

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

PUBLIC ADMINISTRATION INSTITUTIONAL REFORM PROGRAM

(EC-L1094)

LOAN PROPOSAL

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1.	Diagnostic assessment of civil service in Ecuador http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36422087
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4.	Costs and timetable for execution of PIRIs http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36422102
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6.	Diagnostic assessment of organizational structure of the executive branch of the Ecuadorian government http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36437492
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| 8. | Disbursement plan for the program
http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36424727 |
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ABBREVIATIONS

ENEMDU	Survey on Employment, Unemployment, and Underemployment
ICAS	Institutional Capacity Assessment System
INCOP	Instituto Nacional de Compras Públicas [National Public Procurement Institute]
INEC	Instituto Nacional de Estadística y Censos [National Statistics and Census Institute]
MRL	Ministry of Labor Relations
PIRI	Plan de Inversión de Reforma Institucional [Institutional Reform Investment Plan]
PNBV	Plan Nacional de Buen Vivir [National Plan for Well-being]
PND	Plan Nacional de Desarrollo [National Development Plan]
SENPLADES	National Planning and Development Department
SNAP	National Public Administration Department
SNCP	Sistema Nacional de Contratación Pública [National Public Procurement System]

PROJECT SUMMARY

ECUADOR PUBLIC ADMINISTRATION INSTITUTIONAL REFORM PROGRAM (EC-L1094)

Financial Terms and Conditions				
Borrower: Republic of Ecuador Executing agency: Ministry of Finance			Amortization period:	25 years
			Grace period:	5 years
			Disbursement period:	5 years
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital)	250,000,000	99.0	Inspection and supervision fee:	*
Local	1,456,080	1.0	Credit fee:	*
Total	251,456,080	100	Currency:	United States dollars from the Single Currency Facility of the Bank's Ordinary Capital
Project objective/description: The general objective of the program is to contribute to fulfillment of the National Development Plan (PND). The specific objective is to bring the work of the executive branch and the civil service profile more in line with the government's strategic priorities.				
Components: Component 1: <u>Strengthening of the institutional framework for reform</u> . The Ecuadorian government will receive support to coordinate and manage the reform process to ensure that it is implemented objectively and transparently in the various entities, through the strengthening of crosscutting management systems. Component 2: <u>Preparation and implementation of Institutional Reform Investment Plans (PIRIs)</u> . Financing will be provided to develop and implement at least five PIRIs containing all actions needed to implement the reforms and attain the expected outcomes, including: (i) organizational planning; (ii) implementation of management-by-results; (iii) execution of sector-specific plans, programs, and projects; (iv) management of institutional processes; and (v) human talent management.				
Contractual conditions precedent to the first disbursement. As special contractual conditions precedent to the first disbursement, the executing agency will submit evidence of: (i) the approval by the Interagency Public Administration Committee (the "Committee") of the work schedules of each of the entities participating in the Committee; (ii) the approval of the program's Operating Manual by the Committee, with the Bank's prior written no objection; and (iii) the appointment of the general program coordinator, the financial specialist, and the procurement specialist as part of the management team. Other special execution conditions: prior to the financing of activities and expenses for each PIRI, the executing agency will submit evidence to the Bank for approval that the PIRI in question meets the requirements set forth in national law and the program's eligibility criteria (see paragraph 3.6).				
Special considerations: At the request of the Ecuadorian government and in accordance with OP-504, expenditures of up to US\$20,000 incurred on or after 29 July 2011 (project profile approval date) in connection with the management team may be retroactively recognized against the local counterpart contribution (paragraph 2.2).				
Exceptions to Bank policies: None.				
Procurement: Procurement activity for the project will be in accordance with Bank policies (documents GN-2349-9 and GN-2350-9).				
Project consistent with country strategy:			Yes [X]	No []
Project qualifies as:			SEQ []	PTI []
			Sector []	Geographic []
				Headcount []

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. General context, problems addressed, and rationale

- 1.1 Ecuador's new Constitution, approved in 2008, establishes the National Development Plan (PND) as the instrument governing public policies, programs, and projects, as well as the programming and execution of the government's general budget.¹ The regulations implementing the Constitution require that a PND be submitted to the National Planning Council² for approval within one year after a new administration takes office. If the PND is not approved, the new administration may not submit the proposed budget for the following year to the National Assembly. The current PND, for the 2009-2013 period, known as the National Plan for Well-being (PNBV), is built around 12 national objectives and 139 specific targets that go beyond the traditional approach of planning by sector. The national authorities have had a difficult time implementing the PND effectively. According to the PND progress report, most of the targets will not be able to be met on time.³
- 1.2 The PND identifies as obstacles to its implementation the way in which the government is organized and the inefficient management of human resources in the public sector.⁴ A 2010 analysis by the National Planning and Development Department (SENPLADES) found that: (i) at least 60 entities were duplicating the efforts of other entities in the executive branch;⁵ (ii) all sector-specific ministries were simultaneously making and implementing public policy; and (iii) there were no effective opportunities for coordinating to target investments or execute crosscutting programs.
- 1.3 Meanwhile, preliminary data from a 2011 survey reveal a low level of citizen satisfaction with the quality of public services.⁶ The same survey also found that only 26% of the consumers of public services considered government employees to be better qualified than private-sector employees. This is despite significant growth in the civil service in recent years: the number of active government employees has risen from 230,185 in 2004 to 284,280 in 2011,⁷ a 23.5% increase in seven years.
- 1.4 The Bank has conducted two diagnostic assessments confirming and reinforcing the analysis of the problems identified by the government: (i) the first assessment

¹ Article 280 of the Constitution of Ecuador.

² This council will consist of representatives of the Ecuadorian government, autonomous governments, and civil society.

³ Monitoring report (2010) on the PNBV 2009-2013, SENPLADES. This report states that only 36.3% of the targets will be able to be met.

⁴ PNBV (2009-2013), SENPLADES.

⁵ Progress and projections of the Office for Democratic Reform of the Government (2010), SENPLADES.

⁶ Quality of Public Services, 2011 Survey on Employment, Unemployment, and Underemployment (ENEMDU), National Statistics and Census Institute (INEC). Consumers gave public services an average rating of 6.17 out of 10.

⁷ Source: General Budget of the State for each year, including only civil personnel.

examined organizational issues;⁸ and (ii) the second assessment looked at the civil service.⁹ These assessments revealed a misalignment between the government's actions and its PND implementation strategy, as well as an inadequate civil service profile for meeting its targets. The misalignment between the government's actions and its PND implementation strategy is reflected in the process for allocating budgetary resources, which does not effectively incorporate the government's priority objectives. The PRODEV Evaluation System in 2008¹⁰ found a low level of correspondence between budget programs and PND programs or sector-specific plans,¹¹ which reflect the government's strategic targets. The government acknowledges that this situation persists, as noted in the introductory language of the Code of Planning and Public Finance.¹²

- 1.5 The Bank also found in its analysis that civil service weaknesses are reflected in the fact that job profiles are not keyed to organizational priorities, nor are they geared toward improving public services. The 2011 evaluation of quality in the civil service, which was performed using the Longo-Iacoviello methodology,¹³ yielded low scores for indicators of structural consistency (13 out of 100), functional capacity (28 out of 100), and merit (33 out of 100).

⁸ Diagnostic Assessment of the Organizational Structure of the Executive Branch, Katty Nuñez, 2011.

⁹ Update of the Diagnostic Assessment of the Quality of Civil Service, Mercedes Iacoviello, 2011.

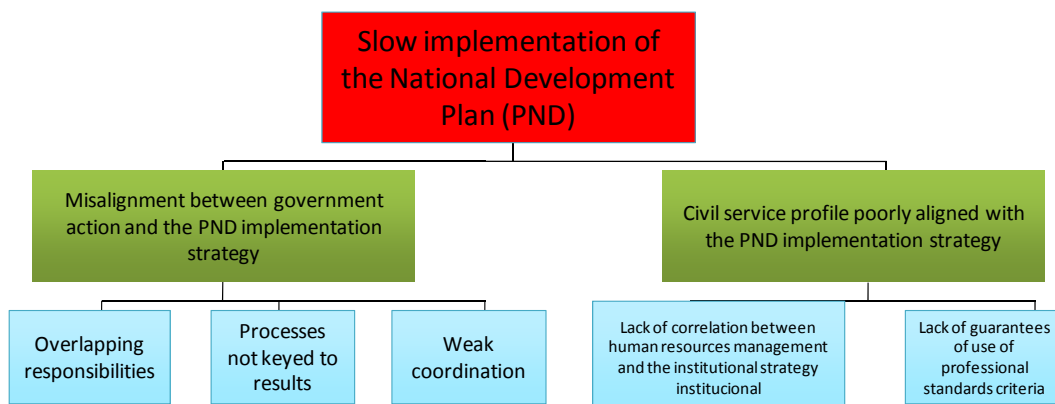
¹⁰ The PRODEV Evaluation System, which is a methodology developed by the Bank to measure management by results in the public sector, is based on a five-point scale, with 5 being the highest score. Ecuador scored a 2 in the structuring of its budget by programs, a 2 in the correspondence between its budget and the PND, and a 0 in implementation of a system of performance indicators of overall spending. Ecuador's average is 2.28, and the regional average is 2.24.

¹¹ The programmatic budget structure is an instrument that facilitates the grouping of institutional budgets around crosscutting objectives.

¹² Code of Planning and Public Finance, 2010: "Thorough reforms are needed to restore the functionality of these resources in order to facilitate the government's work, since current laws and regulations are designed around economic programs primarily focused on short-term fiscal stability, while setting aside medium- and long-term development objectives, citizen participation, and well-being guarantees."

¹³ The methodology used is the "Analytical Framework for the Institutional Assessment of Civil Service Systems" (Longo, 2002), which measures the development of human resource management systems. A diagnostic assessment was conducted in 2004 and updated in 2011. The evaluation is on a scale of 0 to 100.

FIGURE I-1



- 1.6 Thus, the problem that this operation is meant to solve is the lack of alignment of the government's work and the civil service profile in the executive branch with the government's strategy for implementing the PND. The causes of the problem are depicted in the problem tree in Figure I-1 above.
- 1.7 The factors contributing to the misalignment of the government's work are:
- (i) overlapping responsibilities; (ii) lack of alignment between organizational processes and expected outcomes; and (iii) weak coordination of the lead agencies responsible for implementing the PND.
- a. There are overlapping responsibilities, i.e., tasks are poorly delineated between entities and within them. This overlapping was discovered in two ways: (i) first, in analyzing institutional powers and duties; and (ii) second, in designing the competencies matrixes for each entity that defined the results that derived from each of these powers and duties. The 2010 analysis by SENPLADES found that 60 of the 147 entities in the executive branch should be eliminated or merged, and that the remainder should be restructured to eliminate the duplication of responsibilities and to reflect the new powers and duties granted by the Constitution.¹⁴
 - b. There is a lack of alignment between organizational processes and desired results, and the institution's substantive processes are not keyed to fulfilling institutional targets. Annual targets for the PND have not been set within all entities, which makes it impossible to determine when targets will be met or to monitor progress toward these targets and report on it to the lead agency. The analysis conducted for the PRODEV Evaluation System found that only the Ministry of Education and the Ministry of Health had 10-year plans that

¹⁴ Rediseño de la función ejecutiva: de las carteras de estado y su modelo de gestión y de la organización territorial [Redesign of the executive branch: government portfolios and their management model, and territorial organization], SENPLADES, 2010.

included annual targets. According to the 2011 analysis by the National Public Administration Department (SNAP),¹⁵ an average of one third of entities' vital or significant processes are inefficient.¹⁶ This could have a number of causes, to be examined more thoroughly at the level of each entity. An initial analysis,¹⁷ however, reveals two fundamental causes: (i) personnel lack the professional capacity to manage processes; and (ii) processes are poorly designed. In addition, the ratio of value-generating processes to support processes within government entities has been found to be seven to three.¹⁸ The evidence reveals weakness in the measurement of institutional performance, as only presidential performance is monitored, not the overall performance of each entity. Targets are still monitored on the basis of inputs, not the impact they may have on the fulfillment of PND objectives and targets.

- c. Coordination between lead agencies for implementation of the PND is poor. The institutional coordination framework for regulating the process of changing the organizational structure of the government is weak. Fifty percent of the organizational adjustments approved by SENPLADES are subsequently modified due to changes in the legal framework, technical deficiencies, or a change of strategic direction.¹⁹
- 1.8 Current regulations for approving modifications to the structure of an entity are piecemeal and lack timeframes for compliance. There are 17 technical regulations and standards from four different institutions, which make implementation even more difficult. Efforts to monitor the PND are weak, as only 76 of 139 targets can be monitored. Evidence shows that PND monitoring is focused on inputs and outputs, not on impact.
- 1.9 The information systems of the lead public administration agencies are disjointed, which impedes timely decision-making. In particular, the information systems of SENPLADES in the Ministry of Finance and of the Ministry of Labor Relations (MRL) are not interconnected. Since regulations governing the presentation of public investment projects are not coordinated with the presentation of the current expenditures budget, the annual investment plan must be amended as soon as it is approved in order to be executed.

¹⁵ Diagnostic Assessment of the Organizational Structure of the Executive Branch, Katty Nuñez, 2011

¹⁶ The methodology of analysis uses standardized definitions of efficient and inefficient, and vital and nonvital, processes of an entity. Diagnostic Assessment of the Organizational Structure of the Executive Branch, Katty Nuñez, 2011.

¹⁷ See footnote 16 above.

¹⁸ See footnote 16 above.

¹⁹ Estimate by the Office for Democratic Reform of the Government, on the basis of requests from public entities.

- 1.10 The factors contributing to the weak civil service profile are: (i) a lack of correlation between human resource management and the institutional strategy; and (ii) the lack of guarantees that professional standards will be applied.²⁰
- a. There is a lack of correlation between human resource management and the institutional strategy. Human talent planning is reactive, based on immediate institutional needs as opposed to strategic decisions. Personnel planning is not based on the organization's strategic priorities and orientations.²¹ This is evident in the weak implementation of the instrument for describing, assessing, and classifying job positions, and this results in the ineffective allocation of human talent. Although entities are supposed to have a list of assignments approved by the lead agencies, only 8% of them do.²² There is no flexibility for adapting human talent management practices to strategic changes by government entities. The process for approving allocations of human talent, which is the culmination of a process of organizational changes, currently takes 25 weeks. Personnel information systems do not effectively provide information on the quantitative and qualitative availability of existing and foreseeable human talent, in the various organizational areas of the government.
 - b. There is a lack of guarantees that professional standards will be applied. Procedures and mechanisms are not in place to prevent arbitrariness, politicization, and patronage throughout the process of hiring government employees.²³ The Ecuadorian government has created the Meritocracy Institute to oversee the processes for selecting and evaluating the performance of government employees. However, this institute lacks the capacity to perform the tasks delegated to it. The system for evaluating performance is one-sided and does not contribute to the development of the employee in question. The evaluation by the immediate superior has no space to suggest improvements through mandatory or optional training of the employee. There are no alternatives to strictly hierarchical career paths, such as horizontal career paths or advancement within one's position on the basis of recognized professional excellence, without the need to increase the formal authority of

²⁰ The scores for functional capacity (28 out of 100) and merit (33 out of 100) reveal this weakness. Update of the Diagnostic Assessment of the Quality of Civil Service, Mercedes Iacoviello, 2011.

²¹ The score for human resource planning improved slightly from 1 to 2 out of 5 between 2004 and 2011, but this score is still very low. Update of the Diagnostic Assessment of the Quality of Civil Service, Mercedes Iacoviello, 2011.

²² Monitoring report on the institutional restructuring process, MRL, July 2011.

²³ This indicator of job management in the evaluation received a score of 2 out of 5.

those involved. According to a 2004 analysis, the indicator of human talent development management had not significantly improved.²⁴

- 1.11 **Legal and institutional framework for reform.** The Ecuadorian government developed a strategy for redesigning the executive branch, in order to effectively link the new development model called for in the Constitution to the structure and management of the executive branch. As part of this strategy, a functional differentiation matrix (known as a competencies matrix) was created to depict each government entity and its role. The competencies matrix strengthens the primary responsibilities of each entity and is intended to prevent duplications and overlapping.²⁵ To execute this strategy, the government has established a committee of the lead agencies (SNAP, SENPLADES, and MRL), called the Interagency Public Administration Committee; the Ministry of Finance is a permanent guest on the Committee. This Committee is charged with coordinating, linking, managing, and issuing policies and strategic guidelines for the institutional restructuring of the public administration.
- 1.12 The government has established a legal framework for changing the structure of the executive branch, in accordance with the new Constitution. This legal framework simplifies and coordinates the government's efforts to ensure that public policies are implemented more efficiently. The initial pieces of legislation are the Code of Planning and Public Finance (2010) and the Public Service Act (2010).
- 1.13 To ensure that the institutional reform process is based on technical criteria, the government has a technical standard called Model R, which is binding on all entities and calls for the following:²⁶ (i) establishment of a new management model based on the new competencies matrix, and reflecting the updated mission statement, vision, and competencies of each government entity; (ii) redesign of processes and manual of jobs, and detailed analysis of the needs, current capacities, and existing gaps in terms of human resources at each institution; and (iii) realignment of human talent. This realignment will be accomplished based on the aforementioned analysis of capacities and gaps, and may result in the reassignment, training, and/or separation of some current personnel, as well as the hiring of new personnel.
- 1.14 There are currently 284,280 active government employees in the executive branch, including educational and medical personnel, and 48,693 of them are in the career civil service, according to the definition to be included in the program's Operating

²⁴ This indicator of development management still scores a 0. The critical points used to construct the indicators of the "Analytical Framework for the Institutional Diagnostic Assessment of Civil Service Systems," Longo 2002, are on a scale of 0 to 5. Update of the Diagnostic Assessment of the Quality of Civil Service, Mercedes Iacoviello, 2011; Iacoviello and Zuvanic, 2005.

²⁵ Rediseño de la función ejecutiva: de las carteras de estado y su modelo de gestión y de la organización territorial [Redesign of the executive branch: government portfolios and their management model, and territorial organization], SENPLADES, 2010.

²⁶ A copy of this document may be found in [optional electronic link #7](#).

Manual. SENPLADES, the Ministry of Finance, and the Ministry of Labor Relations have estimated that around 30% of these employees may be separated, but an accurate determination can only be made once the corresponding studies have been done by each entity.²⁷ As part of this process, it is expected that some 5,000 new government employees will need to be hired.

- 1.15 Diagnostic assessments of 10 entities reveal a broad range of circumstances, both in the progress of reforms and in the possible costs of each intervention, and no public-sector entity has finished implementing Model R. The Ecuadorian government has estimated the cost of implementing the entire reform package in all entities of the executive branch at US\$600 million; thus, this effort will be carried out in phases. The Bank's contribution is scaled to cover the initial needs of the institutions that were part of the analysis conducted during preparation of this operation. The final selection of beneficiary entities will use the following and other ranking criteria: (i) the effect that the institutional reforms would have on the services that the entity provides to the public, on the basis of surveys on public services; (ii) the potential of the reforms to decentralize the services provided by the entity; (iii) the size of the annual budgetary allocation, in terms of both current spending and investment; and (iv) progress in preparing the reforms. These and other criteria, as well as their relative weights, will be included in the program's Operating Manual.
- 1.16 Each entity will be supported by an agreement between itself and the Committee, and this agreement will be called the Institutional Reform Investment Plan (PIRI). Financing is expected to be provided for at least five PIRIs, to be prioritized and approved by the Committee as soon as it has received the evaluation of each entity.
- 1.17 The Bank will provide comparative experience in institutional redesign processes for public administration at the regional level, such as in Brazil and Colombia,²⁸ in addition to reform processes of customs and tax authorities, including Ecuador's. Specifically, the Bank will apply this knowledge by providing technical assistance to help the government prepare the studies and analyses that will serve as the inputs for generating the PIRIs, will participate in the technical validation of these, and will provide support for monitoring their implementation and for monitoring and

²⁷ The law establishes the maximum compensation for this one time at US\$39,600 for a separated government employee, depending on years of service (calculated on the basis of Article 129 of the Public Service Act: five times the basic minimum wage for each year of service starting with the fifth year, up to a maximum amount of 150 times the basic minimum wage), as well as a social mitigation program to be run by the Ministry of Labor Relations. This is higher than the amounts used in similar processes in the region. If they are rehired as government employees, under the current legal framework, separated employees must return their severance payment and accept the new merit-based criteria for civil service.

²⁸ One lesson learned from regional processes that institutional reforms should be comprehensive, i.e., they should be self-contained in each entity, be results-oriented, use budget-related performance indicators, and reflect the importance of systems that cut across the public administration to ensure sustainability throughout the process. See Project Completion Reports: Public Administration Reform Program (loan 1561/OC-CO) and the Program for Modernization of the Executive Branch of the Federal Government (loan 1042/OC-BR).

evaluating the results of the reforms. Through these activities, the Bank will guarantee the technical consistency of the restructuring processes to be supported in the scope of this operation. This operation is part of a broad effort by the Ecuadorian government to make public administration more efficient and effective, which is being supported by two other Bank operations: Strengthening of the Preinvestment Cycle (EC-L1084) and the Fiscal Management Program (EC-L1086).

- 1.18 The Ecuadorian government and the Bank have identified this as one of the areas for joint work in the Bank's country strategy with Ecuador for the 2008-2011 period. In the country strategy, the Bank agreed with the country to support government entities in accordance with their priorities, with emphasis on improving the quality of public management. Also, this operation is aligned with the framework of the Ninth General Capital Increase and the Sector Strategy on Institutions for Growth and Social Welfare, which places priority on public-sector management. The program will also help support small and vulnerable countries and strengthen country systems.

B. Objective

- 1.19 The general objective of the program is to contribute to fulfillment of the National Development Plan (PND). The specific objective is to bring the work of the executive branch and the civil service profile more in line with the government's strategic priorities. To this end, the program will finance the following two components:

Component 1. Strengthening of the institutional framework for reform

- 1.20 The objective of this component is to coordinate and manage crosscutting reform processes to ensure that they are implemented objectively and transparently, through the strengthening of management systems, for which financing will be provided for goods and services.
- 1.21 Proposed activities for addressing the lack of alignment in the government's work include: (i) implementation of an information system on government functions, to prevent overlapping functions; (ii) implementation of an information system for planning, monitoring, tracking, and evaluating the executive branch redesign process; (iii) strengthening of the Committee in its strategic vision by developing a five-year and a ten-year strategic plan of reforms; (iv) consolidation and simplification of legislation on government reforms and establishment of institutional mechanisms for implementation; (v) integration of regulations, methodologies, and information technology in systems for planning, investment, budgets, and monitoring of management in order to implement management by results; (vi) design and generation of management tools for the reform coordination process; (vii) training of Committee personnel, the program management team described in chapter III, and the beneficiary entities in matters related to management of the reform process; (viii) technical assistance for monitoring and

evaluating reform plans; and (ix) design and implementation of an internal and external communication program on the reform process.

- 1.22 The following activities related to the human talent profile will be carried out: (i) technical support for design and implementation of the manual of jobs and competencies profiles and the career service model; (ii) design and implementation of an information system to support human talent management; (iii) implementation of an evaluation subsystem that includes other factors besides the supervisor's evaluation; (iv) design and implementation of a social mitigation plan for separated public employees based on awareness-raising, training, and guidance to help them find new jobs; (v) review of the design and implementation of the human talent planning subsystem; (vi) optimization of the approval process for organizational restructuring processes; and (vii) issuance of regulations for Article 130 of the Public Service Act for certification of service quality.

Component 2. Preparation and implementation of Institutional Reform Investment Plans (PIRIs)

- 1.23 Financing will be provided for works, goods, and services to develop and implement PIRIs, as well as to pay compensation to separated personnel²⁹ as part of the process of aligning human talent with the priorities of the beneficiary institutions and the PND. The works to be financed will consist in refurbishing special spaces and facilities (information technology, communications, etc.). The separation methods to be supported with program resources are as follows: (i) mandatory retirement; (ii) voluntary retirement; (iii) voluntary resignation; and (iv) job elimination.³⁰ These methods must meet the eligibility and other requirements established for this purpose.
- 1.24 The PIRIs should integrally contain all actions needed to implement the reforms and attain the desired results from these reforms, in addition to providing for the link between the Ministry of Finance and beneficiary entities for the administration of resources. The PIRIs will constitute agreements between the Committee and the highest authority of the entity targeted by the reform, and will support, *inter alia*:

²⁹ This expenditure is in compliance with the "Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans" (document GN-2331-5) and the "Guidelines for the Eligibility of Expenditures in Investment Loans: Proposed Amendment" (document CC-6004-2), and it is consistent with the country financial parameters with Ecuador (document CP-2827-3 and Annex IX to document GN-2495). This expenditure is an integral part of the PIRIs to be designed specifically for each entity in order to improve institutional productivity, which will ultimately lead to an improvement in public service and the fulfillment of PND targets. The institutional reforms could not be carried out without changing the process and the human talent profile.

³⁰ The reference document on these methods may be found in [optional electronic link #9](#). Support for other separation methods described in Ecuadorian law will be contingent upon whether these methods are consistent with the country's legal and constitutional requirements and whether they comply with the program's criteria and objectives. Compliance with these criteria must be analyzed and approved by the Bank before it can give its no objection for other separation methods to be eligible for financing with program resources. The Operating Manual will contain a detailed description of each separation method to be financed.

- (i) organizational planning; (ii) implementation of management-by results; (iii) execution of sector-specific plans, programs, and projects; (iv) management of institutional processes; and (v) human talent management, as well as a sustainability analysis. Each PIRI must receive the Bank's no objection for financing, so as to ensure that it complies with the program's guidelines, as well as the technical requirements and transparency criteria described in paragraph 1.28.
- 1.25 Each beneficiary entity will be responsible for implementing the PIRI, and will conduct procurement processes under the supervision of the Ministry of Finance. Each entity must submit a draft PIRI to the Committee and, once approved, the PIRI will be recorded in the entity's annual investment plan. [Optional electronic link #4](#) details all activities to be carried out, including indicative budgets by institution size. According to a cost analysis of 10 entities, with the Bank's contribution, institutional reforms could be carried out at five entities, depending on their size. Each PIRI will have a baseline of indicators to measure the alignment of its functional structure and human talent with fulfillment of the PND objectives and specific sector indicators. The scope of the baseline, the content of each PIRI, and the format of the agreement between the Committee and the beneficiary entity will be set forth in the program's Operating Manual.
- 1.26 Actions to adjust the human talent profile (training, reassignment, separation, and hiring) will be determined on the basis of a strategic human resource planning process that will adopt uniform, transparent technical criteria and will include the following phases: (i) determination of the entity's organizational structure based on planned strategic objectives; (ii) scaling of the workforce in accordance with required processes; (iii) development of job descriptions; (iv) analysis and identification of jobs to be created and/or eliminated; (v) analysis of the individual profile of each government employee in relation to identified organizational needs; and (vi) career plan for the new job structure.
- 1.27 As part of the program, financing will be provided to pay some 5,400 employees an average of US\$35,000 each in compensation. These severance payments will be for personnel in the career service only, according to the definition to be included in the Operating Manual. A legal ruling must be issued for each PIRI regarding the procedures to be followed for separations, in view of the rights of government employees. If they are rehired as government employees, under the current legal framework, separated employees must return their severance payment and accept the new merit-based criteria for civil service.³¹

C. Key results indicators

- 1.28 **Expected outcomes.** Alignment between the work of the executive branch and the government's strategy will be measured by the following indicator: (i) correspondence between budget programs and PND programs or sector plans. Alignment of the civil service profile with the government's strategic priorities will

³¹ Resources received in the form of these returns must be reused for the same program-related purposes.

be measured by the following indicators:³² (i) strategic consistency; (ii) functional consistency; and (iii) merit. An expected impact of the program is more effective implementation of the PND and improved public perception of the quality of public services.

- 1.29 The program is expected to be economically feasible. According to the economic evaluation that was performed (see [optional electronic links #5a and #5b](#)), the program's internal rate of return, in a conservative scenario, is above 25% with a net present value of US\$87 million. The benefits of the program will be generated by: (i) improvements in the quality and efficacy of government services, as a result of the optimization of processes through implementation of government-by-results, the availability of more and better information through implementation of an integrated coordination system, and the incorporation of highly skilled personnel through implementation of a new career service model; and (ii) the release of funds following the elimination of overlapping responsibilities and the separation of unnecessary personnel. In turn, these funds may be redirected to improve services provided by institutions in the executive branch.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Costs and financing

- 2.1 The total cost of the program is US\$251,456,080, of which US\$250,000,000 will be financed by the Bank with resources from the Single Currency Facility of the Ordinary Capital, and US\$1,456,080 will be financed by the local counterpart. Table II-1 shows the consolidated budget by component, and [optional electronic link #2](#) shows the itemized budget. The cost categories to be covered by the program include the procurement of works, goods, and services. The financial costs of the local contribution will be covered by fiscal resources.

³² "Analytical Framework for the Institutional Diagnostic Assessment of Civil Service Systems" (Longo, 2002), based on the diagnostic assessment and the program's contribution in specific areas: (i) MERIT: evaluates the degree to which the civil service system incorporates, in its policies and practices, guarantees the use of criteria of professional standards to protect these policies and practices from arbitrariness, politicization, and profiteering; (ii) STRATEGIC CONSISTENCY, i.e., correlation of human resource management policies and practices to government priorities; and (iii) FUNCTIONAL CAPACITY: evaluates the capacity of the civil service system to effectively influence the conduct of public-sector employees, leading to work-related behaviors appropriate to organizational priorities and geared toward improving public services.

Table II-I. Costs

COMPONENT	IDB (US\$)	Local contribution (US\$)	Total (US\$)
Component 1: Strengthening of the institutional framework for reform	17,774,000		17,774,000
1.1 Analysis of and adjustments to overlapping responsibilities	1,282,000		1,282,000
1.2 Strengthening of lead agencies and crosscutting management processes	1,902,000		1,902,000
1.3 Strengthening of the civil service profile	14,000,000		14,000,000
<i>Strengthening of the human talent management system</i>	10,950,000		10,950,000
<i>Social mitigation</i>	2,830,000		2,830,000
<i>Support for professional standards in the civil service</i>	220,000		220,000
1.4 Strengthening of the reform monitoring system	590,000		590,000
Component 2: Preparation and implementation of Institutional Reform Investment Plans (PIRIs)	232,226,000		232,226,000
2.1 Preparation of PIRIs	6,816,000		6,816,000
2.2 Implementation of PIRIs	29,119,664		29,119,664
2.3 Support for PIRIs separation plan	196,290,336		196,290,336
Program administration		1,456,080	1,456,080
Management team		906,080	906,080
Concurrent audits and ex post evaluation		550,000	550,000
Total	250,000,000	1,456,080	251,456,080

- 2.2 **Retroactive recognition of expenditures.** At the request of the Ecuadorian government and in accordance with OP-504, expenditures of up to US\$20,000 incurred on or after 29 July 2011 (project profile approval date) in connection with the management team may be retroactively recognized against the local counterpart contribution.

B. Fiduciary risks and mitigation measures

- 2.3 In designing the operation, a program risk management exercise was performed using the Bank's methodology, with the participation of the beneficiary entities. This exercise included the following activities: (i) identification and documentation of program risks and the associated probability factors; (ii) weighting of program risks; and (iii) preparation of the risk mitigation plan. The program is considered to be of medium risk.
- 2.4 The risk analysis also included an institutional capacity analysis of the Ministry of Finance, based on the Bank's Institutional Capacity Assessment System (ICAS), which found a medium level of risk. Annex III, Fiduciary Agreements and

Requirements, describes the identified risks and their impact and the mitigation measures needed for effective program execution. The program's Operating Manual will set forth the duties and responsibilities in the coordination process, the technical and fiduciary oversight structure, and the frequency and minimum content of monitoring reports. There will be a general program coordinator on the management team, who will centralize decisions related to program execution, thereby facilitating the coordination of program execution within the structure of the Ministry of Finance.

C. Environmental and social risks

- 2.5 The program has been classified as category "C" operation. The program will finance the implementation of a social mitigation plan that includes training activities, job searches, guidance for starting a business, and monitoring of the job status of former government employees over a two-year period.
- 2.6 **Other special considerations and risks.** The following risks, which may compromise the program's objectives, have been identified: (i) that the cost of the reforms may not be sustainable for the government; (ii) that human resources may not be managed in accordance with technical criteria based on merit and transparency; (iii) that interagency coordination between the Committee, the technical team, and the management team may be limited; (iv) that the campaign to publicize the reform process in government entities and the media may be limited or inefficient; and (v) that new government employees may not be hired on the basis of merit and transparency. The mitigation plan financed with program resources includes the following activities: (i) a sustainability analysis within the context of each PIRI, led by the Ministry of Finance; (ii) formation of a management team to specifically supervise personnel management processes, and development of the program's Operations Manual, which will detail all procedures, requirements, and controls. The Bank, meanwhile, will help certify the transparency of these processes by issuing its no objection to the PIRI of each beneficiary entity; (iii) design of the program's Operating Manual on a participatory basis with all parties on the Committee; (iv) coordination of external communication with the press office of the Office of the President; and (v) strengthening of the Meritocracy Institute in its efforts to supervise government employee selection processes.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Ecuador, and the executing agency will be the Ministry of Finance. The execution period will be four years.
- 3.2 **Execution.** The Ministry of Finance will be the executing agency of the program, acting through a management team. The management team will include a general program coordinator, a legal specialist, a financial specialist, a procurement

specialist, and a monitoring and evaluation specialist. The management team's duties and responsibilities will be detailed in the program's Operating Manual and will include, at a minimum: (i) administration of financial resources; (ii) interagency coordination of all program activities; (iii) planning of program execution, including preparation of annual work plans; (iv) coordination and supervision of activities related to the procurement of services, goods, and works; (v) updating of the procurement plan; (vi) supervision of progress in program execution; (vii) management of all fiduciary considerations; (viii) consolidation and processing of payments and filing of all program documents as required by the loan contract; (ix) preparation of financial statements and disbursement requests; and (x) monitoring of program execution and evaluations, *inter alia*. In addition, the management team will be responsible for overall monitoring of the program.

- 3.3 Program activities will be performed according to the programming set forth in the multiyear execution plan (see [required electronic link #1](#)), which details how the entire program is to be executed. The annual update of this plan will be included in the corresponding annual work plan. The multiyear execution plan should be revised every year to reflect actual progress in the program. Annual revisions of the multiyear execution plan and the annual work plan will be submitted to the Bank for approval. The fiduciary agreements and requirements (Annex III) reflect the financial management and planning guidelines, as well as the guidelines for supervising and executing procurements to be used in program execution. The fiduciary agreements and requirements have been developed on the basis of the country's fiduciary context, the institutional analysis of the executing agency, the risk analysis, and meetings held with personnel from the executing agency.
- 3.4 **Procurement.** Works, goods, nonconsulting services, and consulting services financed fully or partially with Bank resources will be procured in accordance with the "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document GN-2349-9) and the "Policies for the selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-9). Component 2 includes financing for the separation of personnel from the executive branch, for which the aforementioned procurement policies are not applicable. The procurement plan (see [required electronic link #3](#)) itemizes the procurement processes to be implemented during the program, including: (i) contracts for works, goods, nonconsulting services, and consulting services; (ii) proposed procurement methods for works, goods, nonconsulting services, and consulting services; and (iii) the procedures used by the Bank to review procurements. The multiyear execution plan for the four years of the program will also include the activities and procurements identified in the procurement plan. The procurement plan will be updated each year or whenever substantial changes are needed in the operation's procurements. The current version of the procurement plan will be available on the Bank's website and in the procurement plan monitoring system. Any proposed revision to the procurement plan will be submitted to the Bank for approval. The fiduciary agreements and requirements include detailed information on procurement management.

- 3.5 **Audits.** External auditing services for the program will be provided in accordance with the fiduciary agreements and requirements. Within 120 days after the end of each fiscal period, the management team will submit the audited annual financial statements for the program to the Bank. The last audited financial statement will be submitted within 120 days after the designated date for the operation's final disbursement. In addition, the executing agency will submit, along with the supporting documentation for each disbursement, a report from an independent review of the supporting documentation for transactions included in the disbursement request, performed by a Bank-eligible auditing firm.
- 3.6 **As special contractual conditions precedent to the first disbursement, the executing agency will submit evidence of: (i) the approval by the Committee of the work schedules of each of the entities participating in the Committee; (ii) the approval of the program's Operating Manual by the Committee, with the Bank's prior written no objection; and (iii) the appointment of the general program coordinator, the financial specialist, and the procurement specialist as part of the management team. Other special execution conditions are as follows: prior to the financing of activities and expenses for each PIRI, the executing agency will submit evidence to the Bank for approval that the PIRI in question meets the requirements set forth in national law and the program's eligibility criteria.**

B. Summary of arrangements for program monitoring and evaluation

- 3.7 **Monitoring by the executing agency.** For program monitoring, the executing agency will use the following documents: (i) the results matrix (see Annex II); (ii) the multiyear execution plan (see [required electronic link #1](#)); (iii) the monitoring and evaluation arrangements (see [required electronic link #2](#)); (iv) the procurement plan (see [required electronic link #3](#)); (v) the risk matrix and the program risk evaluation and mitigation matrix; and the program disbursement plan (see [optional electronic link #8](#)).
- 3.8 The Ministry of Finance will hire a monitoring and evaluation specialist to serve on its management team, and the duties of this specialist will be described in detail in the program's Operating Manual. The monitoring and evaluation specialist will prepare semiannual progress reports for review by the Bank. For evaluation purposes, the executing agency will use the progress monitoring report, the results matrix, and the provisions of the monitoring and evaluation arrangements.
- 3.9 **Monitoring by the Bank.** The Bank will carry out administration missions or inspection visits, depending on the importance and complexity of program execution, in accordance with the schedule set forth in the multiyear execution plan, which identifies when the Bank's technical supervision is deemed necessary. The Bank also agrees with the executing agency to use the progress monitoring report, which provides time-referenced estimates of disbursements and the fulfillment of physical targets and outcomes, as a mechanism for evaluating program performance.

- 3.10 **Evaluation.** The executing agency will conduct a midterm evaluation of the program at a time to be agreed upon with the Bank, a final evaluation in the last six months of the execution period, and an ex post cost-benefit analysis by hiring a consulting firm (to be financed with program resources). The program budget includes allocated resources for all evaluations. This evaluation will prepare a final consolidated report on the baselines and evaluations of each subcomponent and on the information to be gathered as required in the results matrix and the monitoring and evaluation arrangements.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Support for Small and Vulnerable Countries.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)			
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2490	Support objective of social development and inclusion.	
Country Program Results Matrix	GN-2617	The project is included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.4		10
3. Evidence-based Assessment & Solution	6.8	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	6.6	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	C		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	The project will use the procurement information system, as well as, budget and treasury.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

The program supports improving public sector management in Ecuador, a small and vulnerable country. It is aligned to the country strategy currently in place, which did not have a results matrix but did present public sector capacity as a necessary element of improving social development and economic inclusion. Indicators of country level results for this operation were included in the CPD approved for 2011. The program aims to support the reform of at least five institutions in the Ecuador Public Sector to improve the delivery of services to citizens. Part of the reform includes the financing of separations of public sector employees through different methods, following an analysis of institutional needs, gaps and professional profiles.

The results matrix includes indexes for the whole Ecuadorian Public Sector as indicators of outcome. These indexes are highly aggregate and therefore do not allow for a high degree of clarity as to the vertical logic of the intervention. The team recognizes that specific baselines need to be defined for each of the components of the indexes for those institutions that are to benefit from the Program (these have not been fully determined as of this time). The indexes will be much more relevant at that time, and components of the indexes will allow for monitoring of progress per institution.

The program has an economic Cost-Benefit Analysis. The team proposes to do an ex-post CBA to determine if the assumptions, costs and benefits ex-ante were correct. The project has resources allocated for this ex-post CBA. In addition, the project includes an intermediate evaluation which will cover the institutions selected.

The project uses the information system of the national procurement system, the budget and treasury systems.

RESULTS MATRIX

The general objective of the program is to contribute to fulfillment of the National Development Plan (PND). The specific objective is to bring the work of the executive branch and the civil service profile more in line with the government's strategic priorities.															
EXPECTED IMPACT: More effective implementation of the PND															
INDICATORS	Unit of measurement	Baseline		Intermediate measurements								Final target		Source/means of verification	Comments
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
IMPACT ¹															
PND targets fulfilled	%	36.37	2010		2012		2013		2014		2015	66	2016	Monitoring report on the PND 2009-2013, SENPLADES	
Index of consumer satisfaction with public services	Index	5.07	2008		2012		2013		2014		2015	7	2016	Report on quality of public services, SENPLADES (ENEMDU-INEC)	Survey on a scale of 0 to 10 given to consumers of public services
EXPECTED OUTCOME 1: Better alignment between the government's work and its strategy															
Index of correspondence between budget programs and national or sector programs ²	Index	2/5	2008		2012		2013		2014		2015	3/5	2016	SEP-PRODEV evaluation. IDB	Where 5 is the highest score

¹ The program's impact indicators currently reflect aggregate data (from the whole) of the PND's targets and of public services; these data will be adjusted later once specific information on the targeted entities is available.

² This is an indicator from the SEP-PRODEV methodology, which provides evidence of the alignment between budget management (government's work) and PND programs or sector plans, which then become the government's strategic targets.

INDICATORS	Unit of measurement	Baseline		Intermediate measurements								Final target		Source/means of verification	Comments
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 2: Civil service profile aligned with the government’s strategic priorities															
Index of consistency of civil service	Index	13/100	2011		2012		2013		2014		2015	30/100	2016	Specialized consulting services will apply the Analytical Framework for the Institutional Assessment of Civil Service Systems (Longo)	Where 100 is the highest score
Indicator of functional capacity of civil service	Index	28/100	2011		2012		2013		2014		2015	45/100	2016	Specialized consulting services will apply the Analytical Framework for the Institutional Assessment of Civil Service Systems (Longo)	Where 100 is the highest score
Indicator of merit of civil service	Index	33/100	2011		2012		2013		2014		2015	55/100	2016	Specialized consulting services will apply the Analytical Framework for the Institutional Assessment of Civil Service Systems (Longo)	Where 100 is the highest score

Output	Cost (US\$ 000)	Unit of measurement	Baseline		Year 1	Year 2	Year 3	Year 4	Final target	Source/means of verification	Comments
			Value	Year							
COMPONENT 1: Strengthening of institutional framework for reform											
Information system of government responsibilities to prevent overlapping of responsibilities, implemented	US\$1,250	System	0	2011		1			1	SENPLADES/ Progress reports	
Milestone: Institutions with competencies recorded in the system	Institutions		0	2011		10	30	20	60	Ministry of Labor Relations / Ministry of Finance	
Medium-term plan for implementation of reforms, developed	US\$8	Plan	0	2011	1				1	Secretariat/ Progress reports	
Personnel from the institutional reform committee trained in strategic planning	US\$10	Personnel	0	2011	22				22	Secretariat/ Evaluations of training activities	
Legal requirements for government reforms and institutional mechanisms for implementation, simplified	US\$50	Requirements	0	2011	17				17	Secretariat/ Final consulting report	
Mechanism for monitoring PND targets, strengthened	US\$200	Mechanism	0	2011		1			1	SENPLADES/ Progress reports	
Management personnel of targeted entities, trained	US\$10	Personnel	0	2011	50	50			100	Secretariat/ Evaluations of training activities	

Output	Cost (US\$ 000)	Unit of measurement	Baseline		Year 1	Year 2	Year 3	Year 4	Final target	Source/means of verification	Comments
			Value	Year							
Spending management systems (planning, investment, and budgeting) adjusted to interoperate with monitoring of the annual investment plan	US\$200	Systems	0	2011		3			3	Ministry of Finance/ SENPLADES	Consists in integration of regulations, methodologies, and information technology of systems for public administration planning, investment, budgeting, and monitoring.
Internal and external campaign of institutional reforms, held	US\$500	Campaign	0	2011		1			1	Secretariat/ Ministry of Finance	
Information system that supports human talent management, implemented	US\$10,200	System	0	2011		1			1	Ministry of Labor Relations / Ministry of Finance	
Milestone: Plan design		Design	0	2011	1				1	Ministry of Labor Relations / Ministry of Finance	
Milestone: Institutions with data on their human talent migrated in the system		Institutions	0	2011			5		5	Ministry of Labor Relations / Ministry of Finance	
Social mitigation plan implemented	US\$2,830	Plan	0	2011			1		1	Ministry of Labor Relations / Ministry of Finance	
Milestone: People benefitting from the social mitigation plan (total people impacted by this program: 4,571; degree of program acceptance: 80%)		People	0	2011	1,828	913	915		3,656	Ministry of Labor Relations / Ministry of Finance	To reduce the impact of the separation of government employees, training events and competitive funding for individual or collective enterprises will be financed.

Output	Cost (US\$ 000)	Unit of measurement	Baseline		Year 1	Year 2	Year 3	Year 4	Final target	Source/means of verification	Comments
			Value	Year							
Study to optimize the organizational restructuring process, prepared	US\$20	Study	0	2011	1				1	Ministry of Labor Relations / Ministry of Finance	
Technical standard of Article 130 of the Public Service Act, prepared	US\$150	Standard	0	2011	1				1	Ministry of Labor Relations / SNAP	
Study to strengthen the Meritocracy Institute, prepared	US\$50	Study	0	2011	1				1	Ministry of Labor Relations / Ministry of Finance	
Studies to strengthen the monitoring of reforms, prepared ³	US\$590	Studies	0	2011	3		1	1	5	SNAP / Ministry of Finance	
COMPONENT 2: Preparation and implementation of Institutional Reform Investment Plans (PIRIs)											
PIRIs, implemented	US\$225,427.69	PIRIs	0	2011		3		2	5	Secretariat/ Ministry of Finance	Financing will be provided for goods and services, including nonconsulting services, as well as for payment of compensation to separated personnel. Once the PIRIs are established, the exact outputs to be financed will be known.
<i>Milestone: Entities with redesigned processes</i>		Entities	0	2011		3		2	5	Secretariat/ Ministry of Finance	
<i>Milestone: Entities with automated processes</i>		Entities	0	2011		3		2	5	Ministry of Labor Relations / Ministry	

³ The studies corresponding to this output are: (i) implementation of management-by-results in the entities represented on the Committee; (ii) establishment of baseline for PIRIs; (iii) strengthening of program monitoring system; (iv) midterm program evaluation; and (v) final program evaluation.

Output	Cost (US\$ 000)	Unit of measurement	Baseline		Year 1	Year 2	Year 3	Year 4	Final target	Source/means of verification	Comments
			Value	Year							
										of Finance	
<i>Milestone: Entities with a new performance evaluation for their human talent</i>		Entities	0	2011		3		2	5	Ministry of Labor Relations / Ministry of Finance	
<i>Milestone: Entities with information on human talent administered in a new information system</i>		Entities	0	2011		3		2	5	Ministry of Labor Relations / Ministry of Finance	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Project number: EC-L1094
Executing agency: Ministry of Finance
Prepared by: Marco Alemán, Gustavo Palmerio, and Santiago Schneider (PDP/CEC)

The institutional evaluation for fiduciary management of the project was carried out on the basis of: (1) the fiduciary context of the country; (2) the outcomes of the fiduciary risk evaluation; (3) the analysis of the Ministry of Finance using the Institutional Capacity Assessment System (ICAS) tool; (4) work meetings with the project team; and (5) meetings with personnel from the various areas of the Ministry of Finance. As a result of this evaluation, fiduciary agreements on procurement and financial management have been developed for execution of the program.

I. FIDUCIARY CONTEXT OF THE COUNTRY

- 1.1 *Procurement system:* The National Public Procurement System (SNCP) was approved through enactment of the SNCP Act in August 2008. Among the substantial changes introduced is the creation of the National Public Procurement Institute (INCOP) as the lead agency for public procurement. INCOP, with the Bank's support, conducted the diagnostic assessment of the SNCP using the methodology of the Organization for Economic Cooperation and Development's Development Assistance Committee. This assessment found the SNCP to be at a medium stage of development.
- 1.2 *Financial management system:* Since January 2008, government entities have been using the financial administration system known as eSIGEF, which effectively integrates systems for budgeting, accounting, treasury, electronic payments, and a centralized Web-enabled information technology mechanism. Also, the entities of the central government are subject to the control and supervision of the highest auditing authority, which is the Office of the General Comptroller. In general, national financial-management systems are at an adequate stage of development and need to be supplemented at this time for the purposes of executing Bank-financed projects, with regard to specific financial reporting and external auditing (to be conducted by a Bank-eligible firm).

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The executing agency of the program is the Ministry of Finance, acting through the program execution unit, which will be created specifically to execute this

- program. The institutional assessment that was performed using the ICAS methodology found the overall level of risk to be medium.
- 2.2 The Ministry of Finance leads and manages the country's public finances, proposing financial and budgetary policies and ensuring that public finances are well balanced, and is in charge of the various subsystems comprising the Public Administration System.
 - 2.3 The most important duties of the Ministry of Finance include the efficient, effective, and consistent programming, coordination, and supervision of the financing of the public sector, in accordance with public policy needs and the objectives in the National Development Plan (PND), to ensure a timely and sustainable flow of borrowing, of disbursements, and, in general, of tax and nontax fiscal revenues.
 - 2.4 The new Planning and Public Finance Code entered into effect in 2010. The Code is the new legal and operational framework through which financial management will be restructured for the various levels of the government. As part of this restructuring, and to adapt its structure to the new Code, the Ministry of Finance is currently finalizing a reorganization process that, *inter alia*, included an analysis of and changes in internal functions and job descriptions, the merger or separation of activities in the Ministry's subdivisions, administrative restructuring, and departure of personnel.
 - 2.5 The Ministry of Finance, during program execution, should work together with the Interagency Public Administration Committee (which is responsible for approving the strategic guidelines for restructuring institutional public management) and with the ministries involved in the program (responsible for developing and implementing their own respective institutional reform investment plans, or PIRIs).
 - 2.6 The Ministry of Finance uses the country's national procurement and financial management systems. Internal control of these entities is handled by the Office of the General Comptroller, acting through the Internal Audit Unit, which is part of its organizational structure.
 - 2.7 Considering the foregoing and the nature of the Ministry of Finance, this entity is not sufficiently prepared to execute projects of this scope, nor does it have experience in executing Bank-financed programs.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 Based on available information on the program, as well as workshops and meetings held with the Ministry of Finance and other parties, the fiduciary risks included in the risk matrix were identified. The most significant of these risks are the following:

a. Lack of knowledge of Bank policies and guidelines regarding noncompliance with contractual conditions and clauses set forth in the loan contract.

- 3.2 Factors: The executing agency is inexperienced in executing Bank-financed projects. The Ministry of Finance is undergoing an institutional reform process. It lacks knowledge of Bank policies and guidelines.
- 3.3 Impact: Delays in execution. Ineligibility of expenditures and noncompliance with contractual clauses.
- 3.4 Mitigation actions: (i) form a management team with qualified professionals and technical/fiduciary competencies that have received the Bank's no objection; (ii) commission an external auditing firm for the ex ante review of supporting documentation for disbursements; (iii) develop an Operating Manual that identifies in detail all internal controls, procedures, and requirements for execution; and (iv) provide ongoing support, training, and assistance for execution by the Bank's fiduciary team.

b. Limited interagency coordination, compromising program execution.

- 3.5 Factors: Multiple actors participating in program execution. Lack of integrated information systems.
- 3.6 Impact: Delays in execution.
- 3.7 Mitigation actions: (i) Form a management team in the Ministry of Finance to coordinate with the Interagency Public Administration Committee and the ministries involved; (ii) develop an Operating Manual that identifies in detail all internal controls, procedures, and requirements for execution.

c. Lack of transparency in human resource administration.

- 3.8 Factors: Limited regulations for human talent management. Inadequate internal controls.
- 3.9 Impact: Funds used ineffectively.
- 3.10 Mitigation actions: (i) form a management team with qualified professionals and technical/fiduciary competencies with the Bank's no objection; (ii) commission an external auditing firm for the ex ante review of supporting documentation for disbursements; and (iii) develop an Operating Manual that identifies in detail all internal controls, procedures, and requirements for execution.

IV. ASPECTS TO BE CONSIDERED IN THE SPECIAL STIPULATIONS OF CONTRACTS

- 4.1 Some points to be considered: (i) designation of the project management team consisting of qualified personnel with the Bank's no objection; and (ii) approval of the Operating Manual by the Interagency Public Administration Committee.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENTS

1. Execution of procurements

- 5.1 The procurement plan will set forth the procurement processes included in the program, and may be updated annually or as needed. The Project Team Leader is responsible for approving the procurement plan and keeping it updated during the program.
- 5.2 The program includes the procurement of works, goods, and services, including consulting services, within the framework of policies GN-2349-9 and GN-2350-9. This will be in accordance with the procurement plan approved by the Bank. Component 2 includes financing for separating personnel from the executive branch; the aforementioned procurement policies do not apply to this process.
- 5.3 For contracts with consulting firms in amounts greater than US\$200,000, the Bank-approved Standard Request for Proposals will be used. For contracts in lesser amounts, bid documents will be agreed upon with the executing agency and approved by the Bank.

2. Initial procurement plan

- 5.4 The procurement plan is included as a link in the loan proposal document. In addition, the Bank's Procurement Plan Execution System (SEPA) will be used to plan and monitor procurements.

3. Supervision of procurements

- 5.5 In view of the executing agency's fiduciary context and level of risk associated with the operation (medium), the following thresholds have been established initially for ex post reviews:
 - a. Contracts for works with a total estimated equivalent cost equal to or less than US\$80,000.
 - b. Contracts for goods or services for a total estimated equivalent cost equal to or less than US\$30,000.
 - c. Contracts for consulting services with consulting firms with a total estimated equivalent cost equal to or less than US\$45,000.
- 5.6 Other contracts will be subject to ex ante review by the Bank, including any direct contracting for goods or works and direct selection of consulting firms or individual consultants.
- 5.7 The type of supervision may vary over the course of the program, in view of mitigation measures and the degree to which the executing agency is strengthened.

4. Special provisions

- a. Special measures. No special measures.

- b. Other procedures: No other procedures.

5. Records and files

- 5.8 The executing agency will keep records updated and files duly organized in such a manner that they may be reviewed by the Bank, in accordance with the following guidelines.
 - a. Documentation on procurements and contracts must be in a single file or folder, preferably one that is easily differentiated from the processes financed with resources from the local contribution or financed with resources outside the program.
 - b. Documents will be properly kept and maintained in an organized manner with pages numbered, so that they may be easily and immediately located and identified, as well as available at any time for auditing purposes.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

1. Programming and budget

- 6.1 The legislation establishing the general rules and regulations governing programming, formulating, approving, executing, controlling, evaluating, and payment of budgets is the Planning and Public Finance Code. These general rules apply to Bank-financed programs in the country. The integrated system eSIGEF implements and standardizes the enforcement of these general rules throughout the national public administration apparatus. The program budget will be calculated on the basis of the annual work plan agreed upon between the Bank and the executing agency, and will serve as the basis for its formal inclusion in the general budget of the Ministry of Finance included in the pro forma budget submitted to the legislative branch for approval.
- 6.2 The Ministry of Finance will process disbursements and coordinate with the ministries and entities participating in the respective budget allocations for the project, and will control and consolidate budget execution based on four-month periods using its internal systems. The Ministry of Finance will ensure that the respective budget items for the program are included in the annual investment plan for each entity.

2. Accounting and information systems

- 6.3 Government accounting will be carried out through the eSIGEF system, which was parameterized in accordance with the government chart of accounts issued by the Ministry of Finance.
- 6.4 Official accounting for projects receiving Bank financing will be handled using the eSIGEF system in accordance with the government chart of accounts and the budgetary classifier. At present, the eSIGEF system does not allow for the preparation of reports related specifically to resources provided by the Bank, so project status and progress will have to be reported separately.

- 6.5 Thus, it was agreed with the executing agency that for the loan operation the Ketra tool will be implemented, or any other system that allows for detailed financial reports and consolidated reports on the project under execution to be prepared.

3. Disbursements and cash flow

- 6.6 In 2008, the Government of Ecuador implemented the General Treasury Account, which consolidated cash management among the entities that make up the central government.
- 6.7 Implementation of this mechanism did not eliminate the system of special accounts, or specific-purpose accounts, which are managed at the Central Bank of Ecuador only to receive financing from multilateral loans, including Bank loans. Accordingly, in order to receive proceeds from the loan, the Ministry of Finance will open an account of record for the program at the Central Bank of Ecuador.
- 6.8 All program payments will be processed via the eSIGEF system by debiting the General Treasury Account, and this mechanism for cash management will be mandatory for entities in the central government.
- 6.9 Program disbursements will be processed in accordance with the project's actual liquidity needs in the form of advances of funds, in accordance with a detailed financial plan reflecting the project's actual needs for resources for a six-month period. The financial plan should be prepared at program startup and updated as execution proceeds.
- 6.10 The executing agency will present the disbursement request to the Bank along with the financial plan and cash flow report for the project for the next 180 days. Disbursements will be justified in the next disbursement request, after at least 80% of the funds from the advance have been executed.
- 6.11 Documentation supporting the use of Bank funds will include a report issued by an external auditing firm, which will conduct a review using the "agreed procedures" method in order to verify records and supporting documentation for expenditures and payments made. Expenditures in this report that are not considered eligible for the program must be repaid with local counterpart resources.

4. Internal control and internal auditing

- 6.12 With respect to internal control systems, the Constitution of the Republic of Ecuador states that the Office of the General Comptroller is responsible for managing the control system, which consists of internal auditing, external auditing, and internal control of public-sector entities, and of private-sector entities that receive public resources, as well as for issuing regulations to fulfill these duties.
- 6.13 The Ministry of Finance has its own internal auditing area that reports directly to the Office of the General Comptroller, but the Operating Manual will include the main internal control processes needed to ensure that controls are working

properly. During execution, the fiduciary team will evaluate the fulfillment and quality of these processes.

5. External control and reporting

- 6.14 Because the Office of the General Comptroller does not currently have sufficient capacity to exercise external control over projects financed through external borrowing, the external auditing of the project will be handled by tier-one independent auditors acceptable to the Bank (international auditing firms), in accordance with Bank requirements. During execution, the Ministry of Finance will submit audited financial statements for the project on an annual basis in accordance with the Bank's guidelines and the terms of reference previously agreed upon with the Bank, and the reports of the review of supporting documentation for disbursements described in item 3. Audit costs will be covered by local counterpart resources.

6. Fiduciary supervision plan

Supervision activity	Supervision plan			
	Nature and scope	FREQUENCY	Responsible entity	
			Bank	Third party
OPERATIONAL	Review of progress report	SEMIANNUAL	Fiduciary and sector team	
	Portfolio review with executing agency	In accordance with Ministry of Finance requirements	Fiduciary and sector team	Ministry of Finance
FINANCIAL	Inspection visits	QUARTERLY	Fiduciary specialist	
	Financial audit	ANNUAL	Fiduciary specialist	Executing agency
	Ex ante review of disbursements (report from external auditing firm)	With each disbursement	Fiduciary specialist	Executing agency
	Review of disbursement requests	With each disbursement	Fiduciary team	
PROCUREMENT	Ex ante review of procurement processes	During program execution, for procurements above the established thresholds	Project Team Leader with support of procurement specialist	Executing agency
	Update of procurement plan	Annual	Project Team Leader with support of procurement specialist	Executing agency
COMPLIANCE	Conditions precedent	ONE TIME	Fiduciary team	
	Budgetary allocation	ANNUAL	Fiduciary specialist	Executing agency
	Presentation of audited financial statements	ANNUAL	Fiduciary specialist	Executing agency

7. Execution mechanism

- 6.15 The Ministry of Finance will be the executing agency for the program for which it will form a management team to focus exclusively on program execution. The management team should consist of qualified professionals with relevant experience in executing this type of program.
- 6.16 The management team should, at a minimum, consist of a general program coordinator, a human talent coordinator, a financial specialist, a procurement specialist, and a monitoring specialist.
- 6.17 The management team will work in coordination with the technical secretary of the committee of lead agencies (SNAP, Ministry of Finance, SENPLADES, and Ministry of Labor Relations), known as the Interagency Public Administration Committee, and with representatives of each entity subject to the institutional reforms related to this project.
- 6.18 In accordance with the execution mechanism, each entity subject to the institutional reforms will submit its Institutional Reform Investment Plan (PIRI) to the Committee for analysis and approval. After the reform plan is approved, the Ministry of Finance will be notified and, after reviewing the information received, will proceed to coordinate directly with each entity for execution of the activities included in the PIRI.
- 6.19 The management team will be responsible for consolidating the information from all PIRIs in the program, financial planning, coordination of activities, and review and approval of supporting documentation. The Ministry of Finance will request advances from the Bank (based on a 180-day financial planning cycle). The first advance will be processed once all conditions precedent are met. Subsequently, for disbursement of the second advance, the Ministry of Finance will consolidate, record, and organize all information related to the expenditures made by each entity under the responsibility of the Ministry of Finance, and this information will be audited by an independent firm. With the report from the auditing firm, the Bank will document and disburse the second advance. If the auditing firm identifies an ineligible expense, the Ministry of Finance will repay those resources to the Bank.
- 6.20 The Ministry of Finance will be directly responsible for managing project resources vis-à-vis the Bank, and will determine any additional procedure with the beneficiary entities to ensure proper program execution. These procedures will be described in the program Operating Regulations, which will describe in detail the execution mechanism for the program.
- 6.21 Also, this team will be responsible for monitoring the program overall, and for performing the appropriate controls to ensure that funds are used properly and transparently.

8. Procurement table

<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36422092>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/11

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Public Administration Institutional Reform Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a public administration institutional reform program. Such financing will be for an amount of up to US\$250,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, 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 __ ____ 2011)

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