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ECUADOR

PROGRAM TO ENHANCE FISCAL CAPACITY FOR PUBLIC INVESTMENT

LOAN CONTRACT 4670/OC-EC
(EC-L1230)

PROPOSED MODIFICATION

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CONTENTS

Annexes	
Annex I	Summary Development Effectiveness Matrix
Annex II	Updated Results Matrix

Links
1. Government request
2. Resignation of the BDE as program coexecuting agency
3. Environmental and social management report
4. Program economic analysis
5. List of public investment projects to be financed under the PPP modality over the 2023-2025 period
6. Multiyear execution plan and annual work plan

ABBREVIATIONS

BDE	Development Bank of Ecuador
CCF	Contingent Credit Facility for Natural Disaster Emergencies
GAD	Decentralized autonomous government
MEF	Ministry of Economy and Finance
PPP	Public-private partnerships
SIPP	Secretaría de Inversiones Público Privadas del Ecuador [Department of Public-Private Investments]
STAPPG	Secretaría Técnica de Asociaciones Público Privadas y de Gestión Delegada [Technical Secretariat for PPPs and Delegated Management]
VAT	Value-added tax

PROJECT SUMMARY

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LOAN CONTRACT 4670/OC-EC
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<table>
<tr><th colspan="6">Financial Terms and Conditions</th></tr>
<tr><td colspan="3">Borrower:</td><td colspan="2">Flexible Financing Facility[a]</td></tr>
<tr><td colspan="3">Republic of Ecuador</td><td>Amortization period:</td><td rowspan="9">Unchanged</td></tr>
<tr><td colspan="3">Executing agencies:</td><td>Disbursement period:</td></tr>
<tr><td colspan="3">Ministry of Economy and Finance (MEF) and Department of Public-Private Investments (SIPP)</td><td>Grace period:</td></tr>
<tr><td>Source</td><td>Amount (US$)[b]</td><td>%</td><td>Interest rate:</td></tr>
<tr><td>IDB (Ordinary Capital):</td><td>43,753,372</td><td>99.74</td><td>Credit fee:</td></tr>
<tr><td rowspan="2">Local:</td><td rowspan="2">112,524</td><td rowspan="2">0.26</td><td>Inspection and supervision fee:</td></tr>
<tr><td>Weighted average life:</td></tr>
<tr><td>Total:</td><td>43,865,896</td><td>100.00</td><td>Approval currency:</td></tr>
</table>

<table>
<tr><th colspan="4">Project at a Glance</th></tr>
<tr><td colspan="4">Project objective/description: The general development objective is to increase the participation of private resources in public investment in infrastructure and services at the national level. The specific objectives are to: (i) strengthen public investment fiscal management instruments through public-private partnerships (PPPs); and (ii) increase the amount of public investment structured and tendered under the PPP modality at the national level.</td></tr>
<tr><td colspan="4">Special contractual conditions precedent to disbursement and execution after the modification: None.</td></tr>
<tr><td colspan="4">Exceptions to Bank policies: None.</td></tr>
<tr><th colspan="4">Strategic Alignment (unchanged)</th></tr>
<tr><td>Challenges:[c]</td><td>SI ☐</td><td>PI ☒</td><td>EI ☐</td></tr>
<tr><td>Crosscutting themes:[d]</td><td>GE ☐ and DI ☐</td><td>CC ☐ and ES ☐</td><td>IC ☒</td></tr>
</table>

[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, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[b] See paragraph 3.9.

[c] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[d] GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Summary of the Proposed Modifications

1.1 The objectives of this proposed modification to the Program to Enhance Fiscal Capacity for Public Investment (loan 4670/OC-EC), approved by the Board of Executive Directors on 14 November 2018 (Resolution DE-095/18), are to adjust the definition of the project's objectives and expected outcomes affected by the COVID-19 pandemic, which changed political priorities (paragraphs 2.5 and 2.6) and reduced the availability of resources for the program (paragraph 2.4), and to authorize a redistribution of resources across the project components.[1] Since the proposed modification would substantially and fundamentally impact the project objectives as originally approved, approval by the Board of Executive Directors is required.[2]

II. Modification of Loan 4670/OC-EC – Background

A. Progress in implementation

2.1 On 14 November 2018, the Board of Executive Directors approved the Program to Enhance Fiscal Capacity for Public Investment for a total of US$64.03 million. Of that amount, the Bank was to finance US$50 million from its Ordinary Capital resources, while the Republic of Ecuador committed to provide a counterpart contribution of US$14.03 million (US$10 million through the Development Bank of Ecuador (BDE), and US$4.03 million corresponding to the value added tax (VAT), which the Bank was not allowed to finance at the time in Ecuador). The Bank and the Republic of Ecuador signed loan contract 4670/OC-EC on 10 April 2019. Table 1 summarizes the characteristics of the project as approved.

Table 1. Characteristics of the project as originally approved

Objectives
General objective
The general objective is to increase the participation of private resources in public investment in infrastructure at the national and subnational level.
Specific objectives
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).
Components
Component 1. Creation and strengthening of responsible public investment fiscal management instruments through PPPs
Component 2. Strengthening of instruments for structuring public investment projects under the PPP modality at the national level
Component 3. Enhancement of GAD public investment with private sector participation
Program administration and contingencies.

1 By an amount greater than 40% of the originally approved amount (paragraph 5.3 of Section PR-200).

2 See Board Resolution DE-39/91, as amended by Board Resolution DE-28/29.

Expected outcomes
(a) Associated with specific objective (i): an increase in the percentage of structured PPP projects with fiscal impact analysis from 33.3% in 2017 to 100% in 2023; (b) Associated with specific objective (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 (c) Associated with specific objective (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. The expected impact is the increase in public investment with PPP resources as a percentage of GDP from 1.9% of GDP in 2017 to 2.4% in 2023.

2.2 **Disbursements.** On 10 October 2019 the borrower fulfilled all of the conditions precedent to the first disbursement of US$385,818, which took place on 27 November 2019. Subsequently, in March 2021, an additional US$289,384 was disbursed (US$675,203 total, of which US$342,704 has been justified).[3] Additionally, in 2021, US$6.2 million was redirected to health operations related to the COVID-19 pandemic (paragraph 2.4). Of the remaining US$43.75 million, 98% has not yet been disbursed.

2.3 **Contract modification.** On 12 February 2020, as a result of a policy change regarding the financing of the VAT on investments by multilateral organizations, the Ministry of Economy and Finance (MEF) requested that the IDB modify the loan contract to reduce the amount of the local counterpart contribution by US$2,389,163 (from US$14,034,095 to US$11,644,932). This agreement was enshrined in Amendatory Contract 1 signed on 8 May 2020.

2.4 **Redirection of resources.** On 7 October 2021, the MEF requested that the Bank redirect US$6,246,628 from this program (12.49% of IDB financing) to operation EC-L1272 "Emergency Loan for Natural Disaster Emergencies – COVID-19 Coverage" (loan 5136/OC-EC), based on the Automatic Redirection List associated with the Contingent Loan for Natural Disaster Emergencies (operation EC-O0006), approved by the Board of Executive Directors in 2019

3 These funds have been used to execute: (i) specialized consulting services to analyze PPP projects; (ii) consulting services for the public infrastructure asset recycling program; (iii) trainings on PPPs for public servants; and (iv) program administration.

(Resolution DE-163/19).[4] Reducing the funds hindered the achievement of the program objectives, despite the fact that the amount was moderate in proportion to the total amount of funding (12.49%).

2.5 **New PPP policy and institutional framework in Ecuador.** In the midst of the pandemic, and despite this ongoing Program to Enhance Fiscal Capacity for Public Investment (loan 4670/OC-EC) and the strong emphasis on PPP policy contained in the Program to Support Improved Fiscal Management and Productive Development (loan 4825/OC-EC, a policy-based loan),[5] the outgoing administration (2017-2021) did not structure or contract any public investment under the PPP modality between the program approval date in April 2019 and the general elections held in April and May 2021. In contrast, the government formed after the 2021 general elections has made the promotion of privately financed public investment a priority. The new administration rolled out a new institutional framework in a process involving three major milestones: (i) in May 2021, the President of Ecuador appointed an *ad honorem* government advisor for public-private partnerships and investments; (ii) on 19 November 2021, the Technical Secretariat for PPPs and Delegated Management (STAPPG) was established by

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[4] The Contingent Credit Facility for Natural Disaster Emergencies (CCF) provides extraordinary financing with rapid access to financial resources to handle extraordinary fiscal expenditures stemming from emergencies caused by disasters of severe or catastrophic magnitude. On 11 March 2020, the World Health Organization (WHO) declared COVID-19 a pandemic, and the Bank's response was structured around four areas of action: (i) the immediate public health response; (ii) safety nets for vulnerable populations; (iii) economic productivity and employment; and (iv) fiscal policies for the amelioration of economic impacts. Under this strategic framework, on 14 May 2020 the Bank's Board of Executive Directors approved the Proposal to Expand the Contingent Credit Facility for Natural Disaster Emergencies to Include Health Risks (document GN-2999-4). These temporary operating provisions allowed countries with an active CCF loan to allocate US$90 million or 0.6% of GDP (whichever is less) of existing coverage to the immediate pandemic response. This operation closed on 8 November 2021; according to the project completion report, the operation provided financial coverage for COVID-19 that was efficient in terms of financial cost and the speed of access to these resources. With regard to the financial cost indicator, the project met the target of providing the country with cost-efficient resources to finance early-response public health spending. In particular, financing this spending with loan funds instead of alternative sources entailed financial savings of more than 900 basis points for Ecuador. With regard to the speed of access indicator, only 10 calendar days elapsed between the coverage activation date (24 October 2020) and the value date of the first disbursement (2 November). The rapid availability of loan resources enabled Ecuador to carry out urgent public health activities, particularly in the delivery of hospitalization and intensive care services for suspected COVID-19 patients, thus saving lives.

[5] Under Component 3 (improvement of expenditure quality and efficiency), the policy actions for the first tranche included: (i) submission to the National Assembly of reforms to the PPP Incentives Act, which include: (a) improvements to the interagency coordination framework of the PPP program, including defined responsibilities for the identification, evaluation, and management of fiscal risks arising from such projects, as well as defined responsibilities for PPP structuring processes; (b) the definition of a regulatory framework governing the modernization of public assets; and (c) the definition of processes for managing unsolicited private initiatives; (ii) establishment of regulations for handling contingent liabilities arising from PPP projects and for multiyear certification processes for fiscal commitments under PPP projects; (iii) creation of a PPP Unit for subnational governments at the BDE; and (iv) approval of the first PPP environmental impact management plan for the Puerto Posorja project. Policy actions for the second tranche included: (i) approval of the regulations of the PPP Incentives Act, including regulations for: (a) the new institutional coordination framework for the program; (b) the execution of infrastructure asset monetization initiatives; and (c) processes for managing unsolicited private initiatives; (ii) submission to the MEF, for its approval, of a proposal to create a guarantee fund for subnational PPPs, to make such public investment projects more attractive to private-sector banks; (iii) BDE PPP Unit operational and processing requests for structuring PPP projects; and (iv) preparation of quarterly reports on implementation of the Puerto Posorja Project Environmental Management Plan.

means of Executive Decree 260, which gave the new office a broad mandate in connection with PPP issues; and (iii) lastly, by means of Executive Decree 545 of 25 August 2022, the STAPPG was transformed into the Department of Public-Private Investments (SIPP) (paragraph 3.12), a government entity with full legal capacity and administrative and financial autonomy that is attached to the Office of the President of the Republic. The SIPP retained the public servants who had worked at the STAPPG as well as its director, who now holds a minister-level position.

2.6 **Insufficient demand for subnational PPPs.** The BDE promptly began execution of Component 3—relating to subnational PPPs—by setting up a management team, made the arrangements to create the Guarantee Fund envisaged in the program, and attempted to build a basket of 12 subnational investment projects to be structured under the PPP modality, as also provided in the program. After three years of efforts, and amid the difficult circumstances arising from the pandemic, the BDE was unable to set up the Guarantee Fund due to a lack of enabling legislation and only managed to identify one of the 12 candidate projects for PPP structuring called for by the program.[6] In these circumstances, the BDE elected "to not continue as coexecuting agency" and relinquish the resources allocated to it in IDB loan 4670/OC-EC (link 2).

2.7 **Second contract modification.** After deduction of the resources that were redirected (paragraph 2.4) and the transfer of the powers and responsibilities originally held by the MEF to the STAPPG (paragraph 2.5), Amendatory Contract 2 was signed on 6 July 2022 to recognize the STAPPG as coexecuting agency and to clarify the amounts of IDB funding and the local counterpart contribution, broken down by component, after the reduction.[7]

2.8 **Government's request for modification.** On 14 September 2022, the MEF's Deputy Secretary for Public Financing submitted a request to proceed with this modification, drawing attention to the various challenges in execution of the operation and referring to talks held with the Bank (link 1).

2.9 **Current situation**. As of 20 October 2022, the balance pending disbursement is US$43,078,168, with a final disbursement date of 10 April 2025, factoring in the extension requested herein (paragraph 3.9). Two major outputs of project execution are forthcoming: (i) consulting services to acquire knowledge products that will enable the MEF to identify, analyze, assess, and mitigate the fiscal risks stemming from contingent obligations arising from PPP contracts, amounting to an estimated US$991,000; and (ii) the formation of the PPP Promotion and Guarantee Fund, amounting to an estimated US$37,607,688. Both outputs are expected to be completed in the first quarter of 2023.

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6 "Santa Rosa and Huaquillas Special Economic Development Zones and Agroindustrial Ecopark," presented by the El Oro GAD.

7 Since the change in executing agency is not substantial, the modification was authorized by the Project Team Leader (Operations Administration Manual, Section OA-420). In contrast, this modification is required due to the change in objectives and outcomes and the amount of the resources transferred from Component 3 to Component 2, which exceeds 40% of the funding.

III. PROPOSED CHANGES AND RELATED IMPACT

A. Objectives and components

3.1 With regard to the objectives, the proposed modification calls for a partial change to the general objective as well as the elimination of one of the three specific objectives, as shown in Table 2.

Table 2. Original and modified objectives and components

Original objective	Proposed modification
General objective	
Increase the participation of private resources in public investment in infrastructure at the national and subnational level.	Increase the participation of private resources in public investment in infrastructure and services at the national level (the words "and subnational" have been removed)[8]
Specific objectives	
Specific objective 1: Strengthen public investment fiscal management instruments through PPPs.	Specific objective 1: Strengthen public investment fiscal management instruments through PPPs. (No change)
Specific objective 2: Increase the amount of public investment structured and tendered under the PPP modality at the national level.	Specific objective 2: Increase the amount of public investment structured and tendered under the PPP modality at the national level. (No change)
Specific objective 3: Increase the amount of public investment structured and tendered under the PPP modality among GADs.	Eliminated[9]

3.2 Due to the BDE's decision to not proceed with execution of Component 3, the program now has only two components, as the component that referred to PPPs at the subnational level is no longer included, as shown in Table 3. A detailed description of each component's outputs can be found in the program execution plan and annual work plan (link 6).[10] For supervision purposes, the BDE was the executing agency for Component 3 from the moment the operation was approved until the signing of the amendatory contract proposed herein, and the expenditures incurred by the BDE in the hiring of a specialized PPP team have been duly recorded as part of the counterpart contribution under the heading of program administration, based on the operation's supporting documentation.

8 As a result of the BDE's decision to not continue as coexecuting agency (paragraph 2.6).

9 Ibid.

10 This document will be updated prior to the signing of the Amendatory Contract.

Table 3. Original and modified components

Original component	Proposed modification
1. Creation and strengthening of responsible public investment fiscal management instruments through PPPs	No change
2. Strengthening of instruments for structuring public investment projects under the PPP modality at the national level	No change
3. Enhancement of GAD public investment with private sector participation	Eliminated

3.3 **Transfer of funds between components**. Pursuant to the request submitted by the Government of Ecuador, the IDB resources that had been allocated to the BDE, both under Component 3 and for program administration (US$26,704,718.52) would be transferred to Component 2 (see Table 6).[11] As a result of this change, the US$26,704,718.52 originally allocated to the BDE would be reassigned to Component 2 for the creation of a project structuring and development fund (paragraph 3.6).

3.4 **Beneficiaries.** Due to its resignation (paragraph 2.6), the BDE is no longer included among the program beneficiaries. Therefore, the program beneficiaries are now defined as indicated in Table 4.

Table 4. Beneficiaries, original loan proposal and modification

Original definition	Proposed modification
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.	The direct beneficiaries are the MEF, which will improve its capacity for PPP risk management, and the SIPP, which will secure funding to carry out its functions. The indirect beneficiaries are the people of Ecuador, who will benefit from higher quality and more sustainable investments in priority investment sectors.

B. Expected outcomes and effectiveness framework

3.5 There is no change in the **vertical logic**. The fundamental problem persists, as Ecuador still needs to bridge infrastructure gaps and regain growth, especially after the COVID-19 pandemic, and the program remains a valid instrument to do so. The State centrally concentrates its public investment promotion activity through PPPs. There is also no change in the strategic alignment (paragraph 3.16).

3.6 There is no change in the program's expected **impact**, which remains the increase in public investment with PPP resources as a percentage of GDP. Also maintained are the **outcomes** of: (i) an increase in the percentage of structured PPP projects

[11] The amount allocated to strengthening under Component 2 is 53.4% of the original IDB funding, which makes the modification extensive and substantial (Section PR-200, paragraph 5.3).

with fiscal impact analysis from 33.3% in 2017 to 100% in 2024;[12] and (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 2024.[13] The outcome relating to the increase in the percentage of the amount of investment in PPP projects structured and tendered for GADs has been removed.[14] As for the **outputs**, the program keeps the physical and financial targets for the Component 1 consulting services aimed at strengthening responsible public investment fiscal management instruments through PPPs. Component 2 now includes the tools for structuring public investment projects under the PPP modality at the national level, such as a report identifying assets likely to be recycled, a strategic communication plan for the SIPP, and, notably, the establishment of the PPP Project Development and Guarantee Fund, which will also be responsible for covering fiscal risks in delegated management projects thereby making it a key piece of SIPP operations and program execution. As originally envisaged, the fund's mandate was purely promotional. Following the reallocation of resources from Component 3 to Component 2, the fund grew from US$13.5 million to US$37.6 million. Its mandate has also been expanded; in addition to its promotional functions, it will serve as a guarantee, seeking to reduce risk premium costs and increase the number of private stakeholders in PPP projects.[15] The new allocation is considered better suited to the needs of program execution, given the fund's new functions and the higher volume of PPP investment, which is expected to be up to five times higher than originally anticipated (paragraph 3.7). Until the fund is established, the program may finance the structuring of PPP projects, up to the amount allocated to the SIPP.

3.7 **Monitoring and evaluation.** The monitoring and evaluation activities have not changed, except for the overlap of the midterm and the final evaluation.[16]

3.8 **Program economic analysis.** There is no change. On approval, the project had a cost-benefit analysis with a 16% internal rate of return (link 4). In that analysis, the program benefits stemmed from the savings provided to the government when a project is financed through a PPP as opposed to public works. The exercise assumed that 19 works amounting to US$2.9 billion would be financed through PPPs. Current SIPP projections indicate that Ecuador will invest US$15.176 billion in public investment across16 projects contracted under the PPP modality over the 2023-2025 period (link 5). Accordingly, assuming that the cost and benefit of PPP projects at the central and subnational levels are comparable, there is no need to update the economic analysis originally presented.

[12] This date is consistent with the new program period (until 10 April 2025).

[13] Ibid.

[14] The target was an increase from 0.14% in 2017 to 0.57% in 2023.

[15] The following amounts have been reallocated to Component 2: US$15 million allocated to the Guarantee Fund (Component 3), US$10 million allocated directly to the structuring of subnational projects (Component 3), and an amount for contingencies and administrative costs from Component 3.

[16] The midterm evaluation was slated for 90 days after the date on which 50% of the proceeds have been disbursed or after 40 months of program execution, whichever came first. The disbursement milestone has not been reached nor have 40 months elapsed since eligibility. If the prospects for disbursement in paragraph 2.9 are met, the event triggering the final evaluation (95% of disbursements) will occur at the same time as the trigger for the midterm evaluation, thus defeating the purpose of the midterm evaluation.

C. Financing and cost

3.9 The proposed modification does not change the total amount of financing, which remains at US$43,753,372.[17] However, the local contribution has changed with the elimination of most of the contributions that had been committed by the BDE, which is no longer part of the execution arrangement. The local contribution originally amounted to US$14,034,095. After the reduction in Amendatory Contract 1, it was set at US$11,419,201. The counterpart now seeks to eliminate the fiscal contribution altogether, except for an amount of US$112,524, which has already been spent and accounted for. The rationale for the elimination of the local contribution is as follows: the BDE had committed US$10 million to set up a guarantee fund for local PPPs, which in the end will not be set up due to the change in the project execution structure, and the change in the VAT criteria for public entities makes the additional fiscal contribution unnecessary. Table 5 details the effect of the automatic redirection of funds to health operations, while Table 6 compares the original and modified costs.

Table 5. Changes to the allocated amounts, by execution unit

Execution unit	Originally approved amount	2021 redirection	Current amount
MEF	20,048,653[18]	(3,000,000)	17,048,653
BDE	29,951,347[19]	(3,246,628)	26,704,719
Total	50,000,000	6,246,628	43,753,372

Table 6. Original and modified costs

	Original			Modified		
Category	**IDB**	**Local**	**Total**	**IDB**	**Local**	**Total**
Component 1. Creation and strengthening of responsible public investment fiscal management instruments through PPPs	1,883,930	226,072	2,110,002	991,072	0	991,072
Component 2: Strengthening of instruments for structuring public investment projects under the PPP modality	16,210,500	1,945,260	18,155,760	37,603,848	3,840	37,607,688
Component 3. Enhancement of GAD public investment with private sector participation	29,095,987	11,525,614	40,621,601	0	0	0

17 This amount was set following the Automatic Redirection List in October 2021.

18 Component 1 (US$1,883,930) + Component 2 (US$16,210,500) + Administrative costs (US$1,751,400) + Contingencies (US$202,823) = US$20,048,653.

19 Component 3 (US$29,095,987) + Administrative costs (US$554,400) + Contingencies (US$300,960) = US$29,951,347.

	Original			Modified		
Category	**IDB**	**Local**	**Total**	**IDB**	**Local**	**Total**
Program administration and management[20]	2,305,800	276,696	2,582,496	3,058,323	108,684	3,167,007
Contingencies	503,783	60,454	564,237	2,100,129	0	2,100,129
Subtotal	**50,000,000**	**14,034,095**	**64,034,095**	**43,753,372**	**112,524**	**43,865,896**
4. Redirection of resources to loans EC-L1272 and EC-L1216 Contingent loan for natural disasters and public health emergency – COVID-19	0	0	0	6,246,628	0	6,246,628
Total	**50,000,000**	**14,034,095**	**64,034,095**	**50,000,000**	**112,524**	**50,112,524**

D. Period

3.10 The deadline initially set for the last disbursement was 10 April 2024. To give the MEF and the SIPP enough time to achieve the program objectives, the team proposes a 12-month extension of the project period, until 10 April 2025.

E. Implementation

3.11 The MEF will have a PPP Technical Coordinator and a Project Manager.

3.12 **Institutional coordination**. Institutional coordination of the National PPP Program is the responsibility of the Inter-agency Public-Private Partnership Committee pursuant to Article 3 of Executive Order 545. The committee currently consists of (i) the head of the SIPP, who chairs the committee and casts the deciding vote as needed; (ii) the head of the apex agency for production and investment, who serves as vice-chair; (iii) the head of the apex agency for public finance; and (iv) the head of the apex agency for national planning.

F. Risks

3.13 Since risk management is an ongoing process, the project team examined the risks that currently affect the achievement of the program's development objectives. The team identified a medium-low risk relating to the possibility of encountering difficulties in allocating budget items for the SIPP, which would hinder execution of the activities planned for each component and achievement of the development objectives. The response plan is to transfer this risk to the SIPP and hold regular meetings with the SIPP and the MEF to ensure that the SIPP has budgetary funds. Lastly, the team identified another medium-low risk consisting of a possible lack of technical staff trained in PPPs or in specific areas of project management, as well as high staff turnover, which would prevent the consolidation of know-how. This risk is addressed through program-financed training plans.

3.14 The program will continue to be governed by the Environment and Safeguards Compliance Policy in effect at the time of approval (Operational Policies OP-703,

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[20] Program resources will be used to finance administration costs relating to management teams and teams specializing in PPP and/or delegated management at the executing agencies, as well as program evaluations and audits.

OP-704, OP-761, OP-710, and OP-765). The project team has prepared an environmental and social management report focusing on the potential impacts of the changes introduced by the modification (link 3).

3.15 In addition, since the program finances the preparation of prestructuring or structuring studies for PPPs, the operation has potential socioenvironmental impacts through the impact of infrastructure that may be built, with program-financed preinvestment or structuring studies, in sectors such as energy, transportation, and water and sanitation. However, these effects are not yet known. Therefore, in keeping with the guidelines of the Environmental and Safeguards Compliance Policy (Operational Policy OP-703) and the preliminary information available, the program does not require classification pursuant to Directive B.13 (link 3).

3.16 **Strategic alignment**. The program is consistent with the original Update to the Institutional Strategy (document AB-3008) and the second Update to the Institutional Strategy (document AB-3190-2). It 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 with public investment responsibilities, whose institutional, technical, and financial capacities regarding PPP will be enhanced. When the operation was designed, it was expected to 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. It is now expected to contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12), specifically as regards the following indicators: (i) agencies with strengthened digital technology and managerial capacity; and (ii) agencies with strengthened transparency and integrity practices. The program is also consistent with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-4) inasmuch as it will support the quality of capital expenditure and promote private sector participation in infrastructure. It is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3 at the time of approval, now document GN-2831-11), which underscored the importance of institutional strengthening to enhance the quality and efficiency of public expenditure. As regards alignment with the IDB Country Strategy with Ecuador, when the program was designed it was aligned with the strategy for the 2018-2021 period (document GN-2924), in particular with the strategic objective of increasing private sector participation in infrastructure investment and other public goods. At present, it is aligned with the strategy for the 2022-2025 period (document GN-3103-1), namely through the priority area of development of the productive sector as a driver of sustainable growth. The operation was included in the Update of the Annex III of the 2018 Operational Program Report (document GN-2915-2).

IV. Recommendation

4.1 Based on the information and analysis presented herein, Management recommends that the Bank's Board of Executive Directors approve the draft resolution attached hereto via short procedure, pursuant to paragraph 6 of the List of Matters that Can Be Considered by the Board via Short Procedure (document CS-3953-4) and paragraph 3.29(c) of the Regulations of the Board of Executive Directors of the Inter-American Development Bank (document DR-398-19). Approval of the draft resolution attached hereto represents the adoption of the following recommendation: to approve the proposed modification to loan 4670/OC-EC—"Program to Enhance Fiscal Capacity for Public Investment"—in accordance with the terms and conditions set forth herein.

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.

Evaluability Assessment Note:

The reformulation of the EC-L1230 project "Program to Improve the Fiscal Capacity for Public Investment" has been requested mainly for two reasons: (i) The redirection of funds to emergency loans to address the effects of the earthquake and the pandemic, that reduced the originally approved amount by 12.5%; and (ii) the change of priorities in the government that has decided not to continue with the part of the program that aimed to increase the use of public-private partnerships in subnational governments. The reformulation proposal is substantial because it modifies the objectives of the project. Of the three specific objectives of the project, one is eliminated: to increase the amount of public investment (PI) through public-private partnerships (PPPs) in decentralized autonomous governments. The other two specific objectives remain the same: (i) strengthening PI fiscal management instruments through PPPs; and (ii) increase the amount of PI through PPPs nationwide. The achievement of these specific objectives will contribute to the achievement of the overall objective which is to increase the participation of private resources in PI at the national level. In terms of output, all activities in component 3, which were all related to the specific target removed, are eliminated. The other 2 components of the project are strengthened, and a clear vertical logic is maintained between these activities and the development objectives.

The results matrix maintains the indicators associated with specific objectives 1 and 2, as well as the impact indicators. These indicators are adequate. The changes made to the program do not alter the monitoring and evaluation activities, except for the elimination of the mid-term evaluation.

The changes do not alter the efficiency considerations of the project. In approval, the project presented a cost-benefit analysis with an IRR of 16%. In this analysis, the benefits of the program were generated by the savings that the government achieves when a work is financed by PPP versus public works. In that year it was assumed that it was expected to reach 19 works for an amount of US $ 2,900 million financed by PPP. The current forecasts are that Ecuador will invest US$15,176 million in public investment in 16 megaprojects under the PPP modality in the period 2023-2025.

RESULTS MATRIX

Project objective:	The specific program objectives are to: (i) strengthen public investment fiscal management instruments through public-private partnerships (PPPs); and (ii) increase the amount of public investment structured and tendered under the PPP modality at the national level. Achievement of these objectives will support achievement of the general objective of increasing the participation of private resources in public investment in infrastructure and services at the national level.

EXPECTED IMPACT

Impact 1: Increase public investment with resources from PPPs as a % of GDP						
Indicator	**Unit of measurement**	**Baseline (2017)**	**Progress as of the reformulation (2022)**	**Final target (2024)**	**Means of verification**	**Comments**
Stock of committed public investment from PPPs/GDP	% (US$/US$)	1.9	1.9	2.4	Technical Secretariat for PPPs and Delegated Management (STAPPG) Annual Report	**Baseline:** 1.8% = Stock of committed public investment from PPPs (US$1.980 billion/GDP (US$104.296 billion – 2017 constant prices)

EXPECTED OUTCOMES[1]

Indicator	**Unit of measurement**	**Baseline (2017)**	**Progress as of the reformulation (2022)**	**Final target (2024)**	**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	33.3	100	Ministry of Finance (MEF) annual report on PPP project management	**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	2.0	3.0[2]	STAPPG Annual Report	**Baseline:** 1.9 = Amount of structured PPP projects already tendered (US$2.121 billion)/GDP (US$104.296 billion)

[1] The expected outcomes are cumulative.

[2] Ecuador plans to invest US$35.401 billion in public-private investment projects in the coming years, through 54 delegations to the private sector, 27 of which will be structured as PPPs (data from the Department of Public-Private Investments).

OUTPUTS[3]

Indicator	Unit of measurement	Baseline (2017)	2019	2020	2021	2022	2023	2024	Final target	Means of verification
Component 1: Creation and strengthening of responsible public investment fiscal management instruments through PPPs										
1.1 Model for identifying, analyzing, and mitigating risks of PPP projects, developed and implemented.	Model	2017	0	0	0	0	0	1	1	MEF Report.
1.2 Optimized budget availability analysis model, developed and implemented.	Model	2017	0	0	0	0	0	1	1	
1.3 Guidelines to assess, record, and manage firm and contingent liabilities, developed and implemented.	Guidelines	2017	0	0	0	0	0	1	1	
1.4 Optimized fiscal sustainability analysis model, developed and implemented.	Model	2017	0	0	0	0	0	1	1	
1.5 Standard PPP contract management model, developed and implemented.	Model	2017	0	0	0	0	0	1	1	
1.6 PPP project records module (software) to support program management, developed and implemented, in coordination with the National Secretariat for Planning and Development.	Software	2017	0	0	0	0	0	1	1	Report confirming that at least one user has used the module developed.
1.7 Public servants trained in PPPs.	Public servants	2017	0	0	0	30	60	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 Report identifying assets likely to be recycled, prepared.	Report	2017	0	1	0	0	0	0	1	Report submitted to the MEF and the Department of Public-Private Investments (SIPP).
2.2 PPP Development ang Guarantee Fund, established	Fund	2017	0	0	0	0	0	1	1	Fund charter written.
2.3 SIPP Strategic Communications Plan, implemented	Plan	2022	0	0	0	0	0	1	1	SIPP report on implementation of the plan

[3] The targets are annual.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/22

Ecuador. Modification to the Program to Enhance Fiscal Capacity for Public Investment
(Modification to Loan 4670/OC-EC)

The Board of Executive Directors

RESOLVES:

1. To approve the modification to the Program to Enhance Fiscal Capacity for Public Investment, in accordance with the terms and conditions established in document PR-4633-1.

2. 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, to implement the modification to which reference is made in paragraph 1.

(Adopted on ___ ____________ 2022)

LEG/SGO/CAN/EZSHARE-263631146-20417
EC-L1230 - Modification