Office of Evaluation and Oversight

Independent Country Program Review

Ecuador

2018-2021

IDB IDB | Invest

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Contents

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Acronyms and Abbreviations

AFD	Agence Française de Développement
CAN	Country Department Andean Group
CCF	Contingent Credit Facility for Natural Disaster Emergencies
CCLIP	Conditional Credit Line for Investment Projects
CPE	Country Program Evaluation
e-SIGEF	Integrated Financial Management System
EIU	Economist Intelligence Unit
FONPRODE	Fondo para la Promoción del Desarrollo de la Cooperación Española
ICPR	Independent Country Program Review
IMF	International Monetary Fund
INEC	National Institute of Statistics and Census
IPSAS	International Public Sector Accounting Standards
MEF	Ministry of Economy and Finance
MSME	Micro, small, and medium-sized enterprise
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PCR	Project completion report
PMR	Progress monitoring report

PPP	Public-private partnership
SDL	Special development lending
SERCOP	Servicio Nacional de Contratación Pública [National Public Procurement Service]
SINAFIP	Sistema Integrado de Administración de las Finanzas Públicas [Integrated System for Public Finance Administration]
SME	Small and medium-sized enterprise
TFFP	Trade Finance Facilitation Program
XSR	Expanded supervision report

Executive Summary

Purpose. This independent country program review (ICPR) analyzes the IDB Group's country strategy and country program with Ecuador during the 2018–2021 period. ICPRs assess the relevance of the Bank's country strategy and provide aggregate information on the program alignment and execution. If the available information allows, ICPRs also report on progress toward achieving the objectives that the IDB Group established in the country strategy. This review by the Office of Evaluation and Oversight (OVE) is intended to provide the Boards of Executive Directors of the IDB and IDB Invest with useful information to analyze the country strategies submitted for their consideration.

Context. Ecuador is an upper-middle-income country with a dollarized economy, abundant natural resources, and susceptibility to oil price volatility and natural disasters. During the 2018-2021 period, its gross domestic product (GDP) growth rate was low, in a context of depressed oil prices and fiscal issues predating the pandemic. This accentuated the challenges identified in 2017, to seek fiscal stability, promote private sector development, and continue social progress. In 2020, the COVID 19 pandemic intensified sustainability issues and threatened social progress. Ecuador's government addressed the crisis by reprioritizing spending, renegotiating private debt, and recalibrating a program with the International Monetary Fund (IMF) approved in 2019. The contribution of productivity to economic growth remained low. The main barriers for the private sector are regulatory instability, informality, access to finance, and business costs. The country's non oil external sector lacks diversification and momentum, specializing in only a few commodities. There are also persistent challenges in the type and quality of jobs, education, basic services, and housing.

Strategic objectives. The 2018-2021 country strategy established 11 strategic objectives in three priority areas: (i) strengthening of public finances; (ii) productivity and private sector; and (iii) deepening of social advances. In addition, three crosscutting issues were identified: gender and diversity; natural disaster risk management and climate change; and strengthening of the institutional capacity of local counterparts. Although the country strategy included relevant objectives, as a whole it was not very focused given the fiscal context, and it maintained a broad group of sectors, similar to during the 2012-2017 period. Generally, the strategic objectives for 2018-2021 were aligned with the government's needs and development challenges. Overall, the vertical logic of the country strategy's Results Matrix was adequate, although some expected results were too ambitious, and some indicators had evaluability weaknesses. Following the recommendations of the Country Program Evaluation: Ecuador 2012-2017, Management took relevant steps, making progress with action plans in public finances and subnational capacities. With respect to the private sector, access to credit for micro, small, and medium-sized enterprises improved, but challenges remain in providing support through public-private partnerships and diversifying production.

Program alignment. During the 2018-2021 period, the Bank approved US$4.22 billion in reimbursable sovereign guaranteed operations, higher than for the previous period and considerably surpassing the US$2 billion lending framework. This was largely because of operations to address the effects of the COVID 19 pandemic and a special development lending operation in 2019. For the same period, approvals of non-sovereign guaranteed operations totaled US$1.123 billion in loans and US$371 million in transactions to support foreign trade. The IDB Group proactively used a wide range of instruments, adapting to the country's needs. There was a marked increase in multilateral participation and coordination during the period, with the IDB playing a relevant role. The program was strongly aligned with eight strategic objectives and weakly aligned with the remaining three. Alignment was strong with the objectives of the priority area of strengthening of public finances, access to financing, social services, housing, and water and sanitation. However, it was weak with the objectives of private investment and productivity, export markets, and agricultural goods and services. In 2020, the program directed much of its support to addressing the challenges arising from the COVID 19 health crisis. The program pioneered the use of a variety of lending instruments and guarantees in the context of the pandemic (e.g., for vaccination and social assistance) and for housing. Most of the operations not aligned with the country strategy were technical cooperation projects. Lastly, the Bank's program incorporated crosscutting issues into the three priority areas of the country strategy.

Program implementation and results. Disbursements for sovereign guaranteed operations during the period totaled US$3.38 billion, more than doubling country strategy estimates. This was driven by fast-disbursing loans associated with IMF programs and the pandemic response. Annual average disbursements for non-sovereign guaranteed operations quadrupled compared with the previous strategy period. Although investment lending preparation and supervision costs increased in comparison with the previous period, they were lower for Ecuador than for its regional comparators. Project preparation times were also shorter. With respect to execution times, performance fluctuated more. The macroeconomic context and the pandemic intensified implementation challenges. The lack of capacity, shifting priorities, staff turnover in execution units, and designs with complex execution mechanisms also impacted project implementation. Through support for fiduciary country systems, substantial progress was made in international accounting standards, but not with implementation of the Integrated System for Public Finance Administration. Support for procurement systems also yielded limited results, with less progress than expected in the design of improvements for the national public procurement system.

The program's contributions to the strategic objectives varied. In the area of strengthening of public finances, progress was achieved in outputs connected to the objective of mitigating the fiscal risk associated with oil price volatility, generating efficiencies and increasing the quality of public expenditure, and reinforcing the public private partnership framework (although without advances regarding private investment in public infrastructure). In addition, there were substantial contributions to the energy reform objective. In the area of productivity and private sector, there were significant contributions to the objective of facilitating access to financing and partial progress in access to export markets (with improvements in logistics, but weaker contributions than expected to non oil exports). There was no progress toward the objective of boosting the contribution of private investment and productivity to economic growth. In the area of deepening of social advances, there has been progress with outputs aimed at improving access and management of social services (for education, health care, and early childhood development). However, there is no evidence of contributions to improved learning outcomes and maternal and infant mortality rates. There were some contributions to reduce the housing deficit and achieve the expected outcomes for water and sanitation. Nevertheless, there was no evidence of contributions to the objective of improving the provision of agricultural goods and services.

01

Introduction

1.1 This independent country program review (ICPR) analyzes the IDB Group's country strategy and country program with Ecuador during the 2018-2021 period. ICPRs assess the relevance of the Bank's country strategy and provide aggregate information on the program alignment and execution. If the available information allows, ICPRs also report on progress toward achieving the objectives that the IDB Group established in the country strategy. This review by OVE is intended to provide the Boards of Executive Directors of the IDB and IDB Invest with useful information to analyze the country strategies submitted for their consideration. As with country program evaluations (CPEs), ICPRs are based on existing documentation on operations and supported by interviews with key members of the IDB Group. However, unlike for CPEs, key country stakeholders are not interviewed and there are no country visits for ICPRs.

1.2 This ICPR includes six sections and an annex with supporting information. After a brief introduction, Section II describes the country context, development challenges, and government priorities. Section III reviews the strategic objectives of the 2018-2021 country strategy and its Results Matrix, as well as the findings of the previous CPE and implementation of its recommendations. Section IV describes the country program approved for the period and analyzes its alignment with strategic objectives. Section V reviews the program's implementation, the outcomes achieved, and their contribution to the strategic objectives. Section VI presents the conclusions.

02

Country Context

2.1 Ecuador is an upper-middle-income country with abundant natural resources, a dollarized economy, and susceptibility to oil price volatility and natural disaster risk. For 2021, its GDP was estimated at US$104.483 billion, and its per capita income adjusted for purchasing power parity at 11,529 international dollars.[1] Ecuador's population of 17.5 million people is diverse: most self-identify as mestizos (72%), and it has the sixth-largest indigenous population (7.2%) and the fifth-largest Afro-descendant population (7%) in Latin America.[2] The country has abundant natural resources, with mineral and oil reserves, as well as high biodiversity.[3] However, it is extremely vulnerable to natural disasters.[4] Oil plays an important role in the economy, accounting for 40% of exports and 21% of fiscal revenue in 2018. In the latest elections (February-April 2021), the winning party was Creando Oportunidades, which replaced Alianza País. This signals a change in the government's political direction, but the challenge of a polarized political system remains.[5]

2.2 For the 2018-2021 period, various diagnostic assessments described the importance of seeking fiscal stability, promoting private sector development, and furthering social progress. Recent diagnostic assessments from the IDB (2018, 2020), the World Bank (2018a), and the IMF (2021a) highlighted significant social advances and agreed on the limitations on development that Ecuador faces with respect to macroeconomic imbalances and productivity barriers (Annex III). Meanwhile, in September 2017, Ecuador approved the National Development Plan for 2017-2021 "Toda una Vida," which prioritized three lines of action and added improving fiscal management to government policies (Box 2.1).

Box 2.1. Medium-term national priorities: 2017 2021 National Development Plan: Toda una Vida

The plan established 3 main pillars, 9 objectives, and 81 policies, based on environmental sustainability and territorial development. Pillar one, "Lifetime rights for all," focused on ensuring equal opportunities, affirming plurinationality and interculturality, and caring for the environment. Pillar two, "The economy in service of society," was aimed at consolidating the social and solidarity-based economic system, expanding productivity and competitiveness, and ensuring food sovereignty and comprehensive rural development. Lastly, pillar three, "More society, better State," focused on fostering citizen participation, promoting transparency and shared responsibility for social ethics, and promoting sovereignty and peace, strategically positioning Ecuador in the world.

1 IMF projections (IMF, 2021c). See Annex I, Table I.1.1.

2 World Bank (2018a).

3 Because of its location, Ecuador is among the 17 countries with the world's largest biological diversity. The country is divided into four regions (coast, mountains, Amazon, and Galápagos Islands) and has 91 ecosystems (Convention on Biological Diversity, 2018).

4 Bündnis Entwicklung Hilft and IFHV (2020).

5 No party achieved a majority in the elections. Creando Oportunidades is governing as a minority, with 12 of 137 seats in the single-chamber assembly (EIU, 2021).

The plan also introduces the importance of balancing public finances through transparent, efficient, and sustainable fiscal management; establishing policies focused on strengthening efficiency; expanding the progressiveness of the tax system; and combating tax evasion and avoidance. While this issue was mentioned in the previous plan (2013-2017), it had not been identified as a government policy.

Source: OVE, based on SENPLADES (2017).

A. Macroeconomic situation

2.3 During the 2018-2021 period, economic growth was slow, in a context of depressed oil prices and fiscal issues predating the pandemic. Starting in 2015, along with a contraction in oil prices,[6] GDP growth decelerated, dropping to an average annual rate of 0.5% for the 2015-2019 period. In 2018, Ecuador faced a deterioration in its fiscal accounts and continuous increases in debt as a percentage of GDP.[7] This resulted in fiscal adjustment measures and subsequently a request for multilateral support in 2019. In 2020, the COVID-19 pandemic intensified sustainability problems, resulting in a combination of external shocks and a 7.8% decline in GDP that year. Gross financing requirements, measured as a percentage of GDP, which were already high (9.4% in 2018 and 9.9% in 2019), increased to 12.7% in 2020 without access to international markets. Ecuador's government addressed the crisis by reprioritizing spending, renegotiating private debt, and recalibrating a program with the IMF from the previous year (see Annex II for more information).

2.4 During the analysis period, macroeconomic challenges identified in 2017 became more prominent. The effect of oil price volatility on growth continued to depend on factors such as the high share of oil in fiscal revenues and exports (an average of 21% and 34%, respectively, during 2018-2021) (IMF, 2021a) and the procyclicality of fiscal policy. Changing this dynamic involves addressing institutional and regulatory challenges that persist, despite some improvement during the period (such as with respect to fiscal rules and Central Bank independence). With respect to fiscal revenues, under the new IMF program, Ecuador still needs to increase its tax base, reduce deductions, simplify its tax system, and improve the efficiency of revenue collection. In

6 The West Texas Intermediate cash price per barrel fell from US$88.7 (average for 2008-2014) to US$50.7 (2015–2010) (EIA, 2021).

7 Fiscal revenues from oil as a percentage of GDP dropped from 13% from 2010-2014 to 6% from 2015-2019 (IDB, 2020, with data from the Central Bank of Ecuador). On top of these, costs to address the 2016 Manabí earthquake exceeded US$3 billion. Deficits remained high (4.7% of GDP on average from 2015-2019), and public debt rose from 33.8% of GDP in 2015 to 49.1% in 2018.

terms of spending, the country needs to reduce payroll, improve procurement practices for goods and services, and prioritize capital investments (to focus on projects that generate higher growth and employment) (IMF, 2021a). Moreover, Ecuador needs to continue strengthening the efficiency and effectiveness of public resource management and increasing fiscal resilience to external shocks such as natural disasters.

B. Productive development

2.5 Productivity and investment are low in Ecuador. The contribution of productivity to growth has been low in the past few decades (Ruiz-Arranz and Díaz Cassou, 2018), with a negative contribution for the 2015-2019 period (IMF, 2021b). There are multiple reasons for these results, including, notably, low private investment, weak momentum for exports, and business demographics dominated by microenterprises and informal workers (Ruiz-Arranz and Díaz Cassou, 2018). Private investment came to occupy a larger share of total investment (from approximately 14% of GDP in 2015 to 19.1% in 2019) but in a context of falling public investment (estimated at 6.8% in 2019).

2.6 With respect to private sector development, the main barriers identified for Ecuadorian companies are regulatory instability, informality, limited access to finance, and high business costs. The barriers are associated with regulations to start and close businesses, tax changes, obstacles to access credit, high tariffs, and long dwell times in ports, along with inefficiencies in customs and logistics (World Bank, 2018b). Microenterprises account for 90% of the total number of companies in Ecuador. They provide 60% of the jobs, a share surpassed only by Bolivia, Paraguay, and Peru (Ruiz-Arranz and Díaz Cassou, 2018).

2.7 Ecuador is advancing towards greater financial depth, though it continues to trail levels in the region. Over the past decade, depth of deposits and the portfolio, measured as a percentage of GDP, rose from 24% and 28%, respectively, to 35% and 40% (Superintendency of Banks, 2021). In the region, these levels were higher, on average 45% for deposits and 44% for the portfolio (FELABAN, 2020). The policy to promote financial inclusion is still not consolidated, and distortions in financial regulations persist. In recent years, regulations have attempted to direct banking management toward that goal. However, prices are still set based on credit and regulations for savings and loan cooperatives were prioritized.

2.8 Access to credit remains limited, particularly for small and medium-sized enterprises (SMEs). Of the 66% of businesses reporting that they need financing for their investments, only half obtained it within the financial system. One main obstacle is still the value of the collateral or guarantee, which on average is 204% of the credit's value, rising to 211% for small businesses (World Bank, 2018b). In addition, terms vary considerably depending on the source of financing. While private banks on average offer terms of less than two years, State-owned banks offer terms between two and eight years. Significantly, Ecuador's supply of credit is mostly from private banks at 67.3%, with State-owned banks accounting for only 9% (Neira Burneo, 2016). In 2018, the financing gap for SMEs was estimated as equivalent to 17% of GDP.

2.9 With respect to the external sector, Ecuador's non-oil sector lacks diversification and momentum, has limited participation in global value chains, and specializes in a few primary goods (agriculture, fisheries, and mining). Major export barriers include high transportation costs (which increase end prices by 16.5% on average), sanitary and phytosanitary barriers, and access to financing. The main import barriers are tariffs and logistical inefficiencies in the local customs service. Ecuador's average import tariffs are relatively high compared with other countries (ranked 118th of 140); for nontariff barriers, it is ranked 137th of 140 (World Economic Forum, 2019). With respect to export and import times and costs, Ecuador is above the average for Latin American and Caribbean countries.[8] Moreover, exports have limited participation in global value chains. Backward and forward linkage indexes for global value chains reveal that few of the supplies that companies export are used to manufacture foreign goods, and that Ecuador utilizes few imported supplies in the manufacturing of exportable goods. Ecuador is ranked 117th of 133 countries in economic complexity; it fell by 14 positions in a decade due to its lack of export diversification (Atlas of Economic Complexity, 2019).

C. Social development

2.10 During the analysis period, social indicators were impacted by the oil shock and the COVID 19 pandemic. After a period of falling poverty rates (a decrease of 14 percentage points between 2007 and 2014), supported by higher social investment, social indicators deteriorated as a result of the oil price shock in 2014. Between 2014 and 2019, poverty increased from 22.5% to 25%, extreme poverty rose from 7.7% to 8.9%, and the Gini coefficient

8 The costs include border compliance and documentary compliance (World Bank, 2019).

on inequality worsened from 0.467 to 0.473.[9] The pandemic has imposed additional challenges that Ecuador must meet to preserve the progress made in the social sector in previous years and to head off further increases in poverty and inequality.[10]

2.11 In the labor market, there are persistent challenges in quality and type of employment, as well as a high rate of informality. Prior to the pandemic, the formal unemployment rate was among the lowest in Latin America and the Caribbean (4.4% as of June 2019), but the crisis impacted this indicator, which tripled in June 2020 before falling to 6.6% in September. However, there are signs of a recovery (5.3% at year-end 2020).[11] Challenges remain in relation to decent jobs (only 31% of full-time workers earn at least the minimum wage),[12] informal jobs (46.7% of the total), underemployment, and low rates of participation by women in paid jobs, which is intensified by the health and economic crisis and the growing migrant population.

2.12 In health, there are encouraging trends, but the pandemic has put more pressure on the system; in education, inequalities in coverage and quality persist. While health care coverage has advanced, the data also reflects a decline in service quality and effectiveness. For example, institutional childbirth increased from 91.7% in 2012 to 95.6% in 2018. In addition, the maternal mortality rate fell from 39.7 to 37.0 per 100,000 live births between 2016 and 2019; however, preliminary data from INEC indicates a potentially significant increase in 2020 (57.6). Moreover, the infant mortality rate fell from 9.2 to 7.7 per 1,000 live births between 2016 and 2020.[13] The challenge of addressing emerging chronic degenerative diseases intensified the health crisis, and both phenomena are adding pressure to the health system. In education, early childhood education coverage has remained at 50% in recent years, while in 2019 enrollment in primary education was at universal coverage (94%), and enrollment in secondary education was at 85%. There were access inequalities in rural areas and among the poorest strata. Educational achievement tests from the Program for International Student Assessment showed aggregated results for Ecuador that are similar to the region's (in math, 377 points for Ecuador and 379 for Latin America and the Caribbean). Nevertheless, there are still learning challenges, and

9 IDB (2018, 2020) with data from the National Institute of Statistics and Census (INEC).

10 IDB (2020); Castilleja-Vargas (2020); OECD (2020).

11 IMF (2021a); IDB (2020).

12 Ibid. It was 40% before the pandemic.

13 INEC (2021). See Annex I, Table 1.4.1.

gender and socioeconomic gaps were identified.[14] The oil shock and the decline in GDP have impacted the financial resources allocated to health and education.

2.13 In the housing sector, the country has a quantitative and qualitative housing deficit. Nationwide, estimates show that the quantitative deficit is 13.3%, while the qualitative deficit is 33.3%, impacting more than 2 million households, mostly from the lowest income quintiles. The challenges of access to basic and housing services may be even worse for migrants with an irregular migration status.[15]

14 IDB (2020). Among fourth grade students in basic general education, 59.6% had poor achievement in language and literature, while among secondary education students, 15.2% had poor language skills (2018-2019) (INEVAL, 2021a, 2021b).

15 IDB (2020), with information from the Ministry of Urban Development and Housing; Silva and Uribe (2018).

03

IDB Group Country Strategy

3.1 The 2018-2021 country strategy established 11 strategic objectives in three priority areas. The three areas are: (i) strengthening of public finances; (ii) productivity and private sector; and (iii) deepening of social advances. The strategic objectives and expected outcomes associated with each of these areas are available in Table 3.1. The country strategy also included three crosscutting issues: (1) gender and diversity; (2) natural disaster risk management and climate change; and (3) strengthening of the institutional capacity of local counterparts. In addition, it included diagnostic assessments and illustrations of crosscutting approaches to these issues, except for institutional strengthening. The strategy also included areas of dialogue regarding citizen security, support to coordinate an effective productive development policy, and strengthening the national innovation system.

Table 3.1. Strategic objectives and expected results of the 2018-2021 country strategy

Strategic objective	Expected outcomes
Priority area 1: Strengthening of public finances	
1. Mitigate the fiscal risk associated with oil price volatility	Boost non-oil public revenue
2. Generate efficiencies and increase the quality of public expenditure	Boost government effectiveness
3. Increase the private share of investment in infrastructure and other public goods	Reinforce the public-private partnership framework
	Increase private investment in public infrastructure
4. Move forward on Ecuador's energy reform	Shift away from fossil fuel consumption in favor of renewable energy sources
Priority area 2: Productivity and private sector	
5. Boost the contribution of private investment and productivity to economic growth	Improve the investment climate
6. Facilitate access to investment financing	Increase credit to the private sector
7. Foster access to export markets	Boost non-oil exports
	Improve logistics performance
Priority area 3: Deepening of social advances	
8. Improve the management and quality of social services	Improve learning among Ecuadorian students
	Improve the health of the Ecuadorian population
9. Foster access to housing	Reduce the housing deficit
10. Improve and increase the provision of agricultural public goods and services	Reduce the poverty rate of the rural population engaged in agriculture
	Increase the earnings of the rural population engaged in agriculture
11. Strengthen and support water and sanitation investment projects	Increase access to safely managed drinking water services
	Increase access to safe sanitation services

Source: 2018 2021 country strategy (document GN-2924).

3.2 Even though the strategy included relevant objectives, as a whole it was not very focused given the fiscal context. The 2012-2017 country strategy included 18 objectives in 11 strategic sectors, with expected contributions to 27 results. For the 2018-2021 country strategy, some objectives—such as urban transportation and sustainability of the Galapagos Islands—were eliminated. Other objectives, such as social services, access to housing, and the provision of agricultural goods and services, were combined. Three objectives associated with natural disaster risk management, climate change, and diversity were included as crosscutting issues. Moreover, there was an increased focus on the challenges of the sustainability of public finances and promotion of private sector development. New objectives were added to mitigate the fiscal risk associated with oil price volatility and increase the private share of investment and its contribution to growth, which was relevant. While as a whole there was a decrease in the number of strategic objectives and expected outcomes (to 16), and new priority areas included relevant objectives, the country strategy still encompassed a number of sectors similar to the 2012-2017 period (11 sectors). In a weak fiscal context, this ended up being very broad.

3.3 The objectives of the fiscal priority area were relevant, given the development challenges and government needs. The diagnostic assessment that the Bank prepared in 2018 described the country's complex fiscal position and recommended at least seven policy actions to strengthen public finances. The 2018-2021 country strategy aimed to "support the government in its effort to overcome the macroeconomic imbalances" and move toward a model in which the private sector takes on a more prominent role, mitigating the impacts on the most vulnerable groups. Therefore, the first of the three priority areas included expected outcomes regarding revenue and expenditure efficiency, anticipating the need to implement reforms (e.g., in public-private partnerships and State-owned enterprises). The strategy also made energy reform conditional upon the fiscal objective (which included reducing fossil fuel subsidies), a sector issue that the Bank had been supporting during several periods. Formulating these objectives—including clearly defining the need to complete the fiscal consolidation process and create conditions enabling more private investment—enabled the Bank to adapt its support once the situation worsened and the worst scenarios projected materialized.

3.4 The objectives of the productivity and private sector priority area were relevant to the productive sector's development challenges and the government's plan. The country strategy identified as challenges the transformation of the productive structure, which lacks efficient mechanisms for dialogue and coordination between the public and private sectors; the instability of the legal and regulatory framework, which inhibits investment; the low development level of the credit and capital markets; and the limitations of the logistics system. To tackle these challenges, planned actions included addressing the obstacles that limit private investment and productivity, access to medium- and long-term financing for investment, and access to export markets. These objectives were included in the recommendations that OVE made in the 2012-2017 Country Program Evaluation (CPE) and in the Country Development Challenges (CDC). They were also aligned with the government plan, which proposed fostering productivity and competitiveness through the transformation of the productive structure, integration of production chains, and diversification of the exportable supply.

3.5 The strategy's third priority area was aimed at deepening the social advances of the past decade, which was relevant and aligned with Ecuador's development challenges and government priorities. The 2018-2021 country strategy included four strategic objectives intended to improve the management and quality of social services (particularly in education and health, although it also included actions for social protection and the migrant population); foster access to housing; improve and increase the provision of agricultural public goods and services; and strengthen and support water and sanitation investment projects. These objectives were aligned with the challenges identified in the Country Development Challenges (CDC) and with the first and second pillars of Ecuador's 2017-2021 National Development Plan. The objective of the first pillar, "Lifetime rights for all," was to "guarantee a decent life with equal opportunities for everyone." The objective of the second, "The economy in the service of society," was to "develop production capabilities and conditions to achieve food sovereignty and good rural living."

3.6 In general, the vertical logic of the country strategy's Results Matrix was adequate; however, some expected outcomes were too ambitious or unrealistic. In some cases, the indicators had evaluability weaknesses. The country strategy Results Matrix established 11 strategic objectives, most of which reflected a coherent chain of causality between the actions proposed in the country strategy, the expected outcomes, and the strategic objectives. In some cases, the expected outcomes defined were too unspecific (Table 3.1, objectives 2 and 5) or unrealistic (objective 10) to be achieved during the strategy period. Of the nineteen outcome indicators included, three were ambitious with respect to the strategy's proposed actions (e.g., non-oil exports as a percentage of GDP, income poverty rate of the rural population engaged in agriculture, and per capita income of the rural population engaged in agriculture). In addition, two were based on surveys that were discontinued, and therefore progress toward the strategic objective of quantitative and qualitative housing deficit could not be measured (Annex IV).

3.7 OVE identified substantial progress on two of the three recommendations made in the 2012-2017 CPE. OVE issued three recommendations that were endorsed by the Board of Executive Directors and recorded in the Evaluation Recommendation Tracking System (ReTS). Between 2018 and 2021, substantial progress was identified on two recommendations: support the process to consolidate public finances, including transparency and fiscal responsibility; and continue strengthening the capacities of subnational entities, which was achieved particularly with respect to managing road infrastructure. Regarding the third recommendation (seek opportunities to support private sector development in areas that enhance competitiveness and accelerate the diversification of production), access to credit was facilitated for the micro, small, and medium-sized enterprise (MSME) sector. However, progress was slow for aspects related to the structuring of public-private partnerships (PPP) (more information in Annex V).

3.8 The country strategy anticipated macroeconomic, natural disaster, and execution risks. *With respect to macroeconomics*, an expected risk was that it would be difficult for the public sector to cover the country's gross financing needs, potentially forcing sharp cuts in fiscal spending. Mitigation measures for this scenario were included in the strategy's objectives and expected outcomes, which were aimed at strengthening the public finances and changing the pattern of growth toward more private investment. In terms of *natural disaster risks*, a mitigation measure in the strategy was to include them as a crosscutting issue, by adding lessons learned from the 2016 earthquake and considering, for example, reinforcing the contingency mechanisms. *Execution risks* focused on staff turnover and the impact of its resulting institutional weakness on the strategic objectives. To mitigate this risk, the country strategy proposed monitoring operations and providing technical support resources for execution when necessary. The country strategy did not explicitly address the potential execution risk and its mitigation measures if the worst of the macroeconomic risks mentioned above were to materialize (sharp cuts in fiscal spending). However, it did mention technical support with own resources in cases in which there were weaknesses involving the execution units.

04

Program Alignment

4.1 The estimated lending framework of the country strategy described a base case scenario with high government needs. This framework estimated average approvals for sovereign guaranteed operations of US$500 million annually, or US$2 billion for the 2018-2021 period. For this estimate, the assumptions were that the central government would have gross financing needs of US$9.9 billion in 2018, decreasing to US$5.6 billion in 2021, and that the government would access the financial markets. The framework estimated that the Bank's share of the country's multilateral debt would remain at 55%, with positive net lending flows throughout the strategy period. However, gross financing needs ended up being much higher than expected, at more than US$10 billion annually (reaching a maximum of US$12.5 billion in 2020).

A. Program approved

4.2 Between 2018 and 2021, the Bank approved US$4.22 billion in reimbursable sovereign guaranteed operations. This amount surpassed that of the previous strategy period (US$3.131 billion),[16] considerably exceeding the strategy's estimated lending framework. The difference between approvals and estimates was largely due to operations to address the COVID-19 pandemic and a US$500 million special development lending (SDL) operation approved in 2019.[17] Despite this, given the government's financing requirements and openness to multilateral support (IMF and World Bank), the Bank's relative share of multilateral debt decreased (Annex III). The instruments approved during the period were 19 investment loans, four policy-based loans (PBLs), three guarantees, and the 2 SDL operations mentioned (Annex VI, Table I.6.1). In addition, US$29 million in nonreimbursable instruments were approved, which included 51 technical cooperation operations and one grant. The Bank also approved one Contingent Credit Facility for Natural Disaster Emergencies (CCFs) and two Conditional Credit Lines for Investment Projects (CCLIPs). With respect to sovereign guaranteed legacy operations, the country program included 27 investment loans, of which US$677 million were pending disbursement at the beginning of the period. There were also 45 technical cooperation operations with US$11 million pending disbursement, and two investment grants with US$1.4 million pending disbursement.

16 Reported in the country strategy (document GN-2924) for loans approved in the 2012-2017 period.

17 The difference between the total approved and the estimated lending framework was US$2.22 billion. This was mostly because of seven approvals related to the COVID-19 pandemic (including one SDL in 2021) and one SDL before the pandemic, which total US$2.013 billion.

4.3 In the period 2018-2021, non-sovereign guaranteed operations approved totaled US$1.123 billion in loans and US$371 million in transactions to support foreign trade. Although the country strategy did not estimate financing for non-sovereign guaranteed operations, during the previous period, approvals for these operations totaled US$509.8 million.[18] Therefore, there was a marked increase in this amount, which more than doubled during the analysis period. IDB Invest approved 18 senior loans, 2 senior and subordinated loans, and 2 senior loans combined with guarantees for a total of US$1.123 billion (Annex VI, Table I.6.1). In addition, under the Trade Finance Facilitation Program (TFFP), US$371 million in loans and guarantees were approved. With respect to the legacy portfolio, the non-sovereign guaranteed program included five loans from the previous period with US$121 million pending disbursement. Annex VI summarizes the 2018-2021 country program for Ecuador analyzed in this report. The program consists of the group of operations approved during the period[19] and legacy operations from previous periods with amounts pending disbursement as of 1 January 2018.[20]

4.4 The Bank continued to proactively use a wide variety of instruments, mostly to respond to and adapt to the country's needs for the period. During the 2018-2021 period, a large variety of instruments were approved for Ecuador, which in some cases were complementary. In 2018, a housing finance guarantee was approved, an instrument that the Bank had never employed before. Ecuador also requested a replenishment of the contingent amount for a previous CCF, after using some of it for the 2016 earthquake.[21] This required amending the CCF in 2019 (document GN-2502-7) prior to the replenishment (EC-O0006), which standardized this option throughout the Bank. That year, an SDL was also approved and disbursed in response to the country's macroeconomic problems. Two policy-based loans (PBLs) and two programmatic policy-based loans (PBPs) complementing more than 10 investment loans were also approved during the period. One of these PBLs supports reforms for gender equality and inclusion of people with disabilities, while the other focuses on fiscal management and productive development. One of the PBPs supports the transition of the energy matrix. The other PBP includes both components to support reforms—strengthening the social protection system and green jobs—and components focused on immediate support for the pandemic (Annex VII).

18 According to the 2018-2021 country strategy (Ibid).

19 The period is from 1 January 2018 to 31 December 2021.

20 For non-sovereign guaranteed operations, this includes those for which an expanded supervision report (XSR) was prepared between 2018 and 2021 (Annex VI, Table I.6.12).

21 The Bank disbursed US$160 million of the US$300 million available five days after the government's request. Ecuador was the first country to receive a disbursement under this instrument from the Bank.

Because of the pandemic, the CCF instrument was amended again in 2020 (document GN-2999-4), enabling disbursements for public health emergencies, which allowed Ecuador to use this instrument in 2020 and 2021. In addition, the first two IDB prototype operations to address the COVID-19 pandemic were approved—one of the few guarantees for vaccine procurement related to an investment loan for the same purposes—and the components of a multiphase loan were adjusted to fight the pandemic (see Box 4.1). In 2020, a CCLIP to finance fleets of electric vehicles (buses, taxis, cargo vehicles) was approved, with the first operation acting as a pilot for the support model. At year-end 2021, a policy-based guarantee (EC-U0002) was approved, aimed at improving the business environment and financial stability (this instrument combines a sovereign guarantee with a policy matrix).

4.5 Approvals of technical cooperation operations decreased from the previous period. These continued to be focused on client support, although the proportion for operational support increased. During the strategy period, an average of 13 technical cooperation operations per year were approved, for an annual total of US$4.2 million. This represents a reduction compared with the previous period, when an average of 15 technical cooperation operations per year were approved, with an annual total of US$6.2 million. Most of the technical cooperation operation resources approved during the period were for client support operations (65%), a decrease compared with the previous period (82%). The proportion for research and dissemination decreased from 4% to 2%, while the proportion for operational support increased from 14% to 33%. According to Management, this was due to additional efforts undertaken to provide more support for execution. The strategic objective to “improve the management and quality of social services” had the highest share of technical cooperation approvals during the period (35% of the total).

4.6 IDB Invest also used its instruments innovatively to mitigate financial constraints and the effects of COVID-19 on the private sector. As during the prior period, IDB Invest’s operations mostly consisted of senior loans for local private banks or corporate financing. Some non-sovereign guaranteed operations approved in 2020 responded to demand from clients to counteract the effects of COVID-19. In addition, an innovative operation supported the first issuance of a private sector social bond in Ecuador (thematic bond). This complemented a COVID-19 prototype sovereign guaranteed operation for the private sector. Funds from the social bond were used to support the sustainability of MSMEs, one of the sectors hardest hit and least resilient to the COVID-19 crisis.

4.7 There was a marked increase in multilateral participation and coordination during the period, with the IDB playing a relevant role. Coordination between multilateral organizations was close and frequent, to prevent duplication of efforts and reduce transaction costs. In particular, the SDL in 2019, the second instrument of this type approved by the Bank (after an SDL for Barbados in 2018), required joint work with IMF experts. Technical-level cooperation yielded lessons on using this instrument, which, moving forward, will not include conditions separate from those of the IMF Extended Fund Facility (Annex III). Cooperation also took place beyond the IMF program. For example, in the energy sector, there was a cofinancing operation with the Japan International Cooperation Agency (EC-L1223); in housing, parallel financing with France's AFD (EC-L1245); and in the water sector, cooperation with the European Investment Bank and Spain's FONPRODE (EC-L1242). The legacy project for the Quito Metro required coordination between participating multilateral organizations (the IDB, the World Bank, and the CAF), with the IDB playing a leadership role in several negotiations with subnational authorities during successive government administrations.

B. Program alignment with the strategic objectives

4.8 The alignment of the program implemented with the strategic objectives varied. It was strongly aligned with 8 of the 11 strategic objectives but weakly aligned with the remaining 3 (Table 4.2).[22] The program's alignment was strong with all the objectives of the strengthening of public finances priority area, but there were alignment gaps with the other two areas (Annex VIII). Table 4.2 groups the program's operations based on the strategic objective with which they were aligned.

22 In this ICPR, alignment is classified as "strong" when the program deployed relevant operations to contribute to all the outcomes expected under the strategic objective (coverage), and when it is plausible that these operations, if implemented correctly, will contribute to achieving the strategic objective through progress on their expected outcomes (feasibility). Alignment is classified as "weak" when the program does not achieve the coverage or the feasibility. OVE also considered a third category, "without coverage," when no operations relevant to the strategic objective were deployed, but there were no such operations.

Table 4.2. Sovereign guaranteed and non-sovereign guaranteed country program by alignment with the strategic objectives

Strategic objective S = strong alignment W = weak alignment	Legacy			Approved (2018 2021)		
	No. of operations	US$ millions		No. of operations	US$ millions	
		2018 balance	Disbursed 2018-2021		Approved	Disbursed 2018-2021
I. Strengthening of public finances						
1. Mitigate the fiscal risk associated with oil price volatility (S)	2	8	7	5	1.300	1.300
2. Generate efficiencies and increase the quality of public expenditure (S)	9	16	8	11	275	102
3. Increase the private share of investment in infrastructure and other public goods (S)	5	263[a]	263	4	479	0,5
4. Move forward on Ecuador's energy reform (S)	14	204	121	8	415	317
II. Productivity and private sector						
5. Boost the contribution of private investment and productivity to economic growth (W)	0	0	0	6	55	1
6. Facilitate access to investment financing (S)	2	32	23	23	1.163	1.007
7. Foster access to export markets (W)	2	50	34	3	300	247
III. Deepening of social advances						
8. Improve the management and quality of social services (S)	16	269	223	24	753	513
9. Foster access to housing (S)	4	5	0	6	410	51
10. Improve and increase the provision of agricultural public goods and services (W)	1	1	1	4	17	13
11. Strengthen and support water and sanitation investment projects (S)	9	146	128	4	115	1
Others						
2016 earthquake response (excludes those already aligned)	4	43	35	1	0,2	0,04
COVID-19 response (excludes those already aligned)	0	0	0	3	457	394
Not aligned	11	22	14	8	3	2
Total	**79**	**1,059**	**858**	**110**	**5,743**	**3,949**

Source: OVE, with data from IDB (2021c) and IDB Invest (2021a, 2021b, 2021c, 2021d).
Notes: Includes all operations in Annex VI, except those in Table I.6.12.
[a] This amount includes US$250 million in additional financing approved in 2018 for operation EC L1111 (from 2012).

4.9 The program was strongly aligned with the objectives of the strengthening of public finances priority area. Since 2018, because fiscal problems intensified, the Bank has prioritized supporting measures intended to improve sustainability. The legacy portfolio was supporting the management of the Internal Revenue Service (EC-L1120) and the Ministry of Economy and Finance (MEF) (through technical cooperation operations EC-T1383, EC-T1301, and EC-T1304), to improve the fulfillment of tax obligations and the fiscal headroom. However, the Bank's support expanded substantially during the period with the approval of more than US$2 billion in new operations, which as a whole covered the country strategy's first three strategic objectives. First, two SDLs for US$1 billion were approved (EC-L1255 and EC-L1274) to address emergency needs and support expected outcomes that were consistent with the IMF program. Second, a PBL in two tranches for US$300 million (EC-L1252) was approved. These operations supported improved tax revenues and macrofiscal management, while the PBL supported regulatory reforms of public-private partnerships (PPPs) and State-owned enterprises—two areas where impacts were expected on expenditure efficiency, private investment, and fiscal responsibility.[23] Third, legacy investment projects with institutional support components were approved, in line with expenditure efficiency and quality. They included support to improve public service quality (EC-L1118); strengthen policymaking and control institutions (EC-L1119 for the Office of the Comptroller General of the Nation, and EC-L1249 for the MEF and the Office of the Attorney General); and implement reforms (EC-L1251 for State-owned enterprises, EC-L1230 for the MEF and the Development Bank of Ecuador in support of PPPs, and EC-L1257 for the new Ministry of Energy and Nonrenewable Natural Resources).[24]

4.10 There was also strong alignment with the objective of moving forward on Ecuador's energy reform. The program implemented was ambitious and encompassed different areas of energy reform, a process that started during previous periods and the Bank had been supporting (with several legacy operations). The program included improvements in transmission, subtransmission, and distribution (EC-L1117, EC-L1128, EC-L1136, EC-L1147, EC-L1160, and EC-L1231), as well as rural electrification in isolated areas (EC-G1001 and EC-L1128), renewable power generation, energy efficiency, and electric interconnection (EC3882A-01, EC3902A-01, and EC-L1265). It also included institutional strengthening and support for sector plans (EC-L1223 and EC-L1231). More recently, there was support for electric mobility (CCLIP EC-O0009 and its first operation, EC-L1268, which was still unsigned at the end of the period). In addition to these loans, there was technical cooperation funding for institutional strengthening and for support and preparation of operations. While the IDB was not involved in large renewable power generation projects during the period (which were mostly financed by other sources), the expected improvements in infrastructure and institutional strengthening will enable the connection of power generation facilities with consumption centers and improve the system's efficiency. It was plausible to expect that the energy reform

23 These operations also included debt-management actions and technical support for the government (through technical cooperation operations and ad hoc support).

24 In addition, institutional strengthening was supported through technical cooperation projects for a variety of improvements in public finances (statistical system, public debt, policy assessment, civil registry, tax administration, public investment system, and support for project preparation).

would promote other results, such as improved system reliability and regional integration. Therefore, program had adequate coverage, implementing approved operations (for more than US$400 million) and legacy operations (for approximately US$200 million).

4.11 In the productivity and private sector priority area, the program had weak alignment with two of the three strategic objectives. For the objective of increasing private investment and productivity, the program included two loans (EC-L1243 and EC-L1250) and two technical cooperation operations (EC-T1418 and EC-T1427). These proposed actions to improve the investment climate through optimization and simplification of transactions, regulatory improvements, dialogue between the public and private sectors, and preparation of a competitiveness strategy.[25] The program only partially covered the objective of fostering access to export markets, and therefore, alignment with this objective was weak. Operations aligned with the expected outcome of improving logistics performance were implemented. These included EC-L1116, approved during the previous period and focused on improving the management and control of border crossings with Colombia and Peru; EC-L1125, for the expansion, improvement, or rehabilitation of roads in the country's 23 continental provinces; and one non-sovereign guaranteed operation to reduce congestion at the port of Guayaquil by building a more efficient, alternative deep seaport. However, the Bank's program was limited for the expected outcome of boosting non-oil exports. It included actions to promote regional energy exchange by expanding transmission lines (EC-L1265, EC-L1117, and EC-L1223) but did not address fostering access to export markets.

4.12 The program was strongly aligned with the objective of facilitating access to investment financing. Loans from IDB Invest included long-term corporate credits for capital investments, not available in the local market; loans through financial institutions for MSMEs focused on gender, inclusion, and sustainable projects; and short-term loans provided through TFFP lines. In addition, guarantee EC-U0002 included actions to improve financial regulations and measures for financial inclusion and consumer protection.

4.13 In the deepening of social advances area, the program was strongly aligned with three of the four objectives: management and quality of social services, access to housing, and water and sanitation. Operations related to management and quality of social services (EC-L1076, EC-L1227, EC-L1107, EC-L1129, EC-L1235, and EC-L1273) focused on strengthening the healthcare system with an emphasis

25 Three non-sovereign guaranteed operations that were aligned with other objectives were also aligned with this objective by promoting productivity improvements.

on maternal and child health, vaccinations, and early childhood; they also addressed cash transfers for poor and vulnerable populations.[26] In education, the program was strongly aligned with the expected outcome of improving learning outcomes, mostly through loans (EC-L1155 and EC-L1227) and technical cooperation operations focused on supporting young people in finishing incomplete schooling, teacher training, and improved educational management, as well as the inclusion of students with disabilities, women, migrants, and indigenous populations. In housing, the program had operations that aligned with the country strategy. The portfolio consisted of one investment loan (EC-L1113) and one CCLIP (EC-O0004 and EC-L1245)[27] to support housing solutions.[28] These operations focused on reducing the quantitative housing deficit through opportunities to access new housing. They were complemented with a guarantee (EC-U0001)[29] that supported the first international placement of social bonds to finance low-income housing, and with a non-sovereign guaranteed legacy operation for the mortgage sector. Lastly, in water and sanitation, the program strongly aligned with the objective of supporting investment projects in the sector. The expected outcomes for this objective included increasing access to safely managed drinking water services and safe sanitation services. The program implemented included five sovereign guaranteed operations and one non-sovereign guaranteed operation (which used a previous IDB operation for leverage)[30] to invest in infrastructure for water and sanitation service coverage in rural and urban locations. This also included six technical cooperation operations, which largely supported capacity-building for sector entities.

4.14 In the same strategic area, alignment with the objective of improving and increasing the provision of agricultural public goods and services was weak. For this objective, the expected outcomes were to reduce the poverty rate and increase the earnings of the rural population engaged in agriculture. Therefore, the program included one sovereign guaranteed legacy operation to upgrade and strengthen irrigation and road systems in Chimborazo, seeking to improve the productivity of rural families in the region; and one non-sovereign guaranteed

26 One loan and one grant were also approved (EC-L1258 and EC-J0006), targeting the migrant population receiving social services (social protection, health care, and education).

27 Credit line (EC-O0004 for US$200 million) and first operation (EC-L1245 for US$93.8 million).

28 The IDB and the government agreed on the relevance of medium term work in the sector. This was a useful instrument, as it enabled several associated operations. In the previous CPE, OVE found that the low income housing program was relatively successful.

29 The objective of this operation is to support the provision of mortgage loans for affordable housing through financial intermediaries (related to EC-L1245 in urban areas).

30 Before this non-sovereign guaranteed operation, the IDB provided a sovereign guaranteed loan in 2000 to prepare the concession, implement rehabilitation works for existing systems, and institutional strengthening.

operation to provide access to finance to smallholder producers using value chain mechanisms. In addition, it included three technical cooperation operations to support efforts to increase the country's agricultural productivity (EC-T1388, EC-T1402, and EC-T1382). Despite this, given the limited coverage of the objective, the program's alignment was weak, as during the previous country strategy.

4.15 Before the pandemic, most operations not aligned with the country strategy were technical cooperation projects. Nineteen operations in the portfolio did not align with the strategic objectives of the country strategy. These consisted of two loans—one sovereign guaranteed and one non-sovereign guaranteed—and 17 technical cooperation operations. The sovereign guaranteed operation (EC-L1097), approved in 2011 and closed in 2019, had as an objective cultural heritage protection. The non-sovereign guaranteed loan, also a legacy operation, supported the construction of a new campus for a private university. The technical cooperation operations, almost all for client support, covered a variety of issues, such as the judicial branch, the prison population, biodiversity, urban development, innovation, quality of life measurements, and information technology security. These accounted for 15% of technical cooperation operation resources for the period.

4.16 In 2020, the program largely directed its support to address the challenges resulting from the COVID 19 health crisis, pioneering the use of a variety of instruments. The Bank responded to the public health and social crisis by approving new operations designed exclusively to address the crisis, or with components for this purpose.[31] Therefore, seven reimbursable sovereign guaranteed operations for US$1.513 billion and two non-sovereign guaranteed operations for US$30 million were approved. Ecuador was the first country for which a prototype operation for COVID-19 response was approved (EC-L1269). This operation was for the productivity and employment area, and it was complemented by an IDB Invest operation (social bond). In addition, Ecuador used a guarantee operation for vaccine procurement and the CCF facility. In March 2020, to address the pandemic, components from several operations were modified and resources redirected from active projects (Box 4.1).[32]

31 To provide headroom in the programming, in 2020 the approval of several investment loans in preparation was postponed. One loan, approved in 2021, addresses access to justice (EC-L1264). Other loans address customs and tax administration (EC-L1253), digital connectivity infrastructure (EC-L1262), the innovation ecosystem (EC-L1261), and electric interconnection with Peru (RG-L1140), but none of these had been approved when this report was completed.

32 The response portfolio included reallocation and adjustment of the components of the multiphase program for social services (EC-L1227); approval of three prototype investment loans (EC-L1269, EC-L1270, and EC-L1276); activation of one CCF loan (EC-L1272) with disbursements to redirect funds from eight active investment loans; one guarantee to purchase COVID-19 vaccines (EC-U0003); part of a PBP for the protection of social spending and jobs (EC-L1273); part of an emergency SDL operation (EC L1274); and approval of two non-sovereign guaranteed loans.

Box 4.1. IDB Group operations in 2020 and 2021 focused on the COVID-19 pandemic

The focus of the IDB Group's support to address the pandemic was diverse and complementary. The following objectives are noteworthy. (1) Social protection: Policy measures from a PBP, Support for the Protection of Social Spending and Job Recovery (EC-L1273), supported the temporary protection of the income of populations living in poverty and vulnerable populations affected by the pandemic. In addition, medium-term measures were implemented to update the coverage and focus of the social assistance registry of beneficiaries of social programs. This PBP was complemented with three operations. The first (EC-L1270) supported extraordinary conditional transfers from the Family Protection Bond in Response to the COVID 19 Emergency (created in 2020). The second (EC-L1276) expanded transfers and coverage from the Human Development Bond, the main nonconditional cash transfer program, to benefit 1 million people (with 270,000 new beneficiaries). The third (EC-L1274) supported the expansion of social protection coverage. Along with one technical cooperation funding and one investment loan, support was also provided to temporarily adapt early childhood development services for virtual and blended-learning modalities. (2) Financing of vaccines: This was achieved under prototype operation EC-L1270 (2020) for health service delivery and the social safety net, along with guarantee EC-U0003 (2021). (3) Strategy for hospitals: Part of multiphase legacy loan EC-L1227 and investment loans were used to cofinance the government's Hospital Contingency Strategy for the Health Emergency. (4) Support for financing: This was provided through the Global Credit Program for Safeguarding the Productive Fabric and Employment (EC-L1269), offering credit and short-term guarantees to microenterprises and small businesses to finance working capital; two non-sovereign guaranteed operations, which provided credit for working capital to MSMEs; and another non-sovereign guaranteed operation to alleviate the client's liquidity constraints that resulted from suspending operations because of the pandemic.

These actions have produced some progress on outputs, but it is too early to observe results, since they are still in execution. Achievements included setting up or repurposing beds and equipment for intensive care units; adapting hospitals; and providing support for staff, medications, and supplies for COVID 19 treatment (approximately 7,000 patients in regular hospital beds and 700 in intensive care units received care, and approximately 3,000 vulnerable patients with chronic conditions were referred to the private sector). Support was provided to temporarily protect the income of more than 440,000 families living in poverty and vulnerability through the Human Development Bond (which surpassed the objective established under the IMF program). In addition, 7 million doses of COVID 19 vaccines were purchased through the COVAX Facility. Moreover, a sovereign guaranteed operation to facilitate access to finance for the private sector provided US$41 million of the US$85 million budgeted to finance working capital for microenterprises and small businesses and guaranteed US$2.6 million of the projected US$8.8 million.

4.17 The Bank's program included gender and diversity issues in a crosscutting manner in the country strategy's three priority areas. Almost half (46%) of the sovereign guaranteed loans approved during the strategy period integrated this issue into their designs. As part of the *strengthening of public finances* priority area, operation designs included actions to promote the participation of women in reform and modernization of the State (focused on increasing their participation in the boards of directors of State-owned enterprises) and in urban mobility (diagnostic assessments and regulations with a gender approach and a campaign against harassment in public transportation). In addition, in the energy sector, five loans included similar actions. These included developing the strategy to promote gender equality in the electricity sector, job training for women to address the demand from distribution companies, and mentorships for women. In the *productivity and private sector* area, the IDB and IDB Invest had operations that promoted access to credit and participation in financial services for women, indigenous populations, Afro-descendants, and people with disabilities (particularly in the MSME segment). In the *deepening of social advances* area, actions included improving the availability and management of maternal and child health services, strengthening specialized health and education services for people with disabilities, and improving access to housing for households with women heads of household and households with a member who has a disability. In addition, two loans specifically focused on gender and diversity were approved (EC-L1273, a PBP supporting the creation of the Gender Parity Initiative in Ecuador; and EC-L1238, a PBL strengthening the regulatory and institutional framework of education and social services). However, support to close gaps between ethnic groups, which the country strategy mentions as part of this crosscutting issue, was not identified among the projects (Annex IX).

4.18 The crosscutting issue of natural disaster risk management and climate change was also addressed for the three priority areas and focuses on certain sectors. Approximately a third (36%) of sovereign guaranteed loans integrated this issue into their designs. In the *strengthening of public finances* area, energy sector operations stood out with various actions aimed at the transition of the energy matrix toward renewable energy, energy efficiency, and adaptation to climate change. In addition, operations to replenish funds under the CCF sought to support natural disaster risk management. Moreover, in the *productivity and private sector* area, some projects financed by IDB Invest are noteworthy, with designs featuring renewable energy generation, energy efficiency, and the reduction of carbon dioxide emissions. In the *deepening of social advances* area, this crosscutting issue was identified in some operations for water and sanitation (support to manage water sources) and agriculture (support to manage irrigation systems for adaptation to climate change), as well as in the housing sector and the program to support social protection reforms that promotes job recovery in the green sector (Annex IX).

4.19 Lastly, more than half of sovereign guaranteed loans, particularly in the areas of public finances and social advances, included in their design strengthening the institutional capacity of local counterparts. Among sovereign guaranteed operations, 61% included in their designs activities to strengthen institutional capacity. The Bank's program included various activities to strengthen the capacities of execution units (particularly through training), institutions, and government ministries. In the *strengthening of public finances* area, plans included consolidating the corporate governance and fiscal framework of State-owned enterprises; the management of public utility service providers; and personnel capacities for controllership, management of tax service processes, and electricity distribution matters. In addition, operations in the *deepening of social advances* area included adapting the job requirements for personnel in the education and health sectors and improving their capabilities; improving monitoring and registration systems for health care, social protection, and housing beneficiaries; and strengthening regulation and control of services for staff of the water and sanitation sector (Annex IX).

05

Program Implementation

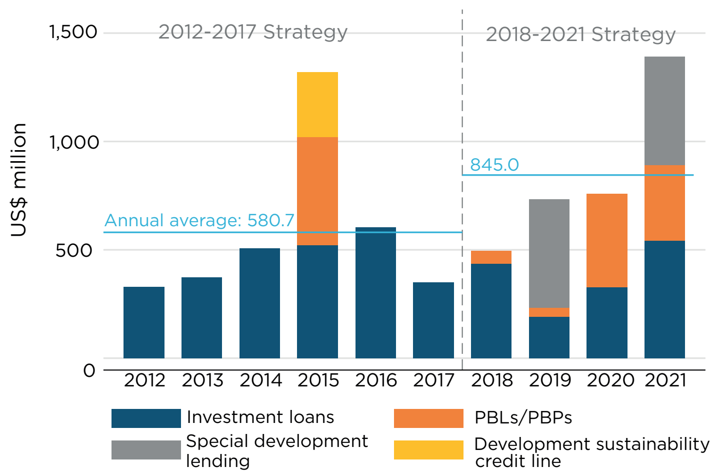
A. Portfolio execution

5.1 Disbursements for sovereign guaranteed operations widely exceeded country strategy estimates. The strategy included disbursements of US$1.531 billion for the 2018-2021 period. At year-end 2021, disbursements for loan operations had reached almost US$3.38 billion, accounting for more than twice the estimated amount. As with approvals, the difference between the disbursements made and estimated was mostly due to operations to address COVID 19 and one SDL operation.[33] Therefore, the pace of total disbursements accelerated, from an annual average of US$581 million during 2012-2017 to US$845 million during 2018-2021 (Figure 5.1). This is due to the higher relative share of fast-disbursing loans,[34] which increased from 28% of disbursements during 2012-2017 to almost 60% during 2018-2021. In contrast, of the 18 investment loans approved during the period,[35] disbursements were below 5% for 12 operations and averaged 42% for the remaining six operations. Moreover, of the 27 legacy operations, 19 finished disbursement; seven increased from an average of 37% disbursed at the beginning of the period to an average of 85% disbursed at year end 2021; and one was cancelled (EC-L1116).

Figure 5.1

Disbursements of sovereign guaranteed loan operations

Source: OVE, with data from the IDB (2021).



Note: The Finance Department has only been validating data on disbursements for sovereign guaranteed loans since 2017.

5.2 Annual average disbursement for non-sovereign guaranteed operations quadrupled over the previous strategy period. The country strategy did not include an estimated lending framework

33 Seven approved operations related to COVID-19 disbursed approximately US$1.382 billion, and one SDL disbursed an additional US$500 million. In total, this represents an amount similar to the difference between the disbursements made and estimated (US$1.849 billion).

34 For this review, fast-disbursing loans are defined as policy-based loans (PBL), programmatic policy-based loans (PBP), special development lending operations (SDL), Contingent Credit Facilities for Natural Disaster Emergencies (CCF), and Contingent Credit Lines for Development Sustainability (DSL).

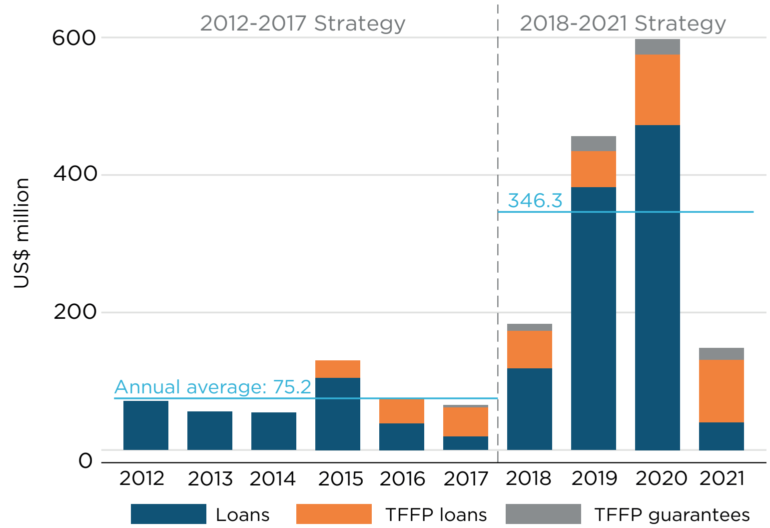
35 This group excludes loan EC-L1272, since it is under the CCF and is a fast-disbursing operation.

for non-sovereign guaranteed operations. However, compared with the previous period, IDB Invest experienced a notable increase in disbursements and guarantees issued. In the period 2012-2017, a total of US$451 million were disbursed—including TFFP transactions—accounting for an annual average of US$75.2 million. In contrast, during 2018-2021, disbursements totaled US$1.385 billion, or an annual average of US$346 million (Figure 5.2). This annual average was 4.6 times greater than during the previous period.

Figure 5.2

Disbursements and issuance of guarantees for non-sovereign guaranteed projects

Source: OVE, with data from BID Invest (2021a, 2021b, 2021c).



5.3 The Bank's project preparation and supervision costs were lower for Ecuador than for its regional comparators. Preparation times were also shorter. Preparation costs per million approved and supervision costs per million disbursed increased over the previous period—a trend also seen in the Country Department Andean Group (CAN) and the Bank's sovereign guaranteed investment loans (Annex X, Figure I.10.1). However, compared with averages for CAN, the Bank's costs for projects in Ecuador were systematically lower. Preparation costs per million approved between 2018 and 2021 were US$3,193, slightly below the average for CAN (US$3,973). Supervision costs per million disbursed were US$10,003, also below those for CAN (US$14,851). This pattern was a continuation of the pattern observed in the previous period, in which Ecuador also had lower amounts for both types of costs. Preparation times for sovereign guaranteed investment loans were shorter for Ecuador than for CAN, both for the previous period and this analysis period. However, for execution times, performance varied more, with times longer than for CAN in some stages (signature, first disbursement) but shorter in others (eligibility) (Annex X, Table I.10.1).

5.4 The macroeconomic context and the pandemic intensified implementation challenges. In the central administration, the fiscal consolidation scenario led to a review of budget caps and adjustments in expenditure control and prioritization mechanisms (such as the system of endorsements (avales) and the single registration voucher for payments), impacting the availability of funds for investment projects. This situation caused delays in the certification of funds for projects, delaying the implementation of active operations (EC-L1223, EC-L1122, EC-L1081, and EC-L1231) and the approval of new operations (EC-L1236 and EC-L1258). The pandemic outbreak also impacted the implementation of operations (17 of 46 investment loans reviewed). In some cases, delays in budget appropriations increased (EC-L1123 and EC-L1236), funds were redirected to address the crisis—changing the components or outputs of original designs (EC-L1251)—and works were halted because of the mobility restrictions imposed (EC-L1242 and EC-L1117).

5.5 The lack of capacity and staff turnover in execution units, as well as designs with complex execution mechanisms, also impacted project implementation. In some cases, execution units had limited technical knowledge of Bank policies, particularly procurement and fiduciary policies (EC-L1118, EC-L1227, EC-L1081, and EC-L1112); in others, they lacked operational capacity (EC-L1118, EC-L1121, and EC-L1120). Moreover, the turnover of key personnel, both in execution units and the government, impacted project implementation (EC-L1245, EC-L1227, EC-L1116, and EC-L1076), particularly in the energy, social services, and housing sectors. One example was the merger that created the Ministry of Energy and Nonrenewable Natural Resources, which required an adjustment period for the new institutional framework (EC-L1223, EC-L1231, and EC-G1001). Projects with designs proposing complex execution systems, causing delays in their implementation (e.g. EC-L1235, EC-L1125, EC-L1107, and EC-L1258), were also identified.

5.6 Through support for fiduciary country systems, substantial progress was made in international accounting standards, but not in implementing the Integrated System for Public Finance Administration (SINAFIP). The project for convergence toward International Public Sector Accounting Standards (IPSAS), which has been ongoing since 2014, surpassed the target established in the country strategy for the IPSAS implementation plan and supported the certification of 20 employees from the MEF. In 2021, this project was in its fourth development stage.[36] To support fiduciary management, the Bank had two approved operations (EC-L1118 and EC-L1249) to design and develop the SINAFIP, a new financial information system enabling implementation of

36 Work is currently underway to implement IPSAS numbers 14, 20, 28, 30, 39, and 41. In addition, because the SINAFIP is not operational, a consulting assignment is underway to review regulations, instructions, and procedures that adjust to the use of the previous system, the Integrated Financial Management System (e-SIGEF).

expected improvements from the country strategy. The system's development was completed in 2020, and implementation started in 2021; however, because of operability problems, its deployment was suspended. In September 2021, the government confirmed that the implementation of the SINAFIP would continue, but this is still pending. Moreover, part of loan EC-L1119 was meant to update technical standards for audits. Approximately 48% of this loan's funds were redirected to address the COVID-19 emergency, which negatively impacted the operation's output execution and objective achievements at closing.

5.7 Support for procurement systems also produced limited results, with less progress than expected in designing improvements for the national public procurement system. Operations RG-T3506 and EC-T1450 supported the official public procurement system (the National Public Procurement Service, SERCOP) with a consulting assignment to design new enterprise architecture for the system. This system aimed to support the country strategy's procurement objectives. The study was completed in May 2021.[37] Nevertheless, the new architecture was to be implemented with resources from loan EC-L1250, which was reformulated as the government requested to address early childhood development issues.

B. Contribution to the strategic objectives

5.8 This subsection summarizes country program results and their contribution to the strategic objectives of the country strategy. During the strategy period, 24 sovereign guaranteed loans and nine non-sovereign guaranteed operations were concluded.[38] Except for seven sovereign guaranteed operations with fast disbursement approved between 2018 and 2021 (two PBLs, two PBPs, two SDLs, and one CCF), the other sovereign guaranteed operations concluded (17 investment loans) were legacy projects. To summarize, there was substantial progress on two objectives (energy reform and access to finance), limited progress on eight strategic objectives, and no progress on one objective (contribution of private investment and productivity). Below is a summary of the program's contributions to every strategic objective (Annex VIII has the complete analysis).

37 Between the fourth quarter of 2020 and the first quarter of 2021, the Bank supported SERCOP to prepare a diagnostic assessment of the national public procurement system using the standards of the Methodology for Assessing Procurement Systems from the Organisation for Economic Co-operation and Development (OECD). The report is in the final review process for validation under this methodology and publication by the Office of the Secretary.

38 Of these 24 sovereign guaranteed operations, 10 have a project completion report (PCR) validated by OVE. Of the 9 non-sovereign guaranteed operations closed, 7 have an XSR validated by OVE (Annex XI).

<u>Strategic objective 1:</u> Mitigate the fiscal risk associated with oil price volatility

5.9 Progress was made on the outputs of operations to mitigate the fiscal risk associated with oil price volatility, but it is too early to observe results. Taxes collected from the nonfinancial public sector were lower than at the beginning of the analysis period and started to recover after the pandemic (a 12% increase in January-October 2021 compared with the same period in 2020).[39] With the Bank's support to the Internal Revenue Service (EC-L1120), improvements were implemented in public management tools and the taxpayer registry was completed. This was despite cancellation of 50% of loan resources, which limited the results achieved[40] (disbursement progress was 88%). Moreover, both one PBL (EC-L1252) and the first SDL (EC-1255)—in line with the IMF's Extended Fund Facility program—supported conditions on fiscal responsibility and tax management efficiency and transparency that were fulfilled. These include digitalization of services and implementation of online services for the Internal Revenue Service (between 2018 and 2019); ratification by the National Assembly of the Convention on Mutual Administrative Assistance in Tax Matters (August 2019); approval of the Law for Tax Simplification and Progressivity (December 2019); and achievement of an interagency agreement to improve tax and customs management (August 2020). Under the second SDL operation, support was also provided for reforms associated with the Extended Fund Facility, such as fiscal reform (approved in November 2021) to expand the taxpayer base and simplify the tax regime for entrepreneurs. In addition, through administrative funds and a regional technical cooperation operation (RG-T3694), the Bank supported the government to coordinate working sessions where the public sector, academia, businesses, civil society organizations, and multilateral organizations prepared a draft reform.

<u>Strategic objective 2:</u> Generate efficiencies and increase the quality of public expenditure

5.10 The program completed some outputs aimed at increasing government effectiveness, although to a lesser extent than expected. Legacy operation EC-L1118 to help improve the management of citizen services achieved on average 65% of its planned outputs—according to its PCR—but did not complete outputs associated with service optimization and improved accessibility. Although OVE's validation of the PCR classified the operation's effectiveness as unsatisfactory, the implementation of the e-SIGEF and other outputs contributed to improving public

39 Internal Revenue Service (SRI), November 2021.

40 Increasing tax collection and efficiency, and detecting noncompliance.

investment planning and management (increased percentages of career personnel at the Ministry of Education, Ministry of Health, and the MEF). Likewise, for operation EC-L1119, now concluded, approximately 48% of its approved resources were cancelled. The project was unable to achieve relevant outputs such as updating the technical and administrative development standards of the Office of the Comptroller General (CGE). Therefore, based on progress monitoring reports (PMRs), the outcomes achieved are far below the proposed targets. Noteworthy among the outputs achieved are the review, surveying, standardization, optimization, and implementation of the CGE's mission and support processes under a quality management system, as well as information campaigns for public servants and the public on the importance of control actions and the work carried out by this office. Moreover, one PBL (EC-L1252) and one SDL (EC-L1255) supported actions aligned with expenditure efficiency. For example, modifying the gasoline subsidy regime (in May 2020) with a system for gradual adjustment to international prices, as well as the law amending the Public Finance and Planning Code (COPLAFIP), which includes improvements in fiscal rules and transparency of statistics for the consolidated nonfinancial public sector.[41] The PBL also supported making the MEF the coordinating entity for the National Expenditure Quality System; assessment reports on the social programs of the ministries of Education, Health, and Economic and Social Inclusion; and the introduction of the State-owned Enterprises Act, which has not been approved. The latter has delayed progress of the investment loan to raise public awareness about this law (EC-L1251). Lastly, the Financial Management Modernization Program (EC-L1249) had delays in the launch of the SINAFIP and limited progress toward the remaining outputs.

Strategic objective 3: Increase the private share of investment in infrastructure and other public goods

5.11 Operations aligned with the objective of increasing the private share of investment in infrastructure produced progress that contributed to strengthening the public-private partnership framework. However, they did not increase the private sector's

41 The Public Finance and Planning Code provides an anchor for financial management and was a key commitment for the Extended Fund Facility arrangement of 2019. This represents a significant improvement compared with previous legislation: defines a public debt commitment of 40% of GDP by 2032, with intermediate limits of 57% by 2025 and 45% by 2030 (substituting the 40% rule, unmet since 2017); establishes operational fiscal rules (at a central government level) to guide fiscal policy towards achieving the debt target; and includes other provisions to strengthen public financial management and reduce discretionary budget spending (IMF, 2020). Other examples of recent reforms supported through the framework agreement are the law to increase the transparency in exercising public office (anticorruption), which reforms the Comprehensive Criminal Code (December 2020); and the law to protect dollarization, which amends the Monetary and Financial Code, providing more independence to the Central Bank to avoid financing spending with reserves (April 2021).

share of investment. While assessments for these operations are not yet available, partial progress for the PPP framework was achieved under PBL EC-L1252 and technical cooperation operations. These include approval of the regulations for the PPP Law in November 2020 (which promotes interagency coordination, public asset monetization rules, and management of unsolicited private initiatives); promotion of the Development Bank of Ecuador's PPP program (establishment of a guarantee fund for subnational projects and a PPP unit); and outputs associated with institutional support from the MEF on fiscal management (such as managing contingent liabilities).[42] This helped improve the EIU Infrascope index (2021b), which evaluates the environment for PPPs in every country, based on the regulatory, institutional, and financing environment. Moreover, progress has been slow in operations to increase private investment in public infrastructure; therefore, there are no advances for this result. The performance level for program EC-L1230 was low.[43] There was no progress on the components to strengthen fiscal management instruments and structure private investment projects through PPPs. Therefore, no public-private partnership projects were structured or tendered at the national level or among the decentralized autonomous governments. In addition, execution is beginning on the program for underground resources (EC-L1257). Lastly, the Quito Metro operation (which is close to completing the infrastructure, rolling stock, and facilities)[44] has not yet produced progress toward results, owing to delays caused by COVID-19 and uncertainty regarding its management model and collection system, which has prevented the project from entering into operation.

Strategic objective 4: Move forward on Ecuador's energy reform

5.12 The program implemented substantially contributed to advances in energy reform. Progress was achieved for the country strategy's expected outcome of shifting away from fossil fuel consumption in favor of renewable energy sources; as a percentage of total consumption, fossil fuels decreased from 26.3% in 2017 to 20.2% in 2020[45] (Annex IV, Table I.4.1). The IDB Group's program contributed by making progress on aligned operations. Regarding rural electrification (EC-L1128), access was improved for isolated areas (841 households) and 13,101 households with no service,

42 With support from technical cooperation operations, progress was achieved with training and knowledge dissemination outputs at a subnational level.

43 From this program's funds, 12.5% (US$6.2 million) were transferred to a contingent loan (EC-L1272).

44 The project has completed almost all the infrastructure and rolling stock (as of June 2020, weighted progress per component was 96.58% for civil works, 70.32% for facilities, and 70.09% for rolling stock).

45 This was 21.9% in 2019.

and service improved for 6,386 households, helping to reduce fossil fuel consumption in favor of clean energy. Moreover, OVE validated as highly successful the strengthening of the national electricity distribution network (EC-L1136), with results such as reducing emissions, reducing losses and outages, strengthening distributors, and improving energy efficiency attributable to the program. In renewable power generation, IDB Invest financed two small projects for hydroelectric plants, which already closed and have XSRs validated by OVE. These yielded satisfactory results for energy capacity and production and reduced carbon dioxide emissions.[46] Despite implementation delays during the strategy period related to COVID 19 and the fiscal crisis, at the end of the analysis period, other investment operations produced partial progress on outcomes (decreased outages and adoption of induction cook stoves) and significant progress on outputs (for isolated systems and transmission). However, their final evaluations are not available.

5.13 The program achieved key progress on energy reform, such as reductions in imported fuel, the annual subsidy on liquefied petroleum gas, and carbon dioxide emissions, indicators that were not included in the country strategy's Results Matrix. PBP EC L1265[47] included conditions associated with energy reform that the Bank has supported through legacy and new investment operations. Although the PCR is not yet available, it is feasible that progress on several outcome indicators is related to the fulfillment of some conditions. This includes, for example, reducing the demand for diesel in hydrocarbon activity by replacing it with electricity through the Optimization of Power Generation and Energy Efficiency initiative; auctioning nonconventional renewable energy generation projects; completing at least two renewable energy projects for electrification in isolated rural areas; and completing at least 200 rural electrification projects to replace and reduce the use of diesel, including grid expansion, and incorporation of these projects into the electricity distribution companies' business system. The percentage of electricity generated from renewable sources rose from 54% in 2013 to 91% in 2020. While the decline in economic activity that the pandemic caused could have positively impacted some indicators, other expected outcomes that reflected progress were reductions in fuel imports, the annual subsidy on liquefied petroleum gas, carbon dioxide emissions, and the average frequency of outages; and increases in electricity exports (Annex XII).

46 Hidrosanbartolo and Hidrowarm (EC3882A-01 and EC3902A-01; see Annex VIII).

47 See Annex XII for changes in the conditions and an updated Results Matrix.

Strategic objective 5: Boost the contribution of private investment and productivity to economic growth

5.14 The program implemented did not favor the objective of boosting the contribution of private investment and productivity to economic growth. There was a slight setback for the expected outcome of improving the investment climate. Operation EC-L1243, aligned with this strategic objective, had disbursement of nearly 0%, and therefore did not produce progress. Operation EC-L1250 is being reformulated and in the future will address actions for early childhood development. Therefore, actions that would have included strengthening governance and management for competitiveness, and improving regulations and transparency, will not be implemented. Technical cooperation operations (EC-T1418 and EC-T1427) also present low levels of disbursement (35% and 5%, respectively). For these, only one output was completed: an institutional capacity analysis (EC-T1427) with an inventory of the main public, private, and academic organizations that carried out actions to support competitiveness and comprehensive mapping of the actions of the private and public sectors.

Strategic objective 6: Facilitate access to investment financing

5.15 There is progress with the expected outcome of increasing credit to the private sector. IDB Invest's operations facilitated access to financing for investments. These operations financed more than US$800 million in capital investments for corporations and approximately US$200 million in working capital for MSMEs through financial intermediaries. TFFP lines contributed to the short term financing of trade transactions for US$360.9 million and guarantees for US$62.6 million. For the operations completed with financial institutions, there was evidence of an increased supply of financing for investment for microentrepreneurs at the base of the pyramid.

Strategic objective 7: Foster access to export markets

5.16 The program's contribution to the objective of fostering access to export markets was limited. Operations aligned with this objective produced progress on some outputs that contribute to advances in the outcome to "improve logistics performance." Border crossing operation EC-L1116, cancelled in the second half of 2018, was the exception. Operation EC-L1125 produced advances in its multiple road works outputs (350.9 kilometers expanded, improved, or rehabilitated, from a target of 366.87). One non-sovereign guaranteed operation finished the construction of a port terminal. Other operations contributed, to a lesser extent, to the "increasing non-oil exports" outcome. Among TFFP operations, US$84.1 million supported exports of fisheries sector products, and one operation achieved its export targets. In addition, operations EC-L1265, EC-L1117, and EC-L1223 contributed to energy exchanges with Peru by expanding the national transmission network.

Strategic objective 8: Improve the management and quality of social services

5.17 The program implemented included actions to improve social services for education, health care, and early childhood development; however, there is no evidence of improvements in learning outcomes or maternal and child mortality rates. The Bank's program in the education sector achieved progress with several outputs aimed at improving learning among students. However, these outputs did not translate into verifiable improvements for this expected outcome. With respect to primary and secondary education, the PMR for operation EC-L1155 reported that it helped increase graduation rates for students in basic general education and secondary school with incomplete schooling.[48] At the deliverables level, support was provided for faculty training and development of a model to strengthen the inclusion of students with disabilities. This meant adapting questions from national academic achievement tests and preparing an assisted assessment protocol for the specific needs of these students (EC-L1236 and EC-L1238).[49] Despite this, the percentages of fourth grade students in basic general education and secondary school with poor learning increased (Annex V). Moreover, the IDB program also moved forward with different outputs to help improve the health of the Ecuadorian population, particularly for mothers and children. For example, the Program to Support Comprehensive Childhood Development (EC-L1107),[50] which financed four education centers; trained nearly 6,000 early childhood teachers and maternal and child health care professionals; and strengthened the plan to promote maternal and child health. In addition, as part of the government's comprehensive health care model,[51] operation EC-L1076 supported the remodeling and outfitting of hospitals and healthcare centers, development of educational materials, and training of healthcare personnel. Approximately 1.4 million people benefitted from the basic package of health services

48 Graduation rates rose from 88% to 92.8% for accelerated basic education and from 86.4% to 93.7% for secondary education, surpassing planned targets (PMR, January-December 2020).

49 In addition, through a study on closing gaps, a pilot project was implemented to provide mentorships to approximately 200 teachers and strengthen their interaction skills with students, based on previous findings suggesting that it could improve student learning. However, the results were not favorable (see Carneiro et al., 2020).

50 This project closed in 2018 after low execution levels. Most of its funds were redirected to a CCF (EC X1014) for the 2016 earthquake response.

51 Aimed at strengthening response capability and timely treatment at the primary care level, with an emphasis on prevention.

in the intervention areas, but there is no information about the quality of these services. Improvements reported for this operation included coverage of preventive health care services for children ages 1 to 5 (from 39% in 2012 to 97.8% in 2019), vaccinations for children up to age 1, and prenatal checkups for pregnant women (from 51% to 94.7% for the same period) in the intervention areas.[52] Multiphase loan EC-L1227 (with 91% disbursed) also reported progress on staffing for child health care (20 neonatology jobs).[53] However, it is unclear to what extent these Bank initiatives improved maternal mortality rates until 2019 (prior to the pandemic). Moreover, there is no conclusive evidence of improved child mortality rates.

5.18 The Bank's program deployed operations to improve the management of social services, but their execution and outcomes are still in early stages. Operation EC-L1227 supported the job separation process for employees of the Education and Public Health ministries who no longer met service needs. However, a strategic plan for human talent requirements and flows in education and health, and a study of mechanisms to ensure the fiscal solvency of separation payments are still pending. In addition, operation EC-L1235, focused on the quality and management of early childhood development services, is still in execution. The program also included an investment loan (EC-L1129) to strengthen intersectoral social management and coordination, which updated part of the data repositories of the Interconnected Registry of Social Programs (RIPS). This increased the number of services included in that registry and of those prioritizing beneficiaries based on the social registry of poverty and vulnerability. Progress was also made on the physical infrastructure and outfitting of the government's social development platform.[54] In addition, PBP EC-L1273 created the conditions to update the coverage and focus of the registration database of social program beneficiaries. Nevertheless, the contributions of these actions to the results are still in early stages, because of delays in some operations. It is also too early to see the results of some recently completed actions.

Strategic objective 9: Foster access to housing

5.19 The program that the Bank implemented contributed to promoting access to housing, although the housing deficit is still high. Among sovereign guaranteed operations, legacy operation EC-L1113 improved access to housing for vulnerable populations.

52 PCR from 2020 and OVE validation from 2021. An ex post impact evaluation showed a positive, statistically significant effect on these indicators of access.

53 PMR, January-June 2021.

54 However, there is no information available on the interoperability between the Interconnected Registry of Social Programs (RIPS), administrative records for social services, and other systems.

Subsidies for access to new housing were provided to 16,322 households from the two lowest income quintiles.[55] Providing continuity to the Bank program, between 2018 and 2019, one CCLIP (EC-O0004 and EC-L1245) and one guarantee (EC-U0001) were approved, aimed at expanding access to housing in rural and urban areas. To date, progress has been achieved on access to housing in rural areas (1,600 subsidies).[56] In January 2020, backed by the IDB guarantee, the government issued a social bond to support access to housing; as of February 2022, US$20 million (5%) of these funds had been used to leverage approximately 800 credits. In addition, the Bank has contributed technical inputs for the preparation of the National Housing Plan. The IDB's support through these operations was, above all, aimed at reducing the quantitative housing deficit and focused on vulnerable strata in rural areas; this also represents a considerable part of the support provided through the Casa para Todos government program.[57] The progress made has not translated into improvements in quantitative and qualitative housing deficit indicators at a national level. For non-sovereign guaranteed operations, one legacy operation (concluded in 2017) achieved progress on mortgage loan securitization (approximately 1,900 credits). However, the validation of its XSR concluded that not enough information was provided—about loan terms or size—to determine whether the project was able to deepen the secondary mortgage market to benefit middle and middle-low strata.

Strategic objective 10: Improve and increase the provision of agricultural public goods and services

5.20 There is no evidence that the program contributed to results in reducing the poverty rate and increasing the per capita income of the population engaged in agriculture. Operation EC-L1121 showed satisfactory progress on income per hectare for beneficiaries of investments in irrigation in the intervention area (Chimborazo) (from US$1,347 per hectare in 2013 to US$1,759 per hectare in 2018). However, the impact of this progress in reducing poverty and increasing the earnings of the rural population engaged in agriculture is unknown.

55 Of resources, 77.5% were allocated to families with their own land in rural and urban-marginal areas, and the remaining to those in urban areas. While the Results Matrix did not include impact indicators on access to housing, based on the impact evaluation, it can be inferred that the program positively impacted this aspect (PCR for EC-L1113, 2019; and OVE validation).

56 PMR, 2020. In rural areas, subsidies were 100% for eligible households with their own land; in urban areas, there were partial subsidies for households and partial subsidies on the interest rate from first-tier banks.

57 According to information from the Ministry of Urban Development and Housing, Casa para Todos showed progress, with approximately 40,000 houses fully subsidized or with preferential interest rates. The government had a broader target (more than 200,000 housing solutions), which is still being adjusted.

Strategic objective 11: Strengthen and support water and sanitation investment projects

5.21 The program made limited contributions to the expected outcomes of the strategic objective of strengthening water and sanitation investment projects. In terms of the expected outcomes for the percentage of the population using safely managed drinking water services and safe sanitation services, there has been slight progress. There have been no disbursements for the new operations (EC-L1242 and EC-L1248), while the legacy operations (EC-L1112, EC-L1122, and EC-L1159) show significant advances in their outputs. Operation EC-L1112 finished the construction or expansion of three residential drinking water systems and three sanitation systems, benefitting approximately 15,000 households. In addition, operation EC-L1122 financed the improvement of two drinking water systems, two sewer systems, and one wastewater treatment system.[58] Lastly, operation EC-L1159 achieved 20,000 new wastewater connections and 8,000 new drinking water connections in Guayaquil. Only one operation in the portfolio (EC-L1081/EC-X1006) concluded during the strategy period. The outcomes reported are well below those expected: for the increased number of households with access to new or improved water and sanitation systems (PCR validation, 2021), 28% of targets were met for water systems and 51% for connections to sanitation.

58 According to PMR data, approximately 60,000 households should benefit from these outputs.

06

Conclusions

6.1 During the 2018-2021 period, the country faced a series of shocks that affected its stability. By 2018, Ecuador was facing a deterioration in its public accounts and steadily rising debt as a percentage of GDP. In 2020, before this situation could be corrected, the COVID 19 pandemic intensified these sustainability issues, sparking an acute economic and social crisis. To reduce the adverse impacts of these shocks, the government identified solutions to address the health crisis, redefining public policy priorities while moving ahead with the reform process. With conditions in flux, Ecuador became open to receiving more multilateral support, which was accompanied by closer coordination between multilateral organizations and development agencies.

6.2 The 2018-2021 country strategy sharpened the focus on the challenges of making public finances more sustainable and establishing conditions to enable private sector development, which was relevant, although it maintained a set of broad objectives. Therefore, the first of the three priority areas included expected outcomes for revenue and expenditure efficiency, anticipating the need to implement reforms (such as in public-private partnerships and State-owned enterprises). The second priority area included objectives on improving productivity and the private sector, anticipating the need to increase private investment against the decline in public investment. The third was aimed at deepening the social advances of the past decade. The planned objectives were relevant given the development challenges and government priorities. However, as a whole, they encompassed a number of sectors similar to the 2012-2017 period, which in a weak fiscal context, ended up being very broad.

6.3 As implemented, the program was strongly aligned with eight strategic objectives and weakly aligned with the remaining three objectives. There was strong alignment with the objectives of the strengthening of public finances priority area and with those of access to finance, social services, housing, and water and sanitation. However, alignment with the objectives of private investment and productivity, export markets, and agricultural goods and services was weak. This was due to less coverage by the program in the areas of improving the investment climate, boosting non-oil exports, and reducing poverty and increasing the earnings of the rural population.

6.4 The program adapted to the context, proactively approving a diverse mix of instruments and adjusting to the country's needs, although the implementation problems for investment loans intensified. The program approved used a wide variety of sovereign guaranteed instruments (with an increased share of fast-disbursing operations) and non-sovereign guaranteed instruments, responding to the shift in priorities brought about by the fiscal crisis and the COVID 19 pandemic and often pioneering the instruments at the Bank. This produced a portfolio with instruments that were diverse (sometimes with new uses, such as thematic bonds for non-sovereign guaranteed operations and sovereign-backed guarantees for housing and vaccinations) and in some cases, complementary, such as in the fiscal area and COVID 19 response. Despite the increase in disbursements, the challenges involved in implementing investment projects grew worse because of the country's fiscal constraints and multiple barriers that intensified in the wake of the 2020 crisis (such as lack of capacity and high turnover of execution units). This also affected the support for country systems, in which progress was partial.

6.5 The IDB Group's actions for COVID 19 response reflect a diverse, complementary approach, with progress on outputs. Support was focused on the areas of social protection, financing of vaccines, strategy for hospitals, and supporting small business sustainability. With part of this support, the government made headway on temporarily protecting the earnings of low-income households, fulfilling the social protection coverage objectives of the IMF program. Progress was also achieved in procuring supplies and equipment for hospitals, purchasing vaccines, and financing working capital for microenterprises and small businesses. Some actions are still in execution, and it is too early to evaluate their results.

6.6 To conclude, the Bank's contributions to the strategic objectives varied:

1. In the area of *strengthening public finances*, progress was made on outputs corresponding to the objectives of mitigating the fiscal risk associated with oil price volatility, generating efficiencies and increasing the quality of public expenditure, and reinforcing the PPP framework (although without progress on private investment in public infrastructure). In addition, there were substantial contributions to the energy reform objective.

2. In the area of *productivity and private sector*, there were significant contributions to the objective of facilitating access to investment financing and partial progress on access to export markets (with improvements in logistics but lower-than-expected outcomes for non-oil exports). There was no progress made on the objective of boosting the contribution of private investment and productivity to growth.

3. In the area of *deepening of social advances*, progress was made on outputs aimed at improving access and management of social services (education, health care, and early childhood development). However, there is no evidence of contributions to improved learning outcomes and maternal and child mortality rates. There were some contributions to improving access to housing and the outcomes expected for the water and sanitation objective but no evidence of contributions to the objective of improving the provision of agricultural goods and services.

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