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ECUADOR

GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE FABRIC AND EMPLOYMENT

(EC-L1269)

LOAN PROPOSAL

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ABBREVIATIONS

CONAFIPS	Corporación Nacional de Finanzas Populares y Solidarias [National Corporation for Popular Finance and Cooperative Associations]
COVID-19	A novel coronavirus disease caused by the SARS-CoV-2 virus, which was first detected in 2019.
ECLAC	Economic Commission for Latin America and the Caribbean
FAREPS	Fortalecimiento de los Actores Rurales de la Economía Popular y Solidaria [Project to Strengthen Rural Actors in the Popular and Solidarity-based Economy]
FOGEPS	Fondo de Garantía para la Economía Popular y Solidaria [Guarantee Fund for the Popular and Solidarity-based Economy]
INEC	Instituto Nacional de Estadísticas y Censos [National Statistics and Census Institute]
JPRMF	Junta de Política y Regulación Monetaria y Financiera [Monetary and Financial Policy and Regulatory Board]
LIBOR	London Interbank Offered Rate
LOEPS Act	Ley Orgánica de Economía Popular y Solidaria [Act governing the popular and solidarity-based economy]
MSMEs	Micro-, small, and medium-sized enterprises
OSFPS institutions	Organizaciones del Sistema Financiero Popular y Solidario [Institutions of the popular and solidarity-based financial system]
OSFPS system	Sistema financiero popular y solidario [Popular and solidarity-based financial system]
SEPS	Superintendencia de Economía Popular y Solidaria [Office of the Superintendent of the Popular and Solidarity-based Economy]
SFEPS sector	Sector financiero de la economía popular y solidaria [Popular and solidarity-based economy financial sector]
SMEs	Small and medium-sized enterprises
WHO	World Health Organization

PROGRAM SUMMARY

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Financial Terms and Conditions				
Borrower:			**Flexible Financing Facility**[a]	
National Corporation for Popular Finance and Cooperative Associations (CONAFIPS)			**Amortization period:**	25 years
Guarantor:				
Republic of Ecuador			**Disbursement period:**	2 years
Executing agency:				
CONAFIPS			**Grace period:**	5.5 years[b]
Source	**Amount (US$ millions)**	**%**	**Interest rate:**	LIBOR-based
			Credit fee:	[c]
Ordinary Capital:	93.8	100	**Inspection and supervision fee:**	[c]
			Weighted average life:	15.25 years
Total:	93.8	100	**Approval currency:**	United States dollar

Program at a Glance
Program objective/description: The general objective of this program is to support the sustainability of microenterprises and small businesses, as employment providers in Ecuador amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of microenterprises and small businesses.
Special contractual conditions precedent to the first disbursement of the loan proceeds: The following will be a special contractual condition precedent to the first disbursement of the loan proceeds: approval and entry into force of the Credit Regulations, under the terms previously agreed upon with the Bank (paragraph 3.9).
Exceptions to Bank policy: The Board of Executive Directors is requested to approve a partial waiver of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303), which would enable the Republic of Ecuador to guarantee only the financial obligations derived from the loan contract, including interest and fees (paragraph **Error! Reference source not found.**).

Strategic Alignment						
Challenges[e]:	SI	☒	PI	☒	EI	☐
Crosscutting themes:[f]	GD	☒	CC	☐	IC	☐

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

[b] Under the flexible repayment options of the 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 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 applicable policies.

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Background.** On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. COVID-19 is a respiratory disease caused by the 2019 novel coronavirus, or nCoV-19. As of 8 April 2020, the WHO has reported more than 1.3 million confirmed cases in 212 countries, resulting in roughly 80,000 deaths. Among the countries of Latin America and the Caribbean, Ecuador has 3,747 confirmed cases; only Brazil (12,056) and Chile (5,116) have more. Ecuador has had 191 COVID-19 deaths, second only in the region to Brazil with 553 deaths.[1] According to the WHO, Ecuador is at level three of five in terms of its preparedness and capacity to manage public health events.[2] As of 8 April 2020, more than 41,000 confirmed cases of COVID-19 and 1,632 COVID-19-related deaths[3] had been reported across all countries of Latin America and the Caribbean. Numbers of cases, deaths, and affected countries are expected to continue to rise.

1.2 **Macroeconomic and/or social context.** The acute uncertainty over the direct and indirect impacts of COVID-19 is putting pressure on Ecuador's economy and fiscal accounts. In addition to the sudden slowdown in economic activity caused by the lockdown ensuing from the declaration of the health emergency,[4] the country's export sector has suffered from the slowdown in its main trading partners (the United States, China, and the European Union) and the collapse in the price of crude oil. The latter, moreover, has serious economic consequences, including the precipitous loss of fiscal revenues. The impact of this in a dollarized economy like Ecuador's is severe, as money supply growth derives from exports of goods and services, credit, and foreign investment. Country risk is soaring, closing off access to international markets for now as an alternative source of financing to meet the urgent needs created by the emergency.[5] This has all been reflected in the growth projections, which until early March 2020 stood at -0.1% in 2019 and 0.7% in 2020, but in early April were in the -3.6% (Citibank) to -6% (Economist Intelligence Unit) range.

1.3 The economic impacts of COVID-19 will be felt through different channels and at different times. The first, associated with the priority of saving lives in the very short term, is the direct costs of the health sector response. The second is the costs associated with the necessary changes in people's behavior to "flatten the curve" of COVID-19 progression, which will contribute to saving lives. These behaviors may be the result of government mandates (e.g. encouraging teleworking and tele-education, suspending classes, banning large gatherings, curbing visits to nursing homes),[6] and decisions by companies and other organizations (e.g. instituting telework and adjusting levels of production) and consumer decision-making (resulting from less social contact and uncertainty over the future economic situation).

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1 See the WHO's COVID-19 Situation Dashboard at Situation Dashboard - ArcGIS Experience Builder. 8 April 2020.

2 WHO COVID-19 Country Preparedness and Response Status for COVID-19. 19 March 2020.

3 See Pan American Health Organization Report. 8 April 2020.

4 See Health emergency declaration and Presidential Decree 1,017 of 2020, with response measures.

5 On 6 April 2020 the Emerging Markets Bond Index (EMBI) spread for Ecuador reached 44.58 points, up 34.14 points since February, and well above the 6.83 Latin American average.

6 See Presidential Decree 1,017 of 2020.

1.4 These changes in behavior will lead to a very significant economic downturn with immediate manifestations and lingering effects, even once the health emergency is over. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean (ECLAC) sees at least five channels for transmission of the crisis impacts to the region's economy:[7] (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms. For general aspects of the intervention, see optional link 2.

1.5 **Current limitations on access to finance for micro-, small and medium-sized enterprises (MSMEs) in Ecuador.**[8] Over 99% of Ecuador's firms are MSMEs (895,000 out of 899,000 companies) and they employ over 60% of the labor force (1.82 million out of 3 million workers), account for 45% of total payroll (US$12 billion out of US$26 billion), although they only represent 28% of total sales (US$47 billion out of US$169 billion). The subset of microenterprises and small businesses is particularly relevant among Ecuador's MSME sector. It accounts for 98% of the sector's businesses (880,000 out of 899,000) and provides jobs to more than 43% of the country's workers (1.3 million out of 3 million workers), representing 27% of the wage bill (US$7 billion out of US$26 billion). Nevertheless, the subset of microenterprises and small businesses accounts for only 12% of total sales (US$20 billion out of US$169 billion).[9,10,11]

Table 1. Distribution of companies in Ecuador by number of employees, sales, and number of companies

	Employees		Sales (US$ millions)		Companies	
Micro	740,658	24.58%	1,574	0.93%	816,553	90.81%
Small	561,228	18.63%	19,091	11.29%	64,117	7.13%
Medium	464,555	17.31%	26,716	15.80%	14,274	1.59%
Large	1,189,741	39.48%	121,675	71.97%	4,260	0.47%
Total	**3,013,182**	**100%**	**169,057**	**100%**	**899,208**	**100%**

Source: Directorio de Empresas y Establecimientos 2018. National Statistics and Census Institute (INEC). 2019

1.6 The biggest problem affecting MSMEs is the lack of liquidity to sustain their businesses and employment in the face of a drop in their operating income and longer delays collecting payment. Calculations using data from the Office of the Superintendent of Companies show that 50% of Ecuadorian companies would survive for less than 37 days

[7] See ECLAC press release of 19 March 2020.

[8] See optional link 3, Bibliography.

[9] Classification of companies by size according to the Andean Community, based on the following sales volume: (i) large, US$5,000,001 or more; (ii) medium-sized, US$1,000,001 to US$5,000,000; (iii) small, US$100,001 to US$1,000,000; and (v) micro, US$100,000 or less.

[10] Employment and payroll data reported to the Ecuadorian Social Security Institute (IESS);

[11] *Directorio de Empresas y Establecimientos 2018*. National Statistics and Census Institute (INEC). 2019.

without sales, and 75% less than 70 days.[12] The most vulnerable sectors are agriculture (32 days), hospitality (33 days), and administrative services (32 days). In light of this situation, the availability of liquidity lines to address this issue becomes key to companies' survival and to avoid job losses and the destruction of the country's employment and productive fabric.[13]

1.7 Although the slowdown in activity and liquidity problems are common to all Ecuador's MSMEs (see Table 2), those at the bottom of the size distribution, i.e. microenterprises and small businesses, are most exposed to the volatility generated by the crisis, as they are more numerous and employ more workers, but have the smallest volume of sales. Additionally, microenterprises and small businesses have shorter maturity cycles, more limited access to credit, and higher collateral requirements, mainly due to their lower level of capitalization. This all makes microenterprises and small businesses particularly vulnerable to the economic downturn and the uncertainties caused by the evolution of COVID-19.

Table 2. Small, medium-sized, and large companies' access to credit in Ecuador. 2017

	Small (5-9)	**Medium-sized (20-99)**	**Large (> 100)**
Collateral required for a loan (% of loan)	212	204	189
Percentage of companies that identify access to finance as an important constraint	15.4	10.6	8.4
Percentage of companies with a credit line	54.1	61.9	87.4

Source: Enterprise Survey, 2017.

1.8 Ecuador's regulated financial system comprises two types of institutions: (i) those supervised by the Office of the Superintendent of Banks; and (ii) those supervised by the Office of the Superintendent of the Popular and Solidarity-based Economy (SEPS). The banking system supervised by the Office of the Superintendent of Banks comprises three official and 24 commercial banks. Pursuant to the act governing the popular and solidarity-based economy (LOEPS Act), SEPS regulates the institutions of the popular and solidarity-based financial system (OSFPS system), which include credit unions, solidarity-based associations, cooperative entities, community banks, and savings banks. There are currently 557 institutions of the popular and solidarity-based financial system (OSFPS institutions), 535 of which are credit unions. The role of these institutions is to provide credit to MSMEs, especially microenterprises and small businesses. In 2019, for instance, OSFPS institutions supplied 52% of all microlending. In all, the country's credit unions have approximately 7.7 million MSME members with contribution certificates.

[12] Calculations based on Ecuadorian companies' collection, payment, and operation cycles, and liquidity reserves. *La capacidad de las empresas ecuatorianas de resistir una escasez absoluta de ingresos: nota metodológica* by the Financial Analysis Area of the Universidad de las Américas (2020), following the methodology in Cash is King: Flows, Balances, and Buffer Days*.* JP Morgan. 2016.

[13] See optional link 3, Bibliography.

1.9 The Popular and solidarity-based economy financial sector (SFEPS sector) accounts for 18% of the financial system's 39,691 new lending transactions (see Table 3). This sector has also grown considerably over the last six years, accounting for 7% of lending in 2013 and 9% in 2015. Specifically, it has grown at an average annual rate of 9% since 2016. By contrast, commercial banking sector lending shrank by an annual average of 0.5% between 2013 and 2018. Consequently, Ecuador has one of the largest cooperative sectors in the region,[14] with extensive coverage throughout the country and reaching a broad range of MSMEs, especially microenterprises.[15] The SFEPS sector's loan portfolio amounts to US$12.015 billion and has deposits of US$12.555 billion, which is roughly a third of the lending portfolio and deposits of the commercial banking sector. Meanwhile, the nonperforming loan ratio in the SFEPS sector stands at 4.2%, 1.2 percentage points above that of the private sector. However, the commercial sector's nonperforming loan ratios for its microenterprise and consumer portfolios are 5.5% and 5.1%, respectively, which are higher than those of the SFEPS sector.

Table 3. Lending to the private sector. Annual new lending
(US$ millions and percentage)

	2019		2015		2013	
	Total	**%**	**Total**	**%**	**Total**	**%**
Commercial banks	30,438	77%	24,236	86%	30,357	87%
Official banks	2,051	5%	1,425	5%	1,738	5%
SFEPS sector	7,202	18%	2,521	9%	2,811	7%
Breakdown by:						
Credit unions	6,791	17%	2,304	8%	2,420	7%
Mutual associations	411	1%	217	1%	391	1%
Total	**39,691**	**100**	**28,183**	**100**	**34,906**	**100%**

Source: Office of the Superintendent of Banks and Office of the Superintendent of the Solidarity-based Economy.

1.10 The slowdown in activity is affecting financial institutions through several channels, such as a deterioration of lending and investment portfolios, and rising borrowing costs. The SFEPS sector is particularly vulnerable due to the higher risk involved in refinancing microlending transactions, which by nature are shorter-term than transactions in the rest of the system. This creates specific challenges to satisfying the demand for microlending of microenterprises and small businesses. Such demand grew at rapid year-on-year rates in 2017 (35.6%) and 2018 (26.9%), but slowed in 2019 (6.6%). Demand is expected to grow significantly owing to the aforementioned greater liquidity needs of microenterprises and small businesses.

1.11 To avoid a break in the chain of finance to MSMEs during periods of stress in the financial system, it becomes key to activate second-tier financing mechanisms so as to provide financial institutions with funding at times when: (i) it is more difficult to access external

[14] Assets of the SFEPS sector relative to GDP came to 11% in 2017, higher than in Brazil (9.28%), Peru (3.57%), Bolivia (3.31%), or Colombia (1.42%). See *Análisis de la situación y perspectivas del sector de las cooperativas de ahorro y crédito*. R.M Guerrero. Mimeo. 2018.

[15] The activities of the SFEPS sector reach many rural areas and pockets of poverty. Thus, 16.5% of the loan portfolio is in areas where the poverty rate is over 75%, and 11.6% in areas that are over 75% rural.

finance; (ii) risk aversion is growing as companies' risk levels rise; and (iii) institutions are having to devote more resources to rescheduling or restructuring debt. Moreover, in Ecuador's case, the absence of a central bank able to issue currency makes it harder to resort to intervention mechanisms that expand the money supply (such as portfolio securitization or buying commercial paper), thus necessitating intervention through second-tier institutions that can provide countercyclical funding, such as public development banks.

1.12 For the SFEPS sector, the second-tier institution is the National Corporation for Popular Finance and Cooperative Associations (CONAFIPS), which was created by the LOEPS Act to provide financing to SFEPS sector institutions, primarily credit unions, for productive activities. Unlike SFEPS sector institutions, CONAFIPS does not finance activities that are unrelated to production, such as consumer or student loans. Between 2009 and 2018, CONAFIPS averaged annual lending of US$122.73 million. In 2019, however, its average lending volume jumped significantly to a total of US$201.88 million. This figure represents 36,718 loans to MSMEs through 452 second-tier transactions that channeled resources to final beneficiaries through SFEPS system institutions. As Table 4 shows, CONAFIPS activities are centered on the commerce, agriculture, and transportation sectors. It also issues guarantees through the Guarantee Fund for the Popular and Solidarity-based Economy (FOGEPS). In 2019, it provided guarantees of US$39 million in 7,134 transactions, mobilizing US$54 million.

Table 4. Basic data: SFEPS sector and CONAFIPS

	SFEPS	CONAFIPS
Total assets (US$ millions)	15,440	376
Credit portfolio (US$ millions)	11,587	323
Guaranteed credit (US$ millions)	N/A	39
Nonperforming loan ratio (%)	4.48	0.24
Sectors served (%)		
Commerce	18	23
Agriculture	17	24
Transportation	13	20

Source: Office of the Superintendent of the Solidarity-based Economy (SEPS). Data as of February 2020.

1.13 **Challenges and progress.** The Ecuadorian government faces the challenge of maintaining finance to the microenterprise and small business sector if it is to sustain levels of employment and avoid destruction of the productive fabric. Consequently, it has been supporting access to finance for MSMEs. In a 23 March 2020 joint statement in response to the COVID-19 crisis, the Monetary and Financial Policy and Regulatory Board (JPRMF) and the Office of the Superintendent of the Popular and Solidarity-based Economy (SEPS) announced the following measures that will enable intermediary financial institutions to make repayment of current loans to microenterprises and small businesses more flexible: (i) defer repayment of at least two installments, considering payments already made to be advance payments, and granting grace periods; (ii) prepare a new amortization table; (iii) exonerate borrowers from additional requirements; (iv) accept electronic procedures; and (v) not apply moratorium interest, expenses, surcharges, or fines. Since then, 13 cooperative banks and mutual associations implemented measures such as deferring payment by 2 to 3 months without penalty

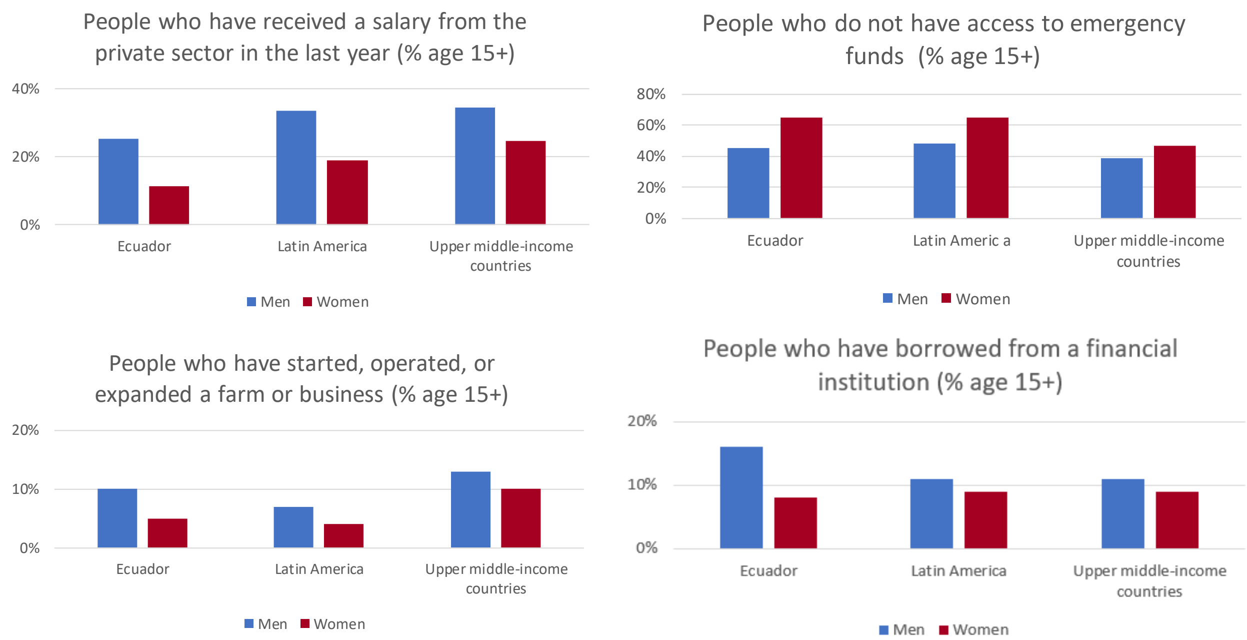
interest, as well as debt refinancing, restructuring, and subrogation.[16] However, these measures put additional pressure on the financial sector and pose the challenge of absorbing delays in the repayment of loans without penalty interest by certain customers. This will especially impact financial institutions whose portfolios center around microenterprises and small businesses, as many of them are likely to face financial stress as the COVID-19 crisis drags on.

1.14 **Gender.** The gender gap in access to formal employment is especially apparent in Ecuador, where women hold less than 40% of the jobs registered with INEC (1.19 million women and 1.81 million men). This could indicate that women account for a large percentage of workers in the underground economy. Just 11% of women are wage earners in the private sector; less than half the percentage of men (25%), constituting a gap in access to earnings that is considerably wider than the averages for Latin America (19% women versus 33% men) and upper middle-income countries (25% women versus 40% men). Moreover, two thirds (65%) of women are unable to access emergency funds; a much higher percentage than men (45%), constituting a gap in access to emergency funds that is almost identical to the average for Latin America (65% of women versus 48% of men) but considerably wider than that for upper middle-income countries (47% of women versus 39% of men). Additionally, just 5% of women have started, operated, or expanded a farm or business; half the number of men (10%), constituting a gap in business leadership that is almost identical to the average for Latin America (4% of women versus 7% of men) but considerably wider than that for upper middle-income countries (10% of women versus 13% of men). A similar pattern can be seen in the percentage of women who have borrowed from a financial institution (8%), which is also half that of men (16%), constituting a gap in access to loans from the formal financial sector that is considerably wider than the averages for Latin America and upper middle-income countries (9% of women versus 11% of men, in both cases).[17]

16 *¿Cómo han reaccionado las entidades financieras frente al Covid-19?* EY. 2020 (optional link 8).

17 Demirgüç-Kunt, Alsi, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. World Bank: Washington, D.C.

Figure 1. Gender gaps in access to earnings, business, and finance



Source: World Bank.

1.15 In addition to the systemic difficulties Ecuador's productive fabric faces in accessing finance, as described above, women are being more severely impacted by the COVID-19 crisis. From the production-related standpoint, women workers and entrepreneurs have a stronger presence in the services sector, which is among the hardest hit by the crisis. It is also one of the Ecuadorian economy's largest, accounting for over 42% of firms (383,000 out of a total of 899,000), employing over 55% of workers (1.68 million out of a total of 3 million), and amounting to 60% of the wage bill (US$15 million of US$26 million), although it represents 24% of total sales (US$41 billion of US$169 billion).[18,19] The foregoing comes on top of the inequality in access to finance that already existed and will be exacerbated if credit unions do not have sufficient lending capacity as a result of the COVID-19 crisis, given that the majority (57.6%) of their members are women.[20]

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18 *Directorio de Empresas y Establecimientos 2018*. INEC. 2019.

19 As shown by the results of the sector analysis methodology examining vulnerabilities associate with the spread of COVID-19, the tourism sector has a severe degree of vulnerability, quantified at 78, mainly stemming from demand-side factors (100), followed by financial and asset factors, and supply-side factors. The tourism sector, which includes over 24,000 MSMEs (over 99% of the total number of firms in the sector), accounts for 3% of GDP and 2% of jobs, and over 64% of its output is geared toward foreign demand (optional link 5).

20 *Boletín Apunte II, Caracterización de las cooperativas financieras, no financiera y asociaciones*, Quito, 2014, p. 22. SEPS.

1.16 **Proposed intervention.** The proposed intervention focuses on supporting financial mechanisms to stimulate the supply of short-term liquidity for microenterprises and small businesses from financial intermediaries through a global credit program.[21] The program seeks to alleviate the constraints on access to credit faced by microenterprises and small businesses affected by the COVID-19 crisis so as to preserve employment and the productive fabric, reduce the burden on social safety nets, and speed up the economic recovery once the health emergency has passed. The intervention is structured through CONAFIPS, which will receive Bank support to bolster its capacity to: (i) finance OSFPS institutions; and (ii) provide guarantees to microenterprises and small businesses.

1.17 **Size of the operation.** Assuming that the moderate growth during 2019 continues, the additional microlending demand would be approximately US$200 million, making a total of US$3.2 billion in microlending to the SFEPS sector. Given that demand may be much greater due to the liquidity situation of businesses and the refinancing needs of OSFPS institutions, demand is expected to exceed the program's resources. CONAFIPS lending to microenterprises and small businesses would increase from US$175.4 million to US$223.7 million, resulting in a 7% share of the SFEPS sector market and increasing its microlending portfolio from US$237.1 million in 2019 to US$271.3 million by the end of the program. Nevertheless, achieving these growth objectives and meeting demand for credit is contingent upon CONAFIPS securing the necessary sources of financing. Of these, the IDB's contribution represents approximately 41.9% of the projected total, while the expected source of 58.1% is loan repayments. This highlights the importance of this operation in maintaining the institution's lending objectives.

1.18 **Program targeting.** The proposed program will target all sectors of the CONAFIPS productive portfolio, with the exception of housing.[22] As Table 4 shows, these sectors are mainly agriculture, commerce (including hospitality and administrative services), and transportation. All these sectors are clearly impacted by the liquidity crisis and identified by the vulnerability analysis presented in optional link 5, which also highlights their vulnerabilities. The program combines catering to the most vulnerable businesses and sectors (microenterprises and small businesses) with flexible execution to adapt to the uncertainty over how COVID-19 will progress.

1.19 **Bank experience and lessons learned.** The Bank has extensive experience in designing sovereign guaranteed loans aimed at improving the access of microenterprises and small businesses to finance through financial intermediaries ([13] of optional link 3). These programs have been implemented in times of economic expansion, when support focuses on access to long-term finance for production-oriented investments, and in times of economic recession, when support focuses on ensuring that microenterprises and small businesses do not lose access to liquidity to continue their economic activity. In the last financial crisis confronted by the region in 2007, the Bank played a countercyclical role by expanding the amount of financing and facilities used to address the lack of access to credit faced by the region's microenterprises and small businesses. For example, liquidity

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[21] In order to respond to the considerable demand of Ecuador's microenterprises and small businesses for short-term financing, the proposed program will focus on supporting improvements to short-term financial capacity through loans and guarantees.

[22] To maximize the impact of the proposed operation on the needs of microenterprises and small businesses, housing is not included among the eligible sectors. That sector was benefited by a complimentary operation approved in 2019, the first individual operation under the conditional credit line for investment projects (CCLIP) "Housing Solutions for Poor and Vulnerable Households" (loan 4788/OC-EC).

programs for growth sustainability were approved in 2008 and 2009 with the aim of reestablishing access to finance for working capital and foreign trade in the productive sectors. This helped to temporarily offset part of the deficit in financing flows to microenterprises and small businesses resulting from the international financial crisis.[23] With the same objective of stimulating the supply of credit to the productive sectors, the period following the crisis (2009-2013) saw the approval of contingent credit lines[24] for providing liquidity to the financial sector, as well as global multisector credit programs and—by far the majority—specific productive financing programs for microenterprises and small businesses ([2] of optional link 3).

1.20 Specifically in Ecuador, the Bank has supported post-crisis microenterprise and small business support initiatives such as the Global Credit Program for Microfinance Support in Ecuador (loan 2651/OC-EC), for up to US$50 million, approved in 2011 with the objective of improving access of popular finance structures—and through them, that of microentrepreneur—to financial resources in order to help boost both the sources of employment in the solidarity-based economy and the income of the program's final beneficiaries. In terms of results, that program benefited 29,641 microentrepreneurs (exceeding the established target of 25,000) in 81.8% of cases in poor localities (exceeding the target of 60%).

1.21 **Lessons learned.** The Bank has extensive experience and has generated substantial knowledge regarding the design and implementation of policies to support MSME finance ([3] of optional link 3). For these public policy solutions to be effective, it is crucial to: (i) identify the market failure to be addressed; (ii) strengthen cooperation among public actors with expertise in the relevant area; (iii) strengthen cooperation between the public and private sectors, since the latter can help find solutions to problems; (iv) focus actions on overcoming the obstacles found; (v) identify the financial instrument or set of instruments that can be implemented in each situation; and (vi) utilize the most cost-effective combination of instruments for each situation. For example, one of the lessons learned from the Bank's first intervention with CONAFIPS—the Global Credit Program for Microfinance Support in Ecuador (loan 2651/OC-EC)—involved the evaluation methodology known as the "integral evaluation of OSFPS institutions," to evaluate those seeking CONAFIPS resources. The methodology is comprised of two components: (i) one quantitative, which includes financial management and the inclusive management threshold; and (ii) the other qualitative, corresponding to the evaluation of social and administrative management performance. This methodology made it possible to effectively evaluate the demand for resources of OSFPS institutions, with the aim of improving their financial management. It will also be applied in the proposed program.

1.22 The Bank also has relevant experience in designing solutions to mitigate the problems of access to finance faced by microenterprises, small businesses, and value chains. The following lessons have been learned from these actions as a whole: (i) leverage the countercyclical role of this type of operations in times of tightening credit; (ii) target resources toward segments where lending will have greatest impact on the functioning of the economy (logistics chains) and the well-being of society (the most vulnerable

[23] In 2008, the IDB created the Liquidity Program for Growth Sustainability under the category of emergency lending (document GN-2492-3).

[24] "Contingent Credit Line for Development Sustainability" under the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (document GN-2667-2).

productive sectors); (iii) supervise the financial terms on which the resources are allocated to end-users, to avoid market distortions and ensure that there is no dilution of additionality; (iv) guarantee that the executing agency's institutional capacity is sufficient to operationalize the intervention, and evaluate and monitor the subloans and guarantees issued; and (v) systematically compile, manage, and maintain program data so that the results can be analyzed and continue to be used in future interventions.[25]

1.23 **Coordination with other multilaterals and/or cooperation agencies.** When faced with events that require an immediate emergency response, coordination between international organizations is especially important to avoid duplications and enhance efficiency. Specifically, the program complements the Project to Strengthen Rural Actors in the Popular and Solidarity-based Economy (FAREPS) financed by the International Fund for Agricultural Development (IFAD).[26] FAREPS is financing the preparation of business plans for microenterprises and small businesses in the agriculture sector that will benefit from the financing envisaged in this CONAFIPS project in order to continue implementation of the FAREPS project.[27]

1.24 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of: (i) social inclusion and equality, through preparation of guidelines for issuing credit to microenterprises and small businesses that stipulate the obligation not to discriminate by gender; and monitoring developments in the lending portfolio and taking corrective steps through the Credit Regulations in the event significant deviations are detected so as to ensure parity in the number of operations with men and women under Subcomponent 1 (paragraph 3.7). The program is also aligned with the crosscutting areas of: (i) gender equality and diversity, by promoting gender equality through nondiscrimination in processes for issuing credit to microenterprises and small businesses and monitoring progress of the operations portfolio to ensure that the gender gap in the number of operations under Subcomponent 1 does not widen. In addition, the operation is consistent with the strategic focus area of resource mobilization, through the proposed mechanisms to stimulate the mobilization of private sector financial resources to finance microenterprises and small businesses, as well as the company shareholders' own capital. The program will contribute to the IDB Group Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicators of the number of MSMEs financed, the number of jobs supported, and the number of women benefiting from economic empowerment activities. The program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996) as part of the support for safeguarding the productive fabric and employment, and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework

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[25] Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) discusses a more extensive and detailed set of lessons learned from the Bank's experience in the sector, as well as the experience of other multilaterals, academic researchers, and other major stakeholders in public policy design of to support MSMEs.

[26] See Project to Strengthen Rural Actors in the Popular and Solidarity-based Economy (FAREPS).

[27] Coordination with the International Fund for Agricultural Development during the design of the proposed project has facilitated complementarity between the objectives and scope of FAREPS (financing preparation of business plans for microenterprises and small businesses) and CONAFIPS (financing the execution of the business plans of microenterprises and small businesses) projects.

Document (document GN-2768-7), which underscores the importance of promoting access to finance by the productive sector.

1.25 **Additional gender considerations.** The program mainstreams a gender approach in its design to ensure gender equality in access to credit by microenterprises and small businesses impacted by the crisis. Specifically, the program will monitor the allocation of credit by gender to ensure that both men and women are allocated an equal 50% share thereof; in the event this parity fails to materialize, appropriate steps will be taken to correct it. Although no distribution-related bias has been observed thus far, the supply and demand constraints women face in access to credit are well known, including more limited purchasing power, lack of collateral, and cognitive biases in the allocation of credit. For this reason, the program will monitor developments in the credit portfolio, and if significant deviations are observed, e.g. if the allocation of credit to women from program funds drops below 45%, measures will be taken to correct such deviation through the Credit Regulations.

1.26 **Coordination with other Bank projects.** The program will coordinate efforts with different types of support for: (i) the immediate public health response; (ii) strengthening of fiscal policy and management; and (iii) safety nets for vulnerable populations. The program will also coordinate efforts with other projects in Ecuador that are currently in execution with the aim of leveraging synergies to increase the impact of Bank actions, in accordance with fiscal sustainability, through: (i) temporary application of the measures so that their short-term impact on the public finances is controlled, and (ii) support in financial terms for microenterprises and small businesses, to ease the cost of financing and preserve jobs, thus contributing to a recovery in tax revenue. This program complements IDB Lab actions (e.g. support for the Re-Emprende initiative of Ecuador's Alliance for Entrepreneurship and Innovation (AEI), through a combination of US$1.8 million in grants and US$7.5 million in loans), facilitates lending at preferential rates with reimbursement of up to 50% of the interest for timely payment, and provides technical assistance to strengthen MSMEs' technical and entrepreneurship skills.[28]

1.27 Additionally, this program complements IDB Invest's financial inclusion strategy, which has identified cooperatives as potential strategic partners for the expansion of microcredit.[29] The coordination between IDB Group institutions envisages the following approaches: (i) identification of cooperatives that may benefit from subsequent analysis by CONAFIPS and prior fulfillment of the respective eligibility criteria, and (ii) support identifying the use of funds, considering the market analysis previously conducted by IDB Invest.

B. Objectives, components, and cost

1.28 **Objectives.** The general objective of this program is to support the sustainability of microenterprises and small businesses, as employment providers in Ecuador amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of microenterprises and small businesses.

1.29 **Sole component. Support for improvement of microenterprise and small business short-term financial capacity (US$93.8 million).** Resources under this component will be used to help microenterprises and small businesses affected by the crisis to overcome

[28] Re-Emprende. *Encuentro de aliados ejecutores fase II*. 2018.

[29] Productive microcredit with a green focus and incorporating technological components.

temporary liquidity problems and continue operating. It includes mechanisms for providing liquidity to microenterprises and small businesses, such as credit products and/or guarantees to secure financing for working capital.

a. **Subcomponent 1. Program to support the finances of the popular and solidarity-based economy at the national level (US$85 million).** This subcomponent will be executed through lending in the form of line of credit advances and/or rediscount lines[30] to eligible OSFPS institutions (paragraph 3.5), which will in turn provide liquidity to eligible microenterprises and small businesses (paragraph 3.6). It will include two activities to promote gender equality in access to finance with the aim of meeting the short-term financing needs of women-owned microenterprises and small businesses, and mitigate any widening of the gender gap as a result of the COVID-19 crisis: (i) preparation of guidelines for issuing credit to microenterprises and small businesses that stipulate the obligation not to discriminate by gender, which will form an integral part of the loan contract with eligible OSFPS institutions; and (ii) monitoring developments in the lending portfolio and taking corrective steps through the Credit Regulations (paragraph 3.7) in the event significant deviations are detected with the aim of ensuring that the gender gap in the number of operations is not widened. Specifically, the objective of an equal number of operations for men and women will be set. The cost of audits may be financed through this subcomponent.

b. **Subcomponent 2. Strengthening FOGEPS (US$8.8 million).** Administered by CONAFIPS, the Guarantee Fund for the Popular and Solidarity-based Economy (FOGEPS) is a tool for the inclusion of vulnerable and priority groups that have traditionally been unable to access credit due to the lack of collateral with which to secure their borrowing. This subcomponent will provide FOGEPS with fresh resources to expand its service across the country through OSFPS institutions, enabling them to provide guarantees benefiting eligible microenterprises and small businesses. To ensure proper risk management, microenterprises and small businesses financed by OSFPS institutions with CONAFIPS lending resources will be ineligible for FOGEPS guarantees.

1.30 **Beneficiaries.** Resources under this intervention will be directed to microenterprises and small businesses affected by the COVID-19 crisis. Under Subcomponent 1, subloans will be issued directly to 16,038 microenterprises and small businesses that are members of the credit union through which the resources are to be channeled. Under Subcomponent 2, an estimated 12,691 microenterprises and small businesses will benefit from FOGEPS guarantees for short-term loans through OSFPS institutions.[31]

[30] With regard to subloans, some of the main variables defined in the Credit Regulations are: (i) maximum pricing of loan and subloan resources; (ii) criteria for the allocation of resources and the eligibility or financial intermediaries (sublenders) and microenterprises and small businesses (subborrowers); (iii) risk levels of subborrowers and sublenders; (iv) leverage level of the guarantee fund; (v) constraints on the use of resources; and (vi) system of indicators and for monitoring resources (optional link 9).

[31] The calculation of beneficiaries of the guarantee subcomponent is based on FOGEPS' current leverage ratio. It implies that each dollar invested in the fund can guarantee US$7.6 of lending to microenterprises and small businesses. Therefore, the US$8.8 million in the guarantees subcomponent earmarked for the fund will enable it to guarantee US$66.5 million in credit.

C. Key results indicators

1.31 **Expected outcomes.** The program's expected impact is to support the sustainability of microenterprises and small businesses amid the COVID-19 crisis, as measured by: (i) employment by microenterprises and small businesses as a percentage of the country's total employment.

1.32 The outcome indicators for the program will be as follows: (i) rate of arrears in the relevant portfolio of working capital financing or guarantees at 6 and 12 months after program start, compared with the rate among commercial banks; (ii) total value of the relevant production-oriented finance portfolio achieved as a result of program support; and (iii) share of short-term loans to women-owned microenterprises and small businesses in the CONAFIPS portfolio.

1.33 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the increase in firms' survival rate, as reflected primarily in the jobs preserved as a result of the program. Calculations of the aforementioned flows (discounted at a rate of 12%) yield benefits of US$35 million and an internal rate of return of 15.4%. Additionally, the sustainability analysis shows the program to have a net present value that is robust to variations in key parameters such as the firm survival rate, the impact on sales, the average number of employees, and duration of unemployment (optional link 1).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The total program amount proposed here will be US$93.8 million from the ordinary capital resources. The operation will be structured as a global credit program, since it involves financial intermediation to the beneficiary microenterprises and small businesses. The disbursement period will be two years.

Table 5. Estimated program costs (US$ millions)

Components	IDB (Total)	%
Sole component. Support for improvement of microenterprise and small business short-term financial capacity	93.80	100
Subcomponent 1. Program to support the finances of the popular and solidarity-based economy at the national level	85.00	90
Subcomponent 2. Strengthening FOGEPS	8.80	10
Total	**93.80**	**100**

Table 6. Disbursement schedule (US$ millions)

Source	Year 1	Year 2	Total
IDB	46.9	46.9	93.80
Total	**46.9**	**46.9**	**93.80**
Percentage	**15%**	**15%**	**100%**

2.2 For the purposes of program execution, the IDB will disburse the resources under any of the modalities established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). Disbursement requests will be accompanied by the information listed in the Credit Regulations.

B. Environmental and social risks

2.3 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified ex ante, since it involves financial intermediation. The environmental and social due diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks and the executing agency's ability to manage them. Based on the due diligence findings, and given the low risk profile of the eligible loans with program resources, this operation is regarded as low financial intermediation risk (FI-3). Given their size and nature, the loans will be classified as category "C". Loans in categories "A" and "B" will be ineligible for financing.

2.4 Resources from the subloans will not be used to finance any activity listed in the IDB's exclusion list (Annex C of the environmental and social management report), such as (i) activities/sectors that involve high social/environmental risk (category "A") or (ii) activities that entail (a) involuntary physical or economic resettlement; (b) negative impact on indigenous groups; (c) damage to cultural sites or critical cultural sites, (d) negative impact on protected areas or Ramsar convention sites, or (e) the use of invasive species.

2.5 The requirements for managing and mitigating potential environmental and social impacts will constitute an environmental and social risk management system that will be included in the Credit Regulations, which will be approved as a condition precedent to the first disbursement (see the program environmental and social management report).

C. Fiduciary risks

2.6 The institutional capacity assessment of the executing agency shows that it satisfies the necessary conditions to perform fiduciary management activities for the loan operation., as shown previously during execution of the Global Credit Program for Microfinance Support in Ecuador (loan 2651/OC-EC). The fiduciary risk has been determined as low, since, according to the institutional capacity assessment, no weaknesses were identified in CONAFIPS financial management.

D. Other key risks and issues

2.7 **Development risk.** Two development risks were identified: (i) a high risk that the resources will be insufficient to meet the demand of microenterprises and small businesses for financing; to mitigate this risk, the Bank has designed the intervention to yield the maximum possible impact and has sought to coordinate with all relevant stakeholders, to ensure that the response is commensurate with the financing needs of microenterprises and small businesses; and (ii) a high risk that beneficiary companies of the liquidity lines do not survive because the crisis lasts longer than expected or commercially viable companies are not identified; to mitigate this risk, OSFPS institutions have experience selecting and identifying economically viable companies, which, for the most part, have the necessary levels of capitalization and solvency to withstand a severe crisis, based on the stress tests conducted.

2.8 **Public-management and governance risk.** There is a medium risk that implementation of the measures included in this program will be delayed as a consequence of the emergency priorities managed by the government, so the resources might not reach the beneficiary microenterprises and small businesses in a timely manner. To mitigate this risk, the Bank has designed the program to expedite approval processing and execute rapidly, based on its experience with the executing agency. Moreover, consistent with the institutional capacity analysis, technical cooperation resources will be provided to assist in program execution and monitoring.[32]

2.9 **Macroeconomic and fiscal sustainability risk.** There is a high risk that the combination of the health and economic crisis and external factors, such as the falling price of oil, will significantly affect the country's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank, together with other international organizations, is providing technical assistance to the country to prepare and monitor the implementation of post-pandemic economic and fiscal recovery plans that will help put the public finances back on a sustainable trajectory.

2.10 **Sustainability.** The program is expected to contribute to easing the temporary difficulties faced by microenterprises and small businesses as a consequence of the COVID-19 pandemic. Nonetheless, it offers the country the opportunity to leave support mechanisms in place for future emergencies. The demonstration effect of and lessons learned from the interventions are expected to enable preventive programs to be developed that reduce the vulnerability of microenterprises and small businesses. To the extent that the program contributes to the objective of supporting the sustainability of microenterprises and small businesses, as employment providers in Ecuador amid the COVID-19 crisis, its beneficiary microenterprises and small businesses will be able to continue contributing to the development of the popular and solidarity-based financial system.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Implementation arrangements

3.1 **Borrower and executing agency.** The borrower for this operation will be the National Corporation for Popular Finance and Cooperative Associations (CONAFIPS).[33] The Republic of Ecuador will be the guarantor of financial obligations under the loan. In addition, CONAFIPS will be the executing agency of the operation. As such, it will be responsible for the administration, execution, control, and monitoring of program resources.

3.2 **Execution and administration.** In 2011, the LOEPS Act created CONAFIPS as a public-law financial institution with its own legal personality, assets, and administrative, technical, and financial autonomy, subject to the regulations issued by the Monetary and Financial Policy and Regulatory Board (JPRMF).[34] CONAFIPS operates as a second-tier bank, with an "A-" credit rating.[35] It obtains capital from international financial institutions like the IDB so as to offer credit, guarantees, technology transfers, and strengthening of

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[32] The related technical-cooperation resources are expected to be available by no later than 2021.

[33] In accordance with Operational Policy OP-301, CONAFIPS satisfies the criteria as an eligible borrower.

[34] Source: LOEPS Act.

[35] Class International Rating Calificador de Riesgos S.A.: 2019 risk rating of CONAFIPS.

OSFPS institutions in order to bolster their capacity to generate credit for their partner microenterprises and small businesses. CONAFIPS has experience executing Bank-supported projects similar to the proposed program, such as the Global Credit Program for Microfinance Support in Ecuador (loan 2651/OC-EC), demonstrating its institutional and operational capacity as an executing agency. CONAFIPS currently has a staff of approximately 100 and, according to the institutional capacity assessment, it does not present weaknesses in project coordination, such that the program can be expected to be implemented successfully. Moreover, in the event it became necessary the strengthen the executing agency's capacity to execute the program, the requisite training could be expedited to support program management (paragraph 2.8).

3.3 CONAFIPS will have fiduciary responsibility for the program resources and perform the following functions: (i) onlending and issuing guarantees to eligible financial institutions that will in turn lend the resources to eligible beneficiaries to implement the program objectives under the stipulations of the Credit Regulations; (ii) capitalizing FOGEPS through a segregated account and issuing guarantees to microenterprises and small businesses in accordance with the Credit Regulations; (iii) preparing execution and physical/financial progress reports for the IDB; (iv) monitoring compliance with environmental and social safeguards; and (v) program monitoring and evaluation.

3.4 **Implementation considerations.** Through the global credit loan, CONAFIPS will provide resources to eligible OSFPS institutions, which will then channel the loan proceeds to eligible microenterprises and small businesses.

3.5 To be eligible as financial intermediaries, OSFPS institutions must: (i) be one of the financial institutions authorized and supervised by the country's compliance and oversight body for the financial sector (SEPS); (ii) comply with the country's regulatory requirements for capital, portfolio quality and provisioning, liquidity, and governance; and (iii) pledge to comply with the specific requirements of CONAFIPS, as the public development bank, including the requirements of the IDB program established in the Credit Regulations. CONAFIPS will determine whether all OSFPS institutions satisfy the above requirements, to remain eligible for the IDB program.

3.6 To be eligible as final beneficiaries, microenterprises and small businesses must: (i) be a business or startup incorporated under the laws of Ecuador; (ii) possess the licenses and permits required to operate under the laws of the country, or be in the process of obtaining them; (iii) meet the criteria for classification as a microenterprise or small business in Ecuador; and (iv) be solvent and creditworthy and satisfy the credit requirements of the OSFPS institutions and CONAFIPS, with the exception of any factor that has deteriorated as a result of the COVID-19 crisis. No subloan to a microenterprise or small business under Subcomponent 1 or guarantee under Subcomponent 2 may exceed US$50,000.

3.7 **Credit Regulations.** The Credit Regulations describe responsibilities in the areas of administration, risk management, and coordination between the executing agency and the Bank, as well as the eligibility criteria for beneficiaries, terms and conditions of subloans and guarantees, sectors or projects to be financed with loan proceeds, and any other parameters or restrictions on the use of the loan proceeds. The document also includes agreements for management and monitoring, the credit regulations, and other arrangements.

3.8 **Interagency coordination.** Coordination between State institutions will benefit from the presence of permanent delegates of many of them on the board of directors of CONAFIPS: (i) Office of the President of the Republic; (ii) Ministry of the Economy and Finance; (iii) Ministry of Production, Foreign Trade, Investment, and Fisheries; (iv) Ministry of Economic and Social Inclusion (v) Technical Planning Secretariat; (vi) Central Bank of Ecuador; and (vii) CONAFIPS. Moreover, the country's other official bank, the Corporación Financiera Nacional (CFN), will run an initiative to cater to the country's small and medium-sized enterprises (SMEs) affected by the health emergency with flexible credit of between US$25,000 and US$100,000, i.e. specifically supporting the sector not served by CONAFIPS, which concentrates more on microenterprises, making this initiative complementary to that of CONAFIPS.36

3.9 **Special contractual conditions precedent to the first disbursement of the loan proceeds: The following will be a special contractual condition precedent to the first disbursement of the loan proceeds: approval and entry into force of the Credit Regulations, under the terms previously agreed upon with the Bank.** This condition is necessary to establish the structure, guidelines, and procedures to be followed by the executing agency for successful execution of the program.

3.10 **Exceptions to Bank policy:** The Board of Executive Directors is requested to approve a partial waiver of the Policy on Guarantees Required from the Borrower (Operational Policy OP-303), which would enable the Republic of Ecuador to guarantee only the financial obligations derived from the loan contract, including interest and fees. There are precedents for this request in terms of operations with similar execution arrangements in both the region[37] and Ecuador[38]. In terms of performance obligations, CONAFIPS, which has national jurisdiction, its own assets, and administrative, technical, and financial autonomy, has the necessary legal stability to implement the program's activities. As mentioned in paragraph **Error! Reference source not found.**, CONAFIPS has also successfully executed program 2651/OC-EC.

3.11 **Retroactive financing.** The Bank may retroactively finance up to US$18.760 million (20% of the loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date for guarantees and subloans to microenterprises and small businesses, provided that requirements substantially similar to those established in the loan contract were met. Given the urgent need to respond to COVID-19 and support microenterprises and small businesses, retroactive financing is valuable tool for immediately addressing the emergency. Accordingly, these expenditures must have been incurred on or after 30 January 2020, the date the WHO declared COVID-19 a global health emergency. Even though this predates the project officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as of that date, given the exceptional circumstances surrounding the global health emergency.

3.12 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, nonconsulting services, or consulting services is likely to be required as part of execution. No project execution plan or procurement plan is therefore included in this proposal. Any procurement of nonconsulting or consulting services required as part of program administration and/or evaluation will be conducted in accordance with the Policies

[36] Créditos para Pymes hasta $100.000 [SME loans of up to US$100,000]. El Telégrafo. 7 de abril de 2020.

[37] Including operations/loans CO-X1007, 4939/OC-CO, 3271/OC-ES, and 4567/GN-ES.

[38] Loan 4759/OC-EC.

for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15), or as subsequently updated. For additional details, see the Fiduciary Agreements and Requirements (Annex III).

3.13 **Disbursements:** Resources for the program will be disbursed by the IDB to CONAFIPS via the modality of advance of funds and/or reimbursements, as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) or current IDB policies. Disbursement verification will be on an ex post basis, subject to onsite review of the subloans or guarantees. The disbursement for the capitalization of FOGEPS will be made directly to CONAFIPS, under the terms previously agreed upon with the Bank.

3.14 **Financial statements and audit.** The executing agency will deliver annual audited financial statements for the program under the terms of reference agreed upon with the Bank, within 120 days after the close of each fiscal year or after the date of the last disbursement. Audits will be performed by a Bank-eligible external audit firm under the procedures established in the current audit guidelines.

B. Arrangements for monitoring results

3.15 **Monitoring.** Program execution will be monitored via six-monthly progress reports prepared by the executing agency and delivered within 60 days after the close of each six-month period. The reports will be based on the reporting commitments included in the results matrix for each operation, as well as compliance with the eligibility criteria set out in the Credit Regulations (see the monitoring and evaluation plan). These reports will be reflected in the progress monitoring reports (PMRs).

3.16 **Evaluation.** Various approaches will be used as part of the strategy for evaluating program results: (i) a reflexive evaluation, before and after the program, to determine the extent of outcomes and impacts; and (ii) a qualitative analysis discussing the lessons learned during program execution. The evaluation strategy is described in the monitoring and evaluation plan. The executing agency will bear the costs of evaluation and monitoring in all cases.

3.17 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining data gathering and monitoring systems (see monitoring and evaluation plan). The executing agency will commit to maintaining a system for monitoring and evaluation of all components, which it will use to prepare the reports and data delivered to the Bank. For the purposes of the evaluation, the executing agency will compile, store, and safeguard all of the information, indicators, and parameters necessary to prepare the project completion report, including annual plans and the final evaluation. The executing agency will bear the costs of evaluation and monitoring in all cases. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports by relevant organizations.

Development Effectiveness Matrix		
Summary	EC-L1269	
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	**-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Jobs supported (#) -Micro / small / medium enterprises financed (#) -Women beneficiaries of economic empowerment initiatives (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		**The intervention is not included in the 2020 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		**See paragraphs 1.16 - 1.18.**
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**9.6**	
3.1 Program Diagnosis	**3.0**	
3.2 Proposed Interventions or Solutions	**3.6**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**10.0**	
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	**1.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**7.0**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**4.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
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)		
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		

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

Evaluability Assessment Note:

This is a US$93.8 million operation aimed at supporting the sustainability of Ecuador's micro and small enterprises (MSEs), in the face of the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of MSEs. The COVID-19 crisis has generated an abrupt slowdown in economic activity in Ecuador, as a result of the containment measures associated with the declaration of a health emergency in response to the crisis. As it is a global crisis, a drop in the economic activity of Ecuador's trading partners is also expected, as well as declines in the economic activity for key sectors, and a worsening of the fiscal situation due to drops in the price of oil. In this economic environment, MSEs are particularly vulnerable and dependent on credit, and their demand for short-term liquidity is expected to increase to face temporary problems and allow their survival. The program will focus not only on the smaller companies (which are more vulnerable), but will also channel its resources through CONAFIPS, a second-tier bank that concentrates its credit activity on savings and credit cooperatives in the trade, agriculture and transport sector, which are among those expected to be most affected by the crisis. The information presented is detailed and the vertical logic appropriate, and the results matrix presents indicators associated with the non-worsening of indicators of financial sustainability (debt past due at 6 and 12 months) and of relevant portfolio level maintenance, which are appropriate for a project associated to mitigate the effects of the COVID-19 crisis. Additionally, the project presents actions aimed at not increasing gender gaps in financing and measures these results in the results matrix.

The ex-ante economic analysis of the program is appropriate, with reasonable and standard assumptions and with reasonable sensitivity analyses. The benefits of the program are measured by the economic value of the increase in the survival rate of the firms, mainly reflected in the value of the jobs preserved thanks to the program. The net present value of the project is US$35 million (based on a 12% discount rate) and the expected internal rate of return is 15.4%.

The evaluation plan proposes to carry out a reflective evaluation, measuring success in the results indicators and impacts in the results matrix. This type of evaluation does not allow the empirical attribution of the results. Additionally, the project proposes to carry out a qualitative analysis of lessons learned from this program to respond to short-term liquidity problems.

RESULTS MATRIX

PROGRAM OBJECTIVE:	The general objective of this program is to support the sustainability of microenterprises and small businesses, as employment providers in Ecuador amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of microenterprises and small businesses.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline (2020)	Final target	Means of verification	Comments
GENERAL OBJECTIVE: SUPPORT THE SUSTAINABILITY OF MICROENTERPRISES AND SMALL BUSINESSES DURING THE COVID-19 CRISIS					
Employment provided by microenterprises and small businesses as a percentage of total employment in Ecuador	%	43.21	43.21	National Statistics and Census Institute (INEC): Directorio de Empresas y Establecimientos	The program is expected to help maintain the microenterprise and small business sector's share of total employment in Ecuador. The baseline is from the latest measurement in the Directorio de Empresas y Establecimientos [Directory of Companies and Establishments] published in 2019, with data from 2018.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
SPECIFIC OBJECTIVE 1: SUPPORT THE SHORT-TERM FINANCIAL SUSTAINABILITY OF MICROENTERPRISES AND SMALL BUSINESSES					
Indicator 1: Rate of arrears in the relevant portfolio of working capital financing or guarantees six months after the start of the program compared with the rate of arrears of official banks	%	0.73	0.73	Program monitoring and supervision information collected by the National Corporation for Popular Finance and Cooperative Associations (CONAFIPS) and the Office of the Superintendent of Banks	This indicator is calculated by dividing the rate of arrears in the microlending portfolio of the beneficiary credit unions by the rate in the microlending portfolio of the official banks. The final target will be calculated as the average rate of arrears of the beneficiary credit unions 6 months after receiving program funding, divided by that of the official banks at that time. This percentage is expected to be remain constant throughout the lifetime of the operation (see: monitoring and evaluation plan)

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
Indicator 2. Rate of arrears in the relevant portfolio of working capital financing or guarantees 12 months after the start of the program compared with the rate in the official banks	%	0.73	0.73	Program monitoring and supervision information collected by CONAFIPS and the Office of the Superintendent of Banks	This indicator is calculated by dividing the rate of arrears in the microlending portfolio of the beneficiary credit unions by the rate in the microlending portfolio of the official banks. The final target will be calculated as the average rate of arrears of the beneficiary credit unions 12 months after receiving program funding, divided by that of the official banks at that time. This proportion is expected to be remain constant throughout the lifetime of the operation (see: Monitoring and evaluation plan).
Indicator 3: Total amount of the relevant portfolio of short-term finance achieved as a result of program support	US$ millions	237.1	271.3	Program monitoring and supervision information collected by CONAFIPS	The baseline is the microlending portfolio of CONAFIPS as of December 2019. This portfolio is relevant as it addresses the same group of sectors that are expected to be included in the operation, given its multisector nature. The target corresponds to the expected outstanding balance of the microlending portfolio at the end of the program, based on CONAFIPS sources of finance information. In effect, as a result of the crisis there are fiscal limitations on financing the portfolio targets with public funds, such that the operation is vital to achieving this objective. For more details, see the monitoring and evaluation plan.
Indicator 4: Proportion of short-term loans to women-owned microenterprises and small businesses in the CONAFIPS portfolio	%	50	50	Program monitoring and supervision information collected by CONAFIPS	The baseline corresponds to the percentage of loans to women in the CONAFIPS portfolio (in terms of number of transactions). The entire CONAFIPS portfolio is considered relevant since the program will cater to that institution’s typical beneficiaries. The current credit allocation criteria are not expected to change, so the target should be to maintain the initial level. Pro-gender indicator

OUTPUTS

Outputs	Unit of measure	Baseline (2020)	Year 1	Year 2	Final target	Means of verification	Comments
SOLE COMPONENT. SUPPORT FOR IMPROVEMENT OF MICROENTERPRISE AND SMALL BUSINESS SHORT-TERM FINANCIAL CAPACITY (US$93.8 MILLION)							
Output 1: Amount of working capital loans made to microenterprises and small businesses by the program	US$ millions	0	42.5	42.5	85.0	Monitoring and supervision information processed by CONAFIPS	
Milestone 1: Number of transactions in the program to finance working capital for women-owned microenterprises and small businesses	Number of transactions					Monitoring and supervision information processed by CONAFIPS	Pro-gender indicator
Output 2: Guaranteed amount of working capital loans made to microenterprises and small businesses by the program	US$ millions	0	4.4	4.4	8.8	Monitoring and supervision information processed by CONAFIPS	
Milestone 2: Number of guarantee transactions in the program to finance working capital for women-owned microenterprises and small businesses	Number of transactions					Monitoring and supervision information processed by CONAFIPS	Pro-gender indicator

Country: Ecuador **Sector:** CMF **Project number:** EC-L1269 **Year:** 2020
Cofinancing: Not applicable **Co-execution:** Not applicable
Executing agency: National Corporation for Popular Finance and Cooperative Associations (CONAFIPS)
Name: Global Credit Program for Safeguarding the Productive Fabric and Employment

FIDUCIARY AGREEMENTS AND REQUIREMENTS

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in program[1]

Budget	■	Reports	☐	Information system	■	NCB	☐
Treasury	■	Internal audit	☐	Shopping	☐	Advanced NCB	☐
Accounting	■	External control	☐	Individual consultants	☐	Consulting firm	☐

Applicable laws/regulations: Public Finance and Planning Code (COPLAFIP), National Public Procurement System Act (LOSNCP).

2. Fiduciary capacity of the executing agency

The Institutional Capacity assessment Platform was used to assess the fiduciary capacity of the executing agency. It concluded that program coordination and financial management are sufficient for the administration of the operation. As a global credit program, no procurement is envisaged. Therefore, no analysis of procurement capacity was carried out. CONAFIPS was involved in execution of loan 2651/OC-EC, approved in 2011, and has executed programs with the Agence Française de Développement (AFD) and the Latin American Development Bank (CAF).

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ☐ ; Medium ☐ ; Low ■

Risk	Level of risk (medium/high)	Mitigation plan
No fiduciary risks were identified.		

[1] Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation thereof.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

Conditions precedent to the first disbursement: No fiduciary conditions.
Exchange rate: For purposes of accountability, the exchange rate used will be that prevailing on the effective date on which the borrower, executing agency, or any other individual or entity to which the power to incur expenses has been delegated, makes the respective payments or transfers (Article 4.01(b)(ii) of the General Conditions).
Audited financial reports on the program: Throughout the original loan disbursement period and any extension thereof, the executing agency, within 120 days after the end of its fiscal year and within 120 days of the last disbursement of the loan, will submit to the Bank the program's annual financial statements, duly audited by an independent audit firm acceptable to the Bank.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<u>Exceptions to policies and guidelines:</u>

• No exceptions anticipated.

Retroactive financing and/or advance procurement	• The Bank may retroactively finance up to US$18.760 million (20% of the loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date for guarantees and subloans to microenterprises and small businesses, provided that requirements substantially similar to those established in the loan contract were met. Given the urgent need to respond to COVID-19 and support microenterprises and small businesses, retroactive financing is valuable tool for immediately addressing the emergency. Accordingly, these expenditures must have been incurred on or after 30 January 2020, the date the WHO declared COVID-19 a global health emergency. Even though this predates the project officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as of that date, given the exceptional circumstances surrounding the global health emergency.
Additional procurement support	• Not applicable.
Alternative procurement arrangements	• Not applicable.
Projects with financial intermediaries	• As this loan is for global credit programs and other operations in which resources are provided to financial intermediaries that will in turn issue subloans or resources via other onlending modalities, it will be stipulated that the Bank's prohibited practices clauses are to be included in the agreements between

	the borrower and its financial intermediaries, and those between the latter and the subborrowers. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practical in view of the program's circumstances, the project team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, with support from the Legal Department, and described in the Credit Regulations.
Procurement agents	• Not applicable.
Direct contracting	• Not applicable.

Operating expenses will be financed: ☐ Not applicable.	**Domestic Preference:** ☐ Not applicable.
General project procurement supervision method: Not applicable.	
Supervision method: Not applicable.	**For:** Not applicable.

Country thresholds: www.iadb.org/procurement

IV. FINANCIAL MANAGEMENT AGREEMENT AND REQUIREMENTS

Programming and budget	• The funds for this operation will be incorporated into the budget of CONAFIPS, an administratively and financially autonomous entity.
Treasury and disbursement management	• Disbursements will be made in the form of advances of funds and reimbursements. • The disbursement mechanism will comprise submission of physical disbursement requests, as the e-Desembolsos system has not yet been implemented in Ecuador. • Bank account: CONAFIPS will hold the fund advances in a bank account for exclusive program use. • Financial plan: Advances will be made for a period of up to 6 months, depending on the demand for loans. The funding for the Guarantee Fund for the Popular and Solidarity-based Economy (FOGEPS) will be provided in a single payment and eligible expenses will be registered in its equity by a separate accounting item. • Percentage for accountability: 80% of advances pending justification. • Program resource flow: Resources, in the form of advances of funds, will be disbursed to the exclusive account set up for the program by CONAFIPS, or to the account it designates for the reimbursement of expenditures.

Accounting, information systems, and reporting	• Specific accounting standards: regulatory framework of the Office of the Superintendent of the Popular and Solidarity-based Economy, partly based on International Financial Reporting Standards (IFRS). • Accountability reports: Cash flow and disbursement statements, statement of cumulative investments, prepared using e-SIGEF, auxiliary records in Excel and the information system developed by CONAFIPS. • Accounting method and currency: The accounts will be kept on an accruals basis, but the financial reports will be prepared on a cash basis, denominated in U.S. dollars, which is the currency of Ecuador.
External control	• With the agreement of the Bank, the executing agency will select and contract the services of an eligible auditor, in accordance with the terms of reference agreed beforehand.
Project financial supervision	• Financial supervision will be conducted by means of visits to CONAFIPS, working meetings, and reviewing reports including the audited financial reports.

V. Relevant Information for the Operation

Policies and guidelines applicable to the operation

Financial management	Procurement
• Document GN-2811 [OP-273-12]	• Document GN-2349-15 • Document GN-2350-15

Records and files

CONAFIPS has digital and physical files, as well as procedures and instructions allowing appropriate records and files to be kept.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/20

Ecuador. Loan ____/OC-EC to Corporación Nacional de Finanzas Populares y Solidarias (CONAFIPS). Global Credit Program for Safeguarding the Productive Fabric and Employment

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 Corporación Nacional de Finanzas Populares y Solidarias (CONAFIPS), as borrower, and with the Republic of Ecuador, as guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Global Credit Program for Safeguarding the Productive Fabric and Employment. Such financing will be for the amount of up to US$93,800,000 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 ___ ___________ 2020)

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