PUBLIC
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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

INSTITUTIONAL STRENGTHENING FOR COMPETITIVENESS PROGRAM

(EC-L1250)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Mauricio García (ICS/CEC), Project Team Leader; Claudia Suaznábar (IFD/CTI), Alternate Project Team Leader; Carlos Guaipatín and Pauline Henriquez (IFD/CTI); Pedro Farias, Alejandro Pareja, Raimundo Arroio, Nicolás Dassen, Giovanna Mahfouz, Sonia Rojas (IFD/ICS); Camila Mejía (ICS/CEC); Roberto Fernández (ICS/CUR); José Martínez (SPD/SDV); Marcela Hidrovo, Carolina Escudero (FMP/CEC); Javier Díaz (CAN/CPE); Katherine Tobar (CAN/CEC); and Javier Jiménez (LEG/SGO).

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ABBREVIATIONS

AWP	Annual work plan
CCE	Comité de Competitividad y Emprendimiento [Competitiveness and Entrepreneurship Committee]
CGE	Contraloría General del Estado [Office of the Comptroller General of the State]
e-SIGEF	Sistema de Gestión Financiera [Financial Management System]
FFF	Flexible Financing Facility
GFCF	Gross fixed capital formation
IMF	International Monetary Fund
MCPEC	Ministerio de Coordinación de la Producción, Empleo y Competitividad [Ministry for the Coordination of Production, Employment, and Competitiveness]
MEF	Ministerio de Economía y Finanzas [Ministry of Economy and Finance]
MERNNR	Ministerio de Energía y Recursos Naturales No Renovables [Ministry of Energy and Nonrenewable Natural Resources]
MERO	Mesas Ejecutivas para Resolver Obstáculos [Executive Boards for the Removal of Obstacles]
MINTEL	Ministerio de Telecomunicaciones y de la Sociedad de la Información [Ministry of Telecommunications and Information Society]
MPCEIP	Ministerio de Producción, Comercio Exterior, Inversiones y Pesca [Ministry of Production, Foreign Trade, Investment, and Fisheries]
OECD	Organisation for Economic Co-operation and Development
PIRIs	Planes de Inversión de Reforma Institucional [Institutional Reform Investment Plans]
PMR	Program monitoring report
RUTER	Registro Único de Trámites y Regulaciones [Master Registry of Procedures and Regulations]
SENESCYT	Secretaría Nacional de Educación Superior, Ciencia, Tecnología e Innovación [National Department of Higher Education, Science, Technology, and Innovation]
SENPLADES	Secretaría Nacional de Planificación y Desarrollo [National Planning and Development Department]
SERCOP	Servicio de Contrataciones Públicas [Public Contracting Service]
SGP	Secretaría General de la Presidencia [General Secretariat of the Presidency]
SIN	Sistema Nacional de Innovación [National Innovation System]
SNAP	Secretaría Nacional de la Administración Pública [National Public Administration Department]
SNCP	Sistema Nacional de Contratación Pública [National Public Contracting System]
TFP	Total factor productivity
TOR	Terms of reference
VPR	Vicepresidencia de la República [Office of the Vice President of the Republic]
WAL	Weighted average life
WEF	World Economic Forum

PROJECT SUMMARY

ECUADOR
INSTITUTIONAL STRENGTHENING FOR COMPETITIVENESS PROGRAM
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Financial Terms and Conditions				
Borrower:			**Flexible Financing Facility**[(a)]	
Republic of Ecuador			**Amortization period:**	25 years
Executing agency:			**Disbursement period:**	5 years
Ministry of Economy and Finance (MEF), as executing agency, and the General Secretariat of the Presidency (SGP) and Office of the Vice President of the Republic (VPR), as subexecuting agencies			**Grace period:**	6 years[(b)]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based
IDB (Ordinary Capital):	42,000,000	89.3%	**Credit fee:**	[(c)]
			Inspection and supervision fee:	[(c)]
Local:	5,040,000	10.7%	**Weighted average life (WAL):**	15.22 years
Total:	47,040,000	100%	**Currency of approval:**	United States dollars

Project at a Glance
Project objective/description: To contribute to improving the country's competitiveness by strengthening the institutions that influence the business environment and productivity, specifically by improving: (i) governance for competitiveness and innovation; (ii) regulatory quality and transparency of the business environment; (iii) management of public assets and entities that support competitiveness; and (iv) service delivery to enterprises and citizens.
Special contractual conditions precedent to first disbursement of the loan proceeds: As a condition precedent to the first disbursement of the loan proceeds, the executing agency will provide evidence, to the Bank's satisfaction, of compliance with the requirement that the program Operating Regulations have been approved and entered into effect on terms previously agreed upon with the Bank. In addition to the above, as a special condition precedent to the first disbursement of the proceeds for the corresponding component: (i) the executing agency and the corresponding subexecuting agencies have appointed a management team for each respective component, based on the job descriptions and terms of reference (TOR) included in the program Operating Regulations; and (ii) the executing agency has signed an agreement with the VPR and the SGP, setting out, among other things, the obligations of the parties in program execution and how the proceeds are to be transferred (see paragraph 3.7).
Exceptions to Bank policies: None.

Strategic Alignment						
Challenges:[(d)]	SI	☐	PI	☑	EI	☐
Crosscutting themes:[(e)]	GD	☐	CC	☑	IC	☑

(a) Under the terms of the Flexible Financing Facility (FFF) (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the FFF, changes to the grace period are permitted provided that they do not entail any extension of the original WAL of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies.

(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

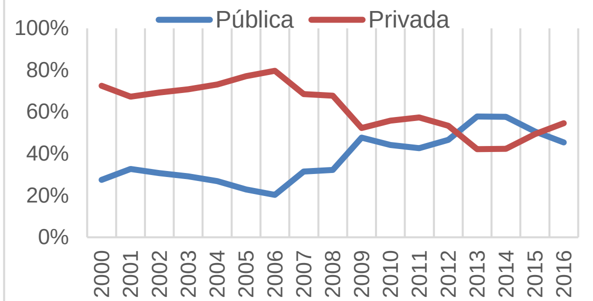
(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Description and Results Monitoring

A. Background, problem addressed, and rationale

1.1 **Background.** The Ecuadorian economy saw average annual growth of 4.1% in its real GDP between 2000 and 2015. This growth was driven by multiple factors, although productivity gains made a marginal contribution. The increase in gross fixed capital formation (GFCF) and its impact on Ecuador's economic growth was due mainly to heavy public-sector investment (see Figure 1), which rose from 4.4% of GDP in 2005 to peak at 14.8% in 2013. As international oil prices slumped in 2015,[1][1] the country entered a recession with a 1.2% drop in GDP in 2016. The economy made a modest recovery (2.4%) in 2017, settling back to 1.4% in 2018. According to the International Monetary Fund (IMF), Ecuador now faces the possibility of entering another recession this year.[2] This slowdown is mainly the result of the fiscal consolidation process under way, which thus far has meant primarily a contraction in public investment.

Figure 1. Public vs. Private Investment (%)



1.2 Total factor productivity (TFP) and private investment have contributed marginally to recent economic growth in Ecuador,[3] with TFP accounting for just 7% of growth between 2001 and 2014.[2] However, these aggregate figures conceal considerable heterogeneity within and among the country's productive sectors. The disparities in productivity between enterprises in the 10th and 90th percentiles in all sectors are very pronounced, particularly in construction, mining, trade, and certain services. The literature explains the coexistence of enterprises with very different productivity levels as the result of market and government failures that make it difficult to reallocate productive factors from less productive to more productive enterprises.[4] Two examples of regulatory and institutional failures affecting the reallocation of productive factors (capital and labor, in particular) between sectors and enterprises are the difficulties of liquidating a business and labor market rigidities (which also lead to high levels of informal labor).

1.3 **Macroeconomic context.** Ecuador is in a complex macroeconomic position. After several years of high public deficits, the country is in the midst of an ambitious fiscal consolidation effort that decreased the total nonfinancial public sector deficit from 4.5% to 0.9% of GDP from 2017 to 2018. However, the government's gross financing needs remain high in an international context of tighter financing terms and volatile crude oil prices. For this reason, the government made the decision to negotiate a financing arrangement with the IMF, which approved an Extended Fund Facility (EFF) on 11 March 2019 for approximately US$4.2 billion, to be disbursed over three years. This amount will be supplemented by approximately

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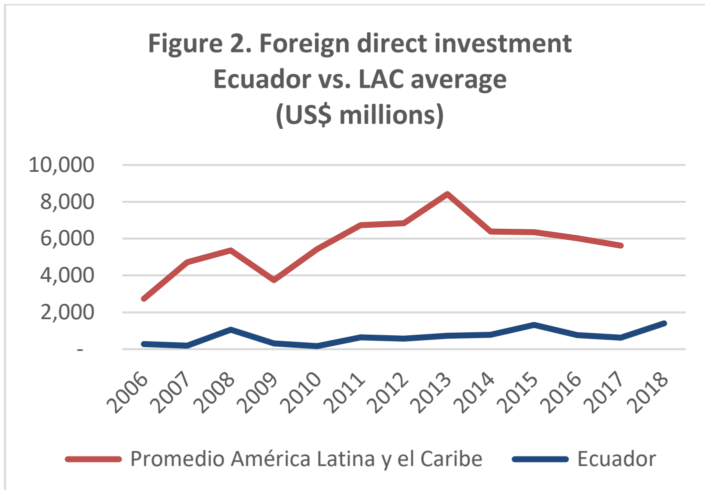
1 Bibliographic references are available at this link.

2 A breakdown of growth suggests that the accumulation of capital and labor accounted for 57% and 36%, respectively, of growth between 2001 and 2014.

US$6 billion from other multilateral agencies such as the Inter-American Development Bank, the Development Bank of Latin America, the World Bank, the Latin American Reserve Fund, the European Investment Bank, the French Development Agency, and the United Nations Development Programme. This financing package will enable Ecuador to complete the fiscal adjustment and introduce reforms that promote a development model in which private investment will play a more prominent role.



1.4 **Business climate and competitiveness.** Key international comparative indicators suggest that the business climate and competitiveness are lagging significantly. Ecuador ranks 86th out of 140 countries in the 2018 Global Competitiveness Report of the World Economic Forum (WEF). According to this index, Ecuador is currently behind Chile (33), Costa Rica (55), Colombia (60), and Peru (63). In the World Bank's Doing Business 2019 ranking, it is 123rd out of 190 countries. Investors therefore feel that doing business is more difficult in Ecuador than in most Latin American countries, which helps explain the smaller amounts of foreign direct investment it receives (see Figure 2).[5]

1.5 Accordingly, priority 2 of Ecuador's National Development Plan 2017-2021 states that "environmental and systemic competitiveness conditions will be created to strengthen the business fabric, build confidence, and improve the business climate through stable and streamlined economic regulation that provides enterprises with legal certainty." In the same vein, reforms contained in the Prosperity Plan 2018-2021 include smaller government through institutional consolidation, rationalization of human talent, greater transparency of operations, and paperwork reduction: "When the public sector grows disproportionately, red tape increases, as well. This is exactly what has happened in recent years. To make life easier for Ecuadorians and businesses, bureaucratic hurdles will be reduced and eliminated. This began with Executive Decree 372, which declares improved regulation and simplification of administrative and bureaucratic procedures as national government policy."

1.6 **Main challenge.** Consequently, the country's low competitiveness has been taken as the main challenge of this operation. It is tied to the institutional constraints[6] affecting the business climate and productivity. The areas on which Ecuador does better in the international rankings are related to strong public investment in recent years, such as infrastructure,[3] health, and primary and secondary education, according to the Global Competitiveness Report. In contrast, variables related to the regulatory framework or the functioning of institutions have received very low ratings.[4] Some causal factors for this are described below.

1.7 **Still limited mechanisms for dialogue and coordination between the public and private sectors.** Analysis of Ecuador's National Innovation System (SIN) reveals that past coordination bodies never fostered a detailed discussion of private-sector problems and (vertical) problems specific to the different economic activities. For example, under the previous administration, a number of the most important key SIN institutions were consolidated under the Ministry for the Coordination of Production, Employment, and Competitiveness (MCPEC), which lacked the instruments to coordinate and channel specific support to businesses, or detailed action plans for each participating public institution. Additionally, MCPEC had difficulty coordinating with another major SIN player, namely the National Department of Higher Education, Science, Technology, and Innovation (SENESCYT). Whereas MCPEC developed sector technology agendas, SENESCYT refocused its efforts on other challenges. Gains on the productive development agenda were limited by weaknesses such as: (i) few instruments for coordinating and channeling specific, targeted support to businesses; and (ii) competitiveness agendas and programs without detailed action plans for each of the public agencies involved or reflecting their real ability to act. All of this prevented the national government from focusing the productive development policy on market failures and the provision of public goods in sectors with high growth potential.[7]

1.8 **Low regulatory quality and limited transparency.** Businesses in Ecuador must deal with complex, cumbersome, and unstable regulatory frameworks (permits, reporting, regulations, etc.) that affect the business climate, which is reflected in Ecuador's low scores on international indicators. For instance, the Regulatory Quality dimension of the World Bank's Worldwide Governance Indicators places the country at only the 14.4/100 percentile in terms of the government's capacity to establish and implement policies and regulations to promote private-sector development. On the WEF burden of government regulation indicator, Ecuador is only in the 21.8/100 percentile. This is because the country does not adopt the various regulatory policy recommendations of the Organisation for Economic Co-operation and Development (OECD), such as the existence of a regulatory oversight unit, public consultations, and analysis of the impact of new regulations,[8] which has a direct effect on the business climate. According to a study by Ecuador's Superintendency of Companies, Securities, and Insurance, "the fall in construction sector GDP in 2015 and 2016 was accompanied by GFCF decreases of -4.7% and -5%, respectively, which reflected a marked decline in

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3 Although physical infrastructure has positive rankings, it runs the risk of deteriorating rapidly because of management limitations.

4 The Global Entrepreneurship Monitor ranks Ecuador at the bottom on the dimension of government policy: legal uncertainty, cumbersome procedures for opening and closing a business, and constant changes on the tax front.

both public and private investment accompanied by new rules directly affecting the sector, such as the addition of four more chapters to Ecuador's Construction Standards, regulations such as the Capital Gains Law (repealed on 22 March 2018), and tariff measures such as safeguards."[9]

1.9 Furthermore, the World Bank's Worldwide Governance Indicators, measured on a scale from -2.5 (weak) to 2.5 (strong) for 2017, refer to poor corruption control and assign Ecuador a score of -0.60, below the Latin America and Caribbean average of -0.28 and the OECD country average of 1.17. This is particularly serious because transparency and institutional quality are a fundamental part of a business climate that supports private-sector development.[10] Empirical evidence shows that a country's productivity and economic growth can be affected by a lack of transparency and integrity.[11] Causes of this type of problem include systems and processes that restrict access to information for both citizens and economic actors, including State bodies responsible for oversight, and institutions, laws, and regulations that have design or technical flaws giving rise to arbitrary discretion.

1.10 **Weaknesses in managing entities and public assets that support competitiveness.** To reduce agency organization and management inefficiencies that affect the business climate in productive sectors, whose productivity is impacted as a result, the Government of Ecuador has undertaken an ambitious process of reforming its institutions. Proposed measures include 25 mergers of entities between 2018 and 2020. For example, an inward merger was ordered for the Ministry of Foreign Trade and Investment, the Ministry of Industry and Productivity, the Institute for the Promotion of Foreign Exports and Trade, and the Ministry of Aquaculture and Fisheries to create the Ministry of Production, Foreign Trade, Investment, and Fisheries (MPCEIP).[5] The purpose is for the entity to gain a holistic vision of the sector's public policy, exercising authority for stewardship, coordination, planning, execution, and control in an integrated manner, which was not possible under the previous system. Another example was the merger[6] of the ministries of Electricity and Renewable Energy, the Ministry of Mining, and the Office of the Secretary of Hydrocarbons into a new Ministry of Energy and Nonrenewable Natural Resources (MERNNR).[7] Although the mergers were supposed to occur within just 60 days, due to the complexity of the entities involved, there is still considerable room to refine the integrated processes, develop and align management models, and generate the expected savings and gains in effectiveness. Although the respective executive decrees called for staff evaluation and rationalization processes, as well as the elimination of unnecessary positions,[12] the entities have not had enough resources available in the budget to

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5 Executive Decree 559 of November 2018.

6 Executive Decree 399 of May 2018 establishing both mergers.

7 Priority is given to the nonrenewable resources sector because of its importance to the economy (see paragraph 1.1), particularly mining, given its growth potential. According to the Office of the Deputy Minister for Mining, mineral exports are expected to total US$550 million in 2019 but rise to US$1.36 billion by 2020, a 400% increase. By 2021, mining is expected to contribute 4% to GDP. As projects in various stages of exploration enter production, this share is expected to increase to 10%. However, the productivity of the mining sector is historically low and, what is more, fell 15% between 2010 and 2015.[3] This was due to weaknesses in the institutional management, administration, and transparency of mining operation contracts, outdated mining registers, weak regulation of artisanal mining, scarce sector control and monitoring instruments, and other factors. PriceWaterhouseCoopers (2019). Situational analysis report for MERNNR.

cover the cost of layoffs, so the mandate could not be fully satisfied.[8] In the specific case of the Public Contracting Service (SERCOP), despite the recent innovations introduced in some of its processes, there is still much room to strengthen the institution and its contribution to enhancing the productivity and competitiveness of government suppliers, particularly by heightening competition among them. Competitive markets force local companies to innovate and acquire the latest technologies, in order to compete with the best international firms.[13] Although public procurement and contracting accounts for close to 16% of GDP, the limited competition in competitive bidding processes discourages the development of quality and productivity in the productive sector. Even though SERCOP has made efforts to reduce the use of the special sole-sourcing process by 17%, 73% of public procurement processes still have a single participant, which in 2013-2017 accounted for 47% of the amount contracted by the government. This is due to the complex documentation requirements for bid submission in low-complexity procurement processes, payment delays, and other factors that discourage bidders from participating.[14]

1.11 Institutional weaknesses are also noted in the management of public assets, which are used by economic actors in the productive process and affect their contribution to TFP.[15] Even in advanced economies, governments often underinvest in infrastructure maintenance, accumulating so-called “deferred maintenance,” which leads to a premature decline in the condition of assets, higher future repair and replacement costs, and higher costs for users. This is reflected in the sharp drop in investment in public asset maintenance in Ecuador from 7.6% in 2009 to 2.5% in 2016 under the Annual Investment Plan, whereas in other countries, such as Canada, this number is close to 20%.[16] A measurement of the maturity of the public asset management system, carried out by the National Public Administration Department (SNAP), considering the dimensions of standard ISO 55000, Asset Management—i.e., governance and institutional structure, policy and regulation, records and information, and management of an asset’s life cycle (planning, operation, control, and evaluation)—found that the weighted value at the level of central government institutions was just 30.36%.[17] This measurement revealed that: (i) 87% of entities do not have sustainability and maintenance plans for their assets; (ii) 68% do not have established maintenance processes for service delivery infrastructure, there are no asset valuation criteria, and only half of institutions perform maintenance activities; and (iii) information on assets is recorded only partially in some scattered systems, and there is no information on assets such as road and connectivity infrastructure.

1.12 **Fragmentation and weaknesses in service delivery to businesses and citizens, leading to high transaction costs for users.** Businesses face excessive, complex, and costly bureaucratic processes associated with the life cycle of productive activities.[18] Obtaining a building permit requires the completion of 17 procedures and takes an average of 132 days, whereas closing a business takes an average of 5.3 years (the regional average is 2.8 years) and costs 18% of assets. This puts the country in a very unfavorable position relative to other economies. According to the 2019 Doing Business report, Ecuador ranks 113th out of 190 countries in dealing with construction permits and 158th in resolving insolvency.[19]

[8] Studies conducted for these functions show staff redundancies in some positions, for which the government has promoted a voluntary separation campaign.

1.13 In addition to these inefficiencies, there is significant fragmentation in service delivery for promotion of the productive sector,[9] which makes them difficult to access. The process for closing a business, as described above, involves satisfying multiple complex requirements of different public and private institutions that do not interoperate. In some cases, this must be done in person, in others, by accessing several different websites, and in still others, through a combination of the two.[10] Other processes, such as obtaining a tourist registration, involve several public entities from different levels of government (the municipio with three separate processes, Ministry of the Interior, Agency for Health Regulation, Control, and Surveillance, Ministry of the Environment, etc.), which represents a heavy burden for business owners.[11] Dealing with construction permits is even more complex because in addition to being a procedure in high demand (337,171 permits nationally every year), the requirements are costly and complicated and must be completed in person, the applicant must go to the entity multiple times, and the procedures and requirements differ in each municipio. The combination of these factors is reflected in the low score given by citizens for the quality of services provided by the State. On a scale from 1 to 10, that score was just 6.94 in 2014, falling to 6.66 in 2017.[20]

1.14 **Rationale.** The Government of Ecuador has requested a continuation of the technical and financial support that the Bank has been providing to the country, to expand and scale up interventions in business innovation, technological security, hardware, and institutional reforms, which will help strengthen the institutional structure for an improved business climate. This request is part of an effort that the Bank has already made with the Public Administration Institutional Reform Program (loan 2653/OC-EC) and Program to Improve Public Service Quality (loan 3073/OC-EC), and other Bank-financed interventions in support of activities to improve government services to citizens and businesses, such as the simplification of more than 45 bureaucratic processes, digitalization of 10 services, strengthening of interoperability among national government entities, improvement of virtual, in-person, and telephone channels for service delivery, improvements in the management of various public institutions, training and international forums, and the exchange of experiences for better public services and regulations.

1.15 **Internal and external validity of interventions.** The literature on the effectiveness of interventions in administrative streamlining and service improvement provides ample evidence of the different benefits and conditions necessary for effective implementation. The “Chile Atiende” Public Management and Citizen Services Improvement Program (loan 3298/OC-CH), with its multichannel focus, has generated savings of: (i) approximately US$17.5 million in 2014 on the cost of public transportation fares, labor productivity, and the alternative cost of time; (ii) 2,165,000 hours in waiting time; and (iii) 4,167,000 trips in 2014. In Spain, a 2013 study by the Ministry of Finance and Public Administration quantified savings of 16.602 billion euro as a result of

[9] There are approximately 130 entities providing services to the productive sector, doing so through multiple channels that are not coordinated.

[10] For a procedure of this kind, a business operator must deal with at least one notary, Commercial Registry, Superintendency of Companies, SERCOP, Internal Revenue Service, Ecuadorian Social Security Institute, and National Customs Service.

[11] Furthermore, the number of requirements is high (up to 15 requirements for just one of these procedures) with some repetition of requirements at each entity (identity card, voter identification card, copy of accountant’s taxpayer identification number (RUC), copy of utility bill, etc.).

implementation of a law that made electronic services a civil right.[21] A study by Ecuador's National Planning and Development Department (SENPLADES) [22] assessed the economic impact of Ecuador's National Paperwork Reduction Plan in 2015 and 2016 using the standard costing methodology and found that streamlining as few as 43 bureaucratic processes generated savings of 0.23% of the State General Budget and 0.07% of GDP. The study made a number of recommendations, reflected in this project, including that the processes to be streamlined should be prioritized taking into account the direct benefits to users (reduction in costs, time, requirements), that technical standards should be established to guide entities in their streamlining efforts, and that improvement strategies should go beyond the mere digitalization of processes. There is also ample international evidence of the benefits of putting in place Executive Boards for the Removal of Obstacles (MEROs)[12] and tools to promote innovation. Peru has instituted MEROs as a mechanism for removing obstacles to productivity growth, job creation capacity, and business expansion based on strengthening private-private, public-private, and public-public coordination, which identifies and eliminates bottlenecks affecting a sector's productivity.[13] Uruguay's experience is enlightening as concerns the promotion of entrepreneurship and productive innovations, and with the establishment of the National Industrial Innovation Agency, which covers science, entrepreneurship, and innovation, the country has made substantial progress in this regard.

1.16 **Complementarity with other Bank operations.** This operation complements the full range of Bank actions to fully support Ecuador in addressing fiscal challenges (see paragraph 1.3). These include the Emergency Program for Macroeconomic Sustainability and Prosperity (loan 4771/OC-EC); a policy-based loan for the Program to Support Improved Fiscal Management and Productive Development (loan 4825/OC-EC), which will support the policy and institutional aspects of structural reforms being implemented in the area of fiscal management; the National Investment Attraction and Facilitation System (loan 4754/OC-EC), which will support reduction of the time, costs, and number of bureaucratic processes required to start a business through first invoicing, particularly by building on and supplementing the facilitation of processes after first invoicing under this operation; and the State-owned Enterprise Reform Support Program with the ultimate goal of reducing the tax burden for the State arising from its ownership of inefficient state-owned enterprises.

1.17 **The Bank's experience in the country and the region.** The Bank has extensive experience in developing and implementing similar institutional strengthening projects in Ecuador and the region, aimed at reducing the high transaction costs for businesses and citizens to access public goods and services, as well as in enhancing business environments, including: Project to Improve and Expand Support Services for National Service Delivery to Citizens and Enterprises (loan 4399/OC-PE); Program to Improve Public Service Quality (loan 3073/OC-EC); Digital Agenda Support Program (loan 4650/OC-PR); and Productive Paraguay: Transparency and Financing (loan 4401/OC-PR).

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[12] MEROs are a coordination instrument aimed at resolving problems in economic sectors, industrial clusters, value chains, or entrepreneurship groups. Each board can have representatives from public agencies, academia, the private sector, and civil society.

[13] As a result, shrimp exports to China increased, once a series of obstacles were removed, and changes were made to access the Port of Callao.

Consideration is also given to the recommendations of the Country Program Evaluation 2012-2017, conducted by the Office of Evaluation and Oversight (OVE), to find avenues to support private-sector development in areas that increase competitiveness and boost productive diversification processes.

1.18 **Lessons learned.** Improved services have been found to significantly reduce transaction costs for businesses and citizens. The modernization of existing approaches requires a service delivery model that replaces the traditional program-centered approach with a user-centered approach. An approach centered on the user (citizen/enterprise) is the most effective way of ensuring alignment among participating organizations whose collaboration is necessary. These alignments must be strengthened at the policy and bureaucracy level with performance metrics and shared and coordinated budgets, while instilling a culture of service excellence in employees. The value proposition for modernizing public services is clear: a steady focus on the user will lead the way.[23] Public-private dialogue has also proven to be key to prioritizing, promoting, and following through on the implementation of reforms to support competitiveness. The creation of a Competitiveness and Entrepreneurship Committee (CCE) and sector coordination bodies to support productive development reforms included in this program are a step in that direction.

1.19 The Bank's experience in Ecuador with the National Paperwork Reduction Plan led to four recommendations applied in this project: (i) align the streamlining program with the government's strategic priorities and give it a strong governance structure (that includes participation of the private sector and civil society); (ii) create indicators geared more toward the citizen/business experience and less toward administrative efficiency; (iii) promote better coordination in technological and human resource management to achieve greater economies of scale and prevent duplication; and (iv) promote sustainability through ongoing attention to simplification indicators, creation of incentives for provider institutions, creation of support tools for institutions, and continuous disclosure of results achieved.

1.20 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the development challenge of productivity and innovation by seeking to narrow the gap with other economies and introduce technological innovations in productive sectors through WEF competitiveness index indicators; with the crosscutting theme of institutional capacity and rule of law by supporting the strengthening of sectors related to business environments and the promotion of good practices in transparency, regulation, and social participation through burden of government regulation indicators; and with the crosscutting theme of climate change and environmental sustainability, as 15.88% of the operation's resources are invested in climate change mitigation activities, according to the joint methodology of the multilateral development banks for tracking climate finance. These resources contribute to the IDB Group goal of increasing the financing of climate change-related projects to 30% of approvals by end-2020. Specific investment in the streamlining and digitalization of processes is projected to eliminate 5.28 million transactions completed in person, since they will be completed digitally. This entails a reduction in greenhouse gas emissions, when digital transactions replace trips to government offices in private vehicles. The project's investment in streamlining and digitalization is expected to avert emissions of an estimated 5.137 tCO_2 per year.[14]

1.21 The program is aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6) by contributing to increase the "number of government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery" and the "number of business environment reforms enacted" as well as the indicator for "countries that use fiduciary country systems." The program is consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8) and aligned with the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2). The program is also aligned with the IDB Group Country Strategy with Ecuador 2018-2021 (document GN-2924), the priority area of productivity and private-sector development, and the strategic objective to "boost the contribution of private investment and productivity to economic growth" by improving the investment climate. Lastly, the operation is included in the Update to Annex III of the 2019 Operational Program Report (document GN-2948-2).

B. Objectives, components, and cost

1.22 **Program objective.** To contribute to improving the country's competitiveness by strengthening the institutions that influence the business environment and productivity, specifically by improving: (i) governance for competitiveness and innovation; (ii) regulatory quality and transparency of the business environment; (iii) management of public assets and entities that support competitiveness; and (iv) service delivery to enterprises and citizens.

1.23 **Component 1. Strengthening of governance for competitiveness and innovation (IDB: US$8.9 million; Local: US$1 million).** The objective of this component is to strengthen the mechanisms for dialogue and coordination between the public and private sectors and to improve innovation and productivity in priority strategic productive areas and sectors. This component will provide support for: (i) implementation of the Competitiveness and Entrepreneurship Committee (CCE),[15] including key specialists from the technical secretariat team,[16] consulting services, and actions related to the design and validation of the National Competitiveness Agenda for Sustainable Development, as well as technical assistance and specialized consulting services to support implementation of the reforms included in the agenda for strategic productive sectors prioritized by the CCE, and the criteria to be followed; (ii) creation of at least five Executive Boards

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[14] See assumptions and calculation method in optional link 5.

[15] The CCE's role would include approving the competitiveness agenda and coordinating between public and private actors for the development of policy proposals, programs, and national, crosscutting, sector, intersector, and interagency projects focused on entrepreneurship, innovation, and competitiveness. The National Department of Higher Education, Science, Technology, and Innovation (SENESCYT) and the Ministry for the Coordination of Production, Employment, and Competitiveness (MCPEC) will be CCE members with speaking and voting rights. The Competitiveness Agenda will include innovation as a strategic area, so the CCE and the promoted reforms are expected to have a positive impact on strengthening the National Innovation System (SIN).

[16] Bank financing for the CCE team will decrease in percentage terms over the course of project execution.

for the Removal of Obstacles (MEROs)[17] as spaces for public-private interaction, where parties identify and resolve obstacles to productive growth and development identified as key constraints for each strategic area and, at the same time, channel specific and targeted support to enterprises.[18] The program will finance: (a) the MERO technical team; (b) the development of strategic plans for each MERO; and (c) technical assistance and specialized consulting services to support the implementation of reforms identified in the MEROs;[19] and (iii) instruments to support innovation and entrepreneurship, which will include competitive grant funding for business innovation projects and technology missions, seed capital for new ventures, strengthening of business incubators and accelerators (intermediate agents in the ecosystem), and digital talent and innovation training;[20] as well as consulting services to support project technical evaluation and selection, baseline surveys, and the evaluation of results and impacts, along with administrative and legal support for project execution. The eligibility criteria for the competitive funds and other important matters are described in the program Operating Regulations.

1.24 **Component 2. Improvement of regulatory quality and transparency of the business environment (IDB: US$4.0 million; Local: US$0.5 million).** The objective of this component is to strengthen the institutional mechanisms supporting regulatory quality and transparency of the business environment. This component will finance activities to support: (i) the development and implementation of regulatory improvement instruments spanning the full regulatory policy cycle, such as the design and implementation of a governance model, a management model, and support tools for managing the flow of regulations, the development of administrative cost methodologies and measurements[21] and ex post evaluations of the regulatory stock in priority sectors, and regulatory management capacity-building in decentralized autonomous governments; and (ii) the strengthening of transparency in public-private relations through adherence to voluntary standards such as certification of the relevant entity under standard ISO 37001, Antibribery Management Systems,[22] redesign of the open data portal

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[17] MEROs will be created and disbanded by the CCE based on: (i) the potential impact on the country's competitiveness and productivity; (ii) preference for activities involving the export of high-value-added products; (iii) technology-intensive activities; (iv) fostering of economic and social inclusion; and (v) contribution to the management of adverse situations (such as pests, natural disasters, etc.). The operation will build on efforts to promote investment in priority sectors under operation 4754/OC-EC.

[18] The government has tentatively identified construction as a priority sector for a MERO. The construction sector has contributed an average of 9.5% to GDP and 7.3% to formal employment over the past five years [24] and is experiencing serious productivity lags [25]. The aim would be to improve the sector's productivity through digitalization by adopting the building information modeling methodology.

[19] Includes activities such as awareness-raising, dissemination, knowledge generation and sharing, technical assistance for testing and launching policy instruments and actions, and specialized consulting services.

[20] All instruments will have a private-sector counterpart ranging from 50% to 70% of the total amount of each project, and subsidy amounts ranging from US$15,000, in the case of technology missions, to US$150,000, for projects to strengthen accelerators. The project selection criteria will include technical and innovative merit and business potential of submitted projects, and beneficiaries will include businesses, entrepreneurs, and innovation ecosystem operators.

[21] The methodology will apply to 100 administrative processes to be streamlined under Component 4.

[22] The certification is valid for three years. The Anticorruption Secretariat of the Presidency of the Republic is implementing anticorruption management committees within each of the different national government entities. One of its functions is to oversee implementation of the standard. Six committees have already been established, with the goal of reaching 22 state-owned enterprises. SGP report, 2019. Priorities will be set by the Secretariat.

and expansion of the number of databases published there, development and implementation of an innovation laboratory for the improvement of public services, development of a georeferenced platform for investment in public works (including training on its use), and preparation of technical reports to support transparency in the extractive industries and Ecuador's adherence to the Standard for Transparency in the Extractive Sector.

1.25 **Component 3. Strengthening of management of public assets and entities that support competitiveness (IDB: US$17.7 million; Local: US$2.1 million).** The objective of this component is to improve the management of government entities, processes, and assets that contribute to the productivity of the private sector, particularly the Ministry of Energy and Nonrenewable Natural Resources (MERNNR), Ministry of Production, Foreign Trade, Investment, and Fisheries (MPCEIP), and Public Contracting Service (SERCOP). This component will finance: (i) technical assistance to the Ministry of Economy and Finance (MEF) to support the development of a comprehensive strategy to improve MSME access to finance and sustainability; and (ii) the implementation of Institutional Reform Investment Plans (PIRIs) with the following objectives: (a) capacity-building for the management of public assets, including their monitoring and control, to maximize their contribution to TFP, such as the inventory of productive assets of the State, technological tools for managing assets critical to competitiveness, and assistance in developing new asset use management and control models;[23] and (b) rationalization and management instruments for public agencies that set policies and provide services to the productive sector,[24] such as the development of new management models, change management plans, and human talent information and optimization systems, considering severance payments for the dismissal of civil servants[25] through mandatory retirement, voluntary retirement, voluntary resignation; and (d) buyouts.[26]

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[23] INMOBILIAR and the CGE will formulate and implement PIRIs contributing to proper asset management, in order to maximize return on public goods and help institutions better meet the needs of enterprises and citizens.

[24] Financing will be provided within the MERNNR, in support of the mining sector, for technical assistance for: (i) the appropriate and transparent administration of mining operation contracts; (ii) the clean-up of the mining register; (iii) the regulation and strengthening of artisanal miners; and (iv) sector control and monitoring instruments. At the MPCEIP, financing will be provided for the analysis, improvement, and automation of competitiveness support processes. At the SERCOP, financing will be dedicated to activities that improve competition in public contracting, such as the implementation of the electronic procurement system, which will facilitate access to opportunities and the presentation of tenders to suppliers, improve the management of suppliers and their payments, and automatically identify price variances, among others.

[25] Support is planned for separation payments for 82 employees.

[26] These will have to meet the eligibility and other requirements established for that purpose in the program Operating Regulations. These modalities are backed by the current legal framework, and new standards for this process need not be created. Compensation of up to US$47,700 is planned for each public servant who leaves the public service, proportional to the years of service (calculated based on Article 129 of the Organic Public Service Law: five basic unified salaries for each year of service staring from year 5, up to 150 basic salaries).

1.26 **Component 4. Improvement of service delivery to enterprises and citizens (IDB: US$8.8 million; Local: US$1.0 million).** The objective of this component is to reduce transaction costs for public service users. This component will finance activities to support: (i) streamlining and digitalization of processes related to the business environment;[27] (ii) strengthening of the government online services portal[28] (general architecture, accessibility, new Web services, online payment, mobile app, and adaptation of tools for shift assignment, process flow automation, and process tracking), as well as its processing capacity; (iii) technological strengthening and upgrading of the interoperability platform, together with the corresponding training; and (iv) design and implementation of an integrated service delivery model, such as the development of a conceptual framework, an implementation and communication strategy for the public and private sectors and citizens, a system for managing service quality and improvements to physical premises, and training required to launch the model.

1.27 **Program administration.** The program includes an estimated US$2.9 million in administration costs, with US$2.4 million of that amount for program management, and US$500,000 for monitoring, evaluation, and audit (see Table 1).

C. Key results indicators

1.28 **Expected outcomes.** The program's expected impact will be an increase in the country's competitiveness, measured by the Global Competitiveness Index, as a consequence of the following outcomes: (i) strengthening of dialogue mechanisms between and within the public and private sectors, which will promote an increase in investments in innovation and fulfillment of MERO commitments, and a higher satisfaction level of MERO trade union representatives; (ii) improvement in the regulatory governance cycle derived from public consultations prior to their approval; (iii) greater efficiency in the management of public services and assets associated with a decrease in public procurement processes with a single vendor and the implementation of good practices for the management of public assets; and (iv) reduction in transaction costs for businesses and citizens, enabling more timely decommissioning of firms at risk, lower costs for business procedures, technological modernization of government agencies, and a substantial increase in transactions performed through the single portal.

1.29 **Economic analysis.** Considering a social discount rate of 12% and a five-year evaluation horizon, the project yields a net present value of US$24.7 million, an internal rate of return of 53.1%, and a cost-benefit ratio of 0.84 (see spreadsheet). The benefits were assessed based on two effects of the project: (i) economic efficiency gains and cost savings for the government through lower prices awarded in procurement from greater competition in bidding processes; and (ii) volume of savings for businesses through lower transaction costs from the streamlining of bureaucratic procedures by public agencies. These savings were quantified economically as workers' daily wage costs multiplied by the time spent travelling to agency offices in order to complete paperwork, plus the corresponding transportation costs. The results were sensitized for the following variables: (i) the magnitude of price reductions resulting from increased competition among bidders in competitive bidding processes; (ii) the extent of use of bureaucratic processes; (iii) the magnitude of the reduction in the average number of steps in

[27] There will be 100 processes, 65 of which were deemed priority by the SGP.

[28] Called the "Master Registry of Procedures and Regulations (RUTER)" Platform.

the streamlined processes; and (iv) the cost of daily wages for the employer. Based on the sensitivity analysis, the project yields a positive return even with values for sensitized key variables on the order of 30% to 40% lower than the value used in the base case scenario.

1.30 **Beneficiaries.** The direct beneficiaries will be Ecuadorian businesses, which will have access to better public services and simplified procedures, translating into transactional savings, and the government, which will be able to conduct procurement at lower costs, together creating a more competitive environment for the country. Additionally, the subexecuting agencies and those agencies supported by the program that will have the latest technology for delivery of their services will have training for their staff, as well as organizational structures and redesigned processes enabling them to effectively discharge their legal mandates. Indirectly, the program will benefit citizens through access to better quality and more diverse products and services, and potentially better employment opportunities.

II. Financing Structure and Main Risks

A. Financing instruments

2.1 This operation is structured under the specific investment loan modality for a total amount of US$47.04 million. Of that amount, US$42 million will be drawn from the Bank's Ordinary Capital, and US$5.04 million from the local contribution. Table 1 shows the consolidated budget by component, which is broken down in the itemized budget. The five-year execution period (Table 2) is based on experience with institutional reforms that require medium-term support from the Bank to become entrenched, and on the project's critical path resulting from the necessary implementation sequence for Component 1 activities.

Table 1. Estimated program costs (in US$000s)

Component	IDB	Local	Total	%
Component 1. Strengthening of governance for competitiveness and innovation	8,883	1,066	9,949	21.2
Component 2. Improvement of regulatory quality and transparency of the business environment	4,000	480	4,480	9.5
Component 3. Strengthening of management of public assets and entities that support competitiveness	17,700	2,124	19,824	42.1
Component 4. Improvement of service delivery to enterprises and citizens	8,825	1,059	9,884	21.0
Project administration	2,592	311	2,903	6.2
Management teams	2,112	253	2,365	5.03
Audits	300	36	336	0.71
Midterm and final evaluations, and ex post cost-benefit analysis	180	22	202	0.43
Total	**42,000**	**5,040**	**47,040**	**100**

Table 2. Tentative disbursement schedule (in US$000s)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	2,409	4,619	13,650	12,094	9,226	**42,000**
Local	289	285	1,906	1,451	1,107	**5,040**
Total	2,698	4,904	15,557	13,546	10,333	**47,040**
%	6%	10%	33%	29%	22%	**100%**

B. Environmental and social safeguard risks

2.2 The operation was classified as category "C" under Directive B.3 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703). The operation is not expected to finance civil works or infrastructure beyond small repairs and remodeling of existing office buildings. The minor work will be performed mainly on existing construction sites, so no adverse environmental or social impacts are expected.

C. Other key risks and issues

2.3 **Public management and governance.** Four medium risks were identified: (i) reluctance by public agencies and businesses to participate in Executive Boards for the Removal of Obstacles (MEROs) and the Competitiveness and Entrepreneurship Committee (CCE). Mitigation measures will be: (a) guidelines issued by the President's Office on the obligation to contribute to the initiatives; and (b) a decree establishing the CCE; (ii) reluctance by agencies to provide services in a consolidated manner. Mitigation measures will be raising awareness, through the communication strategy, of the economic benefits and quality gains to be had from the use of shared services; (iii) difficulties with interagency coordination and coordination between the executing agency, subexecuting agencies, and the different beneficiaries. Mitigation measures are expected to be interagency framework and specific agreements to ensure interagency cooperation with beneficiary entities and responsibilities related to contracting and the transfer of goods and services to be contracted; and (iv) project implementation delays due to limitations in the State's ability to manage investment projects as a consequence of the complexity of the contracting and budgetary execution processes established as generally applicable national polices for the execution of public investments. Mitigation measures are expected to be: (a) strengthening of the management team, particularly the procurement specialist, with training on the use of Bank policies and technical assistance; (b) incorporation of the monitoring responsibilities to obtain budget requirements into the program Operating Regulations; (c) management teams dedicated to program execution at the Ministry of Economy and Finance (MEF), the Office of the Vice President of the Republic (VPR), and the General Secretariat of the Presidency (SGP), including a financial manager and a procurement manager; and (d) strengthening of the management team to prepare quality terms of reference in a timely manner, initiate procurement processes, and assure quality in the expected outcomes of the contracting processes.

2.4 **Sustainability.** The sustainability risk stemming from a potential waning of commitment on the part of the executing agency or a shift in priorities due to changes of authorities or staff turnover is regarded as medium. To mitigate this risk, a communications plan targeting the public and private sectors and citizens will be prepared to raise awareness of the program objectives, scope, structure, and status, and changes to the management teams will be subject to the Bank's prior no objection. In addition, the percentage of CCE Technical Secretariat funding called for in the program will decrease gradually (see paragraph 1.23). It should also be noted that the program activities are an integral part of the country's main planning instruments (see paragraph 1.5) and are complemented by other Bank-financed programs in Ecuador (see paragraph 1.16), which also contributes to mitigation of the risk.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 **Execution mechanism.** The borrower will be the Republic of Ecuador, and the executing agency and official counterpart for the program will be the Ministry of Economy and Finance (MEF), an entity with sufficient experience and technical and administrative capacity to deliver the program, with the General Secretariat of the Presidency (SGP)[29] and Office of the Vice President of the Republic (VPR)[30] acting as subexecuting agencies. The MEF has been the executing agency for operations 2653/OC-EC and 4364/OC-EC, which share similar features with this operation.[31] The SGP and MEF are coexecuting agencies of current program 3073/OC-EC. An institutional capacity assessment was performed for the VPR, since this is its first project with the Bank (optional link 2), which identified a need for strengthening of its fiduciary area. The MEF will be responsible for executing Component 3, whereas the VPR will execute Component 1, and the SGP will execute Components 2 and 4, as the subexecuting agencies. Moreover, the MEF will be responsible for consolidating and delivering progress and disbursement reports, contracting evaluations and audits, and ensuring fulfillment of the special contractual conditions precedent to first disbursement of the loan proceeds. For management purposes, the executing agency and the subexecuting agencies will create separate management teams to ensure that they are devoted exclusively and full-time to execution of the program. The management teams will be made up of professionals with experience in executing this type of program.

3.2 **Program strategic coordination.** Program strategic coordination will occur under the new Competitiveness and Entrepreneurship Committee (CCE) (see paragraph 1.23), which will be chaired by the VPR with membership including the SGP, MEF, Ministry of Production, Foreign Trade, Investment, and Fisheries (MPCEIP), National Department of Higher Education, Science, Technology, and Innovation (SENESCYT), and other entities. Institutional coordination with the private sector will be conducted strategically with a long-term vision through the participation of private representatives on the advisory committee created alongside the new CCE. At the sector level, private representatives will be invited to join the various Executive Boards for the Removal of Obstacles (MEROs), which will have more of a short-term focus geared toward resolving particular obstacles of a specific sector.

3.3 **Role of the management teams and operational coordination mechanism.** The management team at the MEF, as executing agency, will have a coordinator and a support team with the following responsibilities: (i) liaising with the Bank on general program issues; (ii) administering the program resources, including the processing of disbursement requests and preparation of reports on resource use; (iii) preparing and delivering to the Bank (following approval by the Minister of

[29] Executive Decrees 5 and 7 of 24 May 2017 made the SGP the apex agency for the streamlining of bureaucratic processes and e-government. For the institutional capacity analysis, see optional link 2.

[30] According to the VPR Rules for Process-based Organizational Management, issued under Order 001-2018, one of the VPR's mandates is to "advance the process of recovery and revitalization of productive activity and employment." To fulfill that mandate, it has authority for "implementation of the corresponding intersector policies, plans, programs, projects, and actions."

[31] These projects have supported institution-strengthening, technological modernization, layoffs, and other activities.

Economy and Finance, or the authority designated by the minister and the authorities designated by the VPR and SGP) the six-monthly program status reports, audited financial statements, midterm evaluation report, final evaluation report, and other documents specified in the program Operating Regulations; and (iv) supervising the management of environmental and social aspects of the program. It will also be responsible for planning, monitoring, and managing the procurements under Component 3. The subexecuting agencies will be required to submit all information necessary for completion of the above to the MEF in a timely manner, as well as provide strategic direction, plan, monitor, manage, and report on the use of financial resources and conduct competitive bidding, contracting, and technical and fiduciary management for goods, works, and nonconsulting and consulting services for the components under their responsibility. Each subexecuting agency will thus be directly responsible for administering the loan proceeds transferred to them, including the preparation of the TORs for procurement and contracting, as well as for administrative processes to ensure that such procurement and contracting are conducted in strict compliance with the relevant Bank policies, and the delivery of all required documentation to the Bank for its no objection. Each subexecuting agency will have one coordinator on its management team responsible for: (i) liaising with the executing agency to consolidate the general program documents to be sent to the Bank; and (ii) liaising with the IDB for issuing no objections related to its contracting and procurement. The executing agency and subexecuting agencies will meet monthly to jointly review the progress made in program activities and take action to resolve obstacles to execution. The program Operating Requirements will describe the duties, responsibilities, and membership of the management teams, as well as the specifics of the interagency agreements.

3.4 **Interagency agreements.** Since the program involves a series of activities with public entities other than the executing agency and subexecuting agencies as the main responsible parties and beneficiaries,[32] interagency agreements will establish the terms for cooperation, including preparation of the terms of reference and technical specifications for the goods and services to be procured, their transfer to beneficiary entities, and the responsibilities of each participating entity. The program Operating Regulations will include a framework agreement that the beneficiary entities are expected to adopt to start implementation.

3.5 **Procurement of works, goods, and nonconsulting and consulting services.** Procurements financed in whole or in part with Bank resources will be conducted in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The Procurement Plan lists the procurements to be implemented during execution, as well as the procurement review procedures to be applied by the Bank.

3.6 **Financial management and audit.** Financial management will follow the Financial Management Guidelines for IDB-financed Projects (document OP-273-12), and the MEF will be responsible for integrating information with the SGP and VPR, as well as for managing disbursements. Advances of funds will cover resource requirements for up to 180 days. Direct payments to vendors and reimbursements

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[32] These agencies are the MPCEIP, SERCOP, MERNNR (see paragraph 1.25), and the Ministry of Telecommunications and Information Society (MINTEL) (see paragraph 1.26).

of expenditures incurred may also be arranged at the borrower's request. Audited annual financial statements will be requested within 120 days following the close of each fiscal year or the final disbursement deadline, once execution is complete. In the case of separations, audited reports will be requested in accordance with the terms previously agreed upon with the Bank. The audited reports on separations will be appended to the supporting documentation for advances or reimbursements of payments made, where such payments are included.

3.7 **Special contractual conditions precedent to first disbursement of the loan. As a condition precedent to the first disbursement of the loan, the executing agency will provide evidence, to the Bank's satisfaction, of compliance with the requirement that the program Operating Regulations have been approved and entered into effect on terms previously agreed upon with the Bank. In addition to the above, as a special condition precedent to the first disbursement of the proceeds for the corresponding component: (i) the executing agency and the corresponding subexecuting agencies have appointed a management team for each respective component, based on the job descriptions and terms of reference (TOR) included in the program Operating Regulations; and (ii) the executing agency has signed an agreement with the VPR and the SGP, setting out, among other things, the obligations of the parties in program execution and how the proceeds are to be transferred.** The general condition is justified, because the program Operating Regulations will establish: (i) the structure and duties of the management teams (comprising at least a coordinator and finance, procurement, and monitoring specialists); (ii) the program activities under the responsibility of the subexecuting agencies; (iii) the mechanism for coordination between the executing agency and subexecuting agencies; and (iv) the eligibility criteria for separations; all of which are required for efficient execution of program resources. The special conditions precedent to the first disbursement of the proceeds for each component are justified because: (i) the designation of the MEF, VPR, and SGP management teams, in accordance with the job descriptions and TOR included in the program Operating Regulations, is an essential condition to ensure an efficient start to program execution; and (ii) these entities will execute and administer the resources, all program activities must be coordinated by the MEF, and each subexecuting agency responds, executes, and administers the resources as established in the loan contract.

3.8 **Retroactive financing and recognition of eligible expenditures.** The Bank may retroactively finance, against the loan proceeds, up to US$8.4 million (20% of the proposed loan amount), and recognize, against the local contribution, up to US$1,008,000 (20% of the estimated local contribution), in eligible expenditures incurred by the borrower prior to the loan approval date on technical assistance for implementation of the activities under the various components, such as hiring key specialists for the establishment of the CCE and MERO, etc., provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after the project profile approval date (25 July 2019), but will under no circumstances include expenditures incurred more than 18 months prior to the loan approval date.

B. Summary of arrangements for monitoring results

3.9 **Monitoring and supervision system.** The outcome and output indicators described for each component in the Results Matrix and reflected in the program monitoring report (PMR) will be used to measure program progress and evaluate the achievement of the program objectives. The executing agency will be responsible for maintaining the systems for gathering and tracking data. The annual work plan (AWP) will include: (i) an estimated budget; (ii) an updated procurement plan; (iii) the Results Matrix indicators; (iv) planned activities; and (v) an execution schedule. The executing agency will also deliver six-monthly status reports within 60 days after the end of every six-month period. The program monitoring instruments are described in the monitoring and evaluation plan.

3.10 **Supervision by the Bank.** Administration missions and inspection visits will be conducted. The Bank agrees that the executing agency will use the PMR, which reflects disbursement estimates and the achievement of physical targets and outcomes. The executing agency and the Bank will meet annually to discuss: (i) the progress of activities identified in the AWP; (ii) the level of fulfillment of the indicators established in the Results Matrix; (iii) the AWP for the following year; and (iv) the procurement plan for the next 12 months, as well as potential changes to budget allocations by component. The executing agency undertakes to maintain a monitoring and evaluation system for all the components, on the basis of which it will prepare the reports and data for delivery to the Bank. The executing agency will have a specialist tasked with planning and monitoring its activities.

3.11 **Evaluation.** The project will be evaluated using the Results Matrix and this monitoring and evaluation plan, which includes the preparation of the project completion report (PCR). Midterm and final evaluations and an impact assessment covering technical, administrative, and financial aspects, as well as an ex post cost-benefit analysis, are planned as part of the project. The midterm evaluation will be conducted once at least 40% of the loan proceeds have been disbursed, or two years after the effective date of the Loan Contract, whichever occurs first. The final evaluation will be conducted once at least 90% of the loan proceeds have been disbursed. The objective of the final evaluation will be to determine the progress made in meeting the targets set for each expected outcome and in generating the outputs for each component. The impact assessment will focus on the streamlining of bureaucratic processes for the closing of businesses and will begin as of the last month of program execution or the last disbursement. An ex post cost-benefit analysis is also planned, to determine the scope of the results achieved. All of the evaluations and the cost-benefit analysis will cover the activities under MEF responsibility, as well as the responsibility of the VPR and SGP. Additionally, the evaluation of outcomes and impacts of the innovation and entrepreneurship support actions under Component 1 (paragraph 1.23(iii)) will also be performed, as described in the program Operating Regulations.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	**Yes**	
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law**	
Country Development Results Indicators	**-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Countries that use fiduciary country systems (#)* -Business environment reforms enacted (#)***	
2. Country Development Objectives	**Yes**	
Country Strategy Results Matrix	**GN-2924**	**Boost the contribution of private investment and productivity to economic growth.**
Country Program Results Matrix	**GN-2948-2**	**The intervention is included in the 2019 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**7.9**	
3.1 Program Diagnosis	**2.4**	
3.2 Proposed Interventions or Solutions	**4.0**	
3.3 Results Matrix Quality	**1.5**	
4. Ex ante Economic Analysis	**9.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**3.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**0.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**10.0**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**7.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation	**Yes**	
Environmental & social risk classification	**C**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**EC-T1418 (ATN/OC-17361-EC)**

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

The general objective of the project is to contribute to improving the competitiveness of Ecuador, for which four specific objectives are proposed: (i) improve governance for competitiveness and innovation, (ii) improve the regulatory quality and transparency of the business environment, (iii) improve the management of entities and public assets to support competitiveness and (iv) improve the delivery of services to companies.

The diagnosis presented indicates the main problem as the low competitiveness of the country. The specific problems identified are: (i) the emerging mechanisms of dialogue between the public and private sector, (ii) the low transparency and limitations presented by the regulatory framework for competitiveness, (iii) weaknesses in the management of public entities and assets that affect the performance of the companies and (iv) the high transaction costs generated by the bureaucratic procedures that affect the companies.

The project poses a set of very diverse activities to address the four specific problems identified. Consequently, the vertical logic presents limitations to connect specific products to otucomes for some of the components. For example, the specific products that will simplify the business closure process are not detailed (outcome indicator 4.1). The list of 65 procedures to simplify in a prioritized manner does not include procedures related to the closure of companies.

The results matrix presents adequate outcome indicators for specific objectives 3 and 4. However, the indicators associated with specific objectives 1 and 2 are not SMART.

The project adequately addresses the monitoring and evaluation requirements. The project presents four medium risks associated with the governance of the project. The main risk is the one associated with inter-institutional coordination between the executing agency (MEF), the two sub-executing agencies (Presidency and Vice-Presidency) and the other agencies involved, such as the MPCEIP and MERNNR. The program foresees generating framework and specific interinstitutional agreements to guarantee cooperation between entities.

RESULTS MATRIX

Project objective:	The general objective of the operation is to contribute to improving the country's competitiveness by strengthening the institutions that influence the business environment and productivity, specifically by improving: (i) governance for competitiveness and innovation; (ii) regulatory quality and transparency of the business environment; (iii) management of public assets and entities that support competitiveness; and (iv) service delivery to enterprises and citizens.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Base year	End target	Means of verification	Comments
IMPACT 1: Increase in the country's international competitiveness						
1. Global Competitiveness Index	Score	55.8	2018	62	Global Competitiveness Report produced by the WEF	See monitoring and evaluation plan

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
OUTCOME 1: Strengthening of dialogue mechanisms for competitiveness and innovation											
1.1 Increase in innovation investment / sales (relative to control group)	Percentage	1.54%	2015	1.54%	5%	10%	20%	30%	30%	Annual measurements relative to control group and enterprises served	See monitoring and evaluation plan
1.2 Percentage completion of action plan undertaken by MEROs	Percentage	0	2018	20%	30%	40%	50%	60%	60%	MERO reports	
1.3 Level of satisfaction of MERO labor union representatives	Percentage	0	2018	20%	30%	40%	50%	60%	60%	MERO customer satisfaction evaluations	

Indicators	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
OUTCOME 2: Improvement of regulatory governance cycle											
2.1 Number of public consultations prior to new regulations conducted by public entities	Number	0	2018	0	0	5	10	15	30	SGP report	See monitoring and evaluation plan
OUTCOME 3: Efficient management of public assets and services that support competitiveness											
3.1 Public procurement processes with a sole supplier	Percentage	73%	2018	73%	60%	57%	55%	50%	50%	SERCOP report	See monitoring and evaluation plan
3.2 Percentage of good practices in public asset management implemented	Percentage	30.36%	2017	30.36%	35%	40%	45%	50%	50%	SGP report	
OUTCOME 4: Reduction of transaction costs for businesses and citizens											
4.1 Businesses at risk that are deactivated in a timely manner	Percentage	22%	2018	22%	25%	35%	40%	50%	50%	Impact assessment report	See monitoring and evaluation plan
4.2 Costs per year for the user associated with carrying out business operation processes	US$	11,447,745	2016	11,447,745	10,000,000	7,000,000	6,000,000	4,800,000	4,800,000	SENPLA-DES report	
4.3 Government agencies benefited through the strengthening of their technological and management instruments to improve public services	Number	0	2018	0	2	2	2	4	10	Program monitoring report (PMR) from MEF management team	

Indicators	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
4.4 Annual transactions performed successfully through the single portal	Number	0	2018	0	0	300,000	600,000	1,200,000	2,100,000	Government of Ecuador single portal (RUTER) MINTEL	

OUTPUTS

Outputs	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1. Strengthening of governance for competitiveness and innovation											
1.1 Technical support activities for CCE implementation completed	Activities	0	2018	1	0	0	2	1	4	PMR from STCCE management team and contracting documents completed	See monitoring and evaluation plan
1.2 MEROs implemented	MEROs	0	2018	0	1	2	1	1	5	PMR from STCCE management team and contracting documents completed	
1.3 Innovation instruments implemented	Instruments	0	2018	0	1	2	1	1	5	PMR from STCCE management team, contracting documents completed, and legal documentation for the creation of instruments	
Component 2. Improvement of regulatory quality and transparency of the business environment											
2.1 Regulatory policy governance model implemented	Model	0	2018	0	0	0	1	0	1	PMR from SGP management team and contracting documents completed	See monitoring and evaluation plan
2.2 Model for managing the flow of regulations implemented	Model	0	2018	0	1	0	0	0	1	PMR from SGP management team and contracting documents completed	
2.3 Ex post evaluation of the regulatory stock in four priority sectors completed	Evaluation	0	2018	1	0	0	0	0	1	PMR from SGP management team and contracting documents completed	

Outputs	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
2.4 Regulatory management-capacity building (through knowledge transfer) with selected decentralized autonomous governments completed	Decentralized autonomous governments receiving technical assistance	0	2018	0	0	3	0	0	3	PMR from SGP management team and contracting documents completed	
2.5 Measurement of the costs of 100 administrative processes completed	Processes	0	2018	0	0	100	0	0	100	PMR from SGP management team and contracting documents completed	
2.6 Certification under standard ISO 37001, Antibribery Management Systems, implemented	Institutions	0	2018	0	3	2	0	0	5	PMR from SGP management team and ISO certifications issued	
2.7 Customization of the georeferenced platform for investment in public works implemented	Report	0	2018	1	0	0	0	0	1	PMR from SGP management team on customization activities executed and contracting documents completed	
2.8 Innovation laboratory for the improvement of public services implemented	Laboratory	0	2018	0	1	0	0	0	1	PMR from SGP management team and contracting documents completed	
2.9 Open data portal redesigned	Portal	0	2018	0	1	0	0	0	1	PMR from SGP management team and contracting documents completed	
2.10 Technical reports to promote transparency in the extractive industries produced	Reports	0	2018	0	0	1	0	0	1	PMR from SGP management team and contracting documents completed	

Outputs	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 3. Strengthening of management of public assets and entities that support competitiveness											
3.1 Strategy to improve MSME access to finance and sustainability developed	Strategy	0	2018	0	0	1	0	0	1	PMR from MEF management team and contracting documents completed	
3.2 Institutional Reform Investment Plans (PIRIs) implemented for capacity-building for the management of public assets, including their monitoring and control, to maximize their contribution to TFP	PIRIs	0	2018	0	0	0	1	1	2	PMR from MEF management team and contracting documents completed by INMOBILIAR and the CGE	See monitoring and evaluation plan
3.3 PIRIs implemented for the reorganization, rationalization, and strengthening of public agencies that provide services to the productive sector	PIRIs	0	2018	0	0	1	1	1	3	PMR from MEF management team and contracting documents completed by MPCEIP, SERCOP, and MRNNR	
Component 4. Improvement of service delivery to enterprises and citizens											
4.1 Streamlining and digitalization of processes related to the business environment completed	Processes	0	2018	10	50	20	20	0	100	PMR from SGP management team and contracting documents completed	
4.2 Strengthening of RUTER platform (government services portal) completed	Services portal	0	2018	0	0	1	0	0	1	PMR from SGP management team and contracting documents completed and transferred to MINTEL	See monitoring and evaluation plan
4.3 Strengthening of interoperability platform completed	Platform	0	2018	0	0	1	0	0	1	PMR from SGP management team and contracting documents completed and transferred to the National Data Registry Directorate	

Outputs	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
4.4 Integrated service delivery model implemented	Model	0	2018	0	0	1	0	0	1	PMR from SGP management team and contracting documents completed	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Ecuador
Project number:	EC-L1250
Project name:	Institutional Strengthening for Competitiveness Program
Executing agency:	Ministry of Economy and Finance (MEF), as executing agency, and the General Secretariat of the Presidency (SGP) and Office of the Vice President of the Republic (VPR), as subexecuting agencies
Prepared by:	Carolina Escudero and Marcela Hidrovo (FMP/CEC)

I. SUMMARY

1.1 The fiduciary agreements for program procurement and financial management reflect: (i) the fiduciary context of the country; (ii) the fiduciary risk evaluation; (iii) the execution and supervision activities of loans executed by the Ministry of Economy and Finance (MEF); (iv) the institutional capacity analysis of the MEF; and (v) the input from meetings with teams and entities involved in project execution.

II. FIDUCIARY CONTEXT OF THE COUNTRY

2.1 **Country procurement system.** Based on the Update to the Country Strategy with Ecuador 2012-2017 (document GN-2680-2), approved on 13 May 2014, the MEF, the Public Contracting Service (SERCOP), and IDB signed the "First Agreement for Use of the National Public Contracting System (SNCP) of Ecuador for IDB-financed Projects." Paragraph 3.2 of the first agreement provides for the implementation of the SNCP in seven projects and its gradual expansion. The first agreement expired on 31 December 2018. Its functioning is currently being evaluated, after which a new agreement on SNCP use will be prepared and signed.

2.2 **Financial management system.** Central government entities use the e-SIGEF financial administration system, which integrates budget, accounting, and treasury processes. Government entities are subject to control and audit by the Office of the Comptroller General of the State (CGE). In general, the country systems for financial management have an adequate level of development but need to be supplemented for the execution of IDB-financed projects in the areas of financial reports with off-balance-sheet records and external audits with IDB-eligible audit firms. The government is implementing a new system to replace e-SIGEF that is scheduled to begin operation in 2020.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

3.1 The executing agency will be the Ministry of Economy and Finance (MEF), an entity with sufficient experience and technical and administrative capacity to deliver the program, with the General Secretariat of the Presidency (SGP)[1] and Office of the Vice President of the Republic (VPR)[2] acting as subexecuting agencies. The MEF has been the executing agency for operations 2653/OC-EC and 4364/OC-EC, which share similar features with this operation.[3] The SGP and MEF are coexecuting agencies of current program 3073/OC-EC. An institutional capacity assessment was performed for the VPR, since this is its first project with the Bank (optional link 2), which identified a need for strengthening of its fiduciary area.

3.2 The MEF executes programs with IDB financing through a general coordination office for IDB programs, which supports procurement, financial management, and monitoring work. Institutional units have technical responsibility in their areas of expertise. The MEF, SGP, and VPR will create separate management teams to ensure that they are devoted exclusively and full time to execution of the program. They will have a budget allocated for this program and process procurements and payments directly through the Single Treasury Account (STA) for themselves and third-party institutions, with the relevant authorizations, if necessary. The MEF will be responsible for consolidating information for the whole program, delivering audited and unaudited reports, and processing disbursements with the IDB.

3.3 The MEF, SGP, and VPR have been using the country systems for procurements, which are posted on the public procurement portal. The MEF, as well as the SGP and VPR, are using the e-SIGEF country system for financial management. These institutions have internal control units and are subject to external control by the CGE.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

4.1 **Procurement execution.** The procurement plan will be updated at least annually through the Procurement Plan Execution System (SEPA). The program's main procurements are listed in Table 2.

a. **Procurement of works, goods, and nonconsulting services.**[4] Procurement process for works, goods, and nonconsulting services will be executed using the IDB's standard bidding documents, applying any of the methods described in policy document GN-2349-9 or subsequent version. Table 1 lists the procurement thresholds.

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[1] Executive Decrees 5 and 7 of 24 May 2017 made the SGP the apex agency for the streamlining of bureaucratic processes and e government. For the institutional capacity analysis, see optional link 2.

[2] According to the VPR Rules for Process-based Organizational Management, issued under Order 001-2018, one of the VPR's mandates is to "advance the process of recovery and revitalization of productive activity and employment." To fulfill that mandate, it has authority for "implementation of the corresponding intersector policies, plans, programs, projects, and actions."

[3] These projects have supported institution-strengthening, technological modernization, layoffs, and other activities.

[4] Policy document GN-2349-9 (paragraph 1.1): nonconsulting services are treated as goods.

b. **Selection and contracting of consultants (firms).** The selection and contracting of consulting firms will be executed using the IDB's standard request for proposals, applying any of the methods described in policy document GN-2349-9[5] or subsequent version. Table 1 lists the contracting thresholds.

c. **Selection of individual consultants.** The selection and contracting of individual consultants will apply the provisions of the Policies for the Selection and Contracting of Consultants (document GN-2350-9), Section V (paragraphs 5.1 to 5.4).

d. **Use of the country procurement system.** Use of the National Public Contracting System (SNCP) would be part of the agreement mentioned in paragraph 2.1.

e. **Retroactive financing and recognition of eligible expenditures.** The Bank may retroactively finance, against the loan proceeds, up to US$8.4 million (20% of the proposed loan amount), and recognize, against the local contribution, up to US$1,008,000 (20% of the estimated local contribution), in eligible expenditures incurred by the borrower prior to the loan approval date on technical assistance for implementation of the activities under the various components, such as hiring key specialists for the establishment of the Competitiveness and Entrepreneurship Committee (CCE) and Executive Boards for the Removal of Obstacles (MEROs), etc., provided that requirements substantially similar to those established in the Loan Contract have been met. Such expenditures must have been incurred on or after the project profile approval date (25 July 2019), but will under no circumstances include expenditures incurred more than 18 months prior to the loan approval date.

f. **Domestic preference.** Offers of goods originating in the borrower's country will be given a price preference[6] equivalent to 15% in the contracts subject to international competitive bidding (ICB).

Table 1. Threshold amounts (U.S. dollars)

Works			Goods			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	Consulting services with international publicity	Shortlist 100% national
≥ 3,000,000	< 3,000,000 ≥ 250,000	< 250,000	≥ 250,000	< 250,000 ≥ 50,000	< 50,000	≥ 200,000	< 200,000

[5] Policy document GN-2349-9, nonconsulting services are treated as goods.

[6] Policy document GN-2349-9, Appendix II, and Loan Contract.

Table 2. Main procurements

Activity	Selection method	Estimated invitation date	Estimated amount (US$000s)
Consulting services (firms)			
Technology equipment for strengthening (MPCEIP, output 3.2)	ICB	Q1-2020	448
Study to support development and update of the National Competitiveness and Sustainable Development Agenda	QCBS	Q2-2020	224
Development of a regulatory impact assessment methodology for Ecuador, applied in selected cases (output 2.2, pilot)	QCBS	Q2-2020	560
Ex post evaluation of the regulatory stock in four priority sectors	QCBS	Q2-2020	269
Development of methodological tools for the valuation of productive public assets, service standards, and training for application of the methodology	QCBS	Q2-2020	560
Development of crosscutting components for streamlining bureaucratic processes	QCBS	Q3-2020	1,014
Interoperability management model architecture	QCBS	Q2-2020	224
Specialized development of the service distribution component (service and monetization gateway)	QCBS	Q2-2021	415
Improved, simplified, and/or digitized business processes (100 processes in five years)	QCBS	Q2-2020	3,977
Audit of four years of program execution	CQS	Every year	269
Goods and nonconsulting services			
Certification under Standard ISO 37001, Anti-bribery (five institutions)	ICB	Q2-2020	336
RUTER operation support service	ICB	Q2-2020	935
Individual consulting services			
Individual consulting engagements to form the support team for the Technical Secretariat of the Competitiveness and Entrepreneurship Committee (STCCE) (five professionals)	NICQ/IICQ	As of Q2-2020	769
Individual consulting engagements to form the technical support team for Executive Boards for the Removal of Obstacles (MEROs) (five professionals)	NICQ/IICQ	As of Q3-2020	560
Individual consulting engagements to form the technical support team for the execution of innovation instruments (five professionals)	NICQ/IICQ	As of Q3-2020	560
Individual consulting engagements to form the technical team for design and implementation of the governance cycle (three professionals)	NICQ/IICQ	As of Q1-2020	452
Technical assistance to support design and implementation of the governance cycle (at least three international engagements) (three professionals)	NICQ/IICQ	As of Q1-2020	112
Review of the regulatory management capacity index methodology with support (one professional)	NICQ/IICQ	Q1-2020	52
Individual consulting engagements to form the technical support team for implementation of strengthening of the RUTER platform (two professionals)	NICQ/IICQ	Q1-2020	112
Individual consulting engagements to form the MEF management team (five professionals)	NICQ/IICQ	As of Q1-2020	720
Individual consulting engagements to form the VPR/STCCE management team (four professionals)	NICQ/IICQ	As of Q1-2020	586
Individual consulting engagements to form the SGP management team (four professionals)	NICQ/IICQ	As of Q1-2020	586

4.2 **Procurement supervision.** The procurement plan will establish the IDB supervision method. The ex post review will be conducted annually in accordance with Appendix 1 of the policies, and will include physical inspections, as the Bank sees fit.

Table 3. Ex post review thresholds (US000s)

Works	Goods	Consulting services	Individual consulting
< 3,000,000	< 250,000	< 200,000	< 50,000

Note: Based on the fiduciary execution capacity of the executing agency; subject to amendment in response to changes.

4.3 **Records and files.** The executing agency and subexecuting agencies will maintain order and integrity in records, organizing them separately by process and by source of financing.

V. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

5.1 **Programming and budget.** The Code of Planning and Public Finance (COPYFP) establishes the rules governing budget programming, formulation, approval, execution, control, evaluation, and settlement. These rules apply to the execution of Bank-financed programs in the country. The e-SIGEF integrated system and the new system to be developed by the government implement and standardize the application of these rules across the national public management structure. The MEF, as the executing agency, will manage and coordinate the addition and/or update of the necessary investment programs, so that the respective budgetary allocations are available for the components. The MEF will track and monitor all aspects of budget execution through the respective systems.

5.2 **Accounting and information systems.** Project accounting will be done in e-SIGEF, or in the new system being developed by the government, once up and running, in which all program commitments and payments will be recorded. However, off-balance-sheet records will be required to provide breakdowns by component and to generate program financial reports, while the reliability of the new system and its reports is being verified. The SGP and VPR will provide the necessary information to the MEF in a timely fashion for the preparation and delivery of program consolidated financial statements to the IDB.

5.3 **Disbursements and cash flow.** In 2008, the Government of Ecuador introduced the Single Treasure Account (STA) mechanism, merging treasury management for all entities comprising the central government. The SGP and VPR are not excluded from the General Budget of the State and so process all payments through the STA.

5.4 The implementation of this mechanism did not eliminate the special-purpose or special accounts system at the Central Bank of Ecuador (BCE) for receiving the proceeds of multilateral loans. The program will have an exclusive account at the BCE into which the loan proceeds will be disbursed. Program payments will be processed through e-SIGEF or the new system via debit to the STA.

5.5 The Bank will make loan disbursements using the advance of funds modality,[7] according to actual project liquidity needs, based the financial plan, for a period of up to 180 days. At the borrower's request, the Bank may also make direct payments to vendors and reimburse expenditures. The MEF will be responsible for processing the program disbursements.

5.6 Accountability for advances will be as established in document OP-273-12. A new disbursement may be made, when supporting documentation has been provided for at least 80% of the balance of previous advances.

5.7 Supporting documentation for payments will be subject to ex post review after resources are disbursed by the Bank and/or external auditors.

5.8 **Internal control and internal audit.** The Constitution of the Republic of Ecuador establishes that the CGE is the supreme authority of the public-sector oversight system. As part of that sector, the executing agency has its own internal audit unit reporting directly to the CGE.

5.9 **External control and reports.** The CGE has the authority to audit public-sector entities, but projects are not necessarily included in the annual audit plan. The program will be audited by an independent external audit firm acceptable to the Bank, in accordance with IDB requirements (document OP-273-12). The firm will be engaged by the MEF, as the executing agency, for the entire program, including the components executed by the SGP and VPR as subexecuting agencies, based on terms of reference previously agreed upon with the IDB, and may be financed with loan proceeds. The audit firm will be hired up to 120 days prior to the end of the year to be audited. During execution, the audited financial statements will be delivered annually within 120 days after the close of each fiscal year, or the last disbursement date for final audit. In the case of staff layoffs (see paragraph 1.12 of the main document), the executing agency will deliver audited reports to the IDB in accordance with terms and frequencies previously agreed upon with the Bank. In addition, the IDB may also require audited or unaudited financial statements or reports for the project, as deemed necessary.

5.10 There is no national policy on the public disclosure of audit reports. Nevertheless, under the Bank's Access to Information Policy in effect, project audited reports must be published in the Bank's systems.

VI. SUPERVISION PLAN AND EXECUTION MECHANISM

6.1 **Execution mechanism.** The MEF, VPR, and SGP will each have a management team for the program, as specified in the main document.

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[7] There will be only one fund for advances, and the MEF will be responsible for the corresponding reconciliations in the STA.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/19

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Institutional Strengthening for Competitiveness Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Institutional Strengthening for Competitiveness Program. Such financing will be for the amount of up to US$42,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2019)

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