operations approvals; the second stage would "*consolidate investment and technical cooperation interventions in the social area and actions that promote increased productivity*".[83] Unfortunately, except for technical support to the social sector (see paragraph 2.24 below), the program ultimately approved does not reflect that logic: approval of the sector loan (Competitiveness Enhancement Program, EC-L1004, 1791/OC-EC) was not secured until late 2006, and no other productivity-related operations were approved.

2.18 Gender considerations are not addressed in either of the period's two CSs, though they do figure in most of the social projects approved over that interval as well as in several projects in other sectors, such as the Rural Land Titling and Registration Program—PRAT (EC-0191, 1376/OC-EC—see paragraph 4.22), the Program for Sustainable Development of Ecuador's Northern Amazon Region (EC-0201, 1420/OC-EC), or phase I of the Municipal Modernization and Neighborhood Improvement Program (Quito) (EC-L1017, 1740/OC-EC).

2. Technical support

2.19 The Bank delivered substantial technical assistance to Ecuador in 2000-2006, approving 131 nonreimbursable technical-cooperation operations (TCs) totaling close to US$19.6 million. This topped Bank TC approvals for five of the seven comparator-group countries—Bolivia, Dominican Republic, El Salvador, Nicaragua, and Paraguay, trailing only Guatemala and Honduras. By number of projects, TC approvals for Ecuador were ahead of all the comparator countries except Honduras.

2.20 By funding amount, the average TC approval for Ecuador (approximately US$150,000) was below the Bank average of close to US$196,000 and also below the Group D country comparator average of US$179,000. But relative to lending approvals, the data show that the technical support delivered to Ecuador is similar to the support that went to the comparator group, and above the Bank average.[84]

2.21 The Bank funded the bulk of its technical support (about 63% in project number terms and 56% by funding amount) using its own resources. The balance was financed out of the Bank-administered trust funds.[85]

2.22 As for the sectoral distribution of TC approvals, the Bank focused its assistance on the social areas, which came in for roughly one third of approvals. Fully 38% of these TCs were targeted on Afro-Ecuadorian and indigenous communities, two very important vulnerable segments of Ecuador's population.

2.23 The TC approvals were aligned to pipeline or active operations and to the two country strategies' guidelines: at least 40% of TC approvals were directly connected to the proposed Bank program.

2.24 TC approvals were concentrated in 2006, when about one quarter of the Bank's technical supports—by amount and number of operations—was approved. In consonance with the sequence logic set out in the 2004-2006 CS, a large proportion (14 of 32) of those TCs were for social-sector support.

3. Private sector

2.25 The MIF approved US$17.5 million in funding for 29 projects between 2000 and 2006. In volume terms its Ecuador approvals over the span analyzed here exceeded approvals for all the comparator Group D countries. The Small Enterprise Development Facility accounted for the largest share of project approvals, with 12 operations. Tourism and agriculture (five projects each) were other major MIF program focuses.

2.26 Judging from the evidence in the two CSs, the Bank was not able to program MIF activities in Ecuador. Only one project envisaged in the 2000-2002 CS and two in the 2004-2006 CS were approved. Despite the importance of remittance streams for the Ecuadorian economy, the MIF's commitment to remittance issues, and the remittances-related projects in the pipeline, the first MIF approval for Ecuador in this sphere came only in 2007.

2.27 Both the country strategies underscore the importance of engaging Ecuador's private sector but are cautious as to the viability of scaling up the program with that sector (Private Sector Department—PRI and Inter-American Investment Corporation—IIC): "*In recent years, the opportunities for the Private Sector Department (PRI) and the IIC have been limited. .... The [IIC] pipeline for new projects is limited. … Since one of the central goals of the present program is to attract private investment for infrastructure, and as concessions processes are reactivating, a window of opportunity is opening for PRI"* to complement concession and/or privatization work (2000-2002 CS, p. 18). The 2004-2006 CS, for its part, points up in its executive summary "*the uncertain demand for Bank instruments that support the private sector.*"

2.28 That caution appears to have been warranted, particularly for the first part of the review period. Initiatives to facilitate private investment deals or privatization in the electric power sector did not materialize. In the end the Bank approved US$102 million in funding for three PRI operations, all of them in the last two years of the period—two for the financial sector and one for the Quito airport. As for the IIC, only three of its 15 loans between 2000 and 2006 (a total of US$75.5 million) were approved in the 2000-2002 span, and one of those was canceled.

2.29 As indicated above, two of the three PRI loan approvals were for the financial sector. Five of the seven IIC finance sector operations were approved between

2004 and 2006. That emphasis matches what the CS had envisaged for the period: "*the Bank, through technical cooperation, MIF, PRI, and IIC operations and in coordination with the World Bank, will seek to strengthen some of the financial institutions in the development of a capital market and in the mortgage loan area*" (p. 28). Here again, the difficulty in MIF programming becomes apparent: only one MIF project approved in 2004-2006 pertained directly to financial sector strengthening.

C. Evaluability and monitoring of the country strategies

2.30 As discussed in the previous CPE and mentioned earlier in this report, the first CS for the period examined here was not evaluable, not having established indicators or measurable targets. In contrast, the 2004-2006 CS does present quantifiable indicators and establishes baselines, but it charts trends, not targets: "*Evaluation of the expected trend for each indicator through 2006—with respect to the baseline—is planned, with no specific targets established for the Bank's action*".[86] Even if one were to accept the argument that "*in a three-year strategy, only partial progress will be made towards the targets,*"[87] for the CS to have been evaluable it would at the least have to have provided milestones, rather than general statements about "increasing the number," "increasing the level," "reducing," and so on. Apart from the fact that these definitions do not denote trends, they imply that any change—however modest—in the indicator that presents the same proposed "sign" would be termed positive.

2.31 Table A-2.5 presents the indicators that OVE extracted from the 2004-2006 CS matrix. As the figures show, progress was made toward all of them.[88] Striking for their absence are indicators relating to (i) poverty reduction and (ii) ethnic minorities, particularly indigenous communities.[89]

2.32 The 2004-2006 CS states that its indicators will be evaluated annually and that "*indicator progress will be evaluated periodically through: (i) annual portfolio review missions; (ii) sector missions; (iii) annual operations program updates, and (iv) as a dialogue topic during the programming mission.*"[90] However, none of the portfolio review or programming reports reviewed by OVE delivers on that commitment.[91]

D. Other donors

2.33 The Andean Development Corporation (CAF) was the leading multilateral lender to Ecuador in 2000-2006 by number of projects (38) and lending volume (approximately US$2.6 billion).[92] By virtue of its quicker project preparation times, lower transaction costs, and lighter technical requirements the CAF has emerged as Ecuador's premier finance alternative.

2.34 In light of these CAF numbers and the World Bank's US$775 million in 17 loans to Ecuador over those years, IDB project loans were on average the smallest among the three multilaterals: US$36 million, compared to US$46 million for the World Bank and US$66 million for the CAF.

2.35 Over that interval the IDB worked more closely with the World Bank than with the CAF, though in the early part of the period all three multilaterals lent macroeconomic backstopping support for the economy's post-crisis recovery. The conditionality matrixes of the Investment Sector Program (EC-0194, 1259/OC-EC) and Social Sector Program (EC-0216, 1466/OC-EC) called for activities to complement World Bank actions. The IDB and World Bank also cofinanced the (subsequently canceled) Rural Roads Program (EC-0211, 1518/OC-EC). Other than in the health area, in which the IDB first acted in Ecuador with its 2006 approval of the Universal Health Insurance Program (EC-L1025, 1754/OC-EC), the IDB and the World Bank have been able to coordinate their social-sector engagement.[93] Since the CAF projects were heavily concentrated in urban infrastructure (roads and water and sanitation), that agency became a competitor for any scale-up of IDB activities in cities such as Guayaquil and Quito.

E. Final observations

2.36 In a survey designed to gauge current and prospective clients' perceptions of the quality of the Bank's technical assistance for new operations programming and identification, its support in that area was rated unsatisfactory[94]—the lowest rating elicited in a Bank-commissioned set of surveys (see subsection D.2 in the next chapter). In particular, officials surveyed rated the technical assistance received from the Bank's Country Office for new operations identification as "moderately satisfactory" compared to CAF support.

2.37 What is striking here is that, even though the Bank understood and explicitly acknowledged the political-institutional instability that characterized Ecuador throughout the period, it continued to treat this as a <u>risk</u> for its country program: "*In view of the political and institutional instability that characterizes Ecuador, there is a risk that the priorities of the country and the operations program will be affected.*"[95] "*Political risk*," "*changing demands by the government,*" and "*significant turnover of government employees*" should not have been subjects of the risk analysis for the Bank's country engagement, as they were in the second CS, but rather integral considerations in designing the Bank's country program roadmap. As discussed earlier in this report, the challenge for the Bank was how to stay relevant in such a shifting landscape. But the Bank did not conduct any analytical exercise to devise a model for its work in that particular Ecuador environment.

2.38 Since the challenge during the 2000-2002 country strategy span had been very clear—help the country rebound from the economic crisis—the decision on a strategy thrust had been fairly straightforward. In the following years, that tangible challenge having passed, the absence of a Bank model for its work with the Ecuador of that time meant weaker if any conceptualizing of the case for its country engagement: there was no significant reduction in the thematic dispersion of projects and neither the programming intent nor the envisaged strategic sequencing was delivered.

III. IDB PROJECTS AND THEIR PREPARATION AND IMPLEMENTATION EFFICIENCY

3.1 In this chapter we describe the projects approved during the period covered by this country program evaluation and assess how efficiently they were prepared and delivered.

A. Project preparation efficiency

3.2 Table A-3.1 in the Annex presents preparation times (from pipeline entry to approval) and post-approval times (from approval to disbursement eligibility declaration) for the 25 investment projects approved between 2000 and 2006, and compares the Ecuador average to the Bank and comparator-country averages.[96] As the table illustrates, despite the great dispersion of the numbers, the 14-month average approval time for an Ecuador project is shorter than the Bank-wide and comparator-group times.[97]

3.3 The table further shows that the 7.6-month average time lapse between approval and signature of an Ecuador project far exceeds the Bank average and is double the Group D average. This obviously is something outside the Bank's control, and may well be a reflection of the continual changes in government and in finance authorities over the period. However, once an operation is signed, the procedural requirements to have it declared disbursement-eligible are fulfilled relatively efficiently.

3.4 In brief, the available data indicate that the investment projects approved during the period analyzed here were prepared relatively efficiently: the average time it took for such a project to start disbursing—i.e., to be declared eligible for disbursement—is shorter than the Bank and comparator group averages.

B. Implementation efficiency

3.5 As Table A-3.2 shows, the 45-month average delivery time of projects that were approved and disbursed in full in 2000-2006 is quite a bit longer than the Bank average (37 months) and slightly above the comparator group average (42 months). On average these projects' original delivery times were extended nine months.

3.6 An important consideration here is that the delivery-time average is skewed down by the inclusion of the Foreign Trade Management Support Program (EC-L1001, 1524/OC-EC): when the government canceled close to 75% of that loan in 2007, the project's delivery time was considerably shortened. Accordingly, if we factor out that program, the average implementation time of disbursed projects stretches out considerably—almost 30% longer than the Bank average and 15% longer than the comparator Group D country average.

3.7 More aggregate performance issues are observed when we analyze the proportion of active loans that was disbursed over the course of 2000-2006 (Figure A-3.1).[98] Until 2006, disbursements trended down, both as a percentage of active loans and in absolute terms. Disbursements that year increased nearly fourfold over 2005, but this was not enough to reverse the significant negative net funds flow observed in the preceding years (Figure A-3.2). The negative Bank-country flows between 2002 and 2005 were the largest on record since at least the early 1990s.

3.8 Some part of the explanation for the portfolio performance problems lies in the continual changes in administrations and ministry officials over the period examined here, to which we referred in previous chapters. As we discuss in the next section, the Bank did endeavor proactively to change the structural determinants of the inefficiency problems that were within its control.

3.9 According to its system records, the Bank fielded 634 missions to Ecuador, the large majority of them (60%) for operations identification, preparation, and execution, and 23% for technical assistance. In other words, 83% of the missions (and 87% of person-days) were for goal-activities—similar to the numbers observed in the comparator Group D countries.[99]

C. Evaluability

3.10 Data regarding the evaluability of investment projects approved in 2000-2006 point to a significant improvement in the operations approved from 2004 forward.

3.11 OVE found that all the projects approved since 2004 have at least one indicator with complete metrics (baseline and measurable targets) for their development objectives (purpose). Just two of the projects approved between 2000 and 2003—EC-0196, 1282/OC-EC, Rural Transportation Infrastructure Program, and EC-0207, 1416/OC-EC, Housing Sector Support Program II—also provide full objectives and at least one indicator with complete metrics. Two other projects: EC-0197, 1296/OC-EC, Development of the National Statistics System, and EC-L1001, 1524/OC-EC, Foreign Trade Management Support Program, have no development objective with at least one indicator with complete metrics. In the other projects approved between 2000 and 2003, 25% to 75% of their development objectives have at least one indicator with complete metrics.

D. IDB initiatives

3.12 OVE interviews with officials of the former Region 3 (RE3) revealed that in the early years of the present decade RE3 saw the Ecuador portfolio as very problematic, and thus began a portfolio adjustment exercise featuring: (i) loan proceed cancellations and project closeouts and (ii) Country Office reengineering and reworking of process logic and management tools.

1. Cancellations

3.13 Close to 4% of the proceeds of the Ecuador loans the Bank approved in 2000-2006 were canceled within that same span.[100] If we omit operations that in

December 2006 had yet to begin disbursing, the proportion climbs to 5.5%.[101] Looking only at operations whose complete history we know, i.e., loans approved and disbursed in full during that period, the cancellation percentage rises to 8.1%, far higher than the Bank average of 2.3%, and higher also than the observed comparator-group proportion (6.6%).

3.14 By sector, most of the canceled funding had been for State reform and modernization operations: if we exclude the canceled loan for the Finance Ministry Strengthening Program (EC-0198, 1366/OC-EC), close to 20% of funds approved for that domain during the period examined here were canceled.[102]

3.15 Cancellations of loan proceeds, project closeouts, and declining lending volumes quickly shrunk the Ecuador portfolio (see Figure A-3.3)—measured as the sum of loan amounts of active projects in a given year—the object having been to expedite project performance and lower the Bank's country exposure. As the aforementioned figure shows, this reduction happened until 2006 when the trend turned around.

2. Reengineering for project management[103]

3.16 In 2003 RE3 launched a retooling of its Country Offices. That exercise, which began with the Ecuador and Peru offices, can be credited as the Bank's most significant attempt to change its project management model. As discussed earlier, the process entailed changes in the logic of various management and supervision processes, including financial, disbursement, and procurement procedures and practices. More important still, the reengineering involved changes in the work and responsibilities of Country Office technical and administrative staff, and also of Bank project executing units.[104]

3.17 As part of the process of diagnosing issues and designing the reengineering proposals, in 2005 and 2006 RE3 conducted surveys on executing unit quality, Bank client and user satisfaction, and the Country Office work climate. The survey discussed earlier (paragraph 2.36) that rated satisfaction with the Bank's technical assistance for new operations identification and programming also was conducted in 2006.

3.18 Overall, the survey ratings of executing unit quality ranged from moderately satisfactory to satisfactory, and revealed some measure of improvement between 2005 and 2006.[105] Interestingly, one of the chief findings of that quality survey corroborates the point that OVE has been making in its CPEs and evaluability exercises about weak monitoring and management systems: in the in-country surveys in Ecuador the questions eliciting the lowest satisfaction ratings have to do with the structure of performance indicator systems. As the Country Office put it, those findings "*suggest that these systems are not, at the moment, duly fulfilling their prime objective, i.e., to be a tool for evaluating outcomes and taking timely action to improve performance.*"[106]

3.19 The Bank client and user satisfaction surveys were administered to the general coordinators and financial administrators of 32 executing units and to Finance Ministry deputy secretaries and loan analysts. These respondents see the Bank as "*a bureaucratic, rather inflexible institution highly dependent on its Washington headquarters for project programming and evaluation*,"[107] yet the overall rating came out "satisfactory," with a slight improvement in perceptions observed between the first and second survey.[108]

3.20 Two items stand out in those survey findings: the first is the mention of "*repeated requests from executing unit officials for training workshops on IDB policies and procedures, requirements for first-disbursement release (project execution plan, annual work plan, risk analysis), and procurement procedures.*"[109] This finding is surprising considering the Bank's frequent affirmations that, to bolster executing units' limited institutional capacity, it is constantly delivering institution-strengthening support to train executing units in Bank procedures: "*The Bank, by way of the Country Office, has continued with efforts of previous years in the following activities: (i) ongoing advisory support to executing units on procurement matters; (ii) allocation of consultancy resources to address particular implementation issues; and (iii) training for executing unit staff in project management, procurement, disbursement, and audit matters*" (Ecuador: Portfolio Review Report, CP-1639-8, January 2003). Or, more recently: "*The Country Office has continued with executing unit institution-strengthening efforts, providing those units with training on procurement policies and procedures and closely supervising their use of processes and procedures*" (Ecuador: Portfolio Review Report, January 2005).

3.21 The second interesting finding of the client and user satisfaction surveys comes in a Country Office recommendation: "*With regard to annual evaluations of projects, it is suggested that there be a heavier emphasis on social impact evaluation, measured using the Indicators System, along with financial aspects.*" This recommendation is consistent with what OVE has found in other evaluations: the Bank's scant attention to outcomes measurement. A case in point is the evaluation of Project Completion Reports (PCRs) (document RE-315, p. 34): "*This evaluation concludes that too much outcome information is missing from the PCRs in order to assess development effectiveness*."[110]

3.22 The centerpiece of the reengineering exercise was the New Supervision System, anchored in risk analysis. Internally, "*The new supervision system (NSS) for projects, which is results-based and risk-focused, places its core emphasis on the need to improve performance of the [Country Offices] … The NSS fundamentally seeks: (i) to free the time of sector specialists, with the aim of increasing their direct project work and achieving a more relevant supervision and (ii) to change the sector specialists' focus of attention, so that they will be able to achieve the same levels of control over the procurements and financial processes in less time, through a qualitatively superior control focused on making sure that the project objectives are fulfilled. With this in mind, it is fundamental to focus on project risks and develop a plan of action for addressing and mitigating them.*"[111]

3.23 Externally, the NSS entailed also the transfer to executing units of ultimate responsibility for a project's management, delivery, and impact. Under that system, the Country Office specialist supervises executing units.

3.24 The NSS also introduced the Balanced Scorecard (BSC)[112] as a performance measuring tool. During the period examined here OVE did two performance evaluations using BSC, in 2005 and 2006. The 2005 exercise, run as a pilot, defined four major indicator categories: (i) portfolio quality; (ii) implementation of the reengineering; (iii) Country Office input into country strategy development, programming, and new operations design; and (iv) operational performance (see Table A-3.3). As that table shows, the indicators used in the 2005 exercise relate to operational outcomes; none pertain to development objectives. The evaluation findings were positive: just 4 of the 24 indicators fell short of their targets. In its own analysis the Country Office acknowledged that some of the targets had been conservative, particularly for portfolio quality indicators, where performance far overshot the target; and that others had been very optimistic as far as operations performance was concerned, just half those targets having been delivered.

3.25 The 2006 BSC-based evaluation exercise used 19 indicators divided into three classes: (i) substantive; (ii) strategic, and (iii) operational and organizational (Table A-3.4). Here again, no development objectives-related indicators were found. The measured performance indicates that only five indicators failed to achieve 80% of their targets.

3.26 Another important output of the reengineering exercise was the innovative management tools developed: the Integrated Project Management System (IPMS) and the "Ketra" system for project administration, accounting, and financial management. The IPMS, to be used by the executing unit under the Bank's supervision, is designed to manage the planned project activities and project risk. Executing units would use the Ketra system to manage disbursement-related information: disbursement requests, expenditure statements, disbursement controls, etc.[113] A major advance of this latter system is its ability to generate financial statements and financial and budget reports requested by the government and share information with the IPMS. That feature makes it a useful country tool, giving the government, and the Finance Ministry in particular, a unified information and management resource, which will facilitate decisions on budget allotments and public debt management.

3.27 In sum: the set of proactive measures launched by the former RE3 marked a significant improvement in how the Bank does business. It is still early to know what impact those measures have had on efficiency and quality of Bank operations management and on the country dialogue, but clearly that potential exists. It remains to be seen how the Bank's new matrix structure will affect these changes. Interestingly, the RE3 retooling anticipated a number of approaches that the IDB realignment exercise would go on to propose.

IV. OUTCOMES ASSOCIATED TO THE PROGRAMMING EXERCISE

4.1 This chapter describes the main country outcomes observed in areas relating to the program the Bank funded and delivered in Ecuador between 2000 and 2006. We analyze the country outcomes achieved by virtue of the Bank's engagement in strategic areas or issues, drawing on country data as well as outcomes data obtainable from: (i) operations funded by the Bank in 2000-2006 which were more than 50% disbursed, and (ii) programs approved prior to the 2000-2006 span but substantially disbursed during those years.[114]

4.2 The thematic discussion that follows is structured around the three strategy dimensions charted in the 2004-2006 country strategy (CS): (i) structural, (ii) social, and (iii) institutional. As discussed in chapter II of this report, these three dimensions correspond directly to the specific objectives of the previous CS and thus can be used to organize the thematic discussion for the entire period assessed here.

A. Structural-dimension outcomes

4.3 As stated in the 2004-2006 CS, the structural strategy dimension sought to "*help lay the foundations for energizing [Ecuador's] productive structure*." The nation's premier challenge in 2000-2006 was to stabilize the economy and revive growth, a process the Bank supported through the Investment Sector Program it approved in 2000 (EC-0194, 1259/OC-EC), which had been designed in coordination with the IMF standby arrangement, the World Bank, and the CAF.

4.4 Figure A-4.1 graphs average 2000-2006 outcomes for selected structural-dimension indicators for Ecuador, for the comparator Group D countries, and for the Bank's member countries. Ecuador generally outperformed the Group D comparator countries on macroeconomic variables—macroeconomic climate, economic growth, and gross fixed capital formation; for the latter two variables the Ecuador figures are ahead of the Bank average as well. But Ecuador comes out worse in the competitiveness variables (growth competitiveness and time to start a business), spending on information and communications technology, and credit to the private sector.

4.5 These outcomes mirror the chapter I discussion of major improvements in macroeconomic indicators: (i) sharp drops in inflation and interest rates, the first falling to world levels, the second approaching them; (ii) improved external sector performance and current account surpluses in 2004 and 2005; (iii) slashing of the external debt stock; (iv) considerable improvement in the fiscal accounts, the public sector having posted not just primary surpluses but also overall surpluses over the entire period; and (v) much more robust economic growth than in the preceding two decades.

4.6 Nevertheless, as the earlier discussion also suggested, much of the success observed, particularly the economy's external numbers, could be explained by the strong performance of the global economy generally and of oil prices in particular. These are important factors in making Ecuador's economy more competitive, a critical element for the Bank's program throughout the entire 2000-2006 period, and for making the economy more resilient to external and domestic shocks—the prime objective of the 2004-2006 CS.[115]

1. Competitiveness and susceptibility to shocks

4.7 The available data indicate that, the positive outcomes described above notwithstanding, Ecuador still is facing significant problems to build a more competitive and diversified economy. For example:

(i) *"The Growth Competitiveness Index of the World Economic Forum (WEF) indicates that in 2005 Ecuador's overall competitiveness did not improve, remaining in the fifth quintile of the sample (103rd out of 117 countries) … and in the Current Competitiveness Index the country remained in the 92nd percentile (107th out of 117)."*[116]

(ii) Ecuador's export basket is very heavily concentrated in a handful of products: in 2006, just five items accounted for 81.5% of exports.

(iii) This product concentration is even more pronounced in the leading industrialized markets for Ecuadorian goods: in 2006, Ecuador's 10 top export items made up 90.5% of its exports to the European Union and 94.4% of its shipments to the United States—and these proportions have been rising for several years.

(iv) Such concentration is evident also in shipments to the different importing markets: in 2002 Ecuador sent about 40% of its exports to the United States; by 2006 that figure had climbed to 53%. Over this same interval the European market share shrank from 16% to 11.7% and the share of Colombia, Ecuador's traditional trading partner, from 7.2% to 5.6%. Together those three markets took just over 70% of all Ecuadorian exports in 2006, up from about 63% en 2002.

(v) Ecuador benefits from the European Union's unilateral Generalized System of Preferences (GSP), and virtually all its exports enter the U.S. market with tariff preferences, for instance under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) or Andean Tariff Preferences. The current GSP is in effect through December 2008, and though ATPDEA trade preferences to Ecuador were recently extended for 10 months, their renewal is subject to political uncertainties.[117]

4.8 As we noted in chapter I, Ecuador is still highly susceptible to domestic and external shocks:

(i) The main drivers of political instability in Ecuador's past are still at play, decades of political reforms have yet to bridge the nation's geopolitical divide, and "*the country has not had a body of legislation in place for relatively long periods of time such as could have been put to the test in* *medium-range processes while offering some measure of assurance as an enabling environment for political practices*."[118] [119]

(ii) Dollarization has deprived the country of an economic policy tool and thus left it open to U.S. economic policy priorities and shifts.

(iii) Ecuador's economy has become even more reliant on petroleum sector performance. Exports of oil and petroleum products made up close to 60% of the nation's exports in 2006—roughly a two-thirds increase over their percent share in 1996, the last year before the late-1990s drop in oil prices.[120]

(iv) Though a huge portion of remittance streams into Ecuador come from Europe, that major generator of funds for the Ecuadorian economy could be affected by the economic turbulence in the United States.[121]

(v) Despite impressive improvements in some debt indicators between 1999 and 2006—for instance, a near-24% reduction, in nominal terms, in Ecuador's external debt stock and an increase in the multilateral share of that debt from 27% to 40.5%, spreads for Ecuadorian bonds traded in secondary debt markets are still the region's highest, and Ecuador's debt service-to-exports and reserves-to-months-of-imports ratios are trailing most countries in the region.

4.9 If Ecuador's external sector has become more oil-dependent, rising tax revenues have averted a similar pattern for the public sector, as we discuss in the next section.

2. Tax administration

4.10 Figure A-4.1 graphs the steep increase in Ecuador's tax revenue intakes in recent years, which in 2006 reached 11% of GDP. The IDB supported this process through a US$15.8 million technical-cooperation loan for the Tax System Modernization Project (EC-0175, 1062/OC-EC) intended to help the government build a professional, independent Internal Revenue Service (IRS). That new bureau began operating in 1998—the year the barrel price of Ecuadorian oil hit US$9.2 (down 41% from the average price in 1997, when the central government deficit was 1.5% of GDP).[122] According to the project completion report and interviews with the director of the new IRS, explicit executive branch and civil society support helped assure the continuity of this project, enabling for instance the dismissal of 96% of the staff of the much discredited former Revenue Directorate.[123] But, even though the IRS had congressional support for its capacity-bolstering plan, political and economic interest groups blocked moves to do away with tax shields and low-yielding taxes, thereby diluting the program's positive impact.

4.11 Tax revenues rose from 6.2% of GDP in 1998 to 10.8% in 2004, the year the tax system modernization project was completed (Figure A-4.2).[124] By virtue of that increase, IRS tax receipts that had contributed 28% of the budget in 1998 (when Ecuadorian oil was selling at US$9.2 a barrel and the country was exporting an average of 238,330 barrels a day), came to account for 47% of the budget in 2004 (with oil at US$29.9 a barrel and daily export shipments averaging 354,550 barrels)—thereby reducing the budget's reliance on petroleum revenues.

4.12 Though tax collection costs jumped from 0.11 U.S. cents for every dollar of tax revenue collected in 1999 to 1.08 cents in 2004, they are still below the statutory IRS budget cost of 1.5% of total tax intake, or 1.5 cents for every dollar collected. Considerable improvements are evident in some other efficiency indicators calculated by OVE, such as the evasion rate and the productivity index of the value-added tax (VAT)—defined as the ratio between VAT revenues as a percentage of end-consumption, and the VAT rate (see Figure A-4.3).

3. Financial/banking system

4.13 One sector of the economy hard hit by the late-1990s crisis was the financial/banking system. In the wake of that upheaval over 70% of the nation's banking system was shut down. Analysts put the fiscal impact of that turbulence—the cost of the crisis, plus depositors' losses when their bank accounts were frozen, plus debt defaults—at 20% of PIB.[125]

4.14 Two sector loans (PBLs) approved by the Bank during the period examined here were directly related to financial sector strengthening: a US$110 million loan (including a TC loan) for the Financial Sector Program (EC-0043, 833/OC-EC, 834/OC-EC), approved in 1994 but not completed until 2002, and a US$150 million loan approved in 2000 for the Investment Sector Program mentioned earlier (EC-0194, 1259/OC-EC).

4.15 The Bank disbursed the first tranche of the financial sector loan in 1994. One of the first-tranche release conditions had been passage of the Financial Institutions Law, the statute that launched the financial system liberalization process and enabled that sector's growth over the second half of the 1990s.[126] This system growth, which in principle could be interpreted as a positive development that Ecuador would not have experienced had the Financial Institutions Law not been passed, exacerbated problems of asymmetric information. The growth in financial sector activity was not accompanied by a bolstering of the consolidated oversight system (envisaged in the loan), nor was a framework created for problem-bank workouts or closures. To the contrary, the proliferation of undercapitalized financial intermediaries made matters worse. Though the loan had specifically addressed the issue of financial system supervision and emphasized the importance of developing asset risk assessment procedures, capital adequacy, treatment of related-party activities, and offshore operations, it was precisely on these points where supervision—and hence the financial system—would ultimately fail.[127]

4.16 Following the first-tranche disbursement the financial sector reforms stalled, when president Sixto Durán Ballén's Unidad República party share of congressional seats dropped from 15.6% to 3.9% following 1994 midterm elections. As from that moment the reforms were blocked. Absent the planned system overhaul and against a backdrop of lax bank supervision, poor risk management, and mounting bad loans, the faltering banking system ultimately collapsed in 1999.

4.17 In April 2000 the Financial Sector Program was reworked to help the government manage the crisis, and over the course of that year the Bank released over 90% of the undisbursed loan proceeds. The disbursement conditions were revised in a bid to address some of the problems created by the crisis, such as legal protection for employees and officials of the Central Bank, the Banking Superintendency, and the newly minted Deposit Insurance Agency—all of this under an IMF-supervised adjustment program.

4.18 This was the backdrop also for the Investment Sector Program, which was designed to speed the resolution of the crisis through rapid recoveries on the problem banks' assets (to be sold, liquidated, or managed by specialized firms). The disbursement conditions were not satisfied in their entirety, but the Bank approved a second-tranche release waiver. In light of the Deposit Insurance Agency's weak institutional capacity, the IDB proposed that outside firms be hired to manage the assets of the banks taken over or closed and restructure the intervened banks with a view to privatizing them in the short term. Though a competition was held to select those firms, none was ever hired to administer the closed banks' portfolios: according to the project completion report, the Deposit Insurance Agency was disinclined to recover nonperforming loans of the closed banks' borrowers. The intervened and operating banks were handed over to specialized firms to manage and restructure. Filanbanco ultimately shut down in 2001; in May 2007, more than seven years after the banking system crisis, Banco del Pacífico was still being run by the management firm hired to restructure it and has yet to be formally privatized.

4.19 According to the indicators developed by Beck, Demirgüç-Kunt, and Levine[128] to measure the size of financial intermediaries, financial sector activity, and banking system deposits, the size and performance of Ecuador's financial sector today are similar to the measures at the start of the finance sector PBL just over a decade earlier.[129]

4.20 The programmatic loan EC-L1004 (Competitiveness Enhancement Program, 1791/OC-EC) was approved toward the end of 2006 and thus was not examined in our analysis, but it is important to note that the financial sector reforms it pursued are on the right course, particularly regarding creation of a regulatory framework for the operation of credit bureaus, indispensable institutions to deepen Ecuador's banking system. We would note also that, though the initiative was proposed in 1994 with the Financial Sector Program, that programmatic loan can be credited with the progress finally made toward an enabling regulatory climate for the emergence of a more competitive and efficient insurance market.

4. Strengthening of rural production infrastructure

4.21 The Bank has provided continual support to Ecuador's rural sector since the early 1990s (see Box A-4.1 in the Annex).

4.22 This support has been consistent over a fairly long span. The major policy thrusts of the era remained valid even when successive administrations challenged them. The IDB-funded agriculture sector projects—PROMSA (Agricultural Services Modernization Program, EC-0040, 892/OC-EC) and PRAT (Rural Land Titling and Registration Program, EC-0191, 1376/OC-EC)—unfolded within the framework of reform of the State and encouraged greater private-sector engagement in service delivery. Of the two projects, only PROMSA has been completed, but two PRAT facets warrant mention: (i) the program includes an explicit gender focus, seeking to formalize land ownership rights and transference to land-owners' wives or female partners;[130] and (ii) one feature that distinguishes this program from others in the portfolio is its comprehensive monitoring system that collects detailed information on the various logical framework indicators, field work progress, and executing unit performance. The field information is furnished by the municipalities and the company in charge of the "sweep" of properties in the selected cantons using an information flow system with different data verification levels, processed by the executing unit in Quito. The PRAT also pioneered the adoption and use of the supervision system promoted by the Bank's Country Office. Before its rollout that program established baselines in the targeted cantons as well as in others, so an impact evaluation could be done after the program ends.

4.23 Interestingly, the above-mentioned consistency held even though the various rurally targeted programs were not explicitly meshed. At least in the project documents there is no concrete reference to synergies, articulations, or geographic targeting criteria shared by these IDB-backed projects, nor is any integrated rural development focus articulated in the 2000-2002 CS. The description in the strategy and the operations approved associate "rural" with "agricultural." Nor did that first CS credit or make mention of IDB support to the rural sector during the preceding years.[131] The 2004-2006 CS did move more toward a rural development focus, acknowledging that combating rural poverty would require supports on the social, employment, and production fronts.

4.24 The PROMSA evaluation reports present contradictory findings, a result of the program's lack of a monitoring system, baseline, and logical framework. It did have two clear targets: a 25% increase in per-hectare yields of the country's priority agricultural products and a 25% reduction in post-harvest losses. These targets suggest that the project's primary aim was to boost Ecuador's export capacity, most of which lies in medium-sized and large producers, since the priority products are export commodities.[132] Older research came out with positive findings: (i) a 2002 study by Berdegué using single difference analysis came up with 20% to 100% yield increases for rice, maize, cacao, potatoes, and tomatoes,[133] and (ii) a 2003 assessment by Grupo de Análisis para el Desarrollo (GRADE) using a more sophisticated methodology than the 2002 study—albeit offering yield and loss data only for maize and rice—found that when the control group was comprised of campesinos who subsequently joined the program, maize yields were 60% higher and rice yields 39% higher.[134] Taking as a control group campesinos not assisted by the program and who were using more sophisticated technology (data from Banco Nacional de Fomento, only for Guayas and Los Ríos), the program's impact (double difference measurement) was maize and rice yields 43% and 61% higher, respectively. The GRADE assessment also observed average drops in post-harvest losses in the first promotion of maize producer groups from 14% at PROMSA intake to 8% two years into the program. The econometric findings of a 2007 OVE impact evaluation uncover no positive outcomes created by this program.[135] The project completion report maintains that yields increased more than 25% in 12 of the 14 main products and post-harvest losses fell more than 25% in more than 30 items evaluated, but cites no source for these data.

4.25 In September 2004 the executing unit produced an "Evaluation of Short-term Impacts of the Rural Transportation Infrastructure Program—PIRT" (EC-0196, 1282/OC-EC). That program's objective had been to give poor rural communities better access to social services, markets, and other livelihood activities. The study measured the differences between PIRT baselines established in December 2002 and in January 2003 (two years into the project) and the 2004 comparison line for PIRT-rehabilitated roads and control roads.[136] The evaluation does not clearly explain the methodology used, and since it reports data separately for the different road sections it is difficult to draw conclusions on the project's overall impacts. The data collected also presented many limitations.[137]

4.26 The project completion report (PCR) for the PIRT lists that operation's achievements: (i) an average 30% shortening of travel times; (ii) 2,000 temporary jobs created; (iii) 151 permanent jobs created; (iv) an 82% increase in number of women's visits to health care facilities for curative care, a 156% increase in maternal-child medical visits, and a 95% increase in girls' immunization; (v) an increase (not quantified) in the number of wage earners thanks to enhanced economic opportunities and diversification of production in the vicinity of the rehabilitated roads; and (vi) a considerable economic saving (especially in poor rural areas) when residents have access to modes of transport other than walking or using animals—a saving produced despite the dollarization-driven increase in passenger and freight transportation costs (the PCR provides no data to back up these assertions). However, here we have another example of a PCR that does not cite its data sources. The PCR further maintains that "*though road rehabilitation and maintenance is not a sufficient condition for poverty reduction, it can <u>definitely be affirmed</u> that the PIRT helped improve rural living standards by raising income*" (paragraph 2.12.7, emphasis added), but it does not report the benefiting households' income. And, lastly, the PCR data differ at some points from figures in the executing unit's final report.[138]

4.27 An OVE spatial analysis revealed that the PIRT did in fact shorten access time to various destinations—the nearest city, health services, schools, the main road—in all the provinces examined except Guayas, where the only reduction observed was in health service access time.[139]

B. Social-dimension outcomes

4.28 As discussed in chapter I, the late-1990s crisis took a harsh toll on Ecuadorian society generally and on the country's poorest in particular, since the nation's public social expenditure as a proportion of GDP—4.5% in 2000—was one of the region's lowest, and those meager resources did not reach the people most in need.[140] Though the available data point to an uptrend in social expenditure between 2000 and 2005—whether per capita or as a proportion of GDP or of overall public expenditure—the numbers for 2005 show social expenditure as a proportion of GDP or of aggregate public expenditure still trailing the mid-1990s levels (Figure A-4.4).[141] ECLAC data on 20 IDB member countries for 2004-2005 show that Ecuadorian public social expenditure's 6.3% proportion of GDP topped only Nicaragua's 5.6%.[142]

4.29 Figure A-4.5 charts the 2000-2006 performance of selected social indicators in areas the Bank targeted for support, comparing Ecuador, the Bank average, and the comparator Group D countries. Ecuador outperforms these comparator groups for urban residents' access to water and sanitation services and rural dwellers' access to sanitation, but underperforms them for primary school enrollment ratios, life expectancy at birth, and rural population access to safe water.[143]

1. Social policy

4.30 In its social sector engagement during the early years of the period analyzed here, the Bank sought to cushion the social toll of the late-1990s crisis, particularly on Ecuador's poorest, by delivering support to shield social spending and sharpen its targeting. The vehicles it used to that end were the Investment Sector Program discussed in the previous section of this report and a US$4.5 million technical-cooperation loan approved in 2000 for the Social Program Beneficiary Identification System (SELBEN, EC-0195, 1261/OC-EC), intended to improve Ecuador's social assistance information system and targeting.

4.31 With regard to protecting social spending, the PCR for the Investment Sector Program concludes that the loan conditions were fulfilled: the protected social programs made up 16.2% of the central government budget, overshooting the loan's 15% target. In 2002 social expenditure accounted for 24.5% of overall government spending. But the share of social assistance programs, including the "solidarity allowance" (direct cash transfers to the poor), in central government spending slipped from 2.4% in 2000 to 2% in 2002. Moreover, according to the PCR, the bulk of the increase in spending on protected programs went to defray payroll costs of social-sector employees, which rose from a 50% share to 70% between 2000 and 2002.[144]

4.32 Though modest in size, the SELBEN project funded with the TC loan conducted 150,000 more surveys than planned and was completed on schedule. Its efficient delivery can be attributed in large measure to the capacity of the implementing team which, with the small budget allotment, managed to collect all the necessary information inexpensively, as well as to the support provided by the Country

Office which collaborated to expedite this work while exerting the requisite pressure to keep the technical team stable. The operation also benefited from two previous technical-cooperation operations that served to validate the methodology approaches.[145]

4.33 In 2003 the Bank approved the US$200 million Social Sector Program (EC-0216, 1466/OC-EC), the objectives being to tighten the social safety net for the country's poorest and enhance the quality and efficiency of public social expenditure. To that end, the operation included conditions to shield social-program spending. Though performance of the loan conditions was mixed over the course of the project, overall, it would appear that delivery of that objective continued even after the project ended in 2006: social expenditure protection reached highs in terms of differences between the conditionality expenditure levels and actual budget allocations in 2006 and 2007—23% and 15%, respectively.

4.34 One could argue that despite having simultaneously addressed multiple sectors with multiple conditions—some of them not fulfilled, others fulfilled in part—the Social Sector Program was the linchpin that tied together, leveraged, and gave coherence to the Bank's different social sector interventions in Ecuador, and several key facets of that operation found their way onto the country's social agenda.

4.35 As a provision of the loan, recipients of the Human Development Benefit created from the amalgamation of the "solidarity allowance" cash transfer program and the school attendance grant were to be selected exclusively through the SELBEN, thereby institutionalizing the benefits of operation EC-0195 and making for more efficient distribution of social expenditure.

4.36 A further condition in the social sector loan was that primary education funding be allocated on the same basis as the Education Quality Enhancement Program (*Redes Amigas* rural autonomous school networks program) approved in 1998 (EC-0125; 1142/OC-EC, 1142/OC-EC-1, 1142/OC-EC-2), which we discuss in more detail in the next subsection. In the social policy domain, one of the most significant achievements of the *Redes Amigas* program was the change in funding allocation formula: the decision to transfer funds to the school networks, rather than to teachers as had been the practice, averted a continuing weakening of rural teaching staffs. This change is crucial as Ecuador works to decentralize the basic education system and potentially make it more autonomous, since it shows that deconcentrated management can work. However, the new funding allocation formula has not become effectively institutionalized within the education system. Executive Order 664 formally instituted the primary education funding formula at the provincial, cantonal, and school level. But whether or not the technical and, primarily, political constraints for system-wide adoption of the new funding criteria can be overcome remains to be seen. In the meantime, the new rules have been established and the quality of the discussion has been enhanced.

4.37 Lastly, the Social Sector Program was fundamental to institutionalize the Child Development Fund (FODI) that had been established by way of the Comprehensive Services for Children Under Six (*Nuestros Niños)* Program approved in 1997 (EC-0157, 1056/OC-EC, 998/SF-EC), as a transparent, competitive facility for apportioning child development funding to government and civil society agencies.

4.38 Despite the gains outlined above, the social-program landscape at end-2006 was still—as one report described it—"*a fragmented network of services, with scattered functions in some cases and overlaps in others, service-focused but underequipped to regulate, monitor, or administer the services*."[146] A breakdown of the data by province uncovers no direct correlation between poverty and per-client social assistance spending: the fact that the three provinces with the highest UBN indexes (Los Ríos, Sucumbíos, and Orellana) are among the provinces receiving the least funding per client indicates that serious problems in social expenditure apportioning continue to exist.

2. Human capital formation

4.39 According to Ecuador's 1999 education indicators, 9% of children were grade-one repeaters that year (12.7% in rural areas). The dropout rate was 11% regardless of students' place of residence. In 2000 just 77% of students who started grade one made it as far as grade five. Public education spending also had dropped since 1998, though it still comprised half of all government social spending. Low academic achievement coupled with education-system internal inefficiency have put education quality concerns high on the country's political and public agendas. Over the 2000-2006 span examined here, the issue of education quality was associated with institutional reforms, fundamentally decentralization, which sought to universalize autonomous school networks and engage the community in education management.

4.40 The US$45 million *Redes Amigas* program mentioned above, approved in 1998 but disbursed mostly during the 2000-2006 period, subscribes to that philosophy: "*the poor quality of education is … a product of the institutional organization and administration of the rural school system*."[147] Thus, that project's objectives were to build autonomous school networks and improve learning conditions in rural basic education centers.

4.41 Some implementation problems notwithstanding, the project was delivered relatively successfully, [148] the "relatively" qualifier having to do with: (i) no baseline, (ii) indicators not sufficient to measure the development objectives, and (iii) weaknesses in contracting and execution of the monitoring and follow-up component which, moreover, was disconnected from the project administration side.

4.42 Despite the absence of a baseline, a quasi experimental impact evaluation was done of the program, comparing a set of indicators for the network schools with other rural schools.[149] The evaluation revealed the program's positive effects on:

(i) teacher attendance (1.5 more days in Spanish-language schools and 2.8 days more in bilingual schools) and (ii) class-hours taught (1.2 hours more per week). As for academic achievement, nationwide the program delivered positive effects in mathematics and language in the Spanish-language schools but not in the bilingual system, where impacts actually were negative on the language side. But the change in outcomes when the data are regionally disaggregated signals that even though more than the planned number of networks were ultimately created, in over half of them the program was not well delivered. Its chief weakness was the pedagogic component: according to the evaluation findings, the program had no pedagogic model to guide the networks' strategic work and provide in-classroom mentoring and accompaniment for teachers. Teacher training thus was ad hoc, not in-classroom and hands-on.[150] Lastly, the cognitive impact observed can be attributed largely to improvements in school plant, equipment, and supplies introduced by the program (infrastructure, textbooks, etc.), rather than to changes in school management[151]—which upends one of the program's core premises.

4.43 The other program relating to human capital formation in the 2000-2006 period was *Nuestros Niños* [Our Children], also discussed above. That US$45 million operation—approved in 1997 but 95% disbursed between 2000 and 2005—focused on early child (0-5 age group) protection and development.[152] The program is very similar in logic to the *Redes Amigas* program, which likewise addressed quality and coverage issues via reforms to the sector's operation and funding. Both projects featured initiatives to decentralize education service delivery and engage civil society at different stages in public policy making, gradually reducing direct national government involvement.

4.44 An external impact evaluation of *Nuestros Niños* compared the situation of "treated" children (those assisted by the program) and nontreated children, and also the situation of the treated children with those assisted by traditional interventions.[153] The evaluation findings reveal a difference of at least 10 percentage points in the proportion of treated children who attain a normal or superior level in the four key development areas, relative to the control group performance. The evaluation also found that children under 2 in the *Nuestros Niños* program have more highly developed fine motor skills and verbal and social skills than children assisted by the National Institute for Child and Family Welfare (INNFA) and the Ministry of Social Welfare agency Operación Rescate Infantil, which runs the national community daycare network.[154] For children 2 to 4, however, the groups' performance was more or less similar.

4.45 The program's outcomes appear to be sustainable. With the creation of the Child Development Fund (FODI), the competitive-funding format has been embedded in the Ecuadorian State as an efficient way to deliver early child development support. In addition, the agencies are putting into practice much of the technical knowledge created (e.g. benchmark curriculum, quality standards). As for coverage, in its first year FODI reached 193,000 children, and by mid-2007 its client roster had grown to 250,000. Its budget also has increased.

4.46 The *Redes Amigas* and *Nuestros Niños* human development programs include elements tailored to the needs and realities of Ecuador's indigenous communities—a particularly important consideration given the body of empirical evidence on ethnicity-based labor market earnings disadvantages that are transmitted from generation to generation—education being the main (indirect) channel through which such discrimination occurs. Ethnic minorities' low educational attainment not only produces high rates of informal employment but also lowers labor market returns to education for these populations, relative to returns captured by mestizo and white Ecuadorians.[155]

3. Living standards

4.47 During the period covered by our analysis the Bank helped Ecuador raise its people's living standards mainly through interventions in three areas: housing, urban water supply and environmental sanitation, and basic social infrastructure. But the Bank's engagement in those three domains did not begin in 2000: it had been working in these areas for quite some time. As we saw earlier (Figure A-4.5), the aggregate indicators point to significant gains in urban communities' access to water and sanitation services and rural residents' sanitation access.

4.48 The Bank's housing sector support was delivered through two projects: (i) the US$62 million Housing Sector Support Program (EC-0138, 1078/OC-EC, 1002/SF-EC) approved in 1998, and (ii) the second phase of the Housing Sector Support Program (EC-0207, 1416/OC-EC) funded by a US$25 million loan approved in 2002. The last disbursement for the latter program was in June 2007; OVE is currently evaluating the program.

4.49 The general objectives of the first of those two housing sector operations were to: (i) help improve housing conditions for low-income groups; (ii) make public housing expenditure more efficient and equitable; and (iii) provide incentives for commercial financial institutions and the private building industry to be more involved in the housing sector. When this program was rolled out Ecuador was in the throes of the late-1990s economic and financial system crisis, before the dollarization plan was implemented. Inevitably in such an environment project implementation progress was slow and some lending vehicles that had been designed for the pre-dollarized economy had to be reworked.

4.50 This housing sector program delivered subsidized financing for approximately 23,600 new housing units and 24,500 housing improvements—in both cases overshooting the original project targets.

4.51 Research findings on the program's impact have varied greatly regarding the magnitude of the credit provided by the private sector: According to Paredes (2002), for instance, "*relatively little credit was provided, covering barely 12% of operations. ... This is one of the weaknesses that needs to be corrected: scant open financial system involvement.*"[156] By ESI Internacional (2004) calculations, the credit component covered close to 26% of the program investments.[157] Unfortunately, these differing findings make it difficult to draw conclusions on one of the program's core assumptions—the existence of private credit to finance social housing.

4.52 On the other hand, data on the government's contribution (subsidy or grant) are mostly consistent, analysts' having estimated that these supports represent between 42% and 46% of the program investments. In other words, every dollar of subsidy leveraged between US$1.17 and US$1.38 of savings and loan resources.[158]

4.53 The Bank's engagement in Quito's municipal water and environmental sanitation sectors dates back to 1994, when it approved the US$136 million Quito Water Supply and Sanitation Project (EC-0025, 823/OC-EC), with the general objective of helping to improve hygiene and health conditions for Quito residents. In an ex post evaluation of that program OVE sought to ascertain how much of the drop in infant and child mortality rates observed in the targeted area could be credited to the project. The evaluation found the program's impact to range from 7% to 9%. But the most interesting finding was the observation that the households in the bottom income quartile that benefit from the water and sanitation investment are the households in which women have (at least) primary education—a proxy for information access and use.

4.54 By virtue of this program the Bank established close ties with the Quito water and sewer utility (Empresa Metropolitana de Agua Potable y Alcantarillado de Quito—EMAAP-Q), which made a medium-term work plan practicable. That plan has been pursued in recent years through the US$20 million Pichincha Hillside Protection Program (EC-0143, 935/OC-EC) approved in 1996 and, later on, the USS$40 million first phase of the Metropolitan Quito Environmental Sanitation Program (EC-0200, 1424/OC-EC), approved in 2002.

4.55 Though no ex post evaluation has been done yet of these two operations, there is some evidence that they have produced positive outcomes. According to the PCR for the Pichincha Hillside Protection Program, preliminary estimates indicate that works delivered in this project protected 42,000 area residents from floods and landslides to which the project target area was prone and, consequently, cut down on the material losses and potential loss of life that could have been the aftermath of the very heavy rains (which recur every 30 years, on average) that lashed Quito after the program ended. As for the Quito Environmental Sanitation Program, since the physical works targets for water and sewer system expansion were achieved and the health effect of investments of this type is a given, the program presumably has enhanced the beneficiary population's standard of living.

4.56 Since 1993 the Bank has been delivering basic social infrastructure support to Ecuador by way of the Emergency Social Investment Fund (FISE). As its name indicates, FISE was created as an emergency facility to cushion the impact on the poor—particularly the rural poor—of public spending cuts during the macroeconomic adjustment episode. However, the FISE is still operating, without any discussion of why it is the best vehicle for providing social infrastructure to vulnerable populations and without any close tie-in to the country's social policy. Nevertheless, in 2001 the Bank approved a US$40 million loan for phase three of the FISE (EC-0203, 1373/OC-EC).

4.57 There is no information available on FISE III outcomes. No midterm evaluation was performed and there is no baseline for analysts to reference to produce a rigorous outcomes evaluation. In operational terms, FISE III's implementation progress was unsatisfactory, less than 5% of the loan having disbursed during its first two years. Findings of OVE interviews in Washington and in Ecuador coincide in indicating that FISE III executed slowly in its early years largely because it was politicized, and hence the persons appointed to run the Fund were not the best qualified. That same situation had held up implementation of FISE I and II and had been considered as a risk in FISE III, but the mitigating measure envisaged for that new phase (engage civil society in the advisory board and regional committees) was inoperative. Accordingly, FISE III did not draw on lessons learned from the previous FISE phases (or from other programs) which would have averted this problem by having competent persons appointed to run the program.

4.58 In 2004 a technocrat with political backing was put in charge of the program's operation. It was rid of political contamination and its participatory approach and community engagement were bolstered. Disbursements were speeded up, since the work in some communities was far enough along for construction work to begin. However, the new management did away with some core pieces of the project, like the external monitoring system and community training system.

C. Institutional-dimension outcomes

4.59 Though institutional and State modernization issues were a constant focus in the Bank's program and a cross-cutting theme in its 2004-2006 country strategy, there is not much outcome evidence available in this area. One important exception is the Tax Administration System Modernization Program, which owes its success to the institutional strengthening and revamping achieved.

4.60 Not surprisingly given the prevailing political instability, Ecuador's governance indicators for 2000-2006 are behind the Bank member country average and the comparator Group D country average (Figure A-4.6). Perhaps more important, except for corruption control and political stability indicators, the changes observed in Ecuador between the last and first years of that period were smaller than the Bank average (Figure A-4.7).

1. Decentralization

4.61 Ecuador is suffering the impact of political regionalism, widespread cronyism, and the direct hand of lobby groups. Since decisions (including funding allotment decisions) have traditionally been made in the capital city Quito, local disputes and frictions that ought to be managed locally end up being resolved in the national political space. In that sense, the decentralization process has fallen victim to a shifting political landscape and has been very much tied to those shifts.

4.62 To understand Ecuador's first moves toward decentralization it is essential to understand how political alliances are forged in the country. The president has near-exclusive authority to appoint and remove cabinet members, provincial governors, and executives of State agencies and enterprises. The provincial governors, in turn, have the power—as representatives of the executive in the provinces—to influence the selection of public employees at the subprovincial level. Thus, political alliances are built through negotiations of posts and funding allotments.[159]

4.63 Decentralization in Ecuador has not unfolded nationwide and has been used as a political negotiating tool answering to private and of-the-moment interests. The lack of national-level coordination has inevitably made for functional overlaps across different levels of governments. The statutory backdrop for decentralization has been the "15 Percent Law" (Special Law for Distribution of 15% of the Central Government Budget to Subnational Governments) and the 1998 constitutional reform which more clearly articulates the responsibilities and powers that can be transferred to the regions.

4.64 The Decentralization Support Program (EC-0204, 1358/OC-EC) was approved in 2001 in the framework of the 2000-2002 country strategy, which identified political, fiscal, and administrative decentralization as a tool with which to address the challenge of governance in Ecuador. This being the only operation with a comprehensive vision of the decentralization process, the IDB has been a leader in this sector, capturing support from other organizations such as the German cooperation agency.

4.65 According to IDB monitoring documents, decentralization advances thus far have been uneven in different sectors and different parts of the country. Considerable progress has been made in the roads sector; in the education sector there has been at most the occasional dialogue. In geographic terms, decentralization has advanced considerably in some provinces (Azuay, Imbabura, and Cotopaxi) but is stalled in others, greater progress being evident at the local and municipal levels than at the provincial council level. This uneven progression is the result of constitutional design provisions: subnational governments may at their discretion ask for powers and responsibilities; if they do, the national government is required to hand them over. When such requests are not made en bloc the transfer costs are high, since the national government has to operate parallel structures until the last local government decides to request the transfer of powers.

4.66 Thus far the transfer of powers has been concentrated in the roads sector, and much work remains to be done, especially in the education and health sectors. Some municipalities have on their own initiative assumed responsibility for selected services in those sectors, but that may not be the most efficient avenue, since it tends to duplicate subnational and national government efforts.

V. PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

A. Principal findings and conclusions

1. Regarding Bank programming

5.1 OVE's evaluation findings on the Bank's general programmatic intent are as follows:

a. Not surprisingly, the shifting political landscape greatly affected the Bank's programming work.

b. The two successive country strategies during the 2000-2006 span covered in this evaluation were relevant, but the premier challenge for the Bank was how to keep the country program relevant in such a changeable political-institutional environment.

c. The Bank's program was consistent and coherent. The technical cooperation portfolio, in particular, is aligned to pipeline or active operations and to the two country strategies' thrust and focuses.

5.2 The evidence available in the two CSs indicates that the Bank was not able to program MIF activity in Ecuador and, though both strategies emphasize the importance of engaging Ecuador's private sector, they were cautious as to the viability of a scaled-up Private Sector Department (PRI) and Inter-American Investment Corporation (IIC) program. That caution appears to have been warranted, particularly for the early part of the period examined.

5.3 The 2000-2002 CS was not evaluable, not having set out measurable indicators and targets. The 2004-2006 CS matrix did provide baselines and quantifiable indicators but the strategy charted trends rather than targets: for this second CS to have been evaluable it would at least have to have provided milestones, which it did not. Consequently, though data on the proposed indicators can be found, the 2004-2006 CS was not evaluable either. None of the portfolio review or programming reports reviewed by OVE deliver on the 2004-2006 strategy's stated commitment to evaluate progress toward the indicators defined by the CS.

5.4 Striking for their absence in the 2004-2006 CS are indicators and targets pertaining directly to poverty reduction and improvements in ethnic minorities' living standards.

5.5 In a survey designed to gauge current and prospective clients' perceptions of the quality of the Bank's technical assistance for new operations programming and identification, its support was rated unsatisfactory.

2. Regarding the program's efficiency

5.6 With regard to approval efficiency, our evaluation found that the investment projects approved during the review period were prepared relatively efficiently.

5.7 As for implementation efficiency, the evaluation found average project delivery time to be quite a bit longer than the Bank average and slightly longer than the Group D comparator-country average.

5.8 Disbursements trended down until 2006, in absolute terms and as a proportion of active loans.

5.9 Negative net Bank-country flows in 2000-2005 were the largest on record at least since the early 1990s.

3. IDB initiatives

5.10 The Bank acknowledged the problems of its Ecuador portfolio and worked proactively to change the structural determinants of the inefficiency problems that were within its control. Region 3 launched a portfolio adjustment process in the form of: (i) loan proceed cancellations and project closeouts and (ii) Country Office reengineering and reworking of process logic and management tools.

5.11 The RE3 Country Office reengineering exercise begun in 2003, starting with the Ecuador and Peru offices, can be credited as the Bank's most significant attempt to change its project management model. This retooling entailed changes in the work and responsibilities of Country Office technical and administrative staff and of Bank project executing units. The changes brought in by RE3 anticipated some of the approaches that the IDB realignment exercise would go on to propose.

5.12 The centerpiece of the reengineering exercise was the New Supervision System (NSS), anchored in risk analysis. The NSS entailed also the transfer to executing units of ultimate responsibility for project management, delivery, and impact.

5.13 Another important output of the reengineering process was the innovative management tools developed: the Integrated Project Management System and the "Ketra" disbursement control system.

5.14 The Ketra system is a useful country tool to give the government, and the Finance Ministry in particular, a unified information and management resource that will facilitate decisions on budget allotments and public debt management.

5.15 Nevertheless, how the changes and tools introduced by the reengineering exercise will be affected by the Bank's new matrix structure remains to be seen.

4. Outcomes

5.16 Recent macroeconomic indicators point to major improvements in several areas: (i) sharp drops in inflation and interest rates, the first falling to world levels and the second approaching them; (ii) improved external sector performance and current account surpluses in 2004 and 2005; (iii) slashing of the external debt stock; (iv) considerable improvement in the fiscal accounts, the public sector having achieved not just primary surpluses but overall surpluses as well throughout the entire 2000-2006 span; and (v) economic growth performance well ahead of rates in the preceding two decades.

5.17 These gains notwithstanding, Ecuador still faces stiff challenges in the spheres of competitiveness, diversification of its economy, and susceptibility to domestic and external shocks—all these having been core focuses in the country strategies of the period.

5.18 OVE has found positive outcomes in virtually all the areas and issues in which the Bank engaged—a somewhat surprising finding considering the unstable political-institutional environment in which the projects in question were operating and the programming and project implementation problems observed.

5.19 The apparent explanation for this finding is a common thread observed in all the areas evaluated: the Bank's interventions were consistent and complementary over time. This may have been the product of a medium-term planning process, as in the Bank's involvement in the Quito water and environmental sanitation sector; or it may have happened without any explicit recognition or articulation of previous experiences, as appears to be the case for the Bank-backed rural development projects, or organized by another intervention, as occurred in the social sector, where the Social Sector Program tied together, leveraged, and gave coherence to the Bank's different social-sector interventions in Ecuador.

5.20 Such complementary actions are observed in the areas of water and sanitation, human capital formation/education, housing, tax administration, and rural development. The evaluation team also looked at isolated decentralization-related interventions. If all the experiences in the above-mentioned operations areas delivered positive outcomes, the same cannot be said—at least thus far—of outcomes of the Bank's decentralization support, or in the finance area (two sector loans) which did not yield positive outcomes.

5.21 Lastly, the evaluation found a Bank presence in rural areas—home to the highest poverty rates and largest concentrations of indigenous people—in the form of rural development, education, and social investment programs.

B. Recent developments and trends

5.22 In 2007 and the early part of 2008—after the period covered in this evaluation—Ecuador saw some major changes in key economic indicators:

(i) A sharp increase in inflation from November 2007 forward, driven largely by rising food prices.[160]

(ii) A drop in crude oil exports beginning in 2006, though oil export earnings have continued to climb thanks to oil price increases.[161]

(iii) Shrinking of the nonfinancial public sector (NFPS) primary surplus in 2007 to 4.12% of GDP, down from 5.46% in 2006. A noteworthy development in that regard was the hefty increase—roughly three percentage points of GDP—in total NFPS revenues.

(iv) Central Bank of Ecuador (BCE) estimates put the economy's real growth in 2007 at 2.65%, down from about 3.9% GDP growth in 2006—this falloff, according to BCE, having been driven by two factors: a drop in petroleum sector output and the change in the country's institutional framework mandated by the Constituent Assembly. The possibility that the ground rules might be changed presumably has made investors wary. The IMF is forecasting 2.9% growth for Ecuador in 2008.

(v) In early April 2008 the Constituent Assembly passed sweeping amendments to the Accountability, Stabilization, and Fiscal Transparency Law (LOREYTF), removing the cap on annual real growth in public spending and abolishing the autonomous petroleum funds, directing that these monies go into the budget (see Box 1.1).

5.23 The new administration has bolstered the State's planning role, as evidenced chiefly in the strengthening of the National Planning and Development Secretariat (SENPLADES) and the SENPLADES-coordinated charting of a National Development Plan for 2007-2010.[162]

5.24 The Correa government won a solid majority in the Constituent Assembly elected in September 2007, which has facilitated passage of the government's reform bills.

C. Recommendations

5.25 Box A-5.1 lists OVE's recommendations to the Bank in the previous CPE and its observations as to their incorporation into the Bank program. Overall, the Bank followed the general lines of the recommendations.

5.26 A look at changes in the Ecuadorian economy since 2007 summarized in the previous subsection reveals two general patterns: (i) the economy lost some of the momentum it had picked up in 2000-2006, and (ii) government revenues and disposable resources are up considerably. These considerations, which should drive the new country strategy development exercise, suggest that the technical support the Bank is able to deliver will be even more relevant in the coming years.

5.27 The Bank's support for competitiveness enhancement and economic diversification is still relevant for Ecuador, in particular because there is no assurance that U.S. Andean tariff preferences will be renewed, and the current European Union Generalized Preference System regulations are in effect through December 2008. Were the Bank to pursue as a major support focus, for instance, the bridging of Ecuador's infrastructure gap (see paragraphs 1.26 and 1.52), it would find itself up against Andean Development Corporation (CAF) competition in that sector; this means that the Bank will have to be able to establish areas in which it can contribute value-added.

5.28 Given the importance of education to reduce current ethnicity-based labor market disparities, particularly in indigenous populations, support for rural education quality enhancement should remain on the Bank's agenda for its engagement with Ecuador, delivered in the form of loans or technical assistance.

5.29 In light of the government's decision to fund the bulk of social sector expenditure through the budget, the Bank should emphasize technical dialogue with this sector and assistance to the government for assessing quality of expenditure.

5.30 The Bank should support Ecuador as it develops and institutes a strategic planning process. To that end the Bank should endeavor to establish a close collaborative relationship with SENPLADES, strengthening that agency's planning role and National Development Plan monitoring and evaluation work. The Bank's successful experience with Ecuador's Internal Revenue Service suggests that when there is political will within an institution—as appears to be the case in SENPLADES—very successful and sustainable institution-strengthening outcomes can be delivered.

5.31 This evaluation has found that—albeit not a necessary or sufficient condition—the best outcomes occur when the Bank works in coordinated, complementary operations. For now this would entail reducing the number of areas in which the Bank should or could engage. It also might entail a conceptual rethinking in some of its interventions that were underpinned by some Washington Consensus premises.

5.32 The foregoing indicates the need to support analytical and sector work to map out medium-term work focuses.

5.33 The Country Office's effort since 2003 to devise guidelines, tools, and organizational processes for its work should be aligned if possible to the Bank's new organizational structure. Though it is still early to draw any robust conclusion as to the outcomes of that exercise, there is evidence that they have been positive. The Country Department Andean Group (CAN) should keep on with and monitor the initiatives begun by Region 3 and, as appropriate, disseminate the management and information tools.

5.34 Lastly, the Bank's experience in Ecuador shows that political economy analysis should be an integral part of the programming process and not just a facet of the risk analysis.

Endnotes

[1] Document RE-295, presented to the Bank's Board of Executive Directors in July 2004.

[2] Ibid.

[3] Guyana, Suriname, and Uruguay are smaller in size; Argentina, Brazil, Chile, Colombia, Peru, and Venezuela are more populous.

[4] The overall fertility rate trended down in 1990-2001 from 4 children per woman of childbearing age to 3.28 (down 18%). Infant mortality over that interval, calculated by the direct method, fell nearly 42% (from 30.3 first-year deaths per 1,000 live births to 17.7). Source: Ecuadorian Integrated Social Indicators System (SIISE), version 4.5, 2007. Where infant mortality numbers are concerned, as SIISE itself points out, "*the different methods used, reference periods, and corrections made by the different sources give rise to widely varying estimates for this indicator. For example: ECLAC (1993) reports infant mortality rates of 53 per 1,000 live births for 1985-1990 and 49.7 for 1990-1995. PAHO/WHO (1998) estimates put Ecuador infant mortality rates for 1985-1990 at 57 per 1,000 live births, and at 44 per 1,000 for 1990-1995. For 1995, UNICEF (1998) and the U.S. Bureau of the Census (1999) estimate rates of, respectively, 31 and 36 deaths per 1,000 live births. Such discrepancies will persist until the country standardizes criteria for calculating and for resolving vital statistics recording issues.*" For that reason, this indicator is more relevant for trend analyses than for interpretations of absolute values.

[5] Census data are based on information reported by the respondents—hence, on self-identification.

[6] In the unmet basic needs (UBN) method a household is defined as poor when it is severely lacking in access to education, health care, nutrition, housing, utility services, and employment opportunities. The indicators used to measure these conditions are: inadequate electricity supply, inadequate water and sanitation, overcrowded housing, illiteracy, household head undereducated, school-age children not in school, inadequate health care, and low workforce participation. Any household with one or more of these deficiencies is considered (as are its members) to have unmet basic needs.

[7] Data from World Bank, *World Development Indicators*, latest year available for comparisons with countries in the region. Measured by international purchasing power parity, Ecuador's GDP in 2005 was US$57.4 billion. Estimates for 2006 put its gross output at roughly US$41.4 billion.

[8] The Galapagos Islands are a fourth region.

[9] See Francisco E. Thoumi (1990), "The Hidden Logic of 'Irrational' Economic Policies in Ecuador," *Journal of Interamerican Studies and World Affairs* 32(2), 43-68; Institut Internacional de Governabilitat de Catalunya (2005), *Perfiles Nacionales de Gobernabilidad: República de Ecuador*; J. Andrés Mejía Acosta (2004), "Ghost Coalitions: Economic Reforms, Fragmented Legislatures and Informal Institutions in Ecuador (1979-2002)," Ph.D. dissertation, University of Notre Dame.

[10] Between 1925 and 1948 Ecuador lived through a succession of 27 governments, only three of them seated through elections. After a democratic chapter lasting about 15 years, a 1963 military coup brought political instability to the nation once again until 1979. This changeable political landscape is reflected in the long string of constitutions approved since the foundation of the republic and the first Constitution in 1830—in 1835, 1843, 1845, 1851, 1852, 1861, 1869, 1878, 1884, 1897, 1906, 1929, 1938, 1945, 1946, 1967, 1979, and 1998.

[11] Data for 2004 reveal no significant difference in the industry structure of gross provincial output between the Coast and the Sierra except for the financial sector which, following the late-1990s crisis, became more concentrated in the Sierra than in the Coast region (65% and 34%, respectively), and the construction and transportation, warehousing, and communications industries (approximately 59% in the Sierra and 37% in the Coast).

[12] See J. Andrés Mejía Acosta (2004), op. cit.; Andrés Mejía Acosta et al. (2004), *Political Institutions, Policymaking Processes, and Policy Outcomes in Ecuador*, Latin American Research Network, Inter-American Development Bank; Andrés Mejía Acosta et al. (2006), *Veto Players, Fickle Institutions and Low-Quality Policies: The Policymaking Process in Ecuador (1979-2005)*, Inter-American Development Bank; Simón

Pachano, *El proceso electoral de Ecuador*, FLACSO; and Catherine M. Conaghan (1994), "Loose Parties, 'Floating' Politicians, and Institutional Stress: Presidentialism in Ecuador, 1979-1988," in Juan J. Linz and Arturo Valenzuela (eds.), *The Failure of Presidential Democracy* (Baltimore: Johns Hopkins University Press).

13 Our intent is not to offer a detailed account of the drivers of the 1999 crisis but rather a snapshot of the circumstances that led up to the turbulence. For an analysis of the crisis see, for example, Gabriel X. Martinez (2006), "The Political Economy of the Ecuadorian Financial Crisis," *Cambridge Journal of Economics* 30(4), 567-585; Economist Intelligence Unit (2000), *Country Profile 2000: Ecuador*; Luis I. Jacome H. (2004), *The Late 1990s Financial Crisis in Ecuador: Institutional Weaknesses, Fiscal Rigidities, and Financial Dollarization at Work*, IMF Working Paper; Augusto de la Torre et al. (2001), *Ecuador Crisis in the Late 1990's: Banking, Currency and Debt Meltdown*.

14 The government ran budget deficits ranging from 0.1% to 5.6% of GDP every year in the 1990s except 1994. The real interest rate reached 29% in 1995 and close to 15% and 13% in 1996 and 1998, respectively; inflation topped 60% in 1999, and the sucre depreciated over 300% between January 1999 and January 2000.

15 Adoption of the crawling peg in 1994 reduced the foreign exchange risk perception, inducing banks to borrow on the external market to exploit domestic market arbitrage opportunities given the high local interest rate. That scenario, poor risk management in the sector, and the accumulation of bad loans (which doubled in the period leading up to the crisis) left financial institutions particularly exposed to external shocks and exchange-rate fluctuations.

16 The political uncertainty reached its height between 1997, with the removal of president Bucaram, and the July 1998 election of president Mahuad. The Congress deposed Bucaram in February 1997 and the legislature appointed congressional speaker Fernando Alarcón as interim president. Vice president Rosalía Arteaga claimed the presidency, arguing that Congress had no authority to appoint a president. After disputes resulting from a lack of clarity in the Constitution, Arteaga took office as president, but her administration lasted only days. Alarcón was appointed interim president (to serve until the 1998 elections), with the backing of the military.

17 Between January 1997 and December 1998 the barrel price of Ecuadorian oil plummeted from around US$20.5 to just under US$7.

18 Heavy rains, flooding, overflowing rivers, and landslides triggered by El Niño in June 1998 left 286 people dead and 162 injured. Essential services were interrupted and more than US$300 million in physical infrastructure was destroyed or damaged. Source: Proposal for a loan for a Supplementary El Niño Emergency Program (Coast Highway System), EC-0187, 1138/OC-EC, document PR-2339.

19 An estimated 58% of banking system deposits had been frozen as of July 1999. The blocked funds began to be released in March 2000. Owing to the strong devaluation of the sucre that preceded dollarization of the economy (see paragraph 1.15, and note 25 below), the funds freed up would have been worth, in dollars, around 31% of the frozen original deposits.

20 Marco Naranjo and Danilo Lafuente (2002), *La inflación inicial una vez que se ha adoptado la dolarización oficial. El caso de Ecuador*. Central Bank of Ecuador, Technical Note No. 67.

21 Ecuador was the first country to default on Brady bond payment obligations.

22 The bulk of migrants who left Ecuador in the 1970s and 1980s were from rural communities in the south, particularly the provinces of Azuay and Cañar.

23 President Mahuad ordered the dollarization of the economy in January 2000.

24 As Figure A-1.1 shows, annual inflation held between 22% and 25% throughout 1995 and 1996, rose to a new level just over 30% in 1997 (though rates remained reasonably steady throughout that year), and began a rapid ascent in 1998 and 1999. If inflation was not higher in 1999 it was likely because of the freezing of bank deposits and the effects of the economic recession itself.

Endnotes (continued)

[25] See, for example, Carlos Larrea Maldonado (2007), "Dolarización, Crisis y Pobreza en Ecuador," Universidad Andina Simón Bolívar (mimeo.)

[26] The exchange rate used for the January 2000 dollarization was 25,000 sucres to the dollar. A year earlier the rate had been 7,000 sucres to the dollar. The overshooting devaluation of the sucre is reflected in the real exchange rate index, which stood at 206.6 in January 2000 (1994=100).

[27] See, for example, Naranjo and Lafuente (2002), op. cit.

[28] Dollarization of the economy thus led to a general price adjustment, which was slower to come for nontradable goods and services or those containing less imported inputs. The Naranjo and Lafuente data cited earlier show that the December 2001 dollar prices of nontradable goods and services such as rent and education were lower than the pre-devaluation averages. The same occurred with major food-basket items like rice, bread, chicken, and beef. Prices of other items such as milk, motor vehicles, and household appliances also had more than recovered from the lag created by the exchange rate overshooting, and their December 2001 dollar price averages topped historical averages. The explanation for the rapid rise in household appliance prices is that demand went up when the government ordered bank deposits unfrozen, and people spent much of that money on such purchases. Another important factor was the increase in government-administered prices for water, transportation, and electricity, which also shot past their historical averages: for instance, the December 2001 dollar price of electricity was almost 200% higher than the pre-1999 average.

[29] The (nominal) benchmark lending rate is the weekly weighted average interest rate on 84- to 91-day commercial bank credits to the corporate sector, which consists of businesses posting more than US$5 million in annual sales (hence, large companies).

[30] The Central Bank of Ecuador (BCE) base rate is the weekly nominal average yield on auctioned BCE bonds with 84-91 day tenors. When there is no auction for those tenors the benchmark deposit rate is used. Until March 2000, BCE tenors ranged from 30 to 91 days. The monthly data presented in Figure A-1.3 refer to prevailing rates during the last week of the month.

[31] Note, however, that because of the post-dollarization price adjustment, real interest rates in 2000-2006 for tradable and nontradable sectors alike were very low, sometimes even negative.

[32] See Silvia Burbano and María Belén Freire (2003), *Determinantes del Spread y de las Tasas de Interés en el Mercado Bancario Doméstico*. Central Bank of Ecuador, Technical Note No. 73.

[33] OVE uses the Pooled Mean Group (PMG) estimator developed by M Hashem Pesaran, Yongcheol Shin, and Ron Smith (1999)—"Pooled Mean Group Estimation of Dynamic Heterogeneous Panels," *Journal of the American Statistical Association* (94), 621-634—and short-term dynamic phenomena specific to Ecuador to explain deviations from long-run equilibrium for Latin America as a whole. It uses also a vector autoregressive model to verify the findings of the first model. To estimate the growth impact of inflation control in Ecuador we assume that inflation from 2001 forward equals average inflation in 1980-1998 (prior to the 1999-2000 inflation peak).

[34] According to the OVE model, inflation control would explain per capita real income growth of 0.34% in 2001, 0.95% in 2002, 0.94% in 2003, 1.13% in 2004, and 1.1% in 2005.

[35] Figure A-1.8 graphs the real exchange rate index for the 1994-2006 span and also compares, starting in the fourth quarter of 2002, the observed real exchange rate (REE) and equilibrium real exchange rate (ERER) estimated by Segovia for end-2002 (see Santiago Segovia L. [2003], *Tipo de cambio real de equilibrio: Un análisis para el caso ecuatoriano.* Central Bank of Ecuador, Technical Note No. 71): "*The ERER is the value of the real exchange rate that is simultaneously consistent with external and internal equilibrium objectives, given specific values of other variables that can influence those objectives. External equilibrium means that current-account balances are consistent with sustainable capital flows; internal equilibrium is the sustainable equilibrium in the non-traded goods market which is compatible with the unemployment rate at its natural level*" (p. 4). In the figure it is assumed that the ERER remains constant from end-2002 forward. This would not appear to be a "heroic" hypothesis: the end-2002 ERER (104.51) is quite similar, if slightly higher, to the

estimated values for the years preceding the crisis (closer to 100). This means that the overvaluation relative to the ERER graphed in Figure A-1.8 for the latest years might in fact be an overestimate.

36 Between 2000 and 2006 the U.S. dollar depreciated 22% against the euro and 9% against the new sol, but appreciated close to 6% against the Colombian peso.

37 World Bank, *Ecuador Poverty Assessment*, Report No. 27061-EC, April 2004.

38 The Gini coefficient went from 0.57 in 1999 to 0.62 in 2001 and held steady at around 0.56 from 2002 to 2005. Similar behavior is observed in the proportions of total income received by the top and bottom 20% of households: the wealthiest fifth of the population had average incomes almost 25 times as large as the poorest fifth in 1999 and 37.6 times larger in 2001 (25 times in 2005). SIISE data.

39 January 2007 figures from *Oil and Gas Journal*.

40 In December 1998 the per barrel price of Ecuadorian oil dropped to US$6.95; at its July 2006 peak the selling price was US$61.26 a barrel.

41 The annual average barrel price of Ecuadorian oil went up about 15% in 2002, 18% in 2003, 17% in 2004, 36% in 2005, and 24% in 2006.

42 The new pipeline has doubled the country's oil-transporting capacity.

43 Ramón Espinasa (2007), *Causas de la baja productividad del sector petrolero y cómo superarlas: El caso de Ecuador*. Inter-American Development Bank, Serie de Notas Económicas y Sectoriales (RE3-07-004).

44 Ibid. In 2006 PETROECUADOR's output rose approximately 25% when it took over operation of Occidental Oil's Block 15.

45 Ibid. The available data go up to 2004.

46 Oil exports increased in real terms by over 200% between 1996 and 2006. We take 1996 as the base year for the comparison because it is the last year before the 1997 and 1998 oil price plunges and before the late-1990s crisis.

47 Carlos Larrea Maldonado (2007), op. cit., and Asociación de Exportadores de Banano de Ecuador (2006), *Análisis de la Industria Bananera*.

48 Though oil's disproportionate weight in the export basket explains much of this phenomenon, nonoil exports too are heavily concentrated: the leading 10 products make up three quarters of nonoil shipments (Figure A-1.12).

49 Interestingly, the trade surpluses in 2003 and 2004 were not large enough to create a current-account surplus. Remittance inflows in those years increased in nominal terms but decreased as a proportion of GDP, and were not enough to cover outflows of income and services payments. If Ecuador posted a current-account surplus in 2000 it was essentially because of shrinking import demand, the strong dollarization-imposed devaluation, and the late-1990s crisis.

50 Mahuad's predecessor Abdalá Bucaram had not served out his presidential term either (see note 15 above).

51 The Gutiérrez administration was marked by a succession of short-lived political alliances. Gutiérrez took office in January 2003 with support from parties on the left and the Pachakutik Movement (Movimiento Unidad Plurinacional Pachakutik—Nuevo País, MUPP-NP), which lasted only months. The government then approached the traditional parties, notably the largest national party, Partido Social Cristiano (PSC). When that arrangement faltered, fresh alliances were forged with other parties, including former president Abdalá Bucaram's Partido Roldosista Ecuatoriano (PRE), Álvaro Noboa's Partido Renovador Institucional Acción Nacional (PRIAN), and Movimiento Popular Democrático (MPD).

52 About three months after his administration ended, Noboa was accused of misappropriation of funds in the external debt renegotiations. A newly seated Supreme Court reversed the measure introduced by the Gutiérrez

administration and sentenced Noboa to house arrest. However, the charges against the former president were subsequently dropped and he was released.

53 The congressional decision to depose Gutiérrez for "abandonment of office" was taken by simple majority, without the constitutionally prescribed two-thirds share of votes. Arrest orders were issued for Gutiérrez, social welfare minister Bolívar Gonzáles, and former president Bucaram. Gutiérrez sought and was granted political asylum in Brazil.

54 Predictably, oil revenues' weight in public sector financing increased during the crisis, peaking at 35.5% in 2000, then falling back to hold at around 24%-26% from 2003 forward—slightly below their 1997 27% share. The tax revenue share of public sector financing held steady at about 46% between 2002 and 2006, up from 38.5% in 1997.

55 Law 72, enacted on 4 June 2002.

56 Excluding interest expenditure.

57 Note, in Figure A-1.18, that the nominal debt actually increased between 2001 and 2003.

58 Ecuador's nominal CAF debt increased almost 50% between end-1999 and end-2006 (from US$840 million to US$1.2 billion).

59 In December 2005 Ecuador placed US$650 million in 10-year bonds yielding 10.75%.

60 In 2005 Ecuador's debt service payments were almost 31% of its exports. It held foreign currency reserves equivalent to just under 1.9 months of exports that year.

61 See subsection C.1.

62 The typology developed by Rubén Katzman ("The Heterogeneity of Poverty. The Case of Montevideo," *CEPAL Review* (37), April 1989) is a composite of two main methods of measuring poverty: direct (satisfaction of basic needs) and indirect (income or consumption capacity), which classifies poor households into three categories: chronic poverty, recent poverty, and inertial poverty. The SIISE defines the three categories thus: "(i) *chronic poverty – the situation of households whose income (or consumption) is below the poverty line and which have one or more unmet basic needs. This group comprises the most critical pocket of poverty; these are households that are living in prolonged deprivation and, in addition to being unable to routinely purchase essential goods and services, they have been unable to acquire decent housing or assure access to education, health services, or employment opportunities for all their members;* [ii] *recent poverty – income poor or consumption poor households whose basic needs are satisfied. This is a situation that suggests that the income shortfall has not been permanent or prolonged enough to affect the households' ability to satisfy basic household needs—which changes more slowly than income—such as chronic malnutrition or substandard housing; in other words, it denotes a recent decline in a household's standard of living. Such households are at risk of sliding into chronic poverty unless employment opportunities enable them to regain their purchasing power; and* [iii] *inertial poverty – denotes households with unmet basic needs and income (or consumption) above the poverty line. This situation suggests an improving household economy, since 'unsatisfied needs' would mean that the households were poor in the past, but have not yet managed to supply their accumulated unmet basic needs.*"

63 Note that emigration has benefited households living close to the poverty line more than households living in extreme poverty, which have far fewer means to arrange to leave the country.

64 Source: International Fund for Agricultural Development (2007), *Sending Money Home: Worldwide Remittance Flows to Developing Countries in 2006.*

65 According to Multilateral Investment Fund (MIF) data for 2003 (Multilateral Investment Fund [2004], *Sending Money Home: Remittance to Latin America and the Caribbean)*, Ecuadorians receiving foreign remittances spent 61% of the money on routine household expenditures and 17% on luxury items; saved and/or invested

16%, and spent 4% on real estate and 2% on education. By those numbers, remittances financed the equivalent of some 7% of all Ecuadorian current household expenditure.

66 As mentioned in note 3 above, infant mortality data (and particularly absolute values) should be viewed with caution. The same applies for child mortality and life expectancy at birth, since estimates of those indicators are affected by first-year deaths. Nevertheless, the information is useful for trend analyses.

67 If accepted at face value (see previous note), the data on life expectancy at birth would put Ecuador among the longest-expectancy countries in the region, more or less on a par with Argentina.

68 Unfortunately, the available data do not permit analysis of the changes in social indicators for those groups over the full period relevant to this evaluation.

69 CAF (2003), *Ecuador: Análisis del Sector Transporte*, Vicepresidencia de Infraestructura, Dirección de Políticas Sectoriales de Infraestructura.

70 At end-September 2004, accounts receivable and payable among distributors and generating companies came to US$650 million. CAF (2007), *Ecuador: Análisis del Sector Eléctrico*, Vicepresidencia de Infraestructura, Informes Sectoriales de Infraestructura.

71 Documents GN-2169-1 and GN-2338-1, respectively.

72 Document RE-295, paragraph 2.8.

73 As mentioned in the previous chapter, the evaluation covering 2000-2006 overlaps with the previous CPE, which presented an analysis of the 2000-2002 CS.

74 "*The country is facing challenging governance conditions owing to the geographic fragmentation and fragility of political alliances that are major obstacles to national policy development and continuity. The Gutiérrez administration has been marked by shifting government alliances and limited popular backing. This volatility is manifest in the frequent Cabinet changes, which in turn has created high turnover in ministries and executing unit staff. Consequently, the success of the development agenda and structural reforms has been limited, affecting also the Bank's portfolio performance.*" (Portfolio Review Report, January 2005, Executive Summary). "*During 2005 Ecuador continued to suffer the effects of political instability, which was manifested in the change in government last April. The instability shows up also in: (i) frequent changes in national government officials; (ii) disputes between the Executive Branch and Congress; (iii) low public approval ratings of the president (16%) and of Congress (4%).*" (Ecuador: Report on Bank Activities during 2005 and Outlook for 2006, January 2006, p. 1). "*The Bank's operations program in Ecuador is characterized by steadily improving active-portfolio performance and new operations programming that is continually affected by shifts in national government priorities*" (ibid., p. 9).

75 The difficulties in charting a work program for the Bank in an unstable political-institutional setting show up in the 2004-2006 CS in the absence of direct connections between the Bank's and government's programs. The CS outlines the government's agenda in two paragraphs (1.39 and 1.40) and never returns to it. In reality, from a strategy standpoint, the government does not figure as a prominent actor in the strategy paper generally.

76 During its in-country interviews OVE heard the Bank described as an institution that had not found its niche. If it does not follow a "recipe" as the World Bank does, it does not have a model either. In that sense the IDB is seen as more reactive, albeit not like the CAF.

77 The inconsistency lies in the fact that the strategy change is neither discussed nor justified in the programming papers.

78 There is no indication that this shift in focus was prompted by any assessment or analysis of issues encountered during the operation of the 2000-2002 CS.

79 As a comparator group for this and other comparisons OVE used the Bank's Group D Latin countries because they most resemble Ecuador: Bolivia, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Paraguay.

Endnotes (continued)

80 Ecuador approvals in 2000-2006 were about 15% by number of operations and 17% by lending volume of the comparator country group approvals.

81 In addition to the projects presented in Table A-2.2, Annex III of the 2004-2006 CS lists two operations that had been programmed in the previous strategy and were approved in 2004, before the strategy: Coastal Resources Management Program II (EC-0193, 1531/OC-EC) and Strengthening of Rural Social Insurance (EC-0101, 1577/OC-EC).

82 Between 2000 and 2002 the Bank approved projects in all its areas of engagement except for competitiveness; between 2004 and 2006 it approved no lending for the agriculture sector or modernization of the State.

83 2004-2006 CS, p. 31.

84 The Bank's 2000-2006 TC approvals for Ecuador were roughly 2% of Ecuador loan approvals over the same interval (the proportions were 1.1% for the Bank as a whole and 2.1% for the comparator group).

85 A US$25,000 TC was funded with Global Environment Facility (GEF) resources.

86 2004-2006 CS, p. 33.

87 Ibid.

88 For most of the indicators, the data OVE obtained did not match the numbers in the CS, a result of lack of clarity as to the source and definition of the indicators.

89 This latter point is particularly important given the growing political mobilization of indigenous people in their struggle to improve their living conditions.

90 2004-2006 CS, p. 33.

91 OVE obtained the following reports: Portfolio Review Report, January 2005; Programming Mission Report, August 2005 (CP-2827-2); Report on Bank Activities in 2005 and Outlook for 2006, January 2006.

92 Note that these projects include two operations approved in 2005 and two in 2004 that have not disbursed, and a US$100 million standby credit approved in 2006.

93 The IDB's 2002 approval of the Rural Social Insurance Program (EC-0101, 1577/OC-EC) marked the first step for its engagement in Ecuador's health sector but, in the end, the operation was never signed by the government.

94 The survey was administered to representatives of the central government (Finance Ministry deputy secretaries, National Planning and Development Secretariat—SENPLADES), the Ecuadorian Agency for International Cooperation (INECI), and subnational governments (Municipalities of Quito and Cuenca; Azuay, Manabí, Pichincha, and Tungurahua provincial councils).

95 2004-2006 CS, p. 34.

96 We use only investment-project data because sector programs present very different preparation and—especially—execution patterns. The relative weights of those different kinds of operations for Ecuador, the Bank as a whole, and the Group D country comparator group would affect the comparisons.

97 Likewise, the median approval time for Ecuador projects is shorter than for the Bank and the comparator group.

98 For calculation purposes, the active portfolio in a particular year was defined as undisbursed loan balances at 31 December the previous year plus loan amounts for projects that became eligible during the year.

99 In the Group D countries we observe that, on average, 86% of missions and 89% of person-days pertained to Bank goal-activities.

100 Including the Finance Ministry Strengthening Program (EC-0198, 1366/OC-EC) approved in 2001 but canceled before its signing.

Endnotes (continued)

101 These calculations do not include funds canceled in 2007, even from the Foreign Trade Management Support Program (EC-L1001, 1524/OC-EC), which topped US$2.1 million.

102 Excluding that operation, funds canceled were 17.6% of funds approved. Cancellations for the Investment Sector Program (EC-0194, 1259/OC-EC) and the Decentralization Support Program (EC-0204, 1358/OC-EC) account for the high percentage.

103 That subsection did not purport to offer a detailed account or analysis of the Region 3 reengineering process, but rather to outline its main features.

104 One important piece of the reengineering exercise is a complete change in Country Office staff. According to the Region's diagnostic, the specialist profiles were not in alignment with the proposed model, which called for more technical, substantive work.

105 The survey used the following number and rating scale: 2 – Highly Unsatisfactory; 4 – Somewhat Satisfactory; 6 – Moderately Satisfactory; 8 – Satisfactory; 10 – Highly Satisfactory. The final 2005 survey score was 6.58, the 2006 survey's, 7.4—a 12% improvement.

106 "Survey Findings" presentation (December 2006) organized by the Ecuador Country Office. The surveys, administered to Bank sector, financial, and procurement specialists and to Ecuadorian Finance Ministry analysts, covered 32 operations (loans, TCs, MIF operations, small projects).

107 "Survey Findings" presentation.

108 Scores: 7.99 in 2005, 8.18 in 2006.

109 "Survey Findings" presentation.

110 "*The key finding of this evaluation is that generally in the PCRs too much information on outcomes is missing to assess development effectiveness.*"

111 "Risk Analysis (RA): Operating Guide." Regional Operations Department III, Discussion Document, March 2006.

112 The BSC concept was developed in the 1990s by Robert S. Kaplan and David P. Norton. See, for example, *Balanced Scorecard: Translating Strategy into Action*, Harvard Business School Press, 1996.

113 The Country Office supervises disbursements using sampling, which lessens its workload.

114 Consequently: (i) projects approved in 2000-2006 that were less than 50% disbursed at the period end will not figure in the discussion in the chapter, nor will 50%-or-more disbursed projects in that period for which there are no outcome data; and (ii) projects approved before 2000 but over 50% disbursed in the 2000-2006 period, for which there are outcome data, will come in for analysis.

115 A list of the competitiveness-related operations the Bank funded in 2000-2006 appears in the loan document for the Competitiveness Enhancement Program (EC-L1004, 1791/OC-EC): "*(i) the foreign trade management support program (1524/OC-EC), whose fundamental aim is to help improve public management of foreign trade by strengthening the capacity to formulate, negotiate, and apply a comprehensive and consistent trade policy; and (ii) operation ATN/ME-8530-EC, mitigation of market-access barriers, whose basic aim is to help achieve compliance with nontariff regulations to improve the access of Ecuadorian companies to the United States market, through a systematic approach for dealing with technical barriers to that market before and after the Andean Trade Preference Act expires*." (PR-3085, p. 9). The document also mentions the following MIF projects: "*(i) cooperative SME operations in the floriculture value chain (EC-M1013). The purpose of the program is to develop, facilitate, and strengthen partnerships and cooperation between horizontally linked firms and enterprises in related fields in order to heighten the value chain's efficiency and effectiveness; (ii) the program for establishing a competitiveness strategy for Ecuador's fine aroma cocoa chain (EC-M1011), whose core objective is to increase the presence of fine aroma cocoa from Ecuador in conventional and specialty markets; and (iii) four small MIF operations related to the program to delegate authority to the Country Office,*

whose aim is to improve the marketing networks, competitiveness levels, and cooperative partnering of small and medium-sized enterprises (SMEs) in several sectors.” (Document PR-3085, page 8)

[116] Document PR-3085, p. 4.

[117] The ATPDEA extension leaves the renewal decision to the next Congress and the U.S. administration that will be elected this coming November.

[118] Simón Pachano, *El Tejido de Penélope: Reforma Política en Ecuador*. FLACSO, 2003.

[119] However, Ecuador’s recently launched constitutional reform could help reverse this.

[120] As chapter I noted, the rise in oil exports in recent years is largely the result of the opening of the heavy crude pipeline.

[121] Particularly if the crisis significantly impacts other markets. In the short term, the dollar’s depreciation against the euro could have a positive effect on remittance receipts.

[122] The loan was 51% disbursed between 2000 and 2004.

[123] The former Revenue Directorate’s fall into disrepute and the country’s worsening fiscal condition owing to the drop in oil revenues were no doubt factors in the program’s success.

[124] The bulk of the increase in tax revenues collected can likely be credited to the IDB project (there also were some changes in taxation policy, but their effects cannot be isolated). The increase in tax revenue intakes in the course of the earlier projects is negligible.

[125] Project Completion Report of the Investment Sector Program (EC-0194, 1259/OC-EC).

[126] Bank assets as a proportion of GDP rose over 100% between 1993 (before the law was enacted) and 1998. Over that same interval, private-sector credit as a proportion of GDP increased roughly 89% and the bank system deposits to GDP ratio climbed 51%.

[127] Moreover, the Superintendency of Banks and the Central Bank had no good incentives to work to their mandates: their authorities were open to political retaliation and personal lawsuits when they exercised prudential supervision. This became clear both for supervisory authorities and for bankers following the medium-intensity crisis that rattled Ecuador’s banking system in late 1995 and early 1996 and spotlighted the system’s deep-seated structural problems.

[128] Thorsten Beck, Asli Demirgüç-Kunt, and Ross Levine (2000), "A New Database on Financial Development and Structure," *World Bank Economic Review* 14, 597-605.

[129] Bank assets/GDP: 20.7% in 1997, 21.2% in 2005; private sector credit/GDP: 20.4% in 1994, 20.5% in 2005; banking system deposits/GDP: 17.9% in 1994, 21% in 2005.

[130] On the institutional side, PROMSA, unlike PRAT, sought to instill a new logic of service delivery managed by a non-State agency.

[131] The only reference to the Agricultural Sector Program in the 2000-2002 CS is a mention of how it helped stabilize the economy (point 2.12). There is no mention at all of PROMSA, which was 75% disbursed when the country strategy was approved.

[132] This is confirmed in paragraph 2.12 of the loan document, which states that priority is to be given to farmers with producing potential, market access, and irrigation facilities. These features provide a glimpse of the idea of producer “viability” espoused by numerous agricultural development programs of the era.

[133] J. Berdegué (2002), “Evaluación del Componente de Transferencia Tecnológica del PROMSA.”

[134] GRADE (2003), “Evaluación Económica y Socio-Ambiental de los Componentes de Programa de Modernización de los Servicios Agropecuarios.”

Endnotes (continued)

[135] OVE's evaluation expanded upon and enriched the analysis in the previous (Berdegué and GRADE) assessments, adopting an evaluation framework in which it constructed more rigorous counterfactuals and used more detailed impact indicators and control variables. To measure impacts, the OVE evaluation compares "treated" (beneficiary) group outcomes with non-treated groups of producers of similar characteristics (aggregate indexes), and uses the complete sample of treated localities to assess the program's impacts. OVE's evaluation overcame most of the technical limitations discussed in the GRADE report and yielded more robust evidence of the effectiveness of the program's chosen intervention model. The OVE report "Impact of a Technology Transfer Program on the Productivity of Small Farmers: The Case of Ecuador's PROMSA" (mimeo) concludes: "*We find no effect of PROMSA on productivity and technology aggregate indexes at aggregate levels. However, we do find some albeit weak evidence of a more positive productivity effect in those villages where PROMSA had more than 2 groups, in the Bolivar province, for farmers with plots between 1.5 to 5 hectares and for rice growers …We find some differences in favor of PROMSA beneficiaries but they do not seem likely to be attributed to the program's intervention. Rather, it seems that they respond to the way PROMSA localities were selected, as extensionists tended to pick those with higher commercial potential which is also associated to higher local supply of financial and non-financial agricultural services, including agricultural extension."* However, the report appears to uncover some other positive outcomes: *"We find statistically strong differences between the former PROMSA beneficiaries and the constructed control groups in terms of associability, the use of alternative commercial channels and access to credit, a result consistent with the way the PROMSA intervention was planned and executed, as they forced farmers to work in groups, and farmers tended to demand other agricultural services such as commercialization and access to credit … In that sense, we could interpret these results as evidence that PROMSA served as a way to show farmers they can benefit from grouping with their neighbors …. Unfortunately, we cannot fully discard the possibility that the estimated differences are not the result of the program's intervention but rather of the way the program selected their beneficiaries …*"

[136] Dávila (2004), "Evaluación de Impactos de Corto Plazo del Programa de Infraestructura Rural del Transporte PIRT," mimeo.

[137] "*Baseline collected for only 4 roads (2 treated and 2 control) in two sub-regions. However, the follow-up information was collected for 12 roads in 7 sub-regions only, including the 4 roads with baselines. Only 270 household surveys (follow-ups) were collected in total for the 12 roads. Of the 270 households 79 of them were for the 4 roads with baselines. Among the 79 cases, the information about outcome indicators varies widely. The information about transportation, travel times, use and quality of the roads, was collected in all 4 cases, also, information about diversification productive and household expenditure. But, information about health, education, employment and land productivity was collected partially or not collected at all. In some cases, the information was not compatible (for example, in education because of the reorganization of local schools in the areas of intervention), in other cases the information was not collected (land productivity, unknown reasons). In the case of health, the information was collected in two (2) of the four (4) roads only.*" OVE (2006), "Draft Report. Ex Post Evaluation of Rural Road Programs. Ecuador Rural Transportation Infrastructure (EC-0196)", mimeo.

[138] Ecuador. Ministry of Public Works (2004), "Informe Final Gestión de la Unidad de Caminos Vecinales en la Ejecución del Programa de Infraestructura Rural de Transporte y en la Preparación del Programa de Caminos Vecinales."

[139] OVE (2007), "Bank's Operations in Rural Roads in Ecuador (EC-0196 and EC-0211). Ex Post Project Evaluation Report" (mimeo).

[140] Rob Vos (2002), "Dollarization, Real Wages, Fiscal Policy and Social Protection: Ecuador's Policy Trade-Offs," Institute of Social Studies, The Hague (mimeo).

[141] Source: ECLAC.

[142] IDB member countries not included in the comparison are The Bahamas, Barbados, Belize, Guyana, Haiti, and Suriname. ECLAC (2007), *Social Panorama of Latin America*.

Endnotes (continued)

143 Which does not mean that these latter indicators have worsened, rather that they trail the comparator country group average.

144 Increases in response to the drop in income measured in dollars generated by the exchange rate overshooting during the dollarization process.

145 Another Investment Sector Program condition was the rollout of the pilot phase of SELBEN which, according to the PCR, was successfully completed and was the basis for the Ministry of Social Welfare's request for the technical cooperation loan.

146 Grupo Faro/Lupa Fiscal and UNICEF (2006), "Cómo va la inversión social?" No. 17, October.

147 Loan document PR-2341, p. 4.

148 In the latter part of the 1990s government-led initiatives for decentralization with autonomy, local participation, and performance accountability were the major bone of contention between the government and the teachers union, Unión Nacional de Educadores, which associated this move with the privatization of education.

149 FLACSO (2005), "Evaluación de Gestión y de Impacto del Programa de Redes Escolares Autónomas Rurales."

150 Ibid.

151 J. Ponce (2006), *The Impact of a School Based Management Program on Student Achievement: The Case of "Redes Amigas" of Rural Ecuador*. FLACSO, Working Paper 06/303.

152 Prior to the advent of the *Nuestros Niños* program, early child services were delivered primarily by three national government institutions: the Ministry of Education and Culture's National Alternative Preschool Education Program (PRONEPE), Operación Rescate Infantil (ORI), a decentralized agency of the Ministry of Social Welfare that runs the national community daycare network, and the National Institute for Child and Family Welfare (INNFA) which operates as a nongovernmental organization headed by the First Lady. Those programs reached just 7.5% of the target population and were not closely targeted on poor children.

153 Asociación Velnec-RHV (2004), "Informe Global de Evaluación Final del Programa Nuestros Niños."

154 See note 153.

155 Estimates of achievement differentials between indigenous and Afro-Ecuadorian communities and mestizo and white populations range from about 44% to 104%. Discrimination can be blamed for 45%-55% of the disparities. See María Lourdes Gallardo Montoya (2006), "Ethnicity Based Wage Differentials in Ecuador's Labor Market," M.Sc. thesis, Cornell University; Adela García-Aracil and Carolyn Winter (2006), "Gender and Ethnicity Differentials in School Attainment and Labor Market Earnings in Ecuador," *World Development* (34), 289-307; Carlos Larrea and Fernando Montenegro Torres (2005), "Ecuador," in Harry A. Patrinos and Gillette Hall (eds.), *Indigenous Peoples, Poverty and Human Development in Latin America: 1994-2004*. Washington, D.C.: The World Bank.

156 Pablo Lucio Paredes (2002), "Impacto Económico del Sistema de Incentivos para la Vivienda en Ecuador."

157 ESI Internacional (2004), "Seguimiento Operativo del Programa de Apoyo al Sector Vivienda II. Préstamo 1416/OC-EC."

158 On the subject of targeting, there are considerable differences between the data reported in the available reports and ongoing IDB Social Protection and Health Division (SCL/SPH) analytical work referencing the Living Standards Survey. OVE thus is reluctant to use the data available in those reports.

159 Such arrangements are part of the explanation for the creation of 10 laws between 1987 and 1998 mandating transfers to particular provinces: Bolívar Provincial Development Fund, 1989; Law on Appropriations to the Provinces of Azuay, Cañar, and Morona Santiago, 1989; Province of El Oro Environmental Sanitation, Roads, and Irrigation Fund, 1989; Province of Manabí Rural Roads Program, 1990; Cotopaxi Provincial Irrigation Fund, 1990; Agriculture Sector Fund, Province of Chimborazo, 1991; Development Funds of the Amazon

Region Provinces, 1989, 1991, and 1992; Province of Pichincha Development Fund, 1992; Province of Carchi Development Fund, 1992; Law replacing the Law establishing the Province of La Loja Road Fund, 1998.

160 Annualized inflation jumped from 2.7% in November 2007 to 8.2% in April 2008.

161 Ecuador exported 135.03 million barrels of oil annually between April 2005 and March 2006. Export shipments between April 2006 and March 2007 came to 130.03 million barrels. Annual exports in April 2007-March 2008—the most recent available data—were down to 127.69 million barrels. The moving average of annual export volumes fell 10.7% between the October 2006 high and the November 2007 low.

162 "2007-2010 National Development Plan: The Plan for Citizen Revolution." This national roadmap is anchored in 12 national goals: (i) promote equality, cohesion, and social and territorial integration; (ii) build and unlock citizen capacity and potential; (iii) increase Ecuadorians' life expectancy and enhance their quality of life; (iv) work for a healthy and sustainable environment and assure access to safe water, soil, and air; (v) preserve national sovereignty and peace and foster Latin American integration; (vi) assure stable, fair, and decent employment; (vii) reclaim and enlarge the public space and opportunities for encounter and interaction; (viii) affirm the national identity and strengthen diversity and multiculturalism; (ix) make the justice system more widely accessible; (x) ensure points of entry for Ecuadorians' public and political participation; (xi) build a supportive, sustainable economic system, and (xii) improve the workings of government for the collective good.

ANEXO

CUADROS Y GRÁFICOS

Capítulo I

Gráfico A-1.1: Evolución de la Tasa de Inflación. Ecuador: 1995-1999

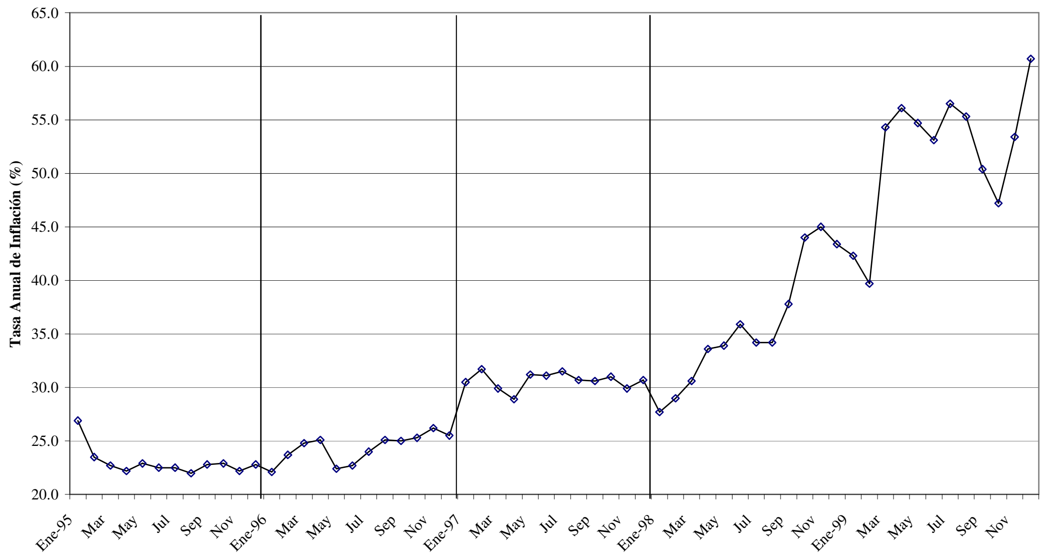


Gráfico A-1.2: Evolución de la Tasa de Inflación. Ecuador: 2000-2006

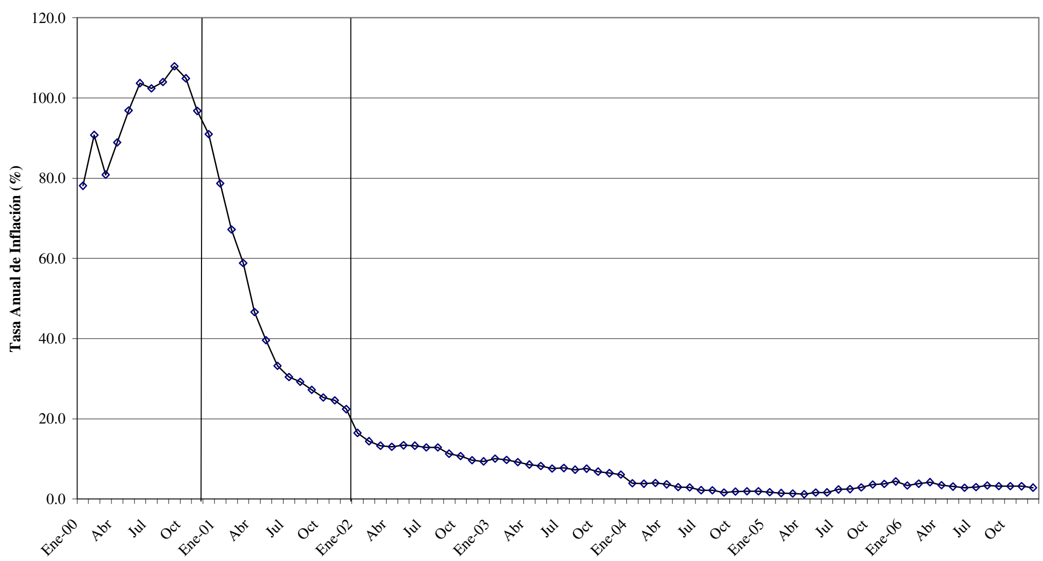


Gráfico A-1.3: Evolución de la Tasa Básica del Banco Central. Ecuador: 1995-2006

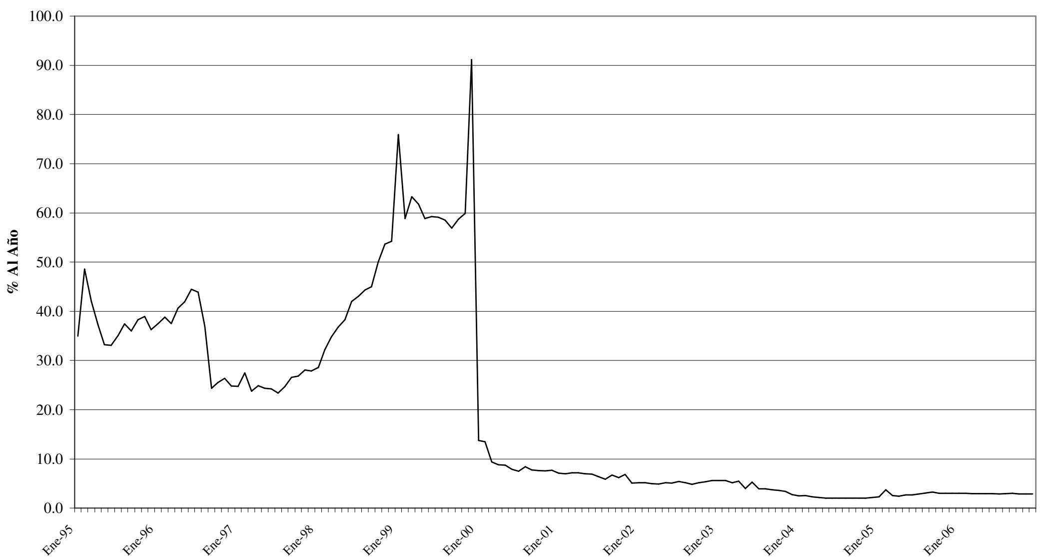


Gráfico A-1.4: Evolución de la Tasa de Interés Activa Referencial. Ecuador: 1997-2006

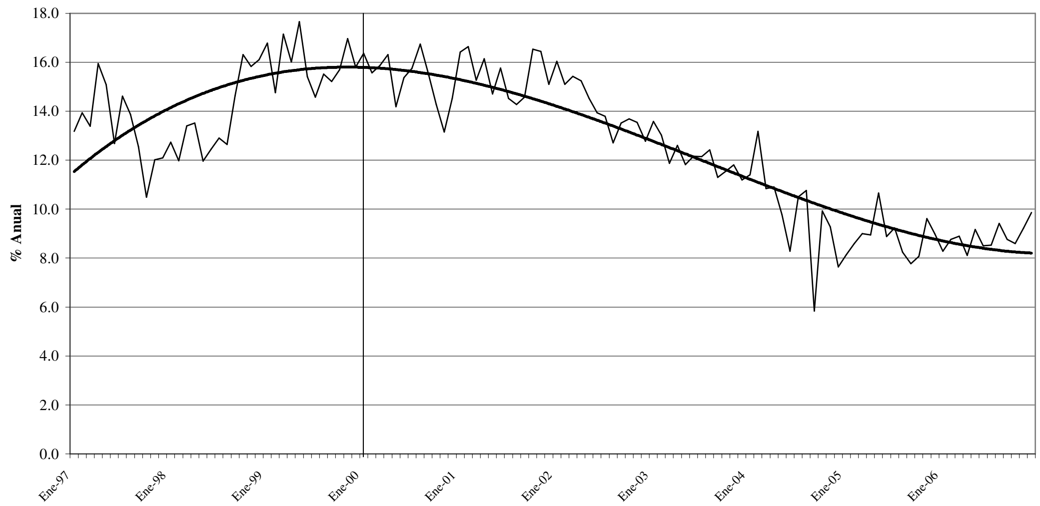


Gráfico A-1.5: Tasa de Interés Activa Referencial (Promedio Semestral). Ecuador: 1997-2006

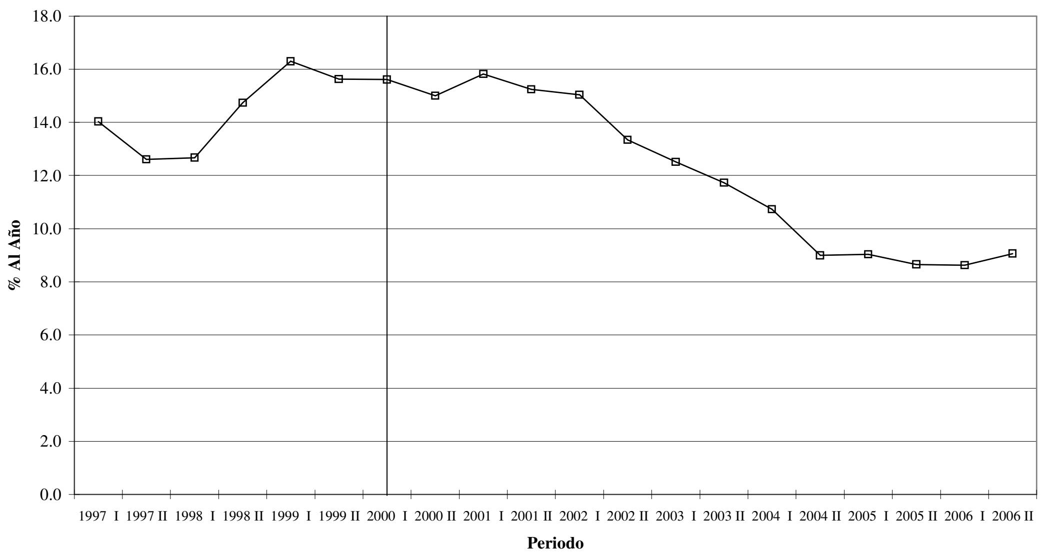


Gráfico A-1.6: Tasas de Interés. Ecuador: 1997-2006

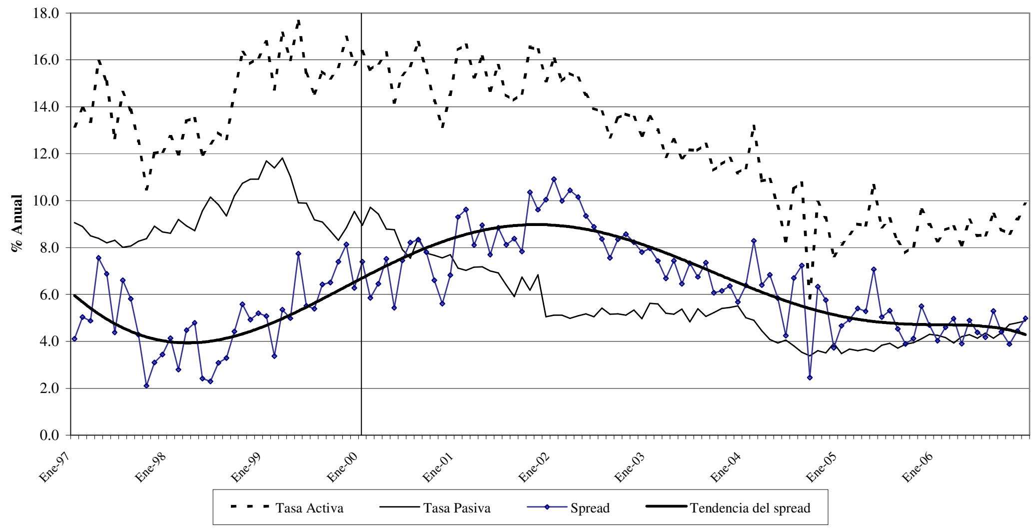


Gráfico A-1.7: PIB Per Cápita. Ecuador: 1970-2006

Gráfico A-1.8: Tipo de Cambio Real. Ecuador: 1994-2006

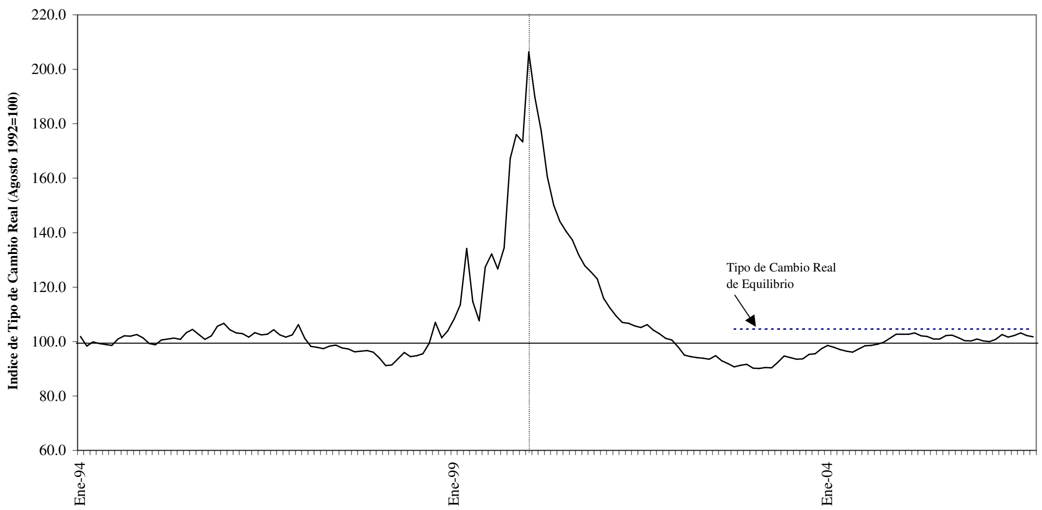


Gráfico A-1.9: Evolución del Precio del Barril de Petróleo Ecuatoriano. 1995-2006

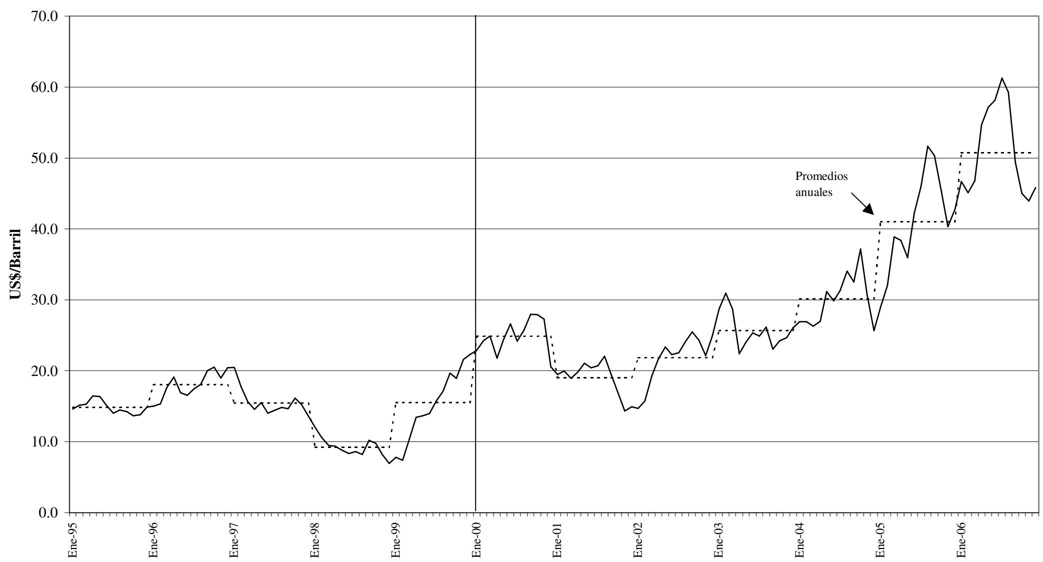


Gráfico A-1.10: Exportaciones de Petróleo. Ecuador: 1995-2006

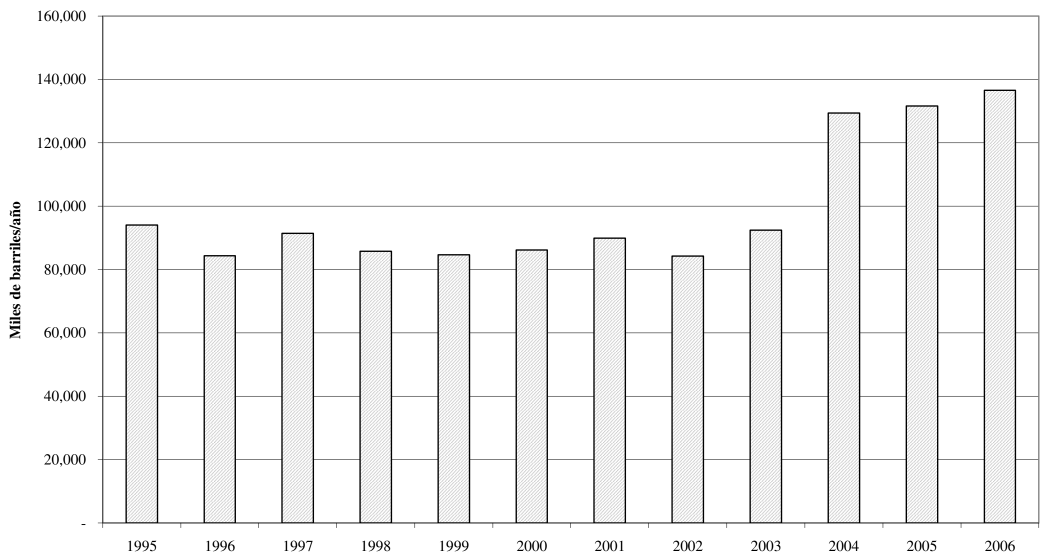
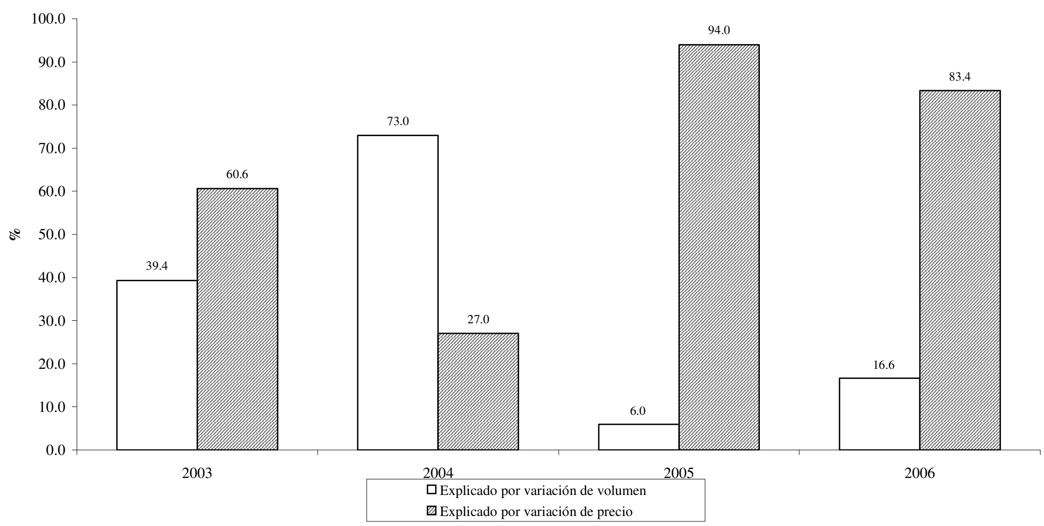


Gráfico A-1.11: Distribución Porcentual de la Variación Anual en la Exportación de Petróleo



Cuadro A-1.1: Cinco Principales Productos de Exportación

Producto	Crecimiento Real de las Exportaciones 2000-2006 (%)	Participación en el Total de las Exportaciones (2006) (%)
Todos los productos	33.8	100.0
Principales Productos		
Petróleo y derivados	60.8	59.6
Banano y plátano	-23.1	9.6
Camarón	6.2	4.6
Enlatados de pescado	19.6	4.2
Flores naturales	19.4	3.5
Total principales productos	35.9	81.5
Principales productos menos petróleo y derivados	-9.5	21.9

Fuente: Elaboración propia sobre la base de datos del Banco Central del Ecuador.

Gráfico A-1.12A: Distribución de las Exportaciones

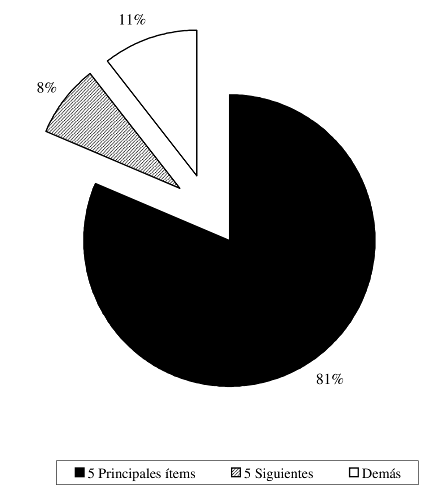


Gráfico A-1.12B: Distribución de las Exportaciones No Petroleras

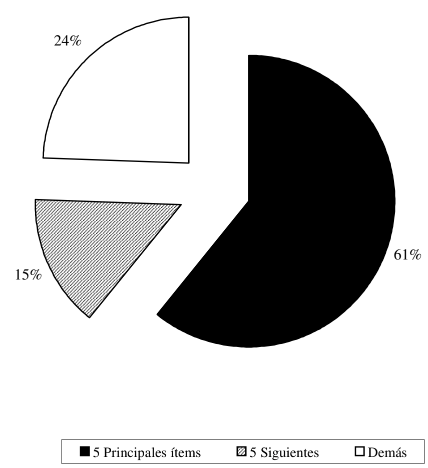
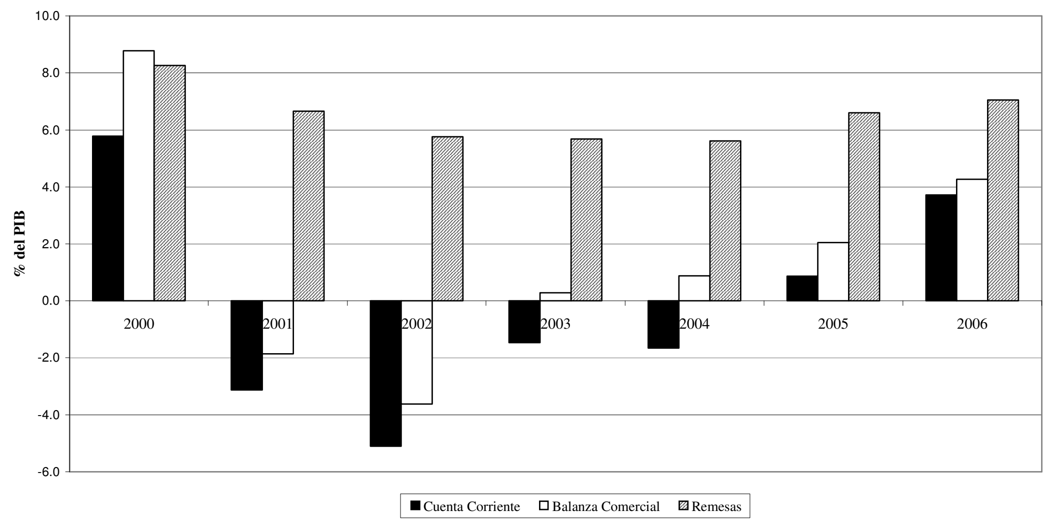


Gráfico A-1.13: Comportamiento del Sector Externo. Ecuador: 2000-2006



Cuadro A-1.2: Principales Eventos Periodo 2000-2006

Fecha	Evento
Enero 2000	Golpe de Estado, el presidente Mahuad es reemplazado por Gustavo Noboa su vicepresidente.
Febrero 2000 Marzo 2000	Se aprueba la Ley de Transformación Económica (paquete de reformas que incluía reformas fiscales, laborales, al sector financiero, al sector hidrocarburos, apoyo a privatizaciones, etc.). Se aprueba el marco legal para la dolarización de la economía.
Enero 2003	Lucio Gutiérrez, uno de los líderes del golpe de 2000, asume la presidencia después de ser electo democráticamente (20,6% de lo votos en la primera vuelta, 54,8% de los votos en la segunda).
Marzo 2003 Agosto 2003 Noviembre 2004	Gutiérrez firma programa stand by por US$205 millones con el FMI. Se desintegra coalición en el Congreso. Se paraliza la agenda legislativa. La mayoría del Congreso expulsa 27 de los 31 miembros de la Corte Suprema de Justicia.
Abril 2005	El presidente Gutiérrez es removido por el Congreso. El vicepresidente Alfredo Palacio asume la presidencia.
Agosto 2005 Mayo 2006	Protestas en Sucumbios y Orellana paralizan la producción petrolera. El gobierno anula el contrato con Occidental, los Estados Unidos suspenden negociaciones para acuerdos de libre comercio.

Cuadro A-1.3: Ministros de Finanzas, 2000-2006

Ministro	Meses en el Cargo
Gobierno Noboa	
Jorge Guzmán Ortega	3,7
Mauricio Davalos	0,4
Luis Iturralde Mancero	6,9
Jorge Gallardo Zavala	9,3
Carlos Julio Emanuel	8,4
Francisco Arosemena Robles	6,7
Gobierno Gutiérrez	
Mauricio Pozo	16,5
Mauricio Yépez	10,6
Gobierno Palacio	
Rafael Correa Delgado	3,4
Mauricio Gándara	0,1
Magdalena Barreiro Riofrío	4,7
Diego Borja Cornejo	6,3
Armando Rodas	3,3
José Jouvín	2,4
Promedio	5,9

Fuente: Elaboración propia.

Gráfico A-1.14: Resultado Fiscal Sector Público No Financiero. Ecuador: 1983-2006

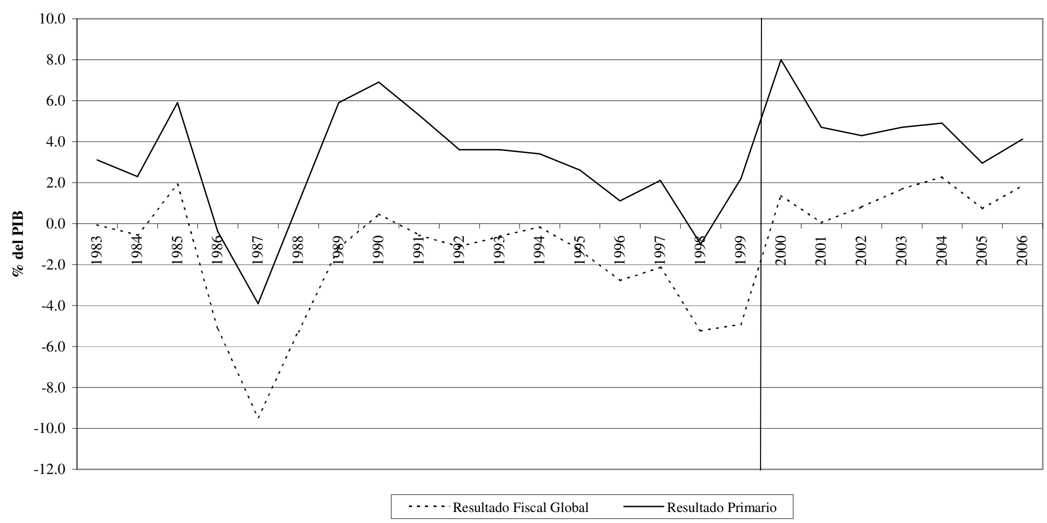


Gráfico A-1.15: Ingresos del Sector Público No Financiero. Ecuador: 1997-2006

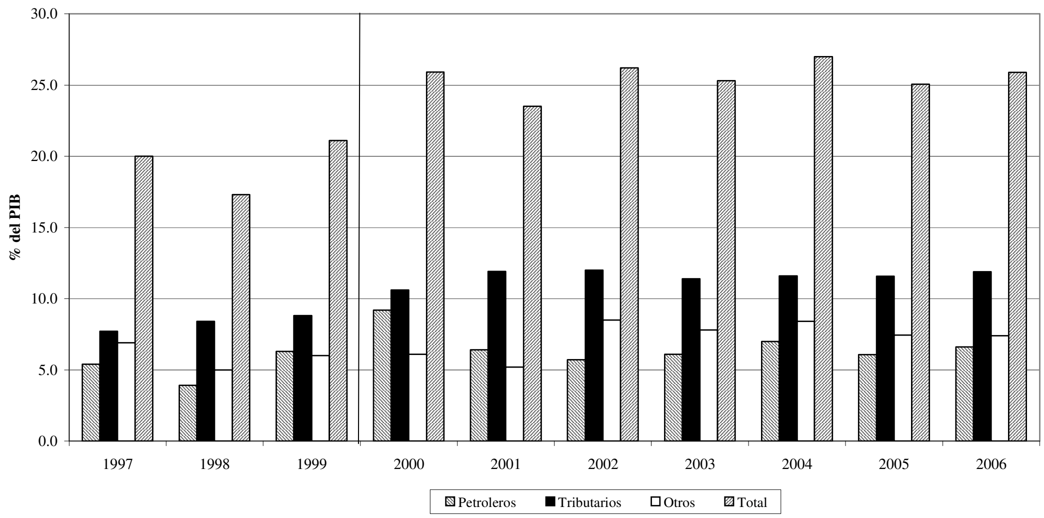
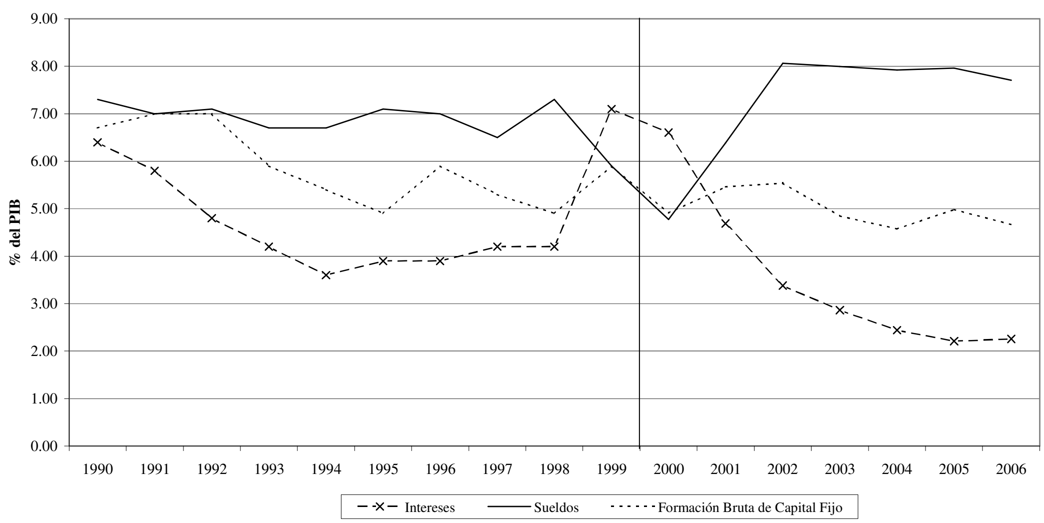


Gráfico A-1.16: Gastos del Sector Público No Financiero. Ecuador: 1990-2006



Recuadro A-1.1 – La Ley Orgánica de Responsabilidad, Estabilización y Transparencia y el Fondo de Estabilización[1]

Como se ha visto en el documento, la Ley Orgánica de Responsabilidad, Estabilización y Transparencia Fiscal (LOREYTF) tenía como objetivo establecer criterios técnicos para mantener el equilibrio fiscal y manejar de manera sostenible el endeudamiento público.

Así, en su aspecto fiscal, la Ley establecía un límite anual de crecimiento real del gasto primario total (gastos totales —corrientes más inversión— menos intereses) de 3,5% que incluía el financiamiento de los gastos de inversión. En lo que se refiere al endeudamiento, se definió que la relación entre el saldo de la deuda pública total y el PIB debería disminuir como mínimo en 16 puntos porcentuales para cada uno de los periodos gubernamentales, hasta que la relación deuda/PIB se encontrara y mantuviera por debajo del 40% del PIB (valor equivalente a la media latinoamericana de dicho indicador).

Los cambios a la Ley y al fondo de estabilización introducidos en 2005 reflejaban la visión del gobierno de Palacio de que la LOREYTF privilegiaba el pago de deuda en detrimento de la inversión pública y de los sectores sociales. De esa manera, la ley reformatoria elimina la restricción al crecimiento del gasto de inversión pero mantiene el límite a la expansión del gasto corriente, y sustituye el Fondo de Estabilización, Inversión Social y Productiva y Reducción del Endeudamiento Público (FEIREP) por la Cuenta Especial de Reactivación Productiva y Social, del Desarrollo Científico-Tecnológico y de la Estabilización Fiscal (CEREPS).

Con la CEREPS los recursos del excedente petrolero pasan a distribuirse de la siguiente forma: (i) 35% para líneas de crédito con intereses preferenciales, cancelación de la deuda que el Estado mantiene con el Instituto Ecuatoriano de Seguridad Social, recompra de deuda pública externa e interna a valores de mercado, ejecución de proyectos de infraestructura dirigidos a elevar la productividad y competitividad; (ii) 30% para proyectos de inversión social (15% para el sector educación y 15% para inversión en salud y saneamiento ambiental); (iii) 20% para estabilizar los ingresos petroleros a través del Fondo de Ahorro y Contingencias (FAC); (iv) 5% para investigación científica-tecnológica para el desarrollo; (v) 5% para mejoramiento y mantenimiento de la red vial nacional; y (vi) 5% para reparación ambiental y social por efecto de los impactos generados por las actividades relacionadas al sector de hidrocarburos o mineras desarrolladas por el Estado.

A comienzos de abril de 2008, la Asamblea Constituyente de Ecuador aprobó cambios importantes a la LOREYTF eliminando el límite al crecimiento real anual del gasto público. El límite fue reemplazado con la obligatoriedad de que los egresos corrientes sean financiados con ingresos corrientes, como los tributarios. La Asamblea eliminó también los fondos petroleros autónomos y decretó que los recursos se destinen al presupuesto. La ley aprobada tiene como objetivos desbloquear la inversión pública requerida para impulsar el crecimiento económico del país, y fue en parte justificada por la incapacidad de se desarrollar mecanismos operativos que permitan la inversión oportuna de los fondos petroleros para evitar la subutilización de esos recursos.

Notas:

[1]La información presentada en ese Recuadro está, en gran medida, basada en Hexagon Consultores (2006) – "Inversión Pública: LOREYTF, Preasignaciones e Inversión Social", Papel de Trabajo M.E.I.L., Nro. 16.

Gráfico A-1.17: Evolución del Gasto Público. Ecuador: 2002-2006

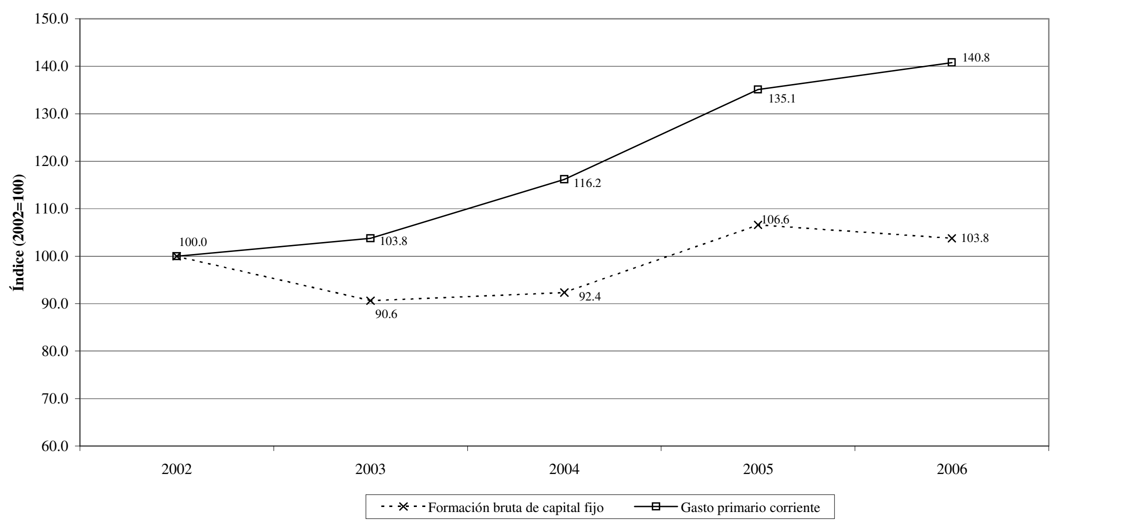


Gráfico A-1.18: Deuda Pública Externa. Ecuador: Dic. 1999-Dic. 2006

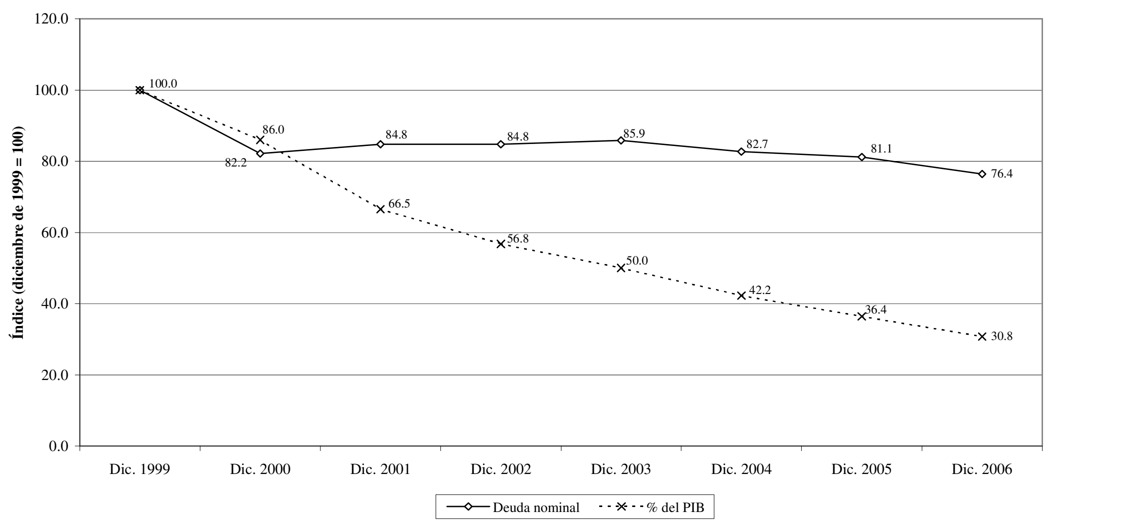


Gráfico A-1.19: Deuda con el BID. Ecuador: Dic. 1999-Dic. 2006

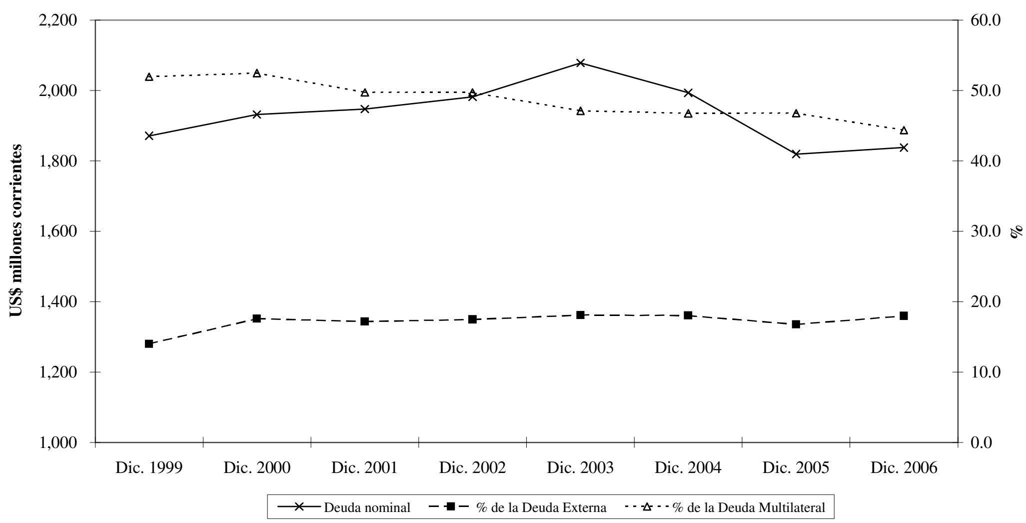


Gráfico A-1.20: Indicadores de Pobreza por Consumo. Ecuador: 1995, 1999, 2006

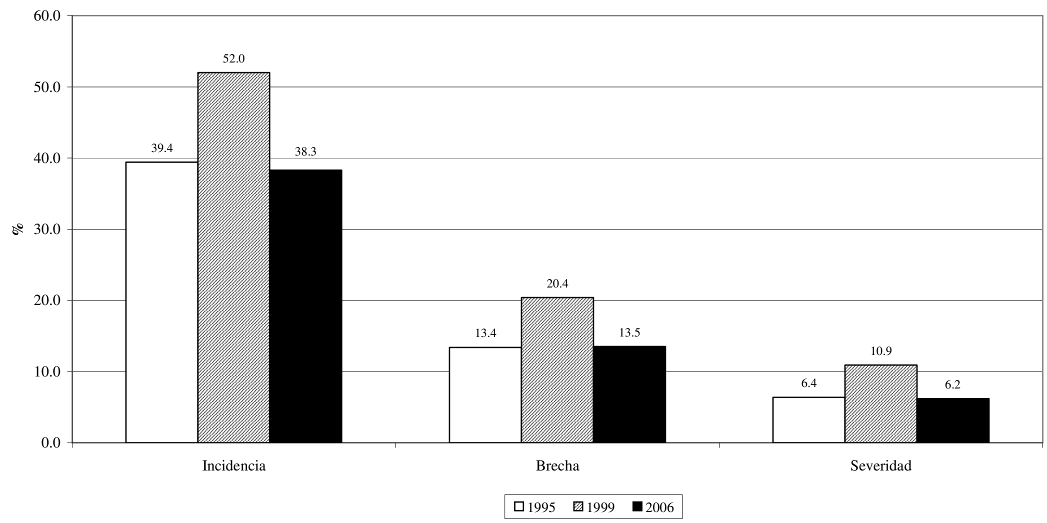


Gráfico A-1.21: Indicadores de Extrema Pobreza por Consumo. Ecuador: 1995, 1999, 2006

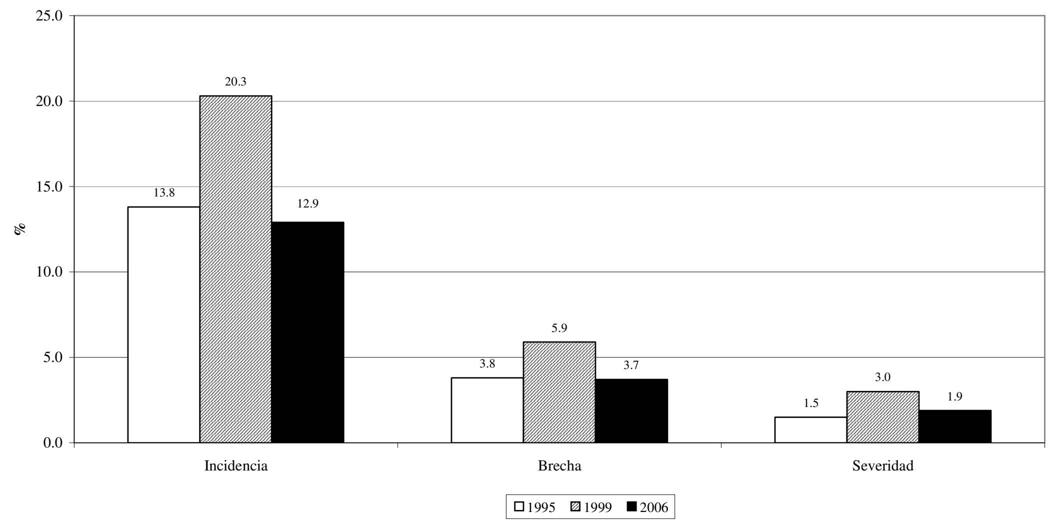
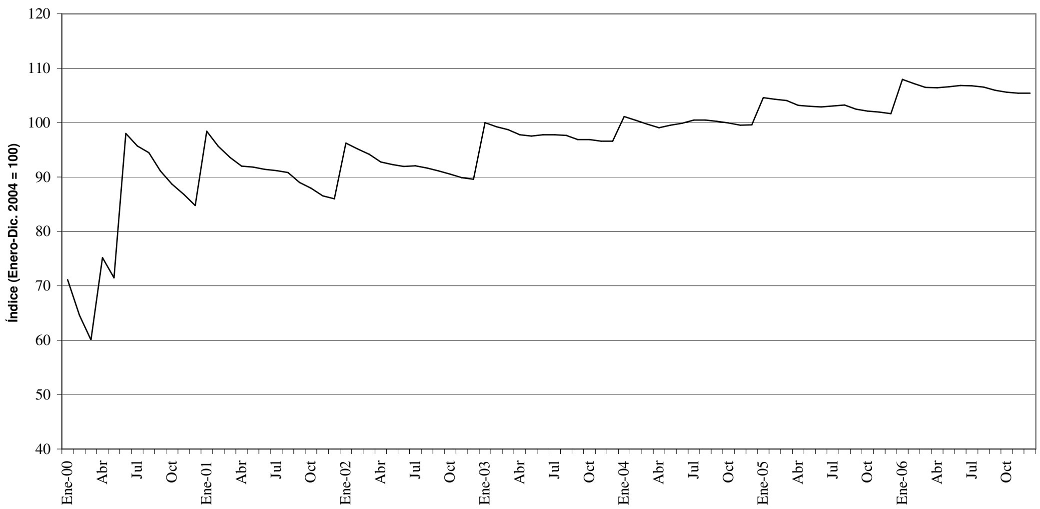


Gráfico A-1.22: Evolución del Salario Real. Ecuador: 2000-2006



Cuadro A-1.4: Indicadores de Educación: 1995, 1999, 2006

Área/Año	Primaria Completa (% población)	Secundaria Completa (% población de 18 años y más)	Tasa de Analfabetismo (% población de 15 años y más)	Años de Escolaridad, (población de 24 años y más)
País				
1995	71,8	26,2	10,5	7,2
1999	74,1	28,8	10,8	7,6
2006	77,5	32,8	9,1	8,1
Urbana				
1995	82,9	36,9	6,0	8,8
1999	84,8	40,3	5,6	9,2
2006	85,6	43,2	4,9	9,5
Rural				
1995	54,2	8,5	17,9	4,4
1999	57,0	10,2	19,2	4,8
2006	62,4	12,6	17,2	5,3

Fuente: Elaboración propia sobre la base de datos de las Encuestas de Condiciones de Vida (ECV) – Instituto Nacional de Estadísticas y Censo (INEC) procesada por SIISE.

Cuadro A-1.5: Indicadores de Salud

Área/Año	Tasa de Mortalidad Infantil[1] (por mil nacidos vivos)	Tasa de Mortalidad de Menores de 5 Años (por mil nacidos vivos)	Esperanza de Vida al Nacer (años)	Cobertura de Vacunación contra el Sarampión
1995	20,4	30,3	71,4	89.4
1999	18,0	25,0		63.1
2000	18,5	26,7	73,4	
2001	17,7	24,8		
2002	16,9		74,2	
2003	15,3			
2004				
2005			74,7	
2006				63.1

Nota: [1]Método directo.

Fuente: Elaboración propia sobre la base de las estadísticas vitales – INEC, Encuestas de Condiciones de vida (ECV) – INEC, y World Development Indicators (WDI), Banco Mundial.

Cuadro A-1.6: Indicadores Sociales por Etnia: 2001, 2004

Etnia	Tasa Neta de Escolarización[1] (%, 20001)	Años de Escolaridad[2] (2001)	Desnutrición Crónica[3] (2004, %)	Inmunización Completa[4] (2004, %)
Indígena	86,2	3	46,7	31,5
AfroEcuatoriana	86,2	6	21,2	55,6
Mestiza	90,8			
Demás	92,4	7	16,5	61,6

Notas: [1]Porcentaje de niños de 6-11 matriculados en educación primaria en edad reglamentaria; [2]Población de 24 años y más; [3]Talla para edad, niños menores de 5 años; [4]Niños 12-23 meses.

Fuente: Elaboración propia sobre la base del SIISE (Censo de Población y Vivienda 2001 - INEC, Encuesta Demográfica y de Salud Materno Infantil (ENDEMAIN)).

Capítulo II

Cuadro A-2.1: Operaciones de Préstamo Aprobadas: Ecuador, 2000-2006

Periodo	Préstamos		Monto	
	Número	% Total	US$ Millones	% Total
2000-2002	12	42,9	326,5	32,4
2003	3	10,7	232,9	23,1
2004-2006	13	46,4	447,3	44,4
Total	28	100,0	1.006,8	100,0

Fuente: Oveda.

Cuadro A-2.2 - Operaciones Presentadas y Programadas por las Estrategias de País 2000-2002 y 2004-2006

Número	Nombre*	Año		Monto (US$ millones)		Escenario Programado		
		Programado**	Aprobado	Programado**	Aprobado	Alto	Básico	Bajo
EC0194 - 1259/OC-EC	Programa Sectorial de Inversiones***	2000	2000	150.0	150.0			
EC0195 - 1261/OC-EC	Sistema de Identificación Beneficiarios de Programas Sociales***	2000	2000	4.5	4.5			
EC0134 - 1274/OC-EC	Programa de Manejo Ambiental de las Islas Galápagos***	2000	2000	10.4	10.4			
EC0197 - 1296/OC-EC	Fortalecimiento del Sistema Estadístico Nacional***	2000	2000	12.5	12.5			
EC0196 - 1282/OC-EC	Programa de Infraestructura Rural de Transporte (PIRT)***	2000	2000	9.0	9.0			
EC0203 - 1373/OC-EC	Fondo de Inversión Social III (FISE III)***	2001	2001	40.0	40.0	X	X	X
EC0204 - 1358/OC-EC	Programa de Apoyo a la Descentralización***	2001	2001	4.8	4.8	X	X	X
EC0198 - 1366/OC-EC	Programa de Fortalecimiento del MEF***	2001	2001	5.1	5.1	X	X	X
EC0191 - 1376/OC-EC	Programa de Administración de Tierras***	2001	2001	15.0	15.2	X	X	X
EC0201 - 1420/OC-EC	Programa de Desarrollo Sostenible de la Frontera Amazónica Norte	2002A	2002	10.0	10.0	X	X	X
EC0132	Programa Vial II	2002A		35.0		X	X	
EC0199	Programa de Seguridad Ciudadana	2002A		10.0		X	X	X
EC0101 - 1577/OC-EC	Seguridad Social Campesina	2002A	2004	10.0	5.0	X	X	
EC0185	Programa de Transporte Público Urbano	2002A		15.0		X		
EC0200 - 1424/OC-EC	Programa de Saneamiento Ambiental Fase I	2002A	2002	40.0	40.0	X	X	
EC0193 - 1531/OC-EC	Programa de Manejo de Recursos Costeros II	2002A	2004	20.0	12.4	X	X	X
EC0139	Programa de Desarrollo Municipal II	2002B		40.0		X		
EC0207 - 1416/OC-EC	Programa de Apoyo a Vivienda II	2002B	2002	25.0	25.0	X	X	X
	Programa Infraestructura Rural de Transporte II	2002B		20.0		X		
EC0205	Programa de Ciencia y Tecnología II	2002B		20.0		X		
EC-L1011	Fortalecimiento Sector Justicia	2004		5.0				X
EC-L1006 - 1630/OC-EC	Centro Histórico de Quito II	2004	2005	8.0	8.0			X
EC-L1004 - 1791/OC-EC	Programa de Mejoramiento de la Competitividad	2005	2006	200.0	50.0			
EC-L1003 - 1707/OC-EC	Manejo de Riesgos Naturales	2005	2005	5.0	5.0			X
EC-L1008	Agua Potable en Ciudades Intermedias	2005		30.0				X
	Programa de Educación	2005		40.0				X
	Ciencia y Tecnología	2005		10.0				X
	Apoyo al Sector Eléctrico	2005		80.0				
EC-L1009	Manejo de Residuos Sólidos en Ciudades Intermedias	2006		25.0				X
	Mejoramiento de Barrios	2006		30.0				X
EC-L1007	Servicios de Apoyo a Negocios Rurales	2006		15.0				X
	Programa de Desarrollo Turístico	2006		15.0				
Monto Total				959.3	406.9			
Número de Operaciones				32	17			

Fuente: GN-2669-1; GN-2338-1; Oveda.

Notas: * Como presentado por las Estrategias de País.

** Incluye operaciones aprobadas previamente a la Estrategia de País y, por lo tanto, no efectivamente programadas.

*** Operación aprobada previamente a la Estrategia de País.

Cuadro A-2.3: Operaciones de Préstamo Aprobadas y No Programadas. Ecuador 2000-2006

Número	Nombre	Año Aprobación	Monto Aprobado (millones US$)
EC-L1005 - 1614/OC-EC	Aeropuerto Internacional de Quito	2005	75.00
EC-L1017 - 1740/OC-EC	Programa de Modernización Municipal y Mejoramiento Integral de Barrios de Quito. Fase I	2006	37.10
EC-L1019 - 1753/OC-EC	Agua Potable y Saneamiento de Cuenca	2006	61.25
EC-L1025 - 1754/OC-EC	Aseguramiento Universal en Salud (PAUS)	2006	90.00
EC-L1021 - 1761/OC-EC	Cuenca. Recuperación de Áreas Centrales	2006	6.59
EC-L1022 - 1802/OC-EC	Programa de Saneamiento Ambiental para el Distrito de Quito. Fase II	2006	70.00
EC-L1024 - 1674/OC-EC	Banco de la Produccion, S.A. (PRODUBANCO)	2005	15.00
EC-L1028 - 1737/OC-EC	Banco de Guayaquil TFFP	2006	12.00
Monto Total			366.94
Número de Operaciones			8

Fuente: Oveda.

Cuadro A-2.4: Operaciones de Préstamo Aprobadas en 2003

Número	Nombre	Monto Aprobado
EC0216 - 1466/OC-EC	Programa Sectorial Social	200.0
EC0211 - 1518/OC-EC	Programa de Caminos Vecinales	30.0
EC-L1001 - 1524/OC-EC	Programa de Apoyo a la Gestión del Comercio Internacional	2.9
Monto Total		232.90
Número de Operaciones		3

Fuente: Oveda.

Cuadro A-2.5 - Indicadores de la Estrategia de País 2004-2006

Indicador	Línea de Base/Año	Estimativa/Año	Observación/Fuente
Mejoramiento del índice de entorno competitivo*	3,16 (2003)	3,27 (2003)	Growth Competitiveness Index. Fuente: DataGob
Mejoramiento del índice de entorno macroeconómico*	2,72 (2003)	3,48 (2006)	Fuente: DataGob
Mejoramiento del índice de costos empresariales	180 (2003)	ND	
Aumento en el numero de los consejos regionales de competitividad	2 (2003)	ND	
Mejoramiento del índice de eficiencia del sector eléctrico (reducción % de perdidas)**	30,8% (2002)	44,8% (2005)	Ultima cifra disponible. Fuente: International Energy Annual 2005
Aumento del crédito al sector privado**	19,8% del PIB (2003)	24,1% (2006)	Crédito Panorama Financiero/PIB. Fuente: Banco Central de Ecuador
Disminución del spread financiero**	8,4% (Diciembre 2003)	6,7% (Diciembre 2006)	
Aumento en el cociente: Importaciones + exportaciones (non petroleras) de bienes y servicios/PIB**	36,3% (promedio 2001-2003)	38,3% (promedio 2004-2006)	Exportaciones nominales menos petróleo crudo y derivados del petróleo/PIB. Fuente: Banco Central de Ecuador
Mantenimiento de la tasa anual de crecimiento del volumen de las exportaciones no petroleras**	13,5% (promedio 2001-2003)	13,4% (promedio 2004-2006)	Exportaciones nominales menos petróleo crudo y derivados del petróleo. Fuente: Banco Central de Ecuador
Mantenimiento del índice de vulnerabilidad del país	18,3% (promedio 1980-2000)	ND	
Mantenimiento del índice de gestión de capital natural**	1,4% anual (promedio 1990-2000)	1,7% (promedio 2000-2005)	Área forestal (km2). Fuente: WDI/Banco Mundial
Aumento en el número de familias calificado por SELBEN que cobra el BDH	450.000 (2003)	ND	
Aumento del número de familias registradas en el SELBEN	1.600.000 (2004)	2.050.878 (2007)	PCR Sectorial Social
Aumento en el gasto del Gobierno Central en Bienestar Social/PIB**	4,8% (promedio 2001-2003)	5,2% (2006)	PCR Sectorial Social
Aumento en la cobertura de la educación básica	90,1% (2001)	94,3% (2006)	Encuesta de Calidad de Vida
Aumento en el numero de Redes escolares	186 (2004)	ND	
Aumento en el número de escuelas partes de las redes escolares	2.200 (2004)	ND	
Aumento del porcentaje de población con acceso a servicios de agua potable**	82% (1990)	97% (2004)	Ultima cifra disponible. Fuente: WDI
Disminuir el déficit de servicios residenciales básicos	65% (2002)	60,9% (2006)	Encuesta de Calidad de Vida

Notas:
* EP utiliza el ranqueo del país y no el índice como presentado en la definición del indicador.
** Datos encontrados por OVE distintos a aquellos definidos en la EP.

Capítulo III

Cuadro A-3.1: Tiempos de Preparación y Post-Aprobación (meses), Préstamos de Inversión. Ecuador: 2000-2006

Número	Nombre	Año de Aprobación	"Pipeline" a Aprobación	Aprobación a Firma	Firma a Primera Elegibilidad
EC0134 - 1274/OC-EC	Programa de Manejo Ambiental de las Islas Galápagos	2000	74	5	8
EC0195 - 1261/OC-EC	Sistema de Identificación Beneficiarios de Programas Sociales	2000	1	7	2
EC0196 - 1282/OC-EC	Programa de Infraestructura Rural de Transporte (PIRT)	2000	4	8	3
EC0197 - 1296/OC-EC	Fortalecimiento del Sistema Estadístico Nacional	2000	5	3	1
EC0191 - 1376/OC-EC	Programa de Administración de Tierras	2001	8	5	2
EC0198 - 1366/OC-EC*	Programa de Fortalecimiento del MEF	2001	6		
EC0203 - 1373/OC-EC	Fondo de Inversión Social III (FISE III)	2001	7	6	7
EC0204 - 1358/OC-EC	Programa de Apoyo a la Descentralización	2001	6	21	7
EC0200 - 1424/OC-EC	Programa de Saneamiento Ambiental Fase I	2002	14	3	4
EC0201 - 1420/OC-EC	Programa de Desarrollo Sostenible de la Frontera Amazónica Norte	2002	19	5	8
EC0207 - 1416/OC-EC	Programa de Apoyo a Vivienda II	2002	3	5	3
EC0211 - 1518/OC-EC*	Programa de Caminos Vecinales	2003	9		
EC-L1001 - 1524/OC-EC	Programa de Apoyo a la Gestión del Comercio Internacional	2003	2	9	6
EC0101 - 1577/OC-EC*	Seguridad Social Campesina	2004	27		
EC0193 - 1531/OC-EC	Programa de Manejo de Recursos Costeros II	2004	36	8	5
EC-L1003 - 1707/OC-EC	Manejo de Riesgos Naturales	2005	13	5	5
EC-L1005 - 1614/OC-EC	Aeropuerto Internacional de Quito	2005		6	0
EC-L1006 - 1630/OC-EC	Centro Histórico de Quito II	2005	18	6	6
EC-L1024 - 1674/OC-EC	Banco de la Producción, S.A. (PRODUBANCO)	2005		13	2
EC-L1017 - 1740/OC-EC	Programa de Modernización Municipal y Mejoramiento Integral de Barr	2006	14	9	4
EC-L1019 - 1753/OC-EC	Agua Potable y Saneamiento de Cuenca	2006	12	6	8
EC-L1021 - 1761/OC-EC	Cuenca. Recuperación de Áreas Centrales	2006	12	5	9
EC-L1022 - 1802/OC-EC	Programa de Saneamiento Ambiental para el Distrito de Quito. Fase II	2006		13	
EC-L1025 - 1754/OC-EC	Aseguramiento Universal en Salud (PAUS)	2006	5	18	0
EC-L1028 - 1737/OC-EC	Banco de Guayaquil TFFP	2006		1	1
Promedio Ecuador			14.0	7.6	4.3
Promedio Banco			16.5	4.7	7.2
Promedio Grupo de Comparación			17.0	3.7	10.9
Ecuador/Banco (%)			85.0	163.0	60.6
Ecuador/Grupo de Comparación (%)			82.7	202.5	39.9

Fuente: Oveda.

Notas: * Préstamos posteriormente cancelados.

Cuadro A-3.2: Tiempos de Ejecución, Préstamos de Inversión Cerrados. Ecuador: 2000-2006

Número	Nombre	Año de Aprobación	Primera Elegibilidad a Desembolso Total*	Extensión*
EC0134 - 1274/OC-EC	Programa de Manejo Ambiental de las Islas Galápagos	2000	58	18
EC0195 - 1261/OC-EC	Sistema de Identificación Beneficiarios de Programas Sociales	2000	30	2
EC0196 - 1282/OC-EC	Programa de Infraestructura Rural de Transporte (PIRT)	2000	38	11
EC0197 - 1296/OC-EC	Fortalecimiento del Sistema Estadístico Nacional	2000	62	21
EC0200 - 1424/OC-EC	Programa de Saneamiento Ambiental Fase I	2002	49	5
EC0207 - 1416/OC-EC	Programa de Apoyo a Vivienda II	2002	54	15
EC-L1001 - 1524/OC-EC	Programa de Apoyo a la Gestión del Comercio Internacional	2003	27	-9
Promedio Ecuador			45.4** / 48.5***	9.0** / 12.0***
Promedio Banco			37.4	9.2
Promedio Grupo de Comparación			42.1	14.1
Ecuador/Banco (%)			121.4** / 129.6***	98.0** / 130.7***
Ecuador/Grupo de Comparación (%)			108.0** / 115.3***	64.0** / 85.3***

Fuente: Oveda.

Notas: * Proyectos cerrados.

** Incluye todos los proyectos aprobados entre 2000 y 2006 y ya totalmente desembolsados.

*** Excluye el "Programa de Apoyo a la Gestión del Comercio Internacional".

Gráfico A-3.1: Desembolsos. Ecuador: 2000-2006

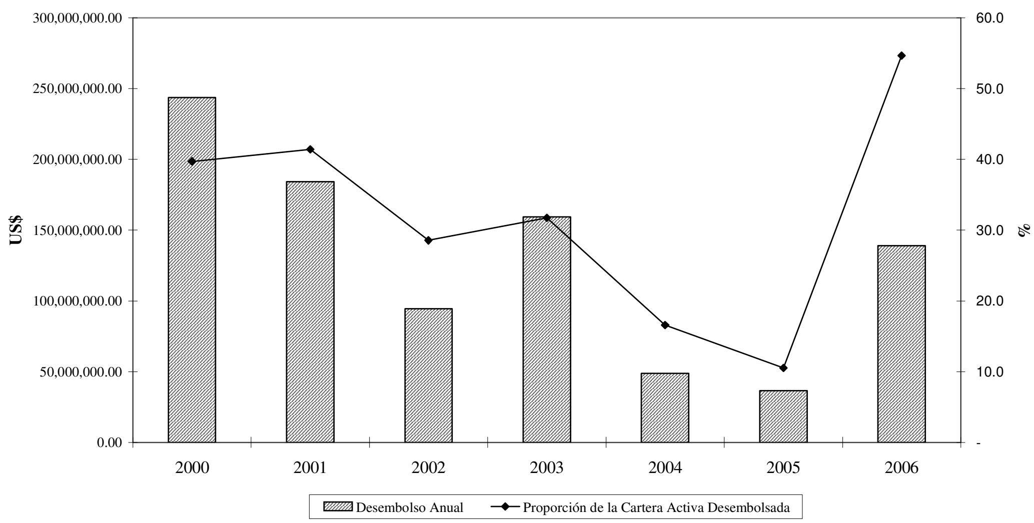


Gráfico A-3.2: Flujo de Caja Neto. Ecuador: 2000-2006

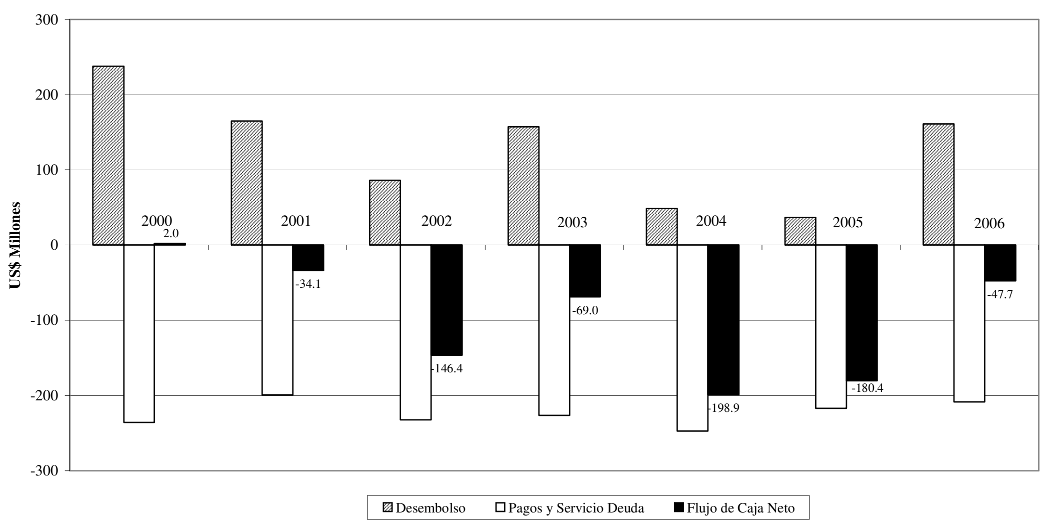
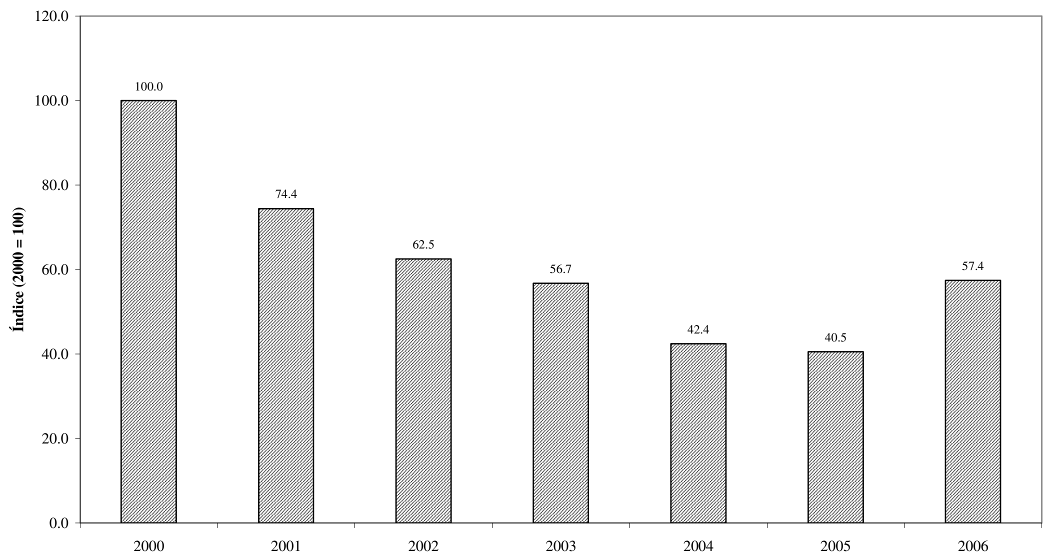


Gráfico A-3.3: Evolución de la Cartera del Banco. Ecuador: 2000-2006



Cuadro A-3.3 - Indicadores del Balanced Scorecard del 2005

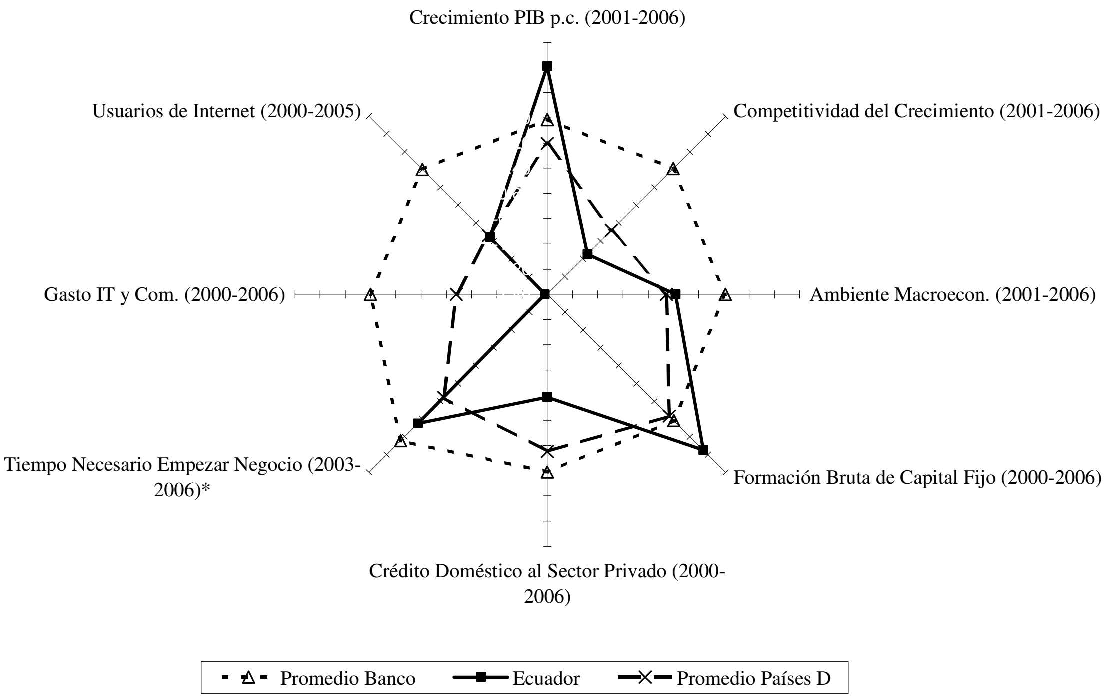
Tema	Indicador
Calidad de la Cartera	% (#) de Proyectos con calificación satisfactoria o muy satisfactoria en cuanto a su progreso en la ejecución % (valor) de Proyectos con calificación satisfactoria o muy satisfactoria en cuanto a su progreso en la ejecución % (#) de Proyectos con calificación probable o muy probable de cumplimiento de objetivos de desarrollo % (valor) de Proyectos con calificación probable o muy probable de cumplimiento de objetivos de desarrollo Proactividad en la corrección de operaciones con problemas Índice de Convergencia
Implantación de la Reingeniería	Número de proyectos en ejecución incorporados al nuevo sistema de supervisión Nueva estructura implantada y personal capacitado en el nuevo sistema Encuesta de satisfacción de usuarios y clientes Evaluación de desempeño promedio de Unidades Ejecutoras. Encuesta interna de clima laboral
Contribución de COF a la Formulación de Estrategia de País, a la Programación, y al Diseño de Nuevas Operaciones	Resultado Encuesta Participación y Contribución de COF en formulación de estrategia de país, identificación, programación y diseño de nuevas operaciones Tiempo promedio transcurrido desde inclusión oficial de préstamo en Pipeline (Fecha de firma de ficha, outline o perfil 1) hasta elegibilidad total para desembolsos Numero de Operaciones de Préstamo aprobadas en el año Numero de Cooperaciones Técnicas aprobadas en el año Numero de Operaciones FOMIN aprobadas en el año Valor de Operaciones de Préstamo aprobadas en el año Proponer y ayudar a establecer mecanismos de apoyo para que el país tenga sistemas nacionales de planificación y evaluación
Desempeño Operacional	PBL de competitividad Firmado PBL social Desembolsado Monto desembolsado anual Monto de desembolsos Anuales/Valor de la Cartera en ejecución (%) Tiempo promedio de ejecución de proyectos Inversión Tiempo promedio de ejecución de Cooperaciones Técnicas

Cuadro A-3.4 - Indicadores del Balanced Scorecard del 2006

Área	Indicador
Substantiva	Desembolso anual como % de la cartera (préstamos) Desembolso anual como % de la cartera (CTs y FOMIN) Comparación ("market share") con otras multilaterales Tiempo promedio de extensión Monto de operaciones aprobadas con nuevos instrumentos Valor total de aprobaciones Tiempo promedio entre firma y elegibilidad Aprobación de proyectos claves % de la cartera calificada como más que satisfactoria (monto)
Estratégica	Calidad del trabajo con clientes en programación y asistencia técnica Calidad promedio de unidades ejecutoras según encuesta % de desembolsos bajo supervisión ex-post Evaluación del Banco por parte de usuarios y clientes según encuesta % de proyectos (en preparación o ejecución) utilizando NSS
Operacional y Organizacional	Costos administrativos/desembolso anual % de cumplimiento con acuerdos en los POAs Tiempo promedio entre solicitud de desembolso y aprobación # de visitas de inspección ejecutadas vs. programadas (préstamos y FOMIN) Encuesta de clima laboral

Capítulo IV

Gráfico A-4.1: Indicadores Relacionados a la Dimensión Estructural. Promedio 2000-2006



Notas:
El gráfico presenta los indicadores normalizados por el promedio del Banco.
Los indicadores mejoran al alejarse del centro.
*La escala de esa variable empeora al alejarse del centro.

Gráfico A-4.2: Evolución de la Recaudación Tributaria. Ecuador: 1994-2006

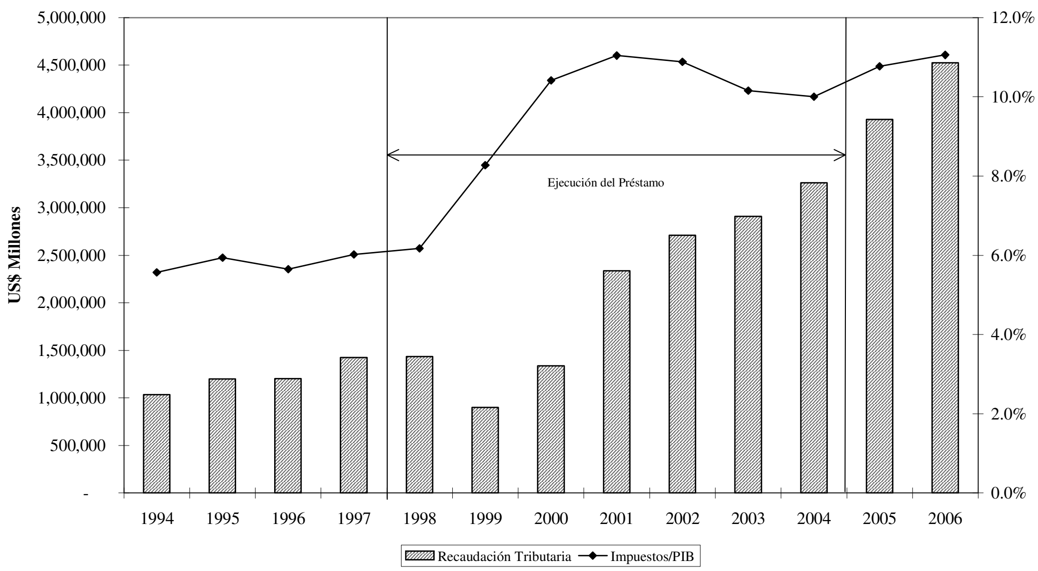
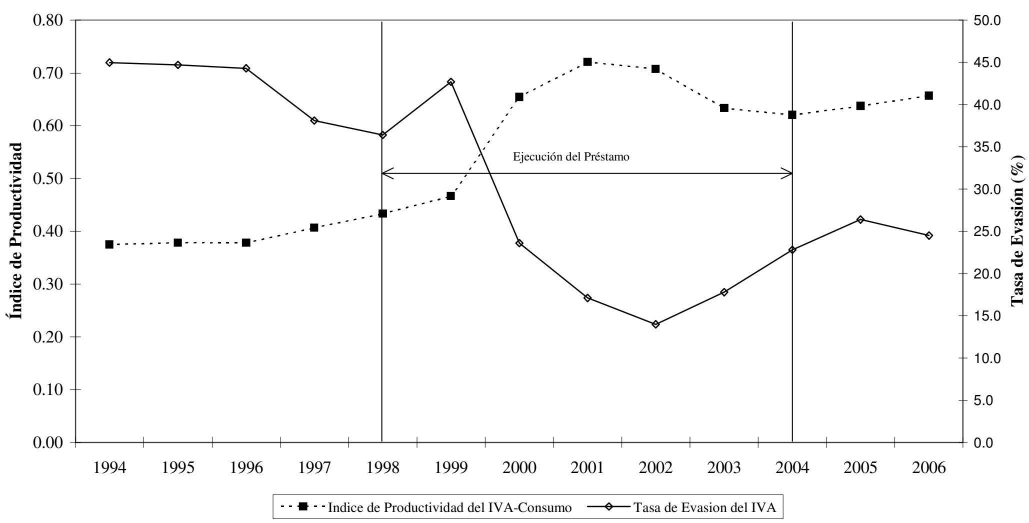


Gráfico A-4.3: Evolución de la Eficiencia Tributaria. Ecuador: 1994-2006



Recuadro A-4.1 – Apoyo al Sector Rural

En marzo de 1991, staff del BID con el asesoramiento de consultores locales y de la Universidad de Utah, elaboraron un "Programa de Inversiones para el Sector Agropecuario" del Ecuador. En dicho plan, donde el BID se posicionaba como el principal donante en el sector agropecuario, se planteaban una serie de objetivos tendientes a dinamizar el sector agropecuario y a posicionarlo como un sector clave para el crecimiento económico (a partir del ingreso de divisas) y del empleo. Asimismo, el Programa identificaba una serie de problemas agrupados en cuatro apartados: (i) ambiente negativo de políticas de precios y comercialización; (ii) baja productividad de los recursos; (iii) baja capacidad institucional para la ejecución de los servicios públicos; y (iv) medio ambiente deteriorado. El programa planteaba líneas de acción en cada una de estas áreas. Claramente, el enfoque priorizaba el sector agrícola y no existía en ese momento una visión integrada del desarrollo rural. A fines de 1994 se aprobó el préstamo Sectorial Agropecuario (EC0048, 831/OC-EC, 832/OC-EC), que consistió en una serie de 24 medidas de política específicamente enfocadas en el sector agropecuario y relacionadas con varios de los problemas identificados en el Programa de 1991. Acorde con el consenso de la época, la mayor parte de las medidas del EC0048 se destinaron a reducir la participación del Estado en el sector a partir de la desregulación de precios, bienes y factores y la apertura económica.

En 1995 el Banco aprueba el "Programa de Modernización de Servicios Agropecuarios" (PROMSA, EC0040, 892/OC-EC) por US$30 millones, cofinanciado por el Banco Mundial. Ese préstamo surge una vez promulgada la Ley de Desarrollo Agropecuario, cuya reglamentación fue una de las condicionalidades del Sectorial Agropecuario, la cual sienta las bases para liberar las exportaciones y reduce la participación del Estado en la comercialización agrícola. En sintonía con la política vigente, el PROMSA apunta a mejorar la producción y la productividad del sector a través de una mayor participación del sector privado en la provisión de servicios de tecnología y de sanidad agropecuaria. La mitad de los recursos del PROMSA fueron desembolsados entre 2000 y 2003, cuando el proyecto cierra.

El "Programa de Regularización y Administración de Tierras Rurales" (PRAT, EC0191, 1376/OC-EC), aprobado en 2001 por US$15,2 millones, fue el otro préstamo mediante el cual el BID apoyó al sector agropecuario ecuatoriano, y fue concebido en el marco de los estudios elaborados por el Sectorial Agropecuario. El PRAT se diseñó con el doble objetivo de: (i) establecer un sistema moderno, confiable y de actualización continua de derechos de propiedad sobre la tierra, y (ii) mejorar el sistema de traspaso de tierra pública a los productores.

El último proyecto que complementa las operaciones de inversión que se llevaron a cabo en el sector rural fue el préstamo de innovación "Programa de Infraestructura Rural del Transporte" (PIRT, EC0196, 1282/OC-EC), aprobado en 2000, por US$.9 millones. A diferencia del PROMSA y del PRAT el mismo puede clasificarse como una operación rural y no meramente agropecuaria porque sus beneficiarios no son sólo productores agropecuarios sino habitantes del medio rural que sin estar necesariamente ligados a la producción se benefician de la rehabilitación de caminos. Al igual que el PROMSA y el PRAT, buscó sentar las bases de un nuevo modelo de gestión, en este caso para la vialidad rural.

Gráfico A-4.4: Evolución del Gasto Público Social. Ecuador: 2000-2005

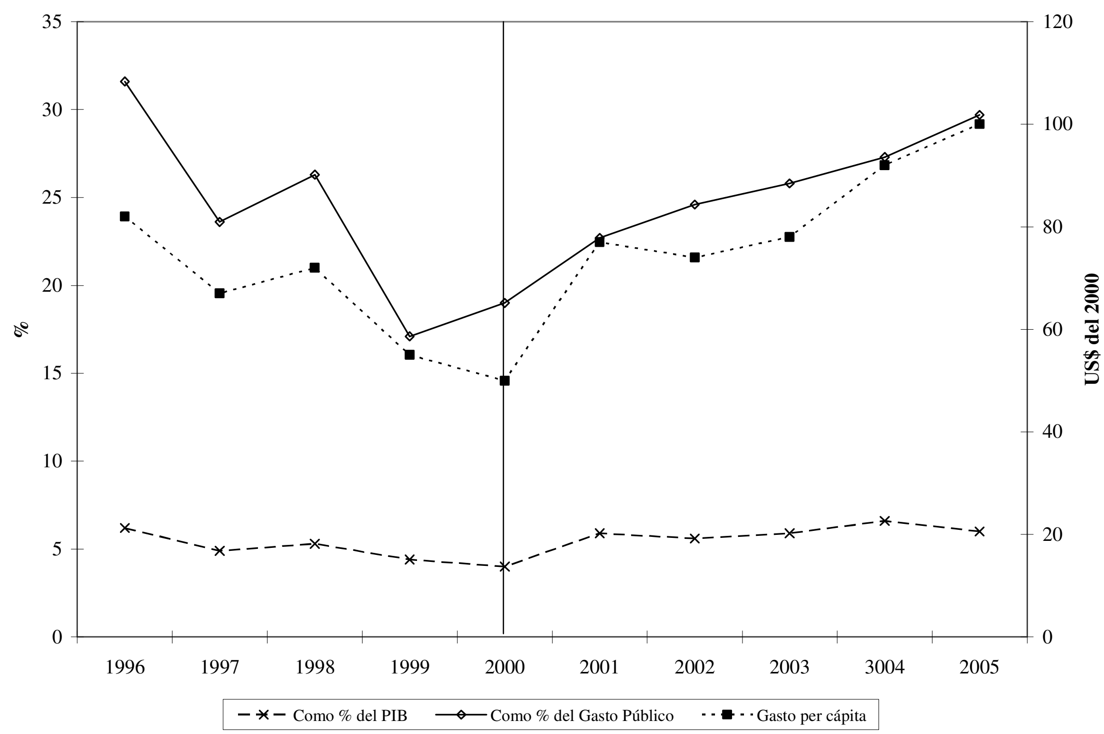
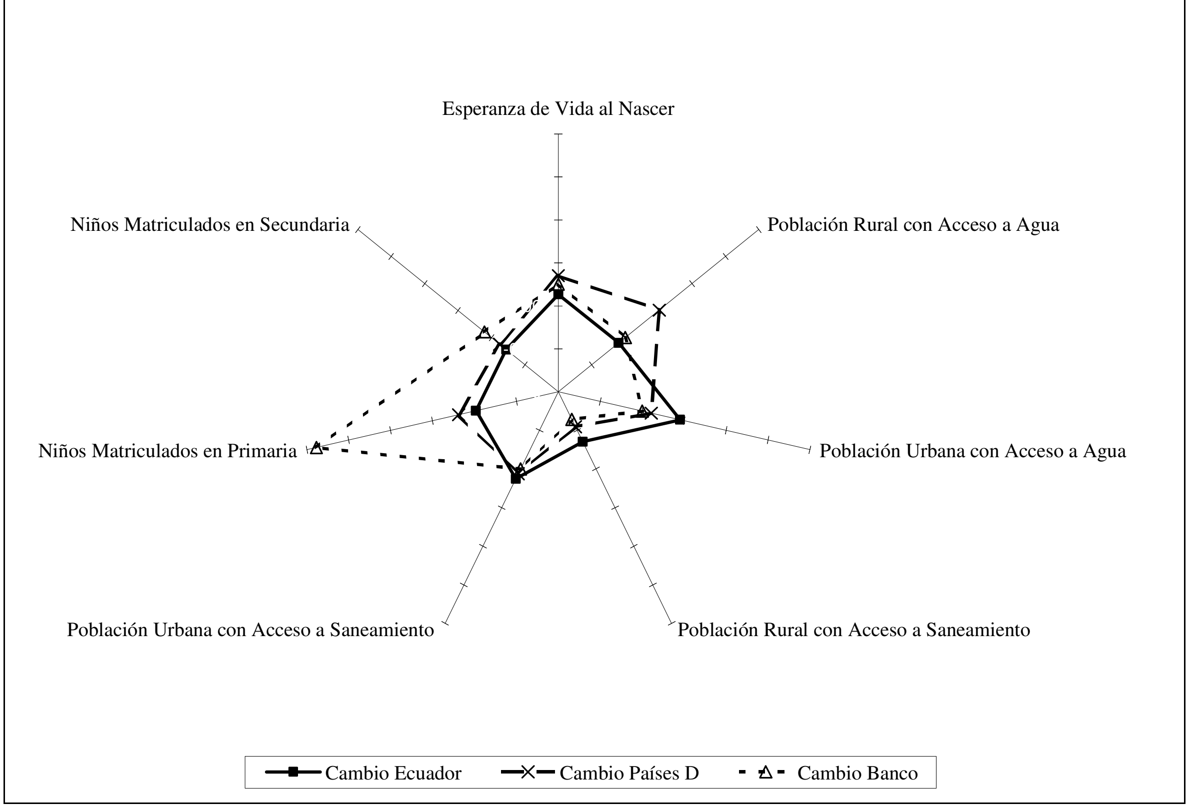
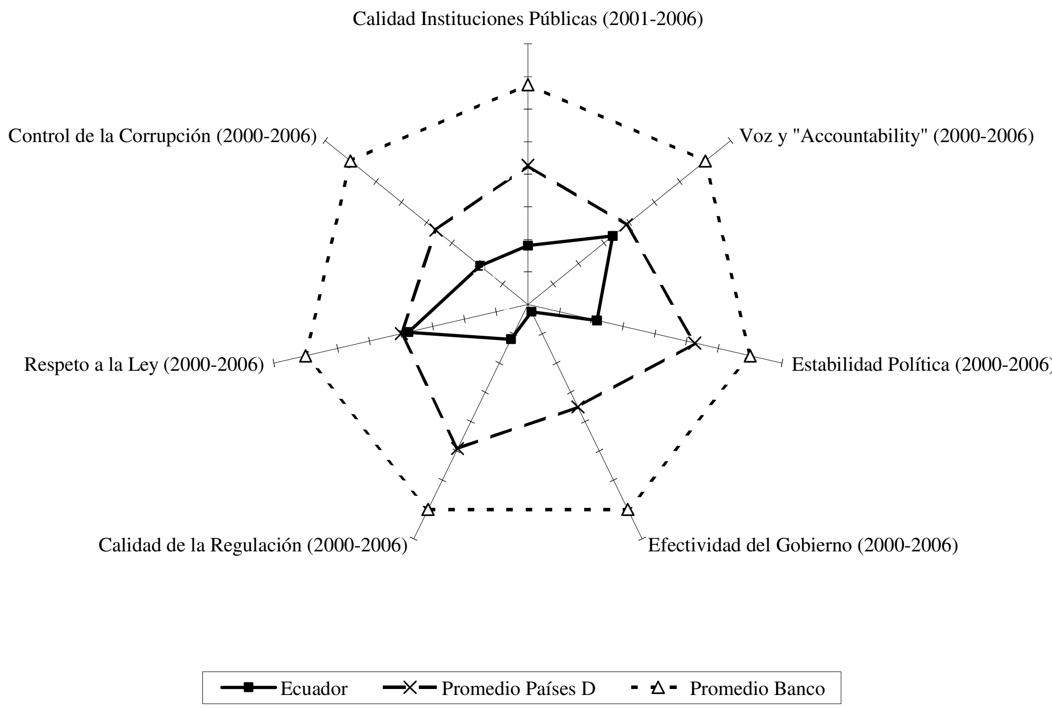


Gráfico A-4.5: Evolución de Algunos Indicadores Sociales



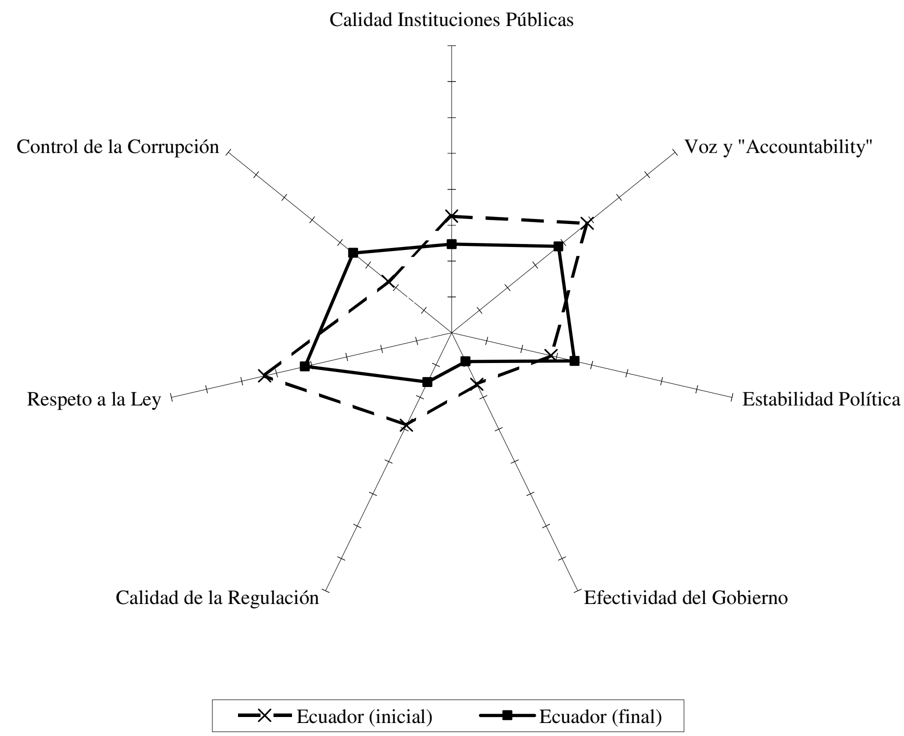
Notas:
El gráfico presenta los indicadores normalizados por el promedio del Banco.
Los indicadores mejoran al alejarse del centro.

Gráfico A-4.6: Indicadores de Gobernabilidad: 2000-2006



Notas:
El gráfico presenta los indicadores normalizados por el promedio del Banco.
Los indicadores mejoran al alejarse del centro.

Gráfico A-4.7: Evolución de los Indicadores de Gobernabilidad: 2000-2006



Notas:
El gráfico presenta los indicadores normalizados por el promedio del Banco.
Los indicadores mejoran al alejarse del centro.

Capítulo V

Recuadro A-5.1 –Observaciones de OVE Referentes a las Recomendaciones del CPE Anterior (RE-295)

RE-295 - Conocimiento del Ecuador. "Apoyar a las Autoridades del Ecuador en el proceso de identificación, selección y análisis de los temas prioritarios para el desarrollo, sobre la base de un *programa mutuamente acordado de estudios económicos y actividades específicas*. En la realización de esos trabajos se debería prestar particular atención a los temas de:

- **Transformación del Sector Real**, analizando las vías para profundizar el apoyo del Banco al *sector real* de la economía, asistiendo al País en la búsqueda de mayor eficiencia y competitividad en sectores productivos clave, incluyendo el petrolero.
- **Desarrollo de Acuerdos de Gobernabilidad,** explorando las opciones para apoyar a las Autoridades del País a generar acuerdos nacionales que morigeren el desafío de *gobernabilidad* del País y se basen en procesos de diálogo orientados por estudios técnico-económicos.
- **Fortalecimiento de Instrumentos para la Inversión Social,** buscando mejorar la calidad del gasto social, enfatizando el desarrollo de programas piloto y la institucionalización de instrumentos efectivos de *entrega y focalización de servicios sociales*, como requisito previo al despliegue de programas masivos de soporte directo al gasto social".

Observación de OVE: El Banco ha hecho un esfuerzo importante en términos de estudios económicos y sectoriales incluyendo temas de economía política y gasto público, e.g., sector petrolero, revisión del gasto público, crecimiento y competitividad, economía política del proceso presupuestario y de definición de políticas ("policy making"). Como se discute en esta evaluación, el Banco ha tenido papel crítico en la mejora de los instrumentos de focalización utilizados por el Bono Solidario, por ejemplo.

RE-295 - Relación Banco- Ecuador. "La complejidad de las transformaciones que surgirán de los estudios anticipados en el párrafo anterior hace preciso que el Banco adecue su relación con el País para facilitar la persecución de objetivos de largo plazo:

- **Horizontes de Planificación** para dar respuesta no sólo a las necesidades de corto plazo del País, sino también facilitar la secuenciación de esfuerzos sostenidos que abarquen más de un ciclo de programación.
- **Dimensionamiento del Programa** definido con claridad mediante un trabajo conjunto del Banco con el País sobre la determinación de límites de endeudamiento, flujos de caja, potencial acceso a recursos concesionales y condiciones que justificarían restricciones o mejoras en la disponibilidad de recursos futuros.
- **Escenarios Alternativos** establecidos para procurar el alcance de los objetivos de desarrollo identificados aun en el caso de choques externos o crisis de cualquier naturaleza, prestando particular atención al desarrollo del sector real en la definición de los mismos".

Observación de OVE: Como se discute en el documento el Banco ha tenido dificultad en establecer una estrategia de programación relevante en el contexto de inestabilidad que sufre el País. El Banco no ha trabajado bajo escenarios estratégicos alternativos. Debe notarse, entretanto, que el programa del Banco ha tomado en consideración las restricciones fiscales y de endeudamiento definidas por los parámetros definidos por el mismo Banco así como por la LOREYTF.

RE-295 - Lecciones aprendidas. "En virtud de la reincidencia de dificultades, el Banco deberá colocar especial énfasis en la articulación de un sistema eficiente de recolección de información, aprendizaje y aplicación práctica de lecciones aprendidas, particularmente en lo relativo al entendimiento y consideración de:

- **Economía Política** de las reformas pasadas, a fin de evitar la repetición de mecanismos adversos y maximizar la probabilidad de alcance de los objetivos de las reformas planteadas.
- **Problemas Sistémicos** causantes de demoras de ejecución encontrados en el período 1990 a 2002, buscando además *anticipar planes de contingencia* y *medios de ejecución alternativos* más adecuados al desarrollo de la institucionalidad del País, procurando evitar los efectos desfavorables derivados de la utilización de Unidades Ejecutoras independientes.
- **Riesgos** experimentados en las operaciones del período 1990 a 2002 a fin constatar su permanencia o eliminación, buscando evitarlos en las operaciones futuras o actualmente en ejecución".

Observación de OVE: El Banco parece haber incorporado las lecciones relacionadas a las dificultades en la implementación de reformas y empezado, particularmente a partir del 2005, un proceso de diálogo con el País que lleva a la aprobación de una operación programática. Los problemas sistémicos, a su vez, son reconocidos en la EP 2004-2006 (p. 20): "***Considerando que la debilidad institucional sigue siendo un factor crítico para efectividad el trabajo del Banco en el país, el criterio básico en el diseño de proyectos debe ser una estructura institucional sencilla****. Dada la inestabilidad institucional, el Banco debe seguir apoyando a las instituciones ejecutoras y su estructura interna de incentivos, dentro la normativa vigente, para propiciar una menor rotación del personal. En este contexto, el Banco está apoyando al país para que las unidades ejecutoras estén integradas a la estructura institucional*". Finalmente en lo que se refiere a los riesgos, y como se discute en el documento, el Banco siguió considerando a la inestabilidad política como un riesgo a su programa y no como un hecho concreto a ser considerado como parte del proceso de programación.