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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

PROGRAM TO ENHANCE FISCAL CAPACITY FOR PUBLIC INVESTMENT

(EC-L1230)

LOAN PROPOSAL

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ABBREVIATIONS

BCE	Central Bank of Ecuador
BDE	Development Bank of Ecuador
CGE	Office of the Comptroller General of the State
DNCGP	Dirección Nacional de Calidad del Gasto Público [National Public Expenditure Quality Unit]
e-SIGEF	Sistema Integrado de Gestión Financiera [Integrated Financial Management System]
ESMF	Environmental and social management framework
ESMR	Environmental and social management report
ESMS	Environmental and social management system
GAD	Decentralized autonomous government
GDP	Gross domestic product
GDPP	Executive Office of the Products and Programs Division
IRR	Internal rate of return
MEER	Ministry of Electricity and Renewable Energy
MEF	Ministry of Economy and Finance
MTOP	Ministry of Transportation and Public Works
NPV	Net present value
OVE	Office of Evaluation and Oversight
PCR	Project completion report
PPP	Public-private partnerships
R7H	Río 7 - Huaquillas
SENPLADES	National Secretariat for Planning and Development
TSA	Treasury single account

Project Summary

Ecuador
Program to Enhance Fiscal Capacity for Public Investment
(EC-L1230)

Financial Terms and Conditions				
Borrower: Republic of Ecuador			**Flexible Financing Facility**[a]	
			Amortization period:	25 years
Executing agencies: Ministry of Economy and Finance (MEF) and Development Bank of Ecuador (BDE)			**Disbursement period:**	5 years
			Grace period:	6.5 years[b]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based
IDB (Ordinary Capital):	50,000,000	78	**Credit fee:**	[c]
Local:	14,034,095	22	**Inspection and supervision fee:**	[c]
			Weighted average life (WAL):	15.19 years
Total:	64,034,095	100	**Currency of approval:**	U.S. dollars

Project at a Glance

Project objective/description: The general objective is to increase the participation of private resources in public investment in infrastructure and services at the national and subnational level. The specific objectives are to: (i) strengthen public investment fiscal management instruments through public-private partnerships (PPPs); (ii) increase the amount of public investment structured and tendered under the PPP modality at the national level; and (iii) increase the amount of public investment structured and tendered under the PPP modality among the decentralized autonomous governments (GADs).

Special contractual conditions precedent to the first disbursement of the loan: The following will be special contractual conditions precedent to the first disbursement: (i) the borrower, acting through the executing agencies, has presented evidence that it has the allocations of resources and core staff needed to establish the management teams; (ii) the borrower, acting through the executing agencies, has presented evidence that the program Operating Regulations (Operating Regulations for the MEF; Operating Regulations for the BDE), which include the environmental and social management framework (ESMF) as an annex, have been approved by each executing agency and have entered into force under the terms previously agreed upon with the Bank; and (iii) the borrower, acting through the MEF, has signed an agreement with the BDE that establishes the obligations of the parties with regard to program execution, including, among others, the following: (a) the conditions for transferring funds from the MEF to the BDE within no more than 15 calendar days from when the disbursement from the Bank is made to the MEF, for the execution of activities under Component 3; and (b) the program activities for which the BDE is responsible will be carried out in accordance with the loan contract and the corresponding Operating Regulations (paragraph 3.5).

Special contractual conditions for execution: For special contractual conditions of a socioenvironmental nature, see the environmental and social management report (ESMR) (Annex B).

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

[b] Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

[c] The credit fee and the 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 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 to be addressed, and rationale

1.1 **Fiscal situation**. After achieving average annual real gross domestic product (GDP) growth of 4.2% between 2000 and 2014, the drop in crude oil prices in the second half of 2014 and the associated decline in oil revenues pushed the Ecuadorian economy into recession in 2015 and 2016.[1] Despite the recovery in 2017 that saw GDP growth of 2.4%, projected economic growth for the next three years is less than 2%, with stagnation of real GDP per capita.

1.2 The decline in oil prices decreased nonfinancial public sector revenue by around 7% of GDP in 2015,[2] leading to a fiscal deficit of 6% of GDP and resulting in the need for a fiscal adjustment that revolved around cutting public spending by 5% of GDP between 2015 and 2016. Despite these cuts, the fiscal deficit hit 7.4% of GDP in 2016 and approximately 5.8% in 2017. Between 2010 and 2015 investment executed in public infrastructure was 3%-5% of GDP,[3] 16% of which was by decentralized autonomous governments (GADs),[4] i.e., 0.7% of GDP on average. Nevertheless, in the wake of the fiscal adjustment process,[5] investment had fallen 40% by 2017 from its highest levels in 2013.[6] As a result of the implementation of the new Productive Development Law, additional cuts are expected in 2019 and 2020[7] in order to attain a balanced budget in 2021.[8]

1.3 **Extensive needs for investment infrastructure**. Ecuador faces the challenge of maintaining its infrastructure[9] while making new investments needed to close infrastructure gaps and restart growth. Estimated investment expenditure for 2018-2021 is US$6.05 billion annually (approximately 5.8% of 2018 GDP in current prices).[10] The government estimates US$2 billion of needed investment in the water and sanitation sector and envisages investment projects of US$1.9 billion in transportation and US$2.2 billion in power generation in the next three years.[11]

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1 The economy shrank 1.5% in 2016. Central Bank of Ecuador (BCE), 2017. Statistical information.

2 BCE (2017).

3 Serebrisky, T. et al. (2015), Financing Infrastructure in Latin America and the Caribbean: How, How much and by Whom? Inter-American Development Bank, places it around 3% of GDP. Our own estimates using the percentage of gross fixed capital formation for construction bring the average close to 5% of GDP.

4 The National Secretariat for Planning and Development (SENPLADES, 2013). Multiyear Public Investment Plan 2013-2017. The GADs are responsible for providing water and sanitation services, transportation, urban furniture, and public housing—sectors that have the potential to generate public-private partnership (PPP) projects.

5 The reduction in state transfers to the GADs compromises their level of investment in infrastructure.

6 Ministry of the Economy and Finance (MEF, 2017). Subsecretariat for Fiscal Policy.

7 The Productive Development Act sets as an objective attaining a primary balanced budget in three years, entailing a fiscal adjustment of approximately 4% of GDP.

8 2018-2021 Plan for Prosperity. MEF (2018).

9 The estimated investment in transportation maintenance for 2017-2020 is US$949 million. Ministry of Transportation and Public Works (MTOP, 2017).

10 2018-2021 Plan for Prosperity. MEF (2018)

11 Comité Misión Agua y Sanamiento para todos [Committee for the Water and Sanitation for All Campaign] (2018), MTOP (2017) and Ministry of Electricity and Renewable Energy (MEER, 2017).

Given the difficulty of sustaining growth with the high level of public expenditure of the last decade and the restrictions on borrowing,[12] the government aims to increase the involvement of the private sector in public infrastructure investment and management. To this end, it has been executing the National Public-Private Partnership (PPP) Program, under which approximately US$2 billion in projects have been approved[13] since 2015. From 2018 to 2021, Ecuador is seeking to structure and implement projects under the PPP modality in the area of transportation for US$1.9 billion,[14] power generation for US$2.2 billion,[15] and wastewater treatment for US$1 billion.[16] At the subnational level, approximately US$750 million in investments are being planned under the PPP modality.[17] The Development Bank of Ecuador (BDE), the main lender for GADs, can assist in preparing PPP projects; however, the BDE needs to develop procedures, methodologies, and guidelines, as well as a specialized organizational structure.

1.4 The government's goals of reducing the deficit and debt level during the 2018-2021 period poses challenges for financing PPP project structuring and contracting. The cost of this structuring, including aspects of socioeconomic, legal, financial, and technical viability, could represent about 1%-1.5% of the projects' initial investment amount.[18] The absence of these resources could lead to delays or losses of investments that are socially beneficial and a priority for the country.

1.5 **Shortcomings in PPP project fiscal management**. The regulatory framework for public investment projects under the PPP modality includes the PPP and Foreign Investment Incentives Act and its Regulations (Executive Decree 1040).[19] The Act defines the PPP Interagency Committee[20] as an intersectoral deliberative body charged with the coordination and structuring of PPP-related policies and regulations. The PPP Interagency Committee has issued a technical guide that specifies the process, documentation, and analysis needed for the Committee's approval of PPP projects.[21]

1.6 The technical guide provides that each infrastructure or services investment project initiative, whether public or private, proposed under any PPP modality, needs to have a fiscal impact analysis to estimate the firm and contingent obligations

[12] Debt exceeds 40% of GDP, defined as the limit under the constitution. MEF (2017).

[13] Río 7 - Huaquillas (R7H) (US$700 million), Puerto Posorja (US$360 million), Puerto Manta (US$170 million), and Puerto Bolívar (US$750 million). MEF (2017).

[14] MTOP (2017).

[15] MEER (2017).

[16] Municipio of Quito and Cuenca (2017).

[17] BDE (2018)

[18] Klein et al. (1996). Transaction Costs in Private Infrastructure Projects—Are They Too High? World Bank. With a maximum of US$3-US$4 million for projects with high investment totals, according to market tests in Ecuador.

[19] Its drafting was supported by technical cooperation operation ATN/ME-13378-RG, Regional Public-Private Partnerships Advisory Services Program. The review of regulations and its technical guide are financed by technical cooperation operation ATN/OC-16929-EC Enhancing Fiscal Capacity for Public Investment.

[20] Chapter 1, Article 4.

[21] Cost-benefit analysis methodology for evaluating the suitability of carrying out the infrastructure and services investment project through a PPP, including an analysis of value for money.

stemming from the project and its budgetary sustainability. The cumulative amount of these obligations, in net present value (NPV), may not exceed 5% of GDP.[22] To date, however, the fiscal impact analysis of projects in execution has not been completed, and the full scope of the fiscal commitments undertaken under these projects is unknown.[23]

1.7 Furthermore, the identification, selection, prioritization, and evaluation of the PPP project portfolio have yet to be subject to the traditional public investment budgeting processing. The four projects in execution are being executed under the private-sector initiative modality[24] and were not included in the sectoral infrastructure plans or the government's annual public investment plan. PPP best practices suggest that these projects should be included in multiyear public investment plans just like projects executed as traditional public works.

1.8 The main problem identified is the difficulty of financing and funding Ecuador's public investment needs, in particular due to the limitations on private sector participation.[25] One of the options that holds the greatest potential for funding needed public investment in Ecuador is to structure projects using the PPP modality. The specific problems and their underlying causes are:

1.9 Public investment projects under the PPP modality are not subject to complete fiscal impact studies. Currently such studies are limited solely to analyzing tax incentives. No efficient evaluation, management, and monitoring of fiscal commitments, be they firm or contingent, is conducted.[26] This leads to:

a. Difficulties in identifying, quantifying, managing, and mitigating fiscal risks associated with PPP projects, due to the limited institutional and technical capacity of the Ministry of Economy and Finance (MEF).[27]

b. Difficulties in defining and complying with the available budget ceiling for funding public investment projects that are structured and implemented as

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[22] Article 16. Decree 1040/2016 (PPP Incentives Act Regulations).

[23] Through technical cooperation operation ATN/FI-14625-EC, the IDB has completed the fiscal impact analysis of the R7H project, establishing US$100 million as the total amount of firm and contingent liabilities (approximately 0.1% of GDP, including US$65 million in contingent liabilities and US$35 million in firm liabilities).

[24] MTOP, 2018.

[25] The estimated annual public investment gap (defined as the need for public investment expenditure) for 2019-2023 is US$30.25 billion (MEF 2018). The MEF estimates that US$6.1 billion, 20% of the gap, will be structured as PPP projects.

[26] PPP project best practices indicate the need to identify, prioritize, quantify, assign, and mitigate project risks. Brazil, Colombia, Peru, and Mexico have regulatory frameworks that include identification, quantification, and mitigation of these fiscal risks (Schwartz, G. et. al. Public Investment and Public Private Partnerships (PPP). Addressing Infrastructure Challenges and Managing Fiscal Risks. International Monetary Fund (IMF 2008).

[27] None of the four PPP projects in execution initially had: (i) an evaluation to identify, quantify, and mitigate fiscal risks; (ii) registration in the portfolio of public investment projects; (iii) management and accounting records of the liabilities incurred by the public sector under the contracts; and (iv) generation of systematized information in a structured data base (MEF). Subsequently, the fiscal impact study of the R7H route was conducted, and the study of Santo Domingo logistical platform was completed, whereby two of the six projects have completed these studies.

PPPs, inasmuch as the specific information or methodology to make management decisions is not available (see footnote 27)[28].

c. Fiscal vulnerability, given that firm and/or contingent liabilities stemming from PPP projects are not quantified or divulged for their recording on the books.[29]

d. Difficulties in estimating fiscal impact in the medium-term, due to the absence of or lack of accuracy in fiscal projection models.[30]

e. Little transparency in public resource management due to shortcomings in the instruments, processes, and information needed to appropriately manage PPP contracts[31] (see footnote 27).

f. Difficulties in making decisions for identifying, selecting, prioritizing, evaluating, and managing PPP projects, given the dearth of systematized and structured information available (see footnote 27).

g. Difficulties in carrying out efficient fiscal management of payment commitments stemming from PPP projects due to insufficient technical and institutional capacity of staff involved in the processes.[32] As a result of all these weaknesses, PPP project approval becomes delayed and public investment opportunities are lost.

1.10 There are no efficient instruments or adequate financial resources available to structure PPP projects. This is due to:

a. The absence of a development model for existing public assets that would support their structuring as PPP projects, and the lack of specialized financial

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[28] The commitments provided for under the PPP contracts whose payment source comes from availability and/or use payments requires a framework that allows for estimating, monitoring, and accounting registry of these commitments, as well as a determining the governments' payment capacity. These future commitments restrict the use of budget resources over time. (Marcel, M. Development Effectiveness and Results-Based Budgeting. Papers presented during meetings of the Regional Policy Dialogue's Public Policy Management and Transparency Network. IDB 2009).

[29] See footnote 23. The program will finalize estimates of liabilities for the projects in execution and subsequent initiatives. The methodology will distinguish between firm and contingent liabilities to minimize the probability that the latter occur. The contracting entity's retention of risks entails contingent liabilities that could arise and create imbalances in public finances (see the case of Mexico and Portugal) (Reyes-Tagle, G. Bringing PPPs into the sunlight. Synergies now and pitfalls later? (IDB 2018).

[30] Long-term fiscal projection began under R7H with a specific PPP-project fiscal sustainability analysis using the P-Fram methodology (PPP Fiscal Risk Assessment Model, IMF 2016). The application of cash-based budgets limits the effectiveness of estimating fiscal commitments. Bova, Ruiz-Arranz, Toscalni et al. (2016) estimated that PPP contingent liabilities generate an average fiscal burden of 1.2% of GDP in a sample of 80 countries.

[31] Most countries deviate from international best practices in terms of PPP responsibility and transparency by not appropriately assessing fiscal implications. (Cottarelli, C. Fiscal Transparency, Accountability and Risk. IMF 2012).

[32] With funds from technical cooperation operation ATN/FI-14625-EC and technical cooperation operation ATN/OC-14626-EC, the Bank has supported the training of a group of 25 MEF public servants. The high turnover will require training to be reinforced and repeated with new staff.

instruments.[33] The government has a potential portfolio of reusable public assets[34] to finance new infrastructure of about US$6.5 billion.

b. Difficulties in preparing, structuring, and contracting PPP projects, due to the scarcity of public financial resources. From 2015 to 2017, only 0.001% of GDP was invested in structuring PPP projects (MEF).[35]

1.11 The GADs have limited legal, technical, institutional, and financial capacity to structure, tender, and implement public investment projects under the PPP modality. This is explained by:

a. Difficulties in closing subnational investment gaps,[36] given that their limited financial capacity restricts the possibility of increasing public investment to structure PPP projects. From 2015 to 2018, only US$1 million was invested in structuring studies for GADs at the BDE.[37]

b. Difficulties in identifying resources to finance GAD public investment, due to the commercial banking sector's limited capacity to offer long-term financing for infrastructure projects.[38]

c. Weaknesses in identifying, developing, and implementing PPP projects because of GADs' limited technical and institutional capacity and the BDE's limited experience in developing these projects.[39]

1.12 The Bank's experience and lessons learned. The Bank has supported development of the PPP program in Ecuador since 2015, including technical assistance for drawing up the program's regulatory and institutional framework[40] and for conducting structuring studies for projects in the energy and transportation sectors.[41] Under technical cooperation operation ATN/FG-16265-EC, the Bank is supporting institutional development of the PPP program at the BDE, which will facilitate implementation of the proposed operation.[42]

1.13 Over the last two decades, the Bank has supported the creation and strengthening of PPP legal and institutional frameworks through loan operations and technical

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[33] The domestic financial sector has scant capacity to provide long-term loans (maximum of seven years) without security interests and to identify and evaluate risks of infrastructure projects financed through project finance. MEF (2018).

[34] MEF (2018). Asset recycling has been adopted in countries outside the region. In 2014 Australia included it in its budget. The initiative provided incentives through financial contributions of up to 15% of the assessed retail value of the asset sold.

[35] The meager allocation of resources for structuring could have fiscal consequences if project analysis is faulty.

[36] This gap (defined as the average capital expenditure for 2015-2017) is approximately US$1.3 billion annually, or 1.2% of 2017 GDP at current prices (BDE, 2018).

[37] The GADs represent 5% of the gross fixed capital formation (2017), as compared to 9% in 2008 (BDE, 2018).

[38] Footnote 34.

[39] None of the GADs have staff specialized in PPPs (BDE, 2018).

[40] Regional Public-Private Partnerships Advisory Services Program (ATN/ME-13378-RG).

[41] Institutional Strengthening and Support for PPP Project Structuring (ATN/OC-15685-EC).

[42] Support for the Identification and Development of Subnational Public-Private Partnerships (ATN/FG-16265-EC).

assistance. The loan experiences that stand out are: (i) Program to Support Public-Private Partnerships (PSPPP) in Infrastructure (loan 3090/OC-CO), the objective of which was to strengthen the technical and regulatory mechanisms that promote private sector participation in public investment; and (ii) Support for Colombia's Public-Private Partnership Program (loan 3697/OC-CO), the objective of which was to help increase private investment in the provision and management of productive and social infrastructure. The Bank, through the Multilateral Investment Fund (MIF), assisted in the design and implementation of PPP units. The technical cooperation experiences that stand out are: (i) Regional Public-Private Partnerships Advisory Services Program (technical cooperation operation ATN/ME-13378-RG), which supported institutional strengthening programs to provide infrastructure through PPPs; (ii) support for Minas Gerais in Brazil (technical cooperation operation ATN/MT-8724-BR), which sought to institutionalize the permanent public-private procurement system; (iii) institutional strengthening of fiscal management of public-private partnerships (technical cooperation operation ATN/KR-16172-RG), the objective of which is to support technical capacity of ministries of finance to manage fiscal risks; and (iv) Facility to Support Public-Private Partnerships in Infrastructure (technical cooperation operation ATC/OC-16389-RG), which supports the implementation of PPP projects through development and bolstering of regulatory frameworks and institutional capacity and the generation and dissemination of best practices.

1.14 Through this support,[43] the lessons learned can be summarized as follows:

a. Fiscal adjustments resulting from a decline in revenue translate into a reduction in public investment, whereupon the role of the private sector becomes important[44] as an additional source of financing and as an efficient management instrument in providing quality public services.[45]

b. A fiscally sustainable PPP program needs to: (i) establish a specific regulatory framework assigning functions and responsibilities to different actors and procedures for private sector participation; (ii) bolster institutional capacity to prepare, structure, contract, and monitor PPP projects,[46] which, together with reliable demand estimates, reduces the risk of cost overruns, overestimates of revenue, and early contract terminations.[47] The MEF's capacity to identify, analyze, and monitor firm and contingent liabilities

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[43] The IDB Group Portfolio related to PPPs (2006-2015): 145 operations- 77 (26 loans and 51 technical cooperation operations) whose objective is to support enabling environments; 12 technical cooperation operations to support project preparation; and 56 (48 loans, 5 technical cooperation operations, 2 guarantees, and 1 grant), to support financing of PPPs. Office of Evaluation and Oversight (OVE) BID (2017) Evaluation of Public-Private Partnerships (PPPs) in Infrastructure.

[44] Serebrisky, T. et al. Financing Infrastructure in Latin America and the Caribbean: How, How much and by Whom? IDB 2015.

[45] Reyes-Tagle (2018).

[46] Identifying environmental and social risks in the design and structuring helps to manage them during the financing phase. The IDB safeguard standards are generally stricter than the domestic ones. OVE (2017).

[47] Mexico, transportation sector: government buy-out of 23 road concession, taking on debt of between 1%-1.7% of GDP (1997), MIF-Program to Promote Public Private Partnerships in Mexican States (PIAPPEM) (2008).

stemming from the PPPs is key;[48] (iii) develop mechanisms that create PPP project budget sustainability and provide guarantees of their bankability; (iv) concentrate on associated service improvement and its impact on users; and (v) disseminate information on PPP projects to boost transparency, mitigate the risks of corruption, and increase public awareness of their benefits.[49]

1.15 **International evidence.** Experience shows that private sector participation in infrastructure financing and management can offer advantages, such as:[50,51] (i) greater efficiency in providing and managing infrastructure services by incorporating private-sector technology; (ii) innovation through competition in tendering processes; (iii) resources for maintaining infrastructure; (iv) financial sustainability by leveraging private financial resources; (v) capture of long-term investors; (vi) building within the planned budget and execution deadline; and (vii) efficient transfer of project execution risks to the private sector, with which value for money can be obtained in the execution of the work and in the management of the asset (see the case of Colombia, Peru, and Paraguay at optional link 6). To date, impact evaluation methodologies have yet to be applied to PPP projects due to the complexity of their objectives. The most advanced practices apply ex post evaluations of value for money to these projects,[52] which is the methodology proposed under this program.

1.16 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the challenge of productivity and innovation, inasmuch as it will strengthen processes and capacities for public investment management under the PPP modality and contribute to private sector development for sustainable economic growth through the impact indicator of increasing the amount of committed public investment from PPPs in terms of GDP. The program is likewise aligned with the crosscutting area of institutional capacity and rule of law, inasmuch as it will strengthen government agencies and subnational governments with public investment responsibilities, whose institutional, technical, and financial capacities regarding PPP will be enhanced. Furthermore, the program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6), specifically the indicator for government agencies benefited by projects that bolster technological and management instruments to improve public service provision, through the output indicator for training MEF, BDE, and GAD officials on PPPs. The program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) inasmuch as it will support the quality of capital

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48 Reyes-Tagle, G. and Garbacick, K. (2016). Policymakers' Decisions on Public-Private Partnership Use: The Role of Institutions and Fiscal Constraints.

49 Disclosure in PPP: Jurisdictional Studies, World Bank Group, Public – Private Infrastructure Advisory Facility *(*PPIAF) 2015 and OVE IDB (2017).

50 Canada (Canadian Council for Public-Private Partnerships, 2015) and the United Kingdom (World Bank, Asian Development Bank, and the IDB, 2014) standout in terms of developing regulatory and institutional frameworks, and implementing PPP projects in productive and social infrastructure.

51 Loan 3697/OC-CO, Support for Colombia's Public-Private Partnership Program.

52 National Audit Office (2018). Private Finance Initiative and Private Finance 2. Her Majesty's Treasury, United Kingdom.

expenditure and promote private sector participation in infrastructure. It is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3), which underscores the importance of institutional strengthening to enhance the quality of public expenditure. It is likewise consistent with the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-8), with regard to improving management of public investment, including PPPs. The program is aligned with the IDB Country Strategy with Ecuador 2018-2021 (document GN-2924), in particular with the objective of increasing private sector participation in infrastructure investment and other public goods. The operation is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2). The program is aligned with the 2017-2021 National Development Plan inasmuch as it will help spur productivity for sustainable economic growth.

B. Objectives, components, and cost

1.17 The general objective is to increase the participation of private resources in public investment in infrastructure and services at the national and subnational level.[53] The specific objectives are to: (i) strengthen public investment fiscal management instruments through PPPs; (ii) increase the amount of public investment structured and tendered under the PPP modality at the national level; and (iii) increase the amount of public investment structured and tendered under the PPP modality among the decentralized autonomous governments. This will be achieved through the following components:

1.18 **Component 1. Creation and strengthening of responsible public investment fiscal management instruments through PPPs (US$2.1 million)[54].** Financing will be provided for: (i) preparation and implementation of a model to identify, prioritize, quantify, assign, and mitigate PPP project risks; (ii) development and implementation of an optimized analysis model of multiyear availability of budget resources;[55] (iii) preparation and implementation of guidelines to assess, record, and manage firm and contingent commitments; (iv) preparation and implementation of an optimized fiscal sustainability analysis model; (v) development and implementation of a PPP contract management model; (vi) development and deployment of a PPP project records module in the national public investment system; and (vii) design and establishment of a training program for public servants in topics related to the preparation, structuring, and monitoring of PPP projects.

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[53] The program seeks to structure US$2.85 billion between 2019-2023, equivalent to 47%of the PPP-project structuring gap (national and subnational) defined by the government for this period (footnote 26).

[54] The recently approved MEF institutional strengthening (technical cooperation operation ATN/OC16929-EC) will be implemented in due time and manner to complement this operation and will finance: (i) draft Organizational Model for PPP Program Management at the MEF and SENPLADES; (ii) draft PPP Project Registry System; (iii) strengthening of the Regulatory and Methodological Frameworks; (iv) review of the rate policies for the power and highway transportation sectors; and (v) enhancement of technical capacities for PPP management.

[55] This allows for managing fiscal commitments stemming from PPPs in the long term (exceeding the budget framework in the medium term).

1.19 **Component 2. Strengthening of instruments for structuring public investment projects under the PPP modality at the national level (US$18.2 million).** Financing will be provided for: (i) development of a public infrastructure asset recycling program,[56] which includes: (a) identifying assets subject to the program; (b) drafting terms of reference and tender documents for the structuring; (c) evaluating proposals and awarding contracts; (d) managing structuring processes; and (e) designing and implementing a reimbursable PPP development fund for structuring PPP projects; and (ii) preparation and structuring of three PPP projects in priority sectors,[57] which will draw on reimbursements of the cost of structuring studies and resources the government obtains from the asset recycling program.[58]

a. **PPP development fund** that finances preparation of structuring studies for public investment projects under the PPP modality, thus developing a portfolio of bankable projects. This fund will offer a sustainable source of financial resources to structure projects and will be capitalized through reimbursement from the winning bidder or the line ministries in the case of a failed tender procedure. The program may finance PPP project structuring until the fund is established. The draft procedures manual for the fund is included in optional link 4 and is attached as an annex to the program Operating Regulations for the MEF, which establish regulations for the fund's use.

1.20 **Component 3. Enhancement of GAD public investment with private sector participation (US$40.6 million).** Financing will be provided for: (i) technical, legal, and financial preparation and structuring for 12 PPP projects;[59] (ii) design and implementation of a guarantee fund for the GAD PPP projects' bankability;[60] (iii) provision of financial guarantees for two PPP projects; and (iv) establishment of an ongoing plan to strengthen the BDE and GAD technical capacities and institutional framework.[61]

a. **Guarantee fund.** For purposes of supporting the financial closure of subnational PPP projects, the program will help create and operate a guarantee fund that backs the loan obtained by the private entity from the commercial banking sector for the construction, rehabilitation, and

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[56] The private sector operates and maintains existing infrastructure in exchange for compensation to the government equal to the present value of residual earnings, which will be partially allocated to capitalize a fund for new public infrastructure structuring and bankability.

[57] Transportation, energy and real estate sectors.

[58] Tentative list: Cardenillo Hydroelectric Plant and the Santo Domingo-Quevedo and Quevedo-Jujan Roads.

[59] This includes projects in the highway, logistics, water and sanitation, and urban furniture sectors.

[60] The financing of preparatory and structuring studies will be headed up by the PPP unit. The BDE commercial division will make project-financing decisions independently, avoiding conflict of interests.

[61] This includes: (a) training, including international certification; (b) GAD participant financial diagnostic assessment to support fiscal management; and (c) creation of a PPP unit at BDE, financed under technical cooperation operation ATN/FG-16265-EC. This Unit will focus on project identification and development, be certified in PPP methodologies, and will have a PPP Manual that provides for project development processes. Financial management diagnostic assessments will be financed for GAD participants from the strengthening program.

management of infrastructure or public services through a PPP. By sharing risk with the banking sector and venture capital providers, the aim is to reduce the projects' risk profile and obtain for the companies awarded the tenders better loan conditions and less stringent demands regarding expected returns on capital invested, which translates into a lower financial cost for the GADs. Empirical evidence supports the worthiness of these funds in overcoming problems that limit access to credit due to perceived risk, both for infrastructure as well as PPPs.[62]

b. To ensure the fund's sustainability, there will be a mechanism for contingent-recovery resources or counter-guarantee (either from the GADs or the company awarded the tender or the special purpose entity). A BDE-established business trust will manage the fund, which will have a manual of procedures that describes its governance and products. The design of the fund will specify the necessary conditions to ensure its liquidity and credibility. The draft PPP development fund manual is included in optional link 5 and is attached as an annex to the program Operating Regulations for the BDE, which establish regulations for use of the fund.

1.21 **Program administration (US$3.1 million).** Financing will also be provided for the administrative costs of the executing agencies' management teams, in addition to program evaluations and audits. An amount for potential contingencies is also planned.

1.22 **Beneficiaries.** The main beneficiary of the program are the people of Ecuador, who will have higher quality and more sustainable investments in priority investment sectors. The GADs will also benefit from the program thanks to the establishment of a fund and financing for structuring sustainable projects at the subnational level. Furthermore, officials from the MEF, BDE, and GADs—who will be trained in identifying, preparing, and implementing PPP projects—will directly benefit as users.

C. Key results indicators

1.23 **Expected results.** The expected impact is the increase in public investment with PPP resources as a percentage of GDP. The main outcomes will be: (i) an increase in the percentage of structured PPP projects with a fiscal impact analysis from 33.3% in 2017 to 100% in 2023; (ii) an increase in the percentage of the amount of structured and tendered national PPP projects from 2% of GDP in 2017 to 3% in 2023; and (iii) an increase in the percentage of the amount invested in structured and tendered PPP projects for GADs from 0.14% in 2017 to 0.57% in 2023.[63]

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62 See Soumaré and Son Lai. 2016. An analysis of government loan guarantees and direct investment through PPP. Economic Modelling. 2016. Vol. 59. For guarantee fund best practices for see Honohan. 2010. Partial credit guarantees: Principles and practice. Journal of Financial Stability; as well as Beck, Klapper, and Mendoza. 2010. The typology of partial credit guarantee funds around the world. Journal of Financial Stability. Vol 6.

63 The national PPP structuring and tendering target does not include the subnational objectives of outcome indicator 3.

1.24 **Economic rationale.** An economic analysis was conducted of the economic/financial costs and benefits of the program. By the end of 2028 (10 years from the start of program execution), it is estimated that the investments will be generating a net present value (NPV) of US$2.9 million, with an internal rate of return (IRR) of 16%. The sensitivity analysis estimated what the maximum project mortality rate could be while still maintaining an IRR of approximately 12% with a positive NPV, a scenario that would justify the proposed investment. In this scenario, it is estimated that even with a 50% project mortality rate, an IRR of 13% would still be achieved, with a positive NPV of US$346,944.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This program will be a specific investment loan of US$64.03 million, of which the Bank will finance US$50 million using funds from the Ordinary Capital. The local counterpart funds of US$14.03 million will come from the Republic of Ecuador—US$10 million through the BDE and US$4.03 million corresponding to the value added tax:

Table 1. Total budget (US$)

Categories	IDB		Local*		Total	%
	MEF	BDE	MEF	BDE		
1. Direct costs	**18,094,430**	**29,095,987**	**2,171,332**	**11,525,614**	**60,887,363**	**95.09**
Component 1. Creation and strengthening of responsible public investment fiscal management instruments through PPPs	1,883,930	-	226,072	-	2,110,002	3.30
Component 2. Strengthening of instruments for structuring public investment projects under the PPP modality at the national level	16,210,500	-	1,945,260	-	18,155,760	28.35
Component 3. Enhancement of GAD public investment with private sector participation	-	29,095,987	-	11,525,614	40,621,601	63.44
2. Administrative costs	**1,751,400**	**554,400**	**210,168**	**66,528**	**2,582,496**	**4.03**
3. Contingencies	**202,823**	**300,960**	**24,339**	**36,115**	**564,237**	**0.88**
Total	**20,048,653**	**29,951,347**	**2,405,838**	**11,628,257**	**64,034,095**	**100.00**
%	**31.31**	**46.77**	**3.76**	**18.16**	**100**	

* The BDE counterpart includes US$10,000,000 (Output 3.2), plus US$1,628,257 from the value-added tax, and the MEF counterpart, which is US$2,405,838 from the value added tax.

2.2 **Disbursement schedule.** Disbursements will be made over a five-year period.

Table 2. Disbursement schedule

Source	2019	2020	2021	2022	2023	Total
IDB	8,208,901	7,637,477	25,814,708	5,609,817	2,729,095	50,000,000
Local	985,068	5,916,497	1,131,860	5,673,178	327,491	14,034,095
Total	**9,193,969**	**13,553,975**	**26,946,568**	**11,282,995**	**3,056,587**	**64,034,095**
%	**14.36**	**21.17**	**42.08**	**17.62**	**4.77**	**100**

B. Environmental and social risks

2.3 The program provides for preparation of PPP preinvestment or structuring studies. The operation presents potential impacts of the kinds of preinvestment projects that could be supported through financing preinvestment technical design studies in sectors such as energy, transportation, and water and sanitation. Some of the studies to be conducted in this operation could facilitate infrastructure projects associated with significant potential socioenvironmental impacts, which are unknown at this time. Therefore, in keeping with the guidelines of the Environmental and Safeguards Compliance Policy (operational policy OP-703), and the preliminary information available, Directive B.13 applies to the program inasmuch as it is a flexible lending instrument and thus does not require classification. An Environmental and Social Management Framework (ESMF) has been prepared to ensure that the preinvestment studies take into account potential socioenvironmental impacts and risks, also thereby ensuring the operation's sustainability. Furthermore, where projects are executed, they are to be managed under the Environmental and Social Management System (ESMS) that the BDE currently has in place, which was financed through prior IDB operations with the BDE, such as loan 3232/OC-EC and loan 2839/OC-EC. A preinvestment information sheet will be drafted during program execution so the ESMS can be adapted to the needs of this program. Given that the preinvestment studies will be carried out during implementation of the operation, the socioenvironmental analyses and the public consultations on these analyses will take place during preparation of specific PPP preinvestment or structuring studies in keeping with the characteristics of the studies in question. The final version of the ESMF has been published on the Bank's website and will be distributed, together with the ESMR, prior to presenting the program to the IDB Board of Executive Directors.

C. Fiduciary risks

2.4 Delays in fund transfers from the MEF to the BDE, which can hold up program execution and hamper traceability of funds, is classified as a medium risk. As a mitigation measure, the MEF and the BDE will agree to the mechanisms and deadlines for funds to be transferred to BDE in the subsidiary agreement they sign. Furthermore, there are to be monthly reconciliations of the report obtained from the treasury single account (TSA) to identify inflows and outflows at each institution.

D. Other program risks and key issues

2.5 A risk-management workshop, following Bank methodology, was conducted. Risks classified as medium and high are listed below:

a. **Public management and governance.** The following risks were classified as medium:

(i) Delays in program execution, due to an absence of appropriate coordination between the entities that are members of the PPP Interagency Committee in developing regulatory and methodological dimensions. This risk will be mitigated through technical assistance provided to all members of the committee and the program executing agencies under Component 1.[64] An updated version of the Committee's procedures manual will be prepared, defining in detail the each member's responsibilities.

(ii) The GADS do not create bankable projects. This risk is mitigated by efforts to prepare territorial development plans and the technical assistance provided under technical cooperation operation ATN/FG-16265-EC to identify viable projects under the PPP modality.

(iii) The guarantee mechanism proposed to support the PPP projects' bankability is not operational if the four main banks in Ecuador do not sign the guarantee fund participation agreement. This risk will be mitigated by periodically making banks aware of this fund. Additionally, the design of the fund will seek to create confidence among the banks (it will be managed by a trust and with liquid resources).

(iv) Structured PPP projects are never executed due to changes in the priority sectors in the GADs. This risk will be mitigated by structuring projects with provincial and municipal authorities elected in the February 2019 elections.

b. **Development.** The following risks were classified as medium:

(i) There are delays in execution due to opposition from GAD stakeholders to some of the structured projects[65] that are subject to financing up to the third year of program execution. This risk will be mitigated by designing plans for disseminating projects that target all the actors identified.

(ii) Tendering of already structured GAD projects is not ensured because GAD technical, financial, and institutional capacities to manage PPP projects until 2021 failed to be strengthened. This risk will be mitigated with the trainings already planned under the program (Output 3.1), which are a condition for GADs to access the line of credit. The PPP

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[64] In particular, public investment planning and fiscal impact assessments.

[65] There is experience with PPP models that were blocked because they were considered privatizations. (Quito Cables, Puente Guayasamín).

unit will support the GADs throughout the entire process, from pre-structuring to tendering.

(iii) There are delays in program execution due to the heavy workload of the Director for Expenditure Quality, the MEF execution unit (Component 1 and 2), and staff turnover at the IDB projects coordination unit at the MEF. This risk will be mitigated by the inclusion of three specialists in the National Public Expenditure Quality Unit (DNCGP) using MEF funds and the hiring of three PPP specialists using program funds. The program will incur the costs of the IDB projects coordination unit at the MEF as from November 2019.

2.6 **Program sustainability.** Actions aimed at reinforcing the sustainability of program objectives include: (i) support for creating a unit or focal point for PPP project management and coordination at the two executing agencies. In the case of the BDE, the PPP unit has already been designed with funds from technical cooperation operation ATN/FG-16265-EC, and included in the draft of the new BDE by-laws. In the case of the MEF, the PPP unit will be created under technical cooperation operation ATN/OC-16929-EC and its inclusion in the Ministry's new by-laws will be proposed; (ii) incorporation of instruments for responsible fiscal management of public investment through PPPs; (iii) design and implementation of instruments (PPP development fund and guarantee fund) that reinforce sustainability of available resources for investment through PPPs at the national and subnational level; and (iv) transformation of training products into recurring programs to be imparted annually to those responsible for PPPs at national and GAD agencies.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the Republic of Ecuador, represented by the MEF. The program executing agencies[66] will be: (i) the Ministry of Economy and Finance (MEF) for Components 1 and 2, acting through the National Public Expenditure Quality Unit (DNCGP) and the General Coordination Office for IDB Projects;[67] and (ii) the Development Bank of Ecuador (BDE) for Component 3, acting through the Executive Office of the Products and Programs Division (GDPP).[68] The executing agencies will operate with their own separate records and accounts to ensure that implementation of the components progress in a parallel manner and without delays.

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[66] The BDE will sign an ancillary agreement that provides for return of funds under which it will commit to complying with the program Operating Regulations for the BDE and the rights and duties needed for program execution.

[67] The program will finance a management team that will be established with specialists from the DNCGP and the General Coordination Office for IDB Projects. (paragraph 3.2).

[68] A management team will be established with specialists from the GDPP (financed by the BDE) and the BDE PPP Unit now being created (financed by the program), which will undertake the program's management. (paragraph 3.2).

3.2 Key personnel of the management teams of each executing agency will be: (i) general coordinator; (ii) financial administrative coordinator; (iii) procurement officer; and (iv) planning, monitoring, and evaluation officer. Together with these specialists, both teams will have: (i) a PPP legal expert; (ii) a PPP financial expert; and (iii) a PPP technical/engineering expert. The two management teams will coordinate the activities related to monitoring, evaluation, and auditing in order to monitor correct program execution and attainment of program objectives.

3.3 The main duties of the management team of each executing agency will be: (i) planning execution of activities; (ii) preparing, implementing, and updating project management tools: the multiyear execution plan[69], procurement plan, annual work plan, and progress monitoring report; (iii) supervising execution and presenting progress reports; (iv) carrying out processes to prepare terms of reference, tendering and procurement of goods, and selection and contracting of services; (v) presenting substantiating documentation and requests for disbursement to the Bank; (vi) submitting audited financial statements; (vii) preparing the program evaluation; and (viii) coordinating activities at a government level that are necessary for program execution. Furthermore, program Operating Regulations will be prepared for each executing agency (Operating Regulations for the MEF; Operating Regulations for the BDE) that describe: (i) the functions, procedures, and standards for execution of the components, listing the functions of the execution units both at the MEF as well as the BDE; (ii) the operational and contractual relations between the parties involved in the program; (iii) the coordination mechanism; and (iv) the ESMF.

3.4 **Institutional coordination**. Institutional coordination for the National PPP Program is the responsibility of the PPP Interagency Committee, which presently includes the MEF, the National Secretariat for Planning and Development (SENPLADES), and the MTOP, which chairs the committee by delegation of the Office of the President of the Republic. The operational coordination is executed through the technical regulations issued by the Committee and the PPP program regulatory framework. The BDE will apply the technical regulations provided for by the PPP Interagency Committee and the PPP regulatory framework. The MEF will issue procedures related to analysis and management of the fiscal impact of projects, to be applied to subnational projects. The participating GADs that make requests for financing to structure projects through loan contracts will have these coordinated through the unit responsible for PPPs at the BDE.

3.5 **Special contractual conditions precedent to the first disbursement of the loan. The following will be special contractual conditions precedent to the first disbursement: (i) the borrower, acting through the executing agencies, has presented evidence that it has the allocations of resources and core staff needed to establish the management teams.** This condition is essential for ensuring timely startup of the program activities and avoiding delays due to lack of administrative and technical capacity to manage public investment projects under the PPP modality; **(ii) the borrower, acting through the executing agencies, has presented evidence that the program Operating Regulations (Operating**

[69] The multiyear execution plan and the procurement plan were prepared in workshops with the executing agencies, consolidating procurements in keeping with the products and the nature of the procurements.

Regulations for the MEF; Operating Regulations for the BDE), which include the ESMF as an annex, have been approved by each executing agency and have entered into force under the terms previously agreed upon with the Bank. This condition is essential for ensuring timely startup of the program activities and avoiding delays due to lack of administrative and technical capacity to manage public investment projects under the PPP modality; and **(iii) the borrower, acting through the MEF, has signed an agreement with the BDE that establishes the obligations of the parties with regard to program execution, including, among others, the following: (a) the conditions for transferring funds from the MEF to the BDE within no more than 15 calendar days from when the disbursement from the Bank is made to the MEF, for the execution of activities under Component 3; and (b) the program activities for which the BDE is responsible will be carried out in accordance with the loan contract and the corresponding program Operating Regulations.** This condition is essential because it establishes conditions ensuring the timely transfer of funds to the BDE and the ability to monitor the funds received by each executing agency.

3.6 **Disbursement modality.** Disbursements will be executed using the advance of funds modality, based on a cash flow of the payments expected for up to the following six months in keeping with the commitments duly undertaken. These disbursements will be made to the accounts designated by the borrower through a formal request by the officials delegated for such purposes. Each executing agency will have separate advances, whereby they will be managed in the Bank's systems as two subloans. At the request of the borrower, reimbursements of expenditures and direct payments to suppliers may be made.

3.7 **Retroactive financing and recognition of eligible expenditures.** The Bank may provide retroactive financing, chargeable to the loan, for up to US$5,000,000 (8.3% of the loan amount) in eligible expenditures related to the three components that are made by the borrower before the loan approval date for the purpose of engaging the consulting services needed to prepare the conceptual designs and establish the execution units, provided that requirements that are substantially similar to those set forth in the loan contract have been met. These expenditures are to have been made on or after 13 July 2018, the project profile approval date, but under no circumstances will include expenditures made more than 18 months prior to the loan approval date.

3.8 **Procurement and financial management.** Procurement financed with loan proceeds will be carried out following the Policies for the procurement of works and goods financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9). Procurement under the threshold for international competitive bidding (works for amounts under US$3,000,000, goods and services other than consulting services for amounts under US$250,000, and consulting services for amounts under US$200,000), may be carried out using Ecuador's National Public Procurement System.

3.9 **Direct contracting**. In Components 1 and 2 the MEF plans to use direct selection of individual consultants for program coordination and for specialist positions in monitoring and planning, financial administration, procurement, and operational

support. These consultants will be hired in accordance with the policies for the selection of individual consultants, subparagraph (a), of document GN-2350-9, for tasks that are a continuation of previous work that the consultant has carried out (see paragraph 6.1(c) under Annex III and the procurement plan). Financial management will follow the Financial Management Guidelines for IDB-financed Projects (document OP-273-6).

3.10 **Audits.** The MEF management team will present to the Bank the annual consolidated financial statements for the program within 120 days following the close of the fiscal year. The last audited financial statement will be presented within 120 days following the date stipulated for the last disbursement. The external audit of the project will be carried out by independent auditors acceptable to the Bank, in keeping with IDB requirements (document OP-273-6).

B. Summary of arrangements for monitoring results

3.11 **Monitoring.** Monitoring will be based on: (i) the multiyear execution plan and the annual work plan; (ii) the procurement plan; (iii) the results matrix; (iv) the monitoring and evaluation plan; and (v) the progress monitoring report. Within 45 days following the end of each six-month period, the MEF will present semiannual progress reports documenting the attainment of outcome, output, and financial targets for Bank approval. The Bank will conduct inspection visits and ex post reviews as part of program monitoring.

3.12 **Evaluation.** The program will be evaluated against the annual targets and indicators of the outcomes and outputs set out in the Results Matrix for the program, through a midterm and a final evaluation using the ex ante and ex post evaluation methodology. Furthermore, an ex post economic evaluation is included to determine whether the returns estimated in the ex ante evaluation were realized. These evaluations will be financed from the loan.[70] Also to be included is an ex post evaluation of the PPP projects' value for money, whose objective is to corroborate whether the expected fiscal efficiency of these projects in the structuring stage was obtained during the execution and service delivery stage (see monitoring and evaluation plan). The borrower, on its own or acting through the executing agency, will prepare and send to the Bank a midterm evaluation report within 90 days after the date on which 50% of the proceeds have been disbursed or 40 months of program execution have elapsed, whichever occurs first. It will also send to the Bank a final evaluation that will be used as input for the project completion report within 90 days after the date on which 95% of the loan proceeds have been disbursed.

[70] The MEF will commission these evaluations, and the terms of reference will receive approval of both executing agencies and the no objection of the Bank.

Development Effectiveness Matrix		
Summary	EC-L1230	
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -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 (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2924	Rise private participation in public investing in infrastructure and other public assets
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 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	7.7	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	1.7	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	8.0	
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	0.0	
5. Monitoring and Evaluation	8.5	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.0	
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	B.13	
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, External Control, Internal Audit. Procurement: Information System, Price Comparison, 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	The Bank supports the development of the PPP program in Ecuador since 2015, including technical assistance for the formulation of the regulatory and institutional framework for the PPP program and the pre-structuring of projects in the energy and transport sectors. With the ATN / FG-16265-EC, the Bank is supporting the institutional development of the PPP program in the BDE, which will facilitate the implementation of the proposed operation. The operation is supported by the ATN / OC-16929-EC, recently approved, of institutional strengthening of the MEF.

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

The main objective of the operation is to increase the participation of private resources in public investment in infrastructure at the national and subnational levels in Ecuador. To achieve this end, the proposal defines three specific areas in which the project will intervene. The first area is public employees' capacity to manage private participation in public investment through public-private partnerships (PPPs). The second area is the barriers to structure public investment projects under the PPP modality. The third area is the barriers in fiscal management, financing tools and structuring of subnational public investment projects under the PPP modality. The "Decentralized Autonomous Governments" (DAGs) are responsible for public investment at the subnational level.
The project proposal diagnoses an annual national public investment gap of US $ 30 million. This gap must be addressed in a context of fiscal deficit and cuts in public spending in Ecuador. The Ministry of Economy and Finance has identified that it would be appropriate to finance US$6.1 million annually via PPPs, which is equivalent to 5.8% of GDP 2018 (at current prices). In addition, at the subnational level new funds are required to maintain the average capital expenditure (2015-2017) which is US$ 1.3 million or 1.2% of GDP. In this context, the program aims to promote a greater participation of the private sector in the execution of public investment through PPPs. The diagnosis identifies gaps in the ability to assess the fiscal impact of PPP projects, including their firm and contingent liabilities; gaps in the availability of resources to finance PPPs structuring at the national level; and identifies a limited private offer of long-term financial tools and lack of qualified officials in DAGs as barriers for structuring PPPs at the subnational level.
The economic analysis provides a quantification of the government's savings due to a greater PPP participation in public investment. The quantification of benefits is associated with the savings that occurs with the financing of these projects by the private sector. The analysis considers the annual costs of the intervention to finance all the program's products. The analysis concludes with a net present value of US $ 5 million and an internal rate of return (IRR) of 21%.
The monitoring is based on semi-annual reports from the Ministry of Economy and Finance. The evaluation of the expected impact and results will be done through a before and after methodology. Additionally, this analysis will be complemented with an ex-post economic and also, an ex-post value-for-money analysis.
There are no risks that are classified as high.

RESULTS MATRIX

Project objective:	The general objective is to increase the participation of private resources in public investment in infrastructure and services at the national and subnational level. The specific objectives are to: (i) strengthen public investment fiscal management instruments through public-private partnerships (PPPs); (ii) increase the amount of public investment structured and tendered under the PPP modality at the national level; and (iii) increase the amount of public investment structured and tendered under the PPP modality among the decentralized autonomous governments (GADs).

EXPECTED IMPACT

Indicator	Unit of measurement	Baseline	Baseline year	2019	2020	2021	2022	2023	Final target	Means of verification	Comments
Impact 1: Increase public investment with resources from PPPs as a % of GDP[1]											
Stock of committed public investment from PPPs/GDP	% (US$/US$)	1.9	2017	1.9	1.9	2.0	2.2	2.4	2.4	Annual budget report presented by the Ministry of Economy and Finance (MEF)	**Baseline:** 1.8% = Stock of committed public investment from PPPs (US$1,980,000,000/GDP (US$104,296,000,000 – 2017 constant prices)

[1] The estimated public investment gap is US$30.25 billion in the period 2019-2023. The program will cover 2.3% of the total gap.

EXPECTED OUTCOMES[2]

Indicator	Unit of measurement	Baseline	Baseline year	2019	2020	2021	2022	2023	Final target	Means of verification	Comments
Outcome 1: Increase in % of PPP projects structured with fiscal impact analysis											
Number of PPP projects structured with fiscal impact analysis/Total of PPP projects	%	33.3	2017	33.3	50	50	75	100	100	The MEF annual PPP project management report	**Baseline**: 33.3 = Number of PPP projects with fiscal impact analysis (2) / Total of PPP projects structured (6)
Outcome 2: Increase in % of the amount of national PPP projects structured and tendered											
Amount of national PPP projects structured and tendered/GDP	%	2.0	2017	2.0	2.0	2.3	2.7	3.0	3.0[3]	The MEF annual PPP project management report	**Baseline:** 1.9 = Amount of structured PPP projects already tendered (US$2,121,000,000)/GDP (US$104,296,000,000)
Outcome 3: Increase in % of the amount of investment in PPP projects structured and tendered for GADs											
Amount of GAD PPP projects structured and tendered/GDP	%	0.14	2017	0.14	0.14	0.25	0.40	0.57	0.57	The annual management report from the unit responsible for PPPs at the BDE	**Baseline:** 0.13 = Amount of structured GAD PPP projects already tendered (US$141,000,000)/GDP (US$104,296,000,000)

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2 The expected outcomes are cumulative.

3 Target: US$2.85 billion structured between 2019 and 2023, which equals 47% of the (national and subnational) PPP project structuring gap provided for by the government for this period (MEF 2018).

OUTPUTS[4]

Indicator	Unit of measurement	Baseline	Baseline year	2019	2020	2021	2022	2023	Final target	Means of verification
Component 1: Creation and strengthening of responsible public investment fiscal management instruments through PPPs										
1.1 Model for identify, analyzing, and mitigating risks of PPP projects prepared and implemented.	Model	0	2017	1	0	0	0	0	1	Report from the MEF National Public Expenditure Quality Unit (DNCGP) presented evidence of implementation of each model (outputs 1.1-1.2 and 1.4-1.5) and guidelines (output 1.3).
1.2 Optimized budget availability analysis model prepared and implemented.	Model	0	2017	1	0	0	0	0	1	
1.3 Guidelines to assess, record, and manage firm and contingent commitments prepared and implemented.	Guidelines	0	2017	0	1	0	0	0	1	
1.4 Optimized fiscal sustainability analysis model prepared and implemented.	Model	0	2017	0	1	0	0	0	1	
1.5 PPP contract management model prepared and implemented.	Model	0	2017	0	1	0	0	0	1	
1.6 PPP project records module (*software*) developed.	Software	0	2017	0	1	0	0	0	1	At least one user has used the module developed.
1.7 Public servants trained in PPPs.	Public servants	0	2017	0	30	30	30	30	120	MEF report with number of participants attending the course.
Component 2: Strengthening of instruments for structuring public investment projects under the PPP modality at the national level										
2.1 Public infrastructure assets recycling program implemented.	Program	0	2017	0	1	0	0	0	1	Annual management report from the unit responsible for PPPs at the MEF.
2.1.1 Report identifying assets subject to program prepared.	Report	0	2017	1	0	0	0	0	1	Report approved by the MEF.

[4] The results are annual.

Indicator	Unit of measurement	Baseline	Baseline year	2019	2020	2021	2022	2023	Final target	Means of verification
2.1.2 Terms of reference and tender documents of structured PPP projects prepared.	Terms of reference and tender documents	0	2017	1	2	0	0	0	3	Terms of reference and tender documents approved by the MEF.
2.1.3 Evaluation report of proposals and awarding of structuring contracts.	Report	0	2017	1	2	0	0	0	3	Reports approved by the MEF.
2.1.4 Monitoring reports on structuring processes.	Report	0	2017	1	2	0	0	0	3	Reports approved by the MEF.
2.1.5 Document with the design of the PPP development fund.	Document	0	2017	1	0	0	0	0	1	Document on fund design approved.
2.2 Structuring studies of PPP strategic projects in priority sectors.	Projects	0	2017	0	2	1	0	0	3	Structured projects.
Component 3: Enhancement of GAD public investment with private sector participation										
3.1 Structuring studies of public investment projects under the PPP modality.[5]	Studies	0	2017	0	1	3	4	4	12	Annual report on structuring studies by the PPP projects unit at the BDE finalized and submitted.
3.2 Guarantee fund for bankability of GAD PPP projects designed and implemented.	Fund charter	0	2017	0	0	1	0	0	1	Fund charter approved.
3.3 Projects that receive guarantees from the PPP guarantee fund.	Projects	0	2017	0	0	1	1	0	2	Project guarantee contracts through the PPP guarantee fund signed.
3.4 BDE and GAD public servants trained with regard to PPPs.	Public servants	0	2017	0	40	40	40	40	160	BDE report with number of participants attending the course.

[5] Including the preparation of studies only up to the pre-structuring stage, if at that point they were determined not to be viable as PPPs.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Ecuador
Name:	Program to Enhance Fiscal Capacity for Public Investment (EC-L1230)
Executing agencies:	Ministry of Economy and Finance (MEF) and the Development Bank of Ecuador (BDE)
Prepared by:	Juan Carlos Dugand and Gumersindo Velázquez (FMP/CEC)

I. SUMMARY

1.1 This document contains the fiduciary procurement and financial management agreements for program execution, prepared in keeping with: (i) the country's fiduciary context; (ii) fiduciary risk evaluation; (iii) execution supervision activities for loans executed by the MEF and the BDE; (iv) institutional capacity analysis of the MEF and the BDE; and (v) inputs from meetings with teams and entities involved in project execution.

II. THE COUNTRY'S FIDUCIARY CONTEXT

2.1 **National procurement system.** The respective agreement was signed on 13 May 2014; implementation of use of the country system was launched on 24 September 2014; and Resolution No. RE-SERCOP-2014-0000014 was published on 4 November 2014. Use of the country system applies to procurement and contracting of: (i) goods and nonconsulting services and works whose estimated value is less than the threshold amount stipulated by the Bank for international competitive bidding (ICB); and (ii) consulting services provided by firms, the estimated value of which is less than $200,000—contracts for which the short list may be entirely made up of national firms in accordance with the policy regarding consultants.

2.2 **Financial management system.** Central government agencies use the Integrated Financial Management System (e-SIGEF), which integrates budget, accounting, and cash management processes. Government agencies are subject to the control and oversight of the Office of the Comptroller General of the State (CGE). In general, the national financial management systems have an adequate level of development, although they need to be supplemented for purposes of executing IDB-financed projects with regard to financial reports with non-accounting records and external auditing by audit firms regarded as eligible by the IDB. The government is implementing a new system to replace e-SIGEF, which is expected to come on line in 2020.

III. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

3.1 The MEF and the BDE are the executing agencies for the program. They will execute the program separately because they are subject to different legal regimes.

3.2 The BDE is a public financial institution, which has its own legal status, administrative, financial, and budget autonomy, and is overseen by the Superintendency of Banks and subject to regulations that apply to the Ecuadorian financial system; however, because the State's ownership interest in the BDE is over 50%, it is likewise subject to the provisions that apply to public agencies, such as the Basic Law on the National Public Procurement System. The BDE has extensive experience in executing IDB-financed programs through loans provided to GADs.

3.3 The MEF executes IDB-financed programs through an General Coordination Office for IDB Projects, which supports procurement, financial management, and monitoring, and institutional areas are responsible for the technical aspects in keeping with their remit.

3.4 The MEF and the BDE have been using the national systems for procurements, which are recorded on the public procurement portal. The MEF uses the national e-SIGEF system for financial management, while the BDE depends on its own computer system. Both institutions have internal control units, which are subject to the external control of the Office of the Comptroller General of the State.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

4.1 The following risks have been identified: (i) there could be delays in fund transfers from the MEF to the BDE, which could hold up program execution and hamper traceability of funds (medium risk). As a mitigation measure, the MEF and the BDE are to agree to the mechanisms and deadlines for funds to be transferred to the BDE in the subsidiary agreement they sign, and there are to be monthly reconciliations of the report obtained from the treasury single account (TSA) to identify the inflows and outflows at each institution; and (ii) the funds that the BDE provides to the GADs may not be properly tracked (low risk). As a mitigation measure, the loan contracts between the BDE and the GADs establish the GADs' obligation to open and keep separate bank accounts in which the IDB funds will be deposited and to include these accounts in the bank reconciliations of the program that the BDE carries out. Furthermore, funds will also only be disbursed to the GADs when they have actual payment commitments.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

5.1 **Procurement execution.** The initial procurement plan will be for the first 18 months and will be updated annually or as necessary throughout the duration of the program; the procurement plan will be managed using the Procurement Plan Execution System (SEPA).

a. **Procurement of goods, works, and nonconsulting services (Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank, document GN-2349-9)**. The threshold determining the

use of international competitive bidding (ICB) is indicated in Table V-1. Contracts for goods, works, and nonconsulting services provided for under the program and subject to ICB will use the standard bidding documents issued by the Bank. The procurements subject to national competitive bidding and shopping will use the documents agreed to by the Bank.

b. **Selection and contracting of consultants.** For the selection and contracting of consulting services, any of the methods described in the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) may be used, provided that the method has been identified in the procurement plan approved by the Bank. The threshold determining the use of a short list of international consultants is indicated in Table V-1. Contracts generated under the program for services provided by consulting firms will use the standard request for proposals issued by the Bank.

c. **Selection of individual consultants.** In the cases identified in the approved procurement plans, contracting of individual consultants will provide for preparation of a short list of qualified individuals obtained through local or international competitions, where appropriate, in keeping with the provisions set forth in Section V, paragraphs 5.1 to 5.4 of document GN-2350-9. The MEF plans to hire individual consultants directly for coordination and expert positions in monitoring and planning, financial matters, and procurement, as well as operational support. These consultants are already part of the executing agency, whereby, pursuant to paragraph 5.4(a) of the Policies for the Selection and Contracting of Consultants, they will be contracted to provide continuity of service. Their services will be financed throughout the entire program as from November 2019, inasmuch as until that date they are covered by IDB funds from loan 3726/OC-EC.

d. **Training.** The procurement plan will list the procurements that apply to the project components that include training and will be contracted as consulting or nonconsulting services.

e. **Use of the national procurement system.** Use of the National Public Procurement System[1] in Bank-financed programs is provided for under the agreement mentioned in paragraph 2.1.

f. **Domestic preference.** Offers of goods originating in the country of the borrower will have a price preference[2] equal to 15% in contracts subject to ICB.

g. **Retroactive financing and recognition of expenditures.** The Bank may provide retroactive financing, chargeable to the loan, for up to US$5,000,000 (10% of the loan amount) in eligible expenditures made by the borrower before the loan approval date for the purpose of engaging the consulting services needed to prepare the conceptual designs and establish the execution units, provided that requirements that are substantially similar to

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1 Were the Bank to validate another system or subsystem, this would be applicable to the operation in keeping with the provisions set forth in the Loan Contract.

2 Appendix 2 of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Loan Contract.

those set forth in the loan contract have been met. These expenditures are to have been made on or after 13 July 2018, the project profile approval date, but under no circumstances will include expenditures made more than 18 months prior to the loan approval date.

h. **Others.** Activities for Components 2 and 3 include the implementation of two funds, one at the MEF, which is for structuring strategic PPP projects in priority sectors, and another at the BDE, which is a guarantee fund for the bankability of PPPs in the GADs. The program Operating Regulations will establish guidelines regulating the use of both funds, including the use of monies they may recover in the future. Disbursement of these proceeds to the funds will be considered an eligible expenditure for the program.

5.2 Threshold amounts for ICB and international short list.

Table V-1. Threshold amounts (US$)

Works			Goods			Consulting services	
ICB	NCB	Shopping	ICB	NCP	Shopping	Inter-national publicity, Consulting services	Short list 100% National
≥3,000,000	<3,000,000 ≥250,000	<250,000	≥250,000	<250,000 ≥50,000	<50,000	≥200,000	<200,000

5.3 Since the main procurement items are part of the Fiduciary Agreements and Requirements, they are the responsibility of the procurement officer. The program's main procurements are to be prepared with the information that is generated when drawing up the procurement plan—a joint undertaking of the procurement officer together with the procurement and technical units of the institution leading the program and the sector specialist, who is to ensure that the procurement items are aligned to attain program outcomes and outputs. Once the loan is approved, the executing agency will be responsible for preparing the procurement plan,[3-4] and the procurement officer will ensure that the procurement items are appropriate and have the quality expected in keeping with procurement policies.

[3] Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.16; Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (document GN-2350-9), paragraph 1.23. The Borrower is to prepare and, prior to loan negotiations, submit to the Bank for its approval a procurement plan acceptable to the Bank for an initial period of at least 18 months.

[4] See Guide for preparing and implementing the procurement plan.

Table V-2. Main procurement items

Activity	Selection method	Estimated date of invitation	Estimated amount (US$000)
Consulting services provided by firms			
Pre-structuring and structuring studies of public investment projects under PPPs prepared. 12 studies in different GADs are planned.	QCBS	1st quarter 2020	10,826
Pre-structuring and structuring studies of public investment projects under PPPs prepared.		1st quarter 2019	15,000
Development of regulations, analysis methodologies, and standardized risk matrices that regulate identification, analysis, and mitigation of PPP project risks, as well as associated training (Monte Carlo risk analysis and methodology and value for money analysis).		3rd quarter 2018	773
Specialized consulting services to develop the (reimbursable) fund for structuring PPP strategic projects.		1st quarter 2020	407
Nonconsulting goods and services			
Technical, financial, and legal training of MEF public servants in determining and developing PPP projects (120-hour course: (i) PPP certification; (ii) value for money, financial, and risk analysis; and (iii) contract management).	ICB	3rd quarter 2020	315
Consulting services provided by individuals			
Specialized - fiduciary consulting for the trust that manages the guarantee fund. 1 consultant for 48 months.	3CV	1st quarter 2020	216
Specialized consulting for technical support of the GAD PPP projects. 1 consultant for 48 months.	3CV	1st quarter 2019	247
Four individual consultants to provide services as a coordinator and as experts in monitoring and planning, financial matters, procurement, and operational support. The MEF will contract 5 consultants for 50 months in accordance with paragraph 3.4(a) of the policies for selection and contracting of consultants regarding continuity of services.	DC	4th quarter 2019	922
Funds			
At the MEF, the (reimbursable) fund for structuring strategic PPP projects in priority sectors (including transportation, energy, water and sanitation), which is sustained by reimbursements from the structuring studies, developed and implemented, and at the BDE, the Guarantee Fund for bankability of the GAD PPP projects developed and implemented.	Program Operating Regulations		26,382

5.4 **Procurement supervision.** The contracts subject to ex post review by the Bank will be drawn up in accordance with the provisions set forth in Appendix 1 of documents GN-2349-9 and GN-2350-9; contracts for amounts that are equal to or greater than those indicated in Table VI-3, will be supervised ex ante. Bank ex post

review visits will be conducted at least once every 12 months. The ex post review reports will include at least one physical inspection visit, where applicable.

Table V-3. Ex post review threshold (US$)

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

Note: The threshold amounts established for the ex post review are applied according to the executing agency's fiduciary execution capacity and may be modified by the Bank to the extent that this capacity changes.

5.5 **Records and files.** Each executing agency is to keep up-to-date records and duly organized files with documentation relevant to procurement and contracting in a single folder that is clearly distinguishable from the processes financed from each of the sources that are part of the program.

VI. Financial Management Agreements and Requirements

6.1 **Programming and budget.** The Basic Law on Planning and Public Finances sets forth the provisions that govern the programming, formulating, approval, execution, control, evaluation, and settlement of budgets. These provisions are applied to execution of Bank-financed programs in the country. The integrated e-SIGEF system as well as the new system that the government is developing implement and standardize application of these provisions throughout the entire national public management structure. The MEF will make arrangements to obtain and update the opinion on the program's priority and the program's inclusion in the Government Annual Investment Plan, the respective budget allocations, and the guarantees needed for contracting processes and will oversee budget execution through the respective systems. The BDE, given its budget autonomy, will manage its own approval and execution of the budget needed for the component that it is executing.

6.2 **Accounting and information systems.** In the MEF's case, the project's accounting will be done using e-SIGEF or the new system the government is developing when it begins operating, where all program commitments and payments will be recorded; non-accounting records, however, will also be required in order to keep detailed records according to each component and to generate the program's financial reports, while the reliability of the new system and its reports are verified. The BDE will keep its own records and will provide the information needed to the MEF to prepare and present the consolidated financial statements for the program to the IDB.

6.3 **Disbursements and cash flow.** In 2008 the Government of Ecuador created the treasury single account (TSA) mechanism through which treasury management of all central government agencies was unified.

6.4 The implementation of this mechanism did not eliminate the system of special or specific purpose accounts used at the Central Bank of Ecuador (BCE) to receive multilateral loan financing. The program will have an exclusive account at the BCE, to which proceeds from the loan will be disbursed. For the funds the BDE is to

execute, the MEF will subsequently transfer funds to a BDE-held account at the BCE within 15 calendar days of the date the IDB's disbursement is made to the MEF. Payments under the program in the MEF's case will be executed through the e-SIGEF system or the new system by debiting the TSA; for the BDE, this will be done from the account it holds at the BCE using its own record-keeping system.

6.5 The Bank will process loan disbursements using the advance of funds modality for each executing agency separately according to the actual liquidity needs of the project, including the payment commitments undertaken by the GADs in the BDE's case, in accordance with the financial plan and itemized cash flow, for a maximum period of up to six months. At the request of the borrower, the Bank may also make direct payments to suppliers or reimburse expenditures. In the Bank's systems, the components that the MEF executes will be handled as one subloan and the component that the BDE executes as another subloan in order to manage the advances separately.

6.6 The BDE will disburse the loans it provides to the GADs in accordance with real payment commitments and to an exclusive account that each GAD is to have in order to receive funds from the IDB loan.

6.7 Reporting in relation to the advances will be done pursuant to the provisions sets forth in document OP-273-6. Once 80% of prior advances have been substantiated, a new disbursement may be made.

6.8 The review of supporting documents of payments made is conducted by the Bank and/or external auditors subsequent to the disbursement of proceeds.

6.9 **Internal control and auditing.** The Constitution of the Republic of Ecuador stipulates that the CGE is the agency responsible for managing the public sector oversight system. The executing agencies, as part of the public sector, have their own internal auditing divisions that fall directly under the CGE. The Bank, however, does not use their services as these divisions do not include in their auditing plans review of the project. The program Operating Regulations will include the main internal oversight processes needed to ensure that the controls are working appropriately. During execution, the fiduciary team will evaluate compliance and quality of these processes.

6.10 **External control and reports.** Inasmuch as the CGE does not have sufficient capacity at this time to exercise external control over projects financed with funds from external borrowing, the project's external auditing will be carried out by independent auditors acceptable to the Bank, in accordance with IDB requirements (document OP-273-6). The firm will be hired by the MEF for the entire program, including what the BDE executes, based on terms of reference previously agreed to with the IDB, and may be financed with loan proceeds. During execution, audited financial reports are presented annually within 120 days following the close of each fiscal year or the date of the last disbursement. The IDB may also require the executing agencies to provide non-audited financial reports or statements related to the project when it deems so necessary.

6.11 There is no national public disclosure policy for audited reports; nevertheless, the project's audited reports are to be published in the Bank's systems in accordance with its current information access and disclosure policy.

Table VI-1. Supervision plan

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Responsible party	
			Bank	Third parties
Operational	Progress report review	Semiannually	Project team	
	Portfolio review with executing agencies and the MEF	As per MEF requirements	Project team	BDE and MEF
Financial	Review of cash flow programming and disbursement execution.	At the request of the Bank, with each advance requested, during portfolio reviews or supervision visits.	Project team	
	Supervision visits	Annually	Fiduciary specialist	
	Review of audited and non-audited financial reports	Annually	Fiduciary specialist and the project team leader	
	Review of disbursement requests	Periodically	Fiduciary and sector team	
Procurement	Ex post review of procurement	As per the supervision plan	Project team leader and the fiduciary specialist	
	Ex ante review of procurement	As per the procurement plan	Project team leader/with support from the procurement specialist	
	Update of procurement plan	Annually	Project team leader with support from the procurement specialist	
Compliance	Fulfillment of conditions precedent	Once	Project team	
	Review of budget allocations	Annually	Project team	
	Presentation of audited financial reports	Annually	Project team leader and the fiduciary specialist	BDE and MEF / Auditor

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/18

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Program to Enhance Fiscal Capacity
for Public Investment

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 Program to Enhance Fiscal Capacity for Public Investment. Such financing will be for the amount of up to US$50,000,000 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 ___ ___________ 2018)

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EC-L1230