

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

SUPPORT FOR VULNERABLE POPULATIONS AFFECTED BY CORONAVIRUS

(EC-L1276)

LOAN PROPOSAL

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Proposed resolution

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REQUIRED LINKS	
1.	Simplified monitoring and evaluation plan
2.	Procurement plan

OPTIONAL LINKS	
1.	Economic feasibility rationale
2.	Note on social protection policies in the context of COVID-19
3.	Financial plan
4.	Safeguard policy filter (SPF) and safeguard screening form (SSF)

ABBREVIATIONS

BAN	Bono de apoyo nutricional [nutritional support voucher]
BDH	Bono de desarrollo humano [human development voucher]
BPFE	Bono de protección familiar por emergencia [emergency family protection voucher]
CAF	Corporación Andina de Fomento [Andean Development Corporation]
ECLAC	Economic Commission for Latin American and the Caribbean
ECV	Encuesta de Condiciones de Vida [Survey of Living Conditions]
ENEMDU	Encuesta Nacional de Empleo, Desempleo y Subempleo [National Employment, Unemployment, and Underemployment Survey]
INEC	Instituto Nacional de Estadística y Censos [National Statistics and Censuses Institute]
MEF	Ministry of Economy and Finance
MIES	Ministry of Economic and Social Inclusion
MSP	Ministry of Public Health
NCCTs	Noncontributory cash transfers
PAHO	Pan American Health Organization
SANCCO	Subsecretaría de Aseguramiento no Contributivo, Contingencias y Operaciones [Office of the Undersecretary for Noncontributory Insurance, Contingencies, and Operations]
WHO	World Health Organization

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Financial terms and conditions				
Borrower:			Flexible Financing Facility ^(a)	
Republic of Ecuador			Amortization period:	23 years
Executing agency:			Disbursement period:	2 years
Ministry of Economic and Social Inclusion (MIES)			Grace period:	7.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
Total IDB (Ordinary Capital):	300,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
			Average weighted life:	15.25 years
			Currency of approval:	U.S. dollar
Project at a glance				
Project objective/description: The general development objective of this project is to contribute to ensuring minimum levels of quality of life for vulnerable persons amid the economic crisis caused by COVID-19 and measures to mitigate the health crisis. The specific objective is to support minimum income levels for those affected by the coronavirus by expanding coverage of the human development voucher (BDH) during the recovery.				
Special contractual conditions precedent to the first disbursement of the loan proceeds: None.				
Exceptions to Bank policy: None.				
Challenges: ^(d) SI <input checked="" type="checkbox"/> PI <input type="checkbox"/> EI <input type="checkbox"/>				
Crosscutting themes: ^(e)	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>		CC <input type="checkbox"/> and ES <input type="checkbox"/>	IC <input type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations 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 the relevant policies.

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

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

I. PROJECT 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-2019. As of 6 July 2021, more than 185 million cases have been reported, resulting in more than 3.9 million deaths, with a fatality rate of 2.2%. The first cases in Latin American and the Caribbean were reported in late February 2020, including Ecuador. Since then, their number has been rising fast, and as of 6 July 2021 there were 37,866,549 confirmed cases of COVID-19 and 1,290,069 deaths, with a fatality rate of 3.4%.¹
- 1.2 **Macroeconomic and social context.** Economic growth of the Latin American and Caribbean countries in 2019 was 0.1%² and then plunged to -8.9%. Latin America and the Caribbean have made notable strides in reducing poverty over the last 30 years, reaching percentages near 30% at the end of 2019. However, in the transition from poverty to higher levels of well-being, 37% of the population was income vulnerable amid the pandemic, i.e., highly likely to fall into poverty in the event of major economic shocks affecting their earnings. The loss of 8.9% of GDP in 2020 was the largest ever recorded in a single year; 26 million jobs were lost, and poverty (extreme and moderate) is expected to grow by approximately five percentage points of the population. The region's growth in 2021 could be as low as 0.8%, if vaccination campaigns proceed slowly owing to lack of access to doses, or the approved vaccines are not as effective in combating mutations. But in a positive scenario of higher world growth, the region could grow by up to 5.2%. In an intermediate scenario, growth would be about 4.1%.³
- 1.3 **Problem addressed.** The economic impacts of COVID-19 have been significant. From a macroeconomic perspective, the Economic Commission for Latin America and the Caribbean (ECLAC) conceptualizes five channels through which the impacts of the crisis were transmitted to the region's economy: (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) disruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms. This is compounded by shrinkage in domestic demand due to changes in people's behavior. These behavioral changes have occurred for different reasons, including government mandates (curfews, closing schools, canceling public events, etc.), decisions made by businesses and other institutions (teleworking, cutting back production, etc.), and consumer decisions (reducing social contact). Since 2020, this has led to an economic downturn with immediate manifestations and lingering effects in the countries of the region, even after the health emergency or state of emergency periods have ended.

¹ See: [COVID-19 Daily Update – Region of the Americas – PAHO/WHO | Pan American Health Organization](#) Report dated 6 July 2021.

² See: [Preliminary Overview of the Economies of Latin American and the Caribbean 2019 | Publication | Economic Commission for Latin America and the Caribbean \(cepal.org\)](#).

³ See: IDB macroeconomic report: <https://flagships.iadb.org/en/MacroReport2021/Opportunities-for-Stronger-and-Sustainable-Postpandemic-Growth>.

- 1.4 The repercussions of the crisis are hurting the income of most people, especially the poorest groups, who depend on their largely informal work to support their consumption. ECLAC estimates that the number of people living in poverty rose by at least 22 million (from 187 million to 209 million), with 8 million of them newly fallen into extreme poverty. The pandemic caused income to decline on account of job losses and the lower earnings of those able to keep working. The combination of these impacts has led to a loss of labor income of 42% in the first quintile, and 7% in the fifth.⁴
- 1.5 According to ECLAC, the crisis had a disproportionate impact on informal workers, because they are overrepresented in the hardest-hit sectors, and on women on account of the intensification of their unpaid labor.⁵ In general, these groups were facing greater difficulties in the labor market prior to the crisis. For example, 40% of women had earnings below the minimum wage for their country, compared with 30% of men (Sociometer data, IDB). Around 80% of indigenous persons work in the informal sector in the region, which is well above the total average of 51%.⁶
- 1.6 **Challenges and progress in Ecuador: The epidemiological situation.** The first case in Ecuador was reported on 29 February 2020 and between then and 6 July 2021, 485,379 cases and 21,695 deaths have been reported,⁷ with a fatality rate of 4.5%, which varies greatly among the provinces in the interior. The epidemiological situation continues to be critical to date. Ecuador's fatality rate per 100,000 inhabitants is the second-highest in the region and above the region's average of 3.4%. The situation is aggravated by the challenge of new, more aggressive, variants of the virus, at least four of which are already in community transmission in the country (British variant B.1.1.7, Brazilian variant P.1, Andes variant C.37, and the New York variant B.1.526).
- 1.7 As a response to the pandemic, the government declared a national health emergency⁸ on 11 March 2020 and, days later, a state of emergency, restricting freedom of movement, association, and economic activity on the national level.⁹ Both measures were extended three times, to mid-September 2020.¹⁰ In 2021, additional steps were taken to respond to the health crisis, including declaration of a state of emergency and curfews.¹¹ In different decisions, the Emergency Operations Committee suspended school attendance on all levels and ordered

⁴ ECLAC data, [Social Panorama of Latin America 2020 | Publication | Economic Commission for Latin America and the Caribbean \(cepal.org\)](#).

⁵ Idem.

⁶ ILO data, https://www.ilo.org/americas/sala-de-prensa/WCMS_731992/lang-es/index.htm.

⁷ <https://www.paho.org/en/covid-19-global-and-regional-daily-update>.

⁸ [Acuerdo Ministerial MSP No. 00126-2020 y Suplemento No. 160](#) [MSP Ministerial Order 00126-2020 and Supplement 160].

⁹ See [Decreto Presidencial 1017 de 2020 con medidas de respuesta](#) [Presidential Decree 1017 of 2020 containing response measures].

¹⁰ [Decreto Presidencial 1126](#) [Presidential Decree 1126] and [Acuerdo Ministerial MSP No. 00044-2020](#) [MSP Ministerial Order 00044-2020].

¹¹ [Decreto Presidencial 1282](#) [Presidential Decree 1282] of 1 April and [Decreto Presidencial 1291](#) [Presidential Decree 1291] of 21 April.

telework for the entire public and private sectors, excluding strategic sectors and basic services, and suspended public performances.¹²

- 1.8 Since September 2020, the government has also made efforts to guarantee implementation of a national vaccination plan in 2021. Although it has signed contracts for more than 20 million doses, progress has been modest up to 6 July 2021, with 17.1% of the population receiving at least one dose.¹³ Because of the limited availability of vaccines on the international market and the slow and delayed delivery of vaccines already purchased by the country's pharmaceutical companies, the country's new administration proposes a promising accelerated strategy that plans to vaccinate 9 million people in its first 100 days in office,¹⁴ to be achieved through efficient logistical planning of the doses already available in the country, possible faster of delivery of vaccines that have already been purchased, and new efforts to negotiate the purchase of additional doses, as well as continuing with nonpharmaceutical measures, including individual biosafety measures that are continually communicated to the public, and social distancing policies (such as closing schools until September 2021 and restricting public gatherings and large-scale events), as the foundation for subsequent full economic recovery that is safe for the population.
- 1.9 **Macroeconomic conditions in Ecuador.** To regain the fiscal sustainability that had been deteriorating ever since oil prices fell in late 2014, Ecuador launched a fiscal consolidation agenda in 2017 that reduced the deficit from -4.5% of GDP in 2017 to -0.1% of GDP in 2019. In parallel, total debt rose from 44.6% of GDP in 2017 to 53.4% in 2019. Ecuador started 2020 with a high level of debt service (6.7% of GDP in 2020) and about US\$1.5 billion in 2020 bonds falling due, that destabilized public finances. Since the first quarter of 2020, lockdown measures in most countries of the world caused demand to plummet (global GDP fell -3.3%), and oil prices hit historic lows (negative) in April 2020. Continued real appreciation of the U.S. dollar in the first half of 2020 undermined the competitiveness of the country's exports. Country risk skyrocketed in the first half of 2020, shooting up from 800 basis points in January to 6,063 basis points in March. Ecuador's real GDP shrank by -7.5% in 2020, despite the economic policy efforts and the exogenous factors already described.
- 1.10 **Unemployment and poverty.** The contraction of Ecuador's real sector was also associated with a rise in the unemployment rate from 3.8% to 5% of the economically active population (total economically active population of 8.1 million). The deterioration of economic activity and employment had consequences for poverty. The proportion of people below the poverty line in December 2020 was 32.4% (compared to 25% during 2019), and 14.9% of the population was classified

¹² The most recent orders were issued on [2 April](#), [7 April](#), [14 April](#), and [20 May](#).

¹³ See: [Coronavirus \(COVID-19\) Vaccinations – Statistics and Research – Our World in Data](#).

¹⁴ The plan calls for vaccinating 9 million people between June and September 2021: https://www.salud.gob.ec/wp-content/uploads/2021/06/31-05-2021_-Preguntas-y-Respuestas_Plan-de-Vacunacion-9100_validado.pdf), dependiendo de la disponibilidad de vacunas compradas y por comprar.

as living in extreme poverty (compared to 8.9% in 2019).¹⁵ In December 2020, 32.6% of the population was classified as having unmet basic needs.

- 1.11 The widest socioeconomic gaps are found in the indigenous and Afro-descendent populations and among women. More than 80% of the indigenous and Afro-descendent population are employed in unskilled jobs, compared to 73% of the nonindigenous and non-Afro-descendent population.¹⁶ Gender gaps are also conspicuous in the country. In 2019, just 30.3% of women had decent jobs, compared to 44.8% of men.¹⁷ In addition, 80% of women are employed in low-productivity sectors, compared to 60.3% of men.¹⁸ The pandemic had a harsher impact on women on account of their greater domestic and caregiving responsibilities. Even before the pandemic, they spent 40.4% of their time on unpaid activities.¹⁹
- 1.12 **Public policy responses for social protection.** The pandemic exposed shortcomings in Ecuador's social safety net. Given the high levels of informal work, the main economic protection scheme involves noncontributory cash transfers (NCCTs) from the Ministry of Economic and Social Inclusion (MIES).²⁰ In response to the pandemic, the government has been implementing different NCCTs for the poor and vulnerable segments of the population since 2020, which are targeted to different vulnerable population groups, complement each other, and include special new temporary transfers created specifically to respond to the pandemic, as well as adaptations of the regular cash transfers that protect the eligible population for longer periods than the temporary transfers.
- 1.13 **Special transfers to vulnerable populations affected by the pandemic.** Ecuador was one of the first countries of the region to implement special cash transfers in response to the adverse economic impact of the pandemic.²¹ For the vulnerable population that does not receive support under the regular NCCT programs operated by the MIES, temporary cash transfers were created, depending on the needs and characteristics of the different population groups, as follows:
- 1.14 The first such measure was the *bono de protección familiar por emergencia* [emergency family protection voucher] (BPFE), created in 2020 to provide

¹⁵ See: Reporte de Resultados Principales de ENEMDU. [Report on the Main Findings of the National Employment, Unemployment, and Underemployment Survey (ENEMDU)]. Findings for 2019 consulted at: https://www.ecuadorencifras.gob.ec/documentos/web-inec/POBREZA/2019/Diciembre-2019/201912_PobrezayDesigualdad.pdf. Findings for 2020 consulted at: https://www.ecuadorencifras.gob.ec/documentos/web-inec/POBREZA/2020/Diciembre-2020/202012_PobrezayDesigualdad.pdf.

¹⁶ The World Bank. LAC Equity Lab. Data for 2010.

¹⁷ National Statistics and Censuses Institute (INEC) 2019. ENEMDU, September 2019. Consulted at https://www.ecuadorencifras.gob.ec/documentos/webinec/EMPLEO/2019/Septiembre/201909_Mercado_Laboral.pdf.

¹⁸ ECLAC, Gender Equality Observatory for Latin America and the Caribbean. Consulted at: <https://oig.cepal.org/es/indicadores/distribucion-la-poblacion-ocupada-segun-nivel-productividad-sexo>.

¹⁹ INEC, Encuesta del Uso de Tiempo 2012 [Time-Use Survey].

²⁰ See: [optional link 2](#) on social protection challenges.

²¹ The IDB and ECLAC have documented the use of transfers in response to the pandemic (see: <https://publications.iadb.org/en/social-protection-and-informality-latin-america-during-covid-19-pandemic> and https://repositorio.cepal.org/bitstream/handle/11362/45527/5/S2000325_es.pdf).

temporary financial support for extreme poor, poor, and vulnerable families that did not receive other NCCTs. This special benefit consists of a one-time cash transfer of US\$120 (in one or two payments) to temporarily alleviate loss of income in households affected by the pandemic. So far, four phases of the BPFE have been issued,²² assisting different needy households in each phase. All phases together, the BPFE reached 1,427,031 beneficiary households with an investment of US\$141.9 million financed by resources the World Bank (53%) and the IDB (45%),²³ as well as fiscal funds (2%). As a second, supplemental measure, the government created a specific version of the BPFE targeted to the especially vulnerable population in the province of Galapagos on account of the halt of tourism and the lack of job alternatives in the archipelago's sensitive ecosystem, which paid up to US\$435 per household between October and December 2020. This benefit reached a total of 2,089 beneficiary households for a total cost of US\$873,106, which was financed by the IDB.

- 1.15 The *bono de apoyo nutricional* [nutritional support voucher] (BAN) was created for families with children at nutritional risk, consisting of a cash transfer of US\$240 in a one-time single payment to eligible families. It is targeted to children in the cantons with the highest rates of COVID-19 spread, where the coverage of regular cash transfer programs fell short due to the systemic, long-lasting impact of the pandemic. The BAN reached 7,992 beneficiary households at a total cost of US\$1,910,400 financed by the World Food Programme. Lastly, Contingency Coverage has existed since 2019, consisting of an additional temporary transfer to households that receive current vouchers and benefits under the country's social welfare system that have been victims of extreme situations requiring special protection. In 2020, the eligibility criteria were reformulated to include contraction of the economy for at least three quarters and a health emergency such as COVID-19, which expanded the coverage of this special temporary protection. It consists of a bimonthly cash transfer of US\$15, up to a maximum of six payments and a maximum of US\$90 per household. The transfer cost a total of US\$44,929,170 between December 2020 and June 2021, which was financed with fiscal resources.
- 1.16 Together, these temporary economic measures reflect the government's efforts to alleviate the substantial impact of the pandemic on all those households that, with its economic and employment consequences, have fallen temporarily or for prolonged lengths of time below the poverty threshold established by the social welfare system. As a result of the systemic, large-scale socioeconomic impact of this pandemic, some of these households are expected to be incorporated into the regular cash transfer programs, while they meet the eligibility requirements.
- 1.17 **Regular cash transfer programs for the vulnerable population.** One of these programs stands out: the *bono de desarrollo humano* [human development

²² BPFE phase IV is being executed between April and September 2021.

²³ Under operation 5031/OC-EC.

voucher] (BDH), created in 2003 under Executive Decree 347,²⁴ which makes a monthly transfer of US\$50 to every beneficiary family. Originally, the target population was the 40% poorest families. In 2014, the program was redirected to the 20% poorest families, resulting in the exit of almost half of its beneficiaries,²⁵ and in 2019 its coverage was narrowed to the 12% poorest families. For extreme poor families with children, in 2017 a variable BDH component was created that depends on family makeup and can reach up to US\$150 per family a month.

- 1.18 The pending challenge in assisting the most vulnerable population affected economically during the pandemic consists of maintaining regular transfers to groups that received them prior to the pandemic and protecting the corresponding public social spending, as well as incorporating new groups affected by the pandemic into these programs, particularly the BDH, who fell into poverty, extreme poverty, and/or vulnerability but were never users of any NCCT program or only used one of the phases of the BPFE or other special transfers temporarily and require income support for a longer time due to the extent and persistence of the adverse economic impacts associated with the pandemic. In response to the pandemic, the total number of families benefitting from the BDH and BDH with variable component rose by 221,337 (42%), from 531,032 families in December 2019 to 752,369 in December 2020. In terms of coverage of families in the three lowest income deciles, the BDH and its variable component rose from assisting 36% of those families in December 2019 to 51% in December 2020. The main challenge is to secure the financing necessary to meet these targets in a context of lower public revenue and higher demand for resources to address the pandemic, for example to purchase vaccines.
- 1.19 The increase in the coverage of the BDH between December 2019 and December 2020 reflects the maintenance or increase in relative additional coverage for certain specific vulnerable groups. For example, the share families headed by women in BDH transfers grew by more than 221,000 additional beneficiaries, and their share of the universe of beneficiaries held steady at 88.8% in that period. The Afro-Ecuadorian population increased by 9,000 additional beneficiaries, rising from 3.0% to 3.4% of all beneficiaries. For the indigenous population, the MIES reports an increase of more than 23,000 beneficiaries in the same period, but this coincides with a reduction in their relative participation in the BDH from 18.4% to 16.1%. As a response to this situation, the MIES plans to prioritize indigenous households in the expanded program planned for the second half of 2021, based on the respective expansion of the Social Registration Form.
- 1.20 **Rationale and strategy.** Job losses and lower earnings caused by the COVID-19 pandemic have aggravated the challenge of assuring minimum levels of consumption for the poorest and most vulnerable population. This operation will thus support compensatory policies to scale, particularly existing NCCTs involving

²⁴ The BDH replaced the Bono Solidario [Solidarity Voucher], which had operated since 2001. Under Executive Decree 804 of 2019 the social welfare system's cash transfer plan was broadened through the BDH, BDH with variable component, Pensión Mis Mejores Años [My Best Years Pension], Pensión para Adultos Mayores [Older Adult Pension], Bono Joaquín Gallegos Lara [Joaquín Gallegos Lara Voucher], Pensión Toda Una Vida [Lifelong Pension], Pensión para Personas con Discapacidad [Disability Pension] and Cobertura de Contingencias [Contingency Coverage].

²⁵ See Schady (2017).

the BDH and BDH with variable component. The BDH currently consists of payments of US\$50 per family per month, while the BDH with variable component consists of US\$50 plus a sum paid in function of the number of children up to a maximum of US\$150.²⁶ The target will be to assist an additional 270,000 families, or 35% more than reported in December 2020. This increase in the number of beneficiaries will increase coverage to 70% of families in the three poorest deciles. The total cost of the two programs for 2021 is approximately US\$600 million.

- 1.21 The increase in beneficiaries will make it possible to include and promote participation by groups that are especially vulnerable to COVID-19, particularly women and the indigenous and Afro-descendent populations. In the case of women, during 2021, the estimated increase in the absolute number of beneficiaries will exceed 170,000, and their percentage will rise to 89%. For indigenous and Afro-descendent populations, the absolute number of beneficiaries is expected to grow by more than 27,000 in total.
- 1.22 **Relationship with other Bank operations.** This operation complements the activities of the investment program “Support for Health Service Delivery and the Social Safety Net in the Context of Coronavirus/COVID-19 Pandemic” (loan 5031/OC-EC), approved in May 2020 for a total of US\$250 million and now in execution, particularly Component 3 for US\$70 million being executed by the MIES, which supports temporary assistance for vulnerable populations through special cash transfers under the BPFE (phases I to III, paragraph 1.14).²⁷ This program consolidates those temporary assistance plans and advances measures to incorporate the beneficiaries of the emergency benefits into the regular system of NCCTs, as well as maintains existing benefits and expands coverage among the unserved poor and vulnerable population. It is also related to the activities promoted by the program “Support for the Protection of Social Spending and Job Recovery” (loan 5230/OC-EC), approved in March 2021 for a total of US\$200 million and now closed, particularly Components 2 and 3. That operation was the first in a programmatic policy-based loan series. Component 2 had the objective of consolidating policies to respond to the drop in income associated with the impacts of the pandemic, through public policies to increase the special cash transfers described above (see paragraphs 1.14 and 1.15). Component 3 was intended to consolidate the regular structure of economic benefits in the social safety net, in order to improve the coverage of NCCTs among the most vulnerable populations by developing and implementing measures to support the Social Registration Form, to sharpen its focus and reduce errors of inclusion and exclusion. The policy measures included in that programmatic policy-based loan

²⁶ For the first child under the age of five, a family receives US\$30, for the second, US\$27, and for the third, US\$24.30 (up to a maximum of three children). For children over 5 and under 18, the amount received is US\$10, US\$9, and US\$8.10 for the first, second, and third child, respectively (also up to a maximum of three children). Any subsequent changes to the program amounts will be eligible under this operation.

²⁷ This operation has a health component that financed the contracting of 4,747 rural professionals and rapid response teams and made an initial payment to COVAX. It financed ICU care for 667 patients and hospitalization of 3,858 patients for acute and serious respiratory syndrome, transfers of 2,860 vulnerable chronic patients to the private sector, and the vaccine logistics service. As of 21 June 2021, US\$176.6 million (71% of the total) had been disbursed. Of that amount, US\$69 million corresponds to the component to finance the special benefits executed by the MIES (98.6% of the total component), and the remaining US\$107.6 million corresponds to the health component executed by the MSP (60% of the total component).

laid the groundwork for solid expansion of the coverage of the BDH sought under this new operation. Lastly, the operation relates to the “Global Credit Program for Safeguarding the Productive Fabric and Employment” (loan 5024/OC-EC), approved in May 2020 for a total of US\$93.8 million and now in execution.²⁸

- 1.23 This operation also complements the many Bank-supported public health actions in response to the pandemic, both in the detection and treatment of COVID-19 patients (supported under loans 4364/OC-EC, 5031/OC-EC, and 5136/OC-EC), prevention of the disease through epidemiological surveillance, implementation of a national vaccination plan (supported by loans 5031/OC-EC, 5235/OC-EC,²⁹ and 5136/OC-EC), and the continuity of essential health services during the pandemic (supported by loan 5031/OC-EC).
- 1.24 **The Bank’s experience and lessons learned.** The design of this operation is based on the following findings from the Bank’s work in designing, implementing, and evaluating cash transfer programs in 18 countries of the region over the last 20 years:³⁰ (i) cash transfers are the most effective tool for redistributing resources and supporting the consumption of the most vulnerable families; (ii) to be effective, the transfers must be based on nimble, reliable systems for evaluating household vulnerability and recording it in information systems; and (iii) in a context of social distancing and rapid response to temporary shocks, it is strategic to use existing social assistance systems as the basis (systems and registers of beneficiaries) and give priority to payment systems that avoid crowding by beneficiaries. Through dialogue and technical support, the Bank has supported the MIES in designing cash transfer programs associated with the pandemic and in the strategy for consolidating the social welfare system by strengthening the Social Registration Form and the Registry of NCCTs (see [optional link 2](#)). In terms of operations, the proposed project’s design incorporates the lessons learned from loan 5031/OC-EC in the form of an execution mechanism with an execution team specializing in external financing that identifies responsibilities for authorization of expenditures in advance for a streamlined launch of activities additional to the cash transfers (such as consulting services and audits).
- 1.25 **Coordination with other multilateral agencies and/or donors.** The Bank has coordinated its response to the COVID-19 crisis with other international agencies. In the health area, it has followed the guidelines of the World Health Organization (WHO) and closely coordinated its actions and their implementation with the Pan American Health Organization (PAHO), the World Bank, the Andean Development Corporation (CAF), and the rest of the United Nations System as part of a forum for coordination of all the cooperation agencies with the Ministry of Public Health (MSP) and the Ministry of Economy and Finance (MEF). In the case of the social

²⁸ As of 6 July 2021, the operation has disbursed US\$70 million (74.6%). Placements as of May 2021 were US\$36.9 million, with a total of 9,792 first-tier operations and 29 second-tier operations.

²⁹ This operation is a financial guarantee for the purchase of vaccines under the COVAX mechanism. The issuance of a guarantee in favor of GAVI (The Vaccine Alliance) and the counterguarantee are pending.

³⁰ See for example: the Social Protection and Poverty Sector Framework Document (document GN-2784-7) and the publication “How Conditional Cash Transfers Work” <https://publications.iadb.org/es/asi-funcionan-las-transferencias-condicionadas>. The Bank has also approved operations to support vulnerable populations amid the pandemic in The Bahamas, Belize, Bolivia, Brazil, Guatemala, Guyana, Panama, Suriname, and Uruguay.

consequences, the Bank shares the assessments of the IMF, the World Bank, and ECLAC, and the proposals presented here coincide with the objective of protecting those most vulnerable to COVID-19. The Bank is in constant communication with the World Bank and the CAF to coordinate the activities to be financed and assure their complementarity. The World Bank is cofinancing implementation of the BPFE, particularly phases I and IV (see paragraph 1.14). This operation is closely related to the objectives of the Extended Fund Facility (EFF) approved by the IMF's Executive Board on 20 September 2020. The objectives are to protect lives and livelihoods and expand social assistance programs.³¹ The target agreed upon by the country and the IMF is to more than double the coverage of low-income beneficiaries of transfers from 37% of families in the lowest three deciles to 80% by December 2021.³² The increase in coverage is accompanied by a change in the eligibility threshold of the Social Registration Form index, to include new poor or vulnerable populations. The proposed operation directly supports meeting this target.

- 1.26 **Strategic alignment.** The project is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of social inclusion and equality through support for maintaining minimum levels of income and well-being for the populations most vulnerable to COVID-19. The project is also aligned with the crosscutting areas of gender equality and diversity by prioritizing the populations vulnerable to COVID-19 including women and certain groups such as the indigenous and Afro-descendant populations. The project will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator "beneficiaries of antipoverty programs." The project is aligned with the Strategy on Social Policy for Equity and Productivity (document GN-2588-4) in the areas of enhancing equity and supporting vulnerable populations. It is also consistent with the Social Protection and Poverty Sector Framework Document (document GN-2784-7), which emphasizes the importance of protecting vulnerable populations, particularly from external shocks, through effective social protection policies. This project is consistent with the IDB Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996).

B. Objectives, components, and cost

- 1.27 **Objectives.** The general development objective of this project is to contribute to ensuring minimum levels of quality of life for vulnerable persons amid the economic crisis caused by COVID-19 and measures to mitigate the health crisis. The specific objective is to support minimum income levels for those affected by the coronavirus by expanding coverage of the human development voucher (BDH) during the recovery. To achieve this objective, the project will finance a single component.
- 1.28 **Sole component. Protection through the use of existing cash transfer programs: Expansion of the coverage of the BDH (US\$299.6 million).** The sole component will finance cash transfers and expansion of the coverage of Ecuador's main NCCT program, the BDH and BDH with variable component (see

³¹ See: <https://www.imf.org/es/News/Articles/2020/12/22/pr20387-imf-executive-board-completes-first-review-for-ecuador>.

³² See: <https://www.imf.org/-/media/Files/Publications/CR/2020/English/1ECUEA2020002.ashx>.

paragraph 1.20).³³ The beneficiaries will be current users of the program and new users with a Social Registration Form socioeconomic classification who are part of the user expansion plans of the MIES after broadening the eligibility score of the socioeconomic index. Families headed by women and indigenous and Afro-descendent populations will be prioritized in the expanded coverage.

- 1.29 **Project administration (US\$0.4 million). Administration, evaluation, and audit costs.** An execution team will be financed during the project, as well as the costs associated with the financial audit, reasonable assurance audit, and evaluation.
- 1.30 **Beneficiaries.** The planned activities will benefit approximately one million families living in poverty or income vulnerability, including those already registered in the BDH and BDH with variable component, and more than 270,000 new beneficiaries added as a result of the pandemic impact. The beneficiary families will be identified through the Social Registration Form database, which identifies the poor and vulnerable population in the first three income deciles based on the thresholds established in the Social Registration Form's socioeconomic index.

C. Key results indicators

- 1.31 **Expected results.** The project seeks to help mitigate the indirect impact of the pandemic on the minimum levels of quality of life for vulnerable persons amid the crisis caused by COVID-19. The expected impact is to maintain the consumption levels of vulnerable families, compared to nonvulnerable families. The main expected outcome is support provided through cash transfers to persons vulnerable to COVID-19, including existing and future users of the BDH and BDH with variable component who are vulnerable in the current context, through the indicator for the percentage of families receiving transfers of this kind.
- 1.32 **Economic viability.** The income support for poor and vulnerable persons impacted by COVID-19 will help families maintain their minimum consumption levels. A cost-benefit analysis was done that, in the base case scenario, yielded an estimated net present value of US\$39.6 million and a benefit-cost ratio of 1.15. The base case scenario uses a discount rate of 5% and a multiplier effect of 80%. With a discount rate of 12%, the net present value is US\$37.2 million. The discount rate of 5% is consistent with the practice for evaluating social programs (see [optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 Given its fully defined scope, this operation is a specific investment loan for US\$300 million and will be financed from the Bank's Ordinary Capital resources. The disbursement period will be 24 months.

³³ Tentatively, transfers will be financed for the months of January, February, March, October, November, and December 2021.

Table 1. Estimated project costs (US\$)

Component	IDB	Total	%
Component 1. Protection through the use of existing cash transfer programs: Expansion of the coverage of the BDH	299,600,000	299,600,000	99.87
Project administration	400,000	400,000	0.13
Total	300,000,000	300,000,000	100.00

Table 2. Projected annual disbursements of the financing (US\$)

	2021	2022	2023	Total
Amount	299,648,527	287,054	64,419	300,000,000
Percentage	99.88	0.10	0.02	100.00

B. Environmental and social safeguard risks

- 2.2 In accordance with Directive B.3 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), the operation has been classified as category "C," since it is expected to cause minimal or no negative environmental and social impacts. The project will not finance any physical infrastructure components, so no environmental or associated social impacts or risks are foreseen.

C. Fiduciary risks

- 2.3 A medium fiduciary risk has been identified that disbursements and accountability reporting may be delayed, given the massive number of separate payments involving multiple databases and the necessary verifications. To mitigate this risk, reimbursements of expenditures and/or justifications of advances will be verified by an independent audit firm through reasonable assurance reports.

D. Other key risks and issues

- 2.4 **Execution environment: Institutional environment.** A medium-low risk has been identified that control mechanisms to guarantee social distancing may not be available at the banks and credit unions making the voucher payments, when the time comes to collect them.
- 2.5 To mitigate this risk, action will be taken to ensure that control measures according to WHO standards continue to be effectively implemented, and a monitoring mechanism with the MIES will ensure compliance with social distancing, to prevent crowding when the voucher payment is being collected.
- 2.6 **Project: Governance system.** A medium-high risk has been identified that voucher transfers to the beneficiaries may be delayed, given the weaknesses in internal coordination at the MIES and among the institutions of the MEF and the technical planning office, Planifica Ecuador.
- 2.7 As a mitigation measure, drawing on the lessons learned from the execution mechanism of loan 5031/OC-EC (see paragraph 1.24), the following actions are planned: (i) establish a nimble, independent management team within a crosscutting area of MIES, financed with the loan proceeds, to work full-time on executing the operation and coordinate with the other government institutions involved; and (ii) maintain dialogue through high-level monthly meetings between

MIES and MEF authorities and the IDB to clear bottlenecks and ensure streamlined execution.

- 2.8 **Sustainability.** This operation supports the country's efforts to confront the pandemic and mitigate its economic impact on the most vulnerable population. Traditionally, the BDH has been financed with the country's own recourses. The challenging fiscal context in the country justifies the use of external financing to maintain minimum consumption levels for the most vulnerable populations. The IDB financing represents about 50% of the financial effort being made by the country during 2021. As the economy recovers and the country's fiscal position improves, it is expected that the BDH can once again be financed with fiscal resources. In this context, the programmatic series that began with operation 5230/OC-EC will support and work to ensure that these institutions are better prepared to cope with similar situations in future. It is worth noting that support for consumption by the most vulnerable families, particularly those with children, seeks indeed to mitigate the impact of the crisis on the human capital of the next generation, which itself represents a medium-term sustainable development impact.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Ecuador, which will execute the operation through the Ministry of Economic and Social Inclusion (MIES).
- 3.2 **Execution and administration.** The MIES Office of the Undersecretary for Noncontributory Insurance, Contingencies, and Operations (SANCCO) will serve as requisitioning unit and manage the launch of the contracting envisaged in the project, including the management team,³⁴ which will be responsible for planning, coordination, and management (technical, administrative, and financial), execution, monitoring, and closing of the project, including coordination with the other government institutions involved. The management team will also support execution of other programs with Bank financing, as required, and will be housed within a crosscutting area of the MIES. The Financial Administration Coordination Office will authorize expenditures and will have an expert in the IDB's procurement policies on its team, who will be in constant communication and coordination with management team. The MIES will conduct its own planning and fiduciary management (procurement and financial management) and operations management for the project. The MIES will prepare and provide the Bank with the multiyear execution plans (and/or annual work plans), procurement plans, six-monthly status reports (including progress monitoring reports and other management tools), financial plans, and other instruments required by the Bank for the supervision of project execution. The MIES will commission the audits and final project evaluation and subsequently deliver them to the Bank.

³⁴ The management team will initially consist of at least one coordinator, a monitoring specialist, and a financial specialist contracted using the loan proceeds.

- 3.3 **Interagency coordination.** The Ministry of Economy and Finance (MEF), acting through the National Office of Public Finance Monitoring and Evaluation, will be the focal point for interagency coordination between the MEF and the MIES. This unit will be responsible for strategic coordination of matters affecting the project as a whole and/or requiring decisions or solutions from senior sector or country authorities, including arranging for budget registration with Planifica Ecuador. The MEF will also monitor project execution overall as part of portfolio reviews with the Bank. To that end, the MEF will be copied on the six-monthly reports sent by the MIES to the Bank.
- 3.4 **Specific eligible expenditures for transfer payments.** Component 1 will establish that the monthly transfers for the BDH and BDH with variable component, as well as the administrative and VAT costs, are eligible expenditures.
- 3.5 **Retroactive financing.** The Bank may retroactively finance eligible expenditures made by the borrower prior to loan approval date for up to US\$150 million (50% of the loan amount)³⁵ to finance transfers under the BDH and BDH with variable component, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been made on or after 1 January 2021.³⁶ Although this predates the project officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing from that date onward, on an exceptional basis, is justified by the exceptional circumstances surrounding the global health emergency. This justification is based on the need to maintain support for vulnerable populations substantially impacted by the economic crisis caused by the pandemic, which will continue as the recovery begins in 2021 through transfer programs designed and implemented with Bank support for the Ecuadorian government since the early days of the pandemic. Added to this are the country's financing needs this fiscal year, starting 1 January 2021, given its fiscal position.³⁷
- 3.6 **Procurement.** Procurements financed in whole or part with Bank resources will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15) or those in effect at the time of execution, and with the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). The procurement plan ([required link 2](#)) lists the planned procurements. No procurement of works, goods, or nonconsulting services is expected. However, if it does occur, all procurement processes will be subject to the thresholds established for Ecuador. Individual consultants previously selected competitively to perform the

³⁵ This amount corresponds to the estimated value of the transfers paid during three months of the first half of 2021, with an approximate monthly amount of US\$50 million and average coverage of 900,000 households. In total, the retroactive financing will cover the equivalent of 25% of the transfers to be paid during the entire year (see paragraph 1.28 and page 32).

³⁶ This date corresponds to the start of BDH payments in 2021.

³⁷ The nonfinancial public sector of the Government of Ecuador has financing needs in the order of US\$8.6 billion. The IDB expects to provide funds to cover about 11.6% of these needs through budgetary support and investment loans.

functions of the project management team, using other sources of financing, may be contracted directly.

- 3.7 **Disbursements.** The disbursement method will be advances of funds based on liquidity needs for a period of up to six months, in accordance with the itemized financial and cash flow plan. The justification percentage will be 50%, since the justifications will be verified by independent auditors, which takes additional time. Advances will be according to payment needs, as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12), or those in effect at the time of execution, and the Fiduciary Agreements and Requirements (Annex III).
- 3.8 **Audit.** The MIES will deliver the project's annual audited financial statements, issued by an independent audit firm acceptable to the Bank, within 120 days after the close of each fiscal year during the original disbursement period and any extensions thereof, and within 120 days after the last disbursement of the loan. The auditors will also issue reasonable assurance reports on agreed criteria met for the payments submitted in the justifications and/or reimbursements of expenditures. The independent audit firm will be engaged at least 120 days before the close of each fiscal period or the date of the last disbursement. Determination of the scope and other related aspects will be governed by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and the Instructions for Financial Reports and External Audit Management. The audit costs will be financed with project resources.

B. Summary of arrangements for monitoring results

- 3.9 **Monitoring.** The MIES will be responsible for implementing the monitoring and evaluation plan. In the context of the emergency, the main monitoring tool for this project will be the Results Matrix, which identifies the development objectives to be met and the respective outputs. The main sources of information for monitoring the impact, outcome, and output indicators will be the MIES Transactions Platform System and the Social Registration Form Information System. The main reporting instrument will be the progress monitoring reports (PMRs) that will form part of the six-monthly status reports.
- 3.10 **Evaluation.** Given the nature of this operation, the evaluation will identify the project's contribution to the specific objective of supporting minimum consumption levels for persons affected by COVID-19 during the recovery period. To do so, a "before and after" analysis will be performed, using information from available time series on the outcome and impact indicators. For the purpose of attributing the observed results to the project intervention, the quantitative analysis will be supplemented with a review of the vertical logic of similar interventions in comparable contexts (see [required link 1](#)).

Development Effectiveness Matrix		
Summary		EC-L1276
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries of targeted anti-poverty programs (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		The intervention is not included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)	GN-2996	This program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak.
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
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		9.3
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.8
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, Internal Audit. Procurement: Contracting Individual Consultant.
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: It is a loan of US\$300 million, aimed at helping to ensure minimum levels of quality of life for vulnerable people in the face of the crisis caused by COVID-19 and the measures adopted to mitigate the health crisis. The specific objective is to support minimum income levels for people affected by the coronavirus by expanding the coverage of the Bono de Desarrollo Humano (Human Development Bond, BDH), during the recovery period. The diagnosis is adequate and highlights the problems faced by the country. The main problem is that the coronavirus pandemic affected the country significantly - with the second highest fatality rate in the region and with at least four of the most aggressive variants presenting community transmission - which aggravated a macroeconomic situation of high indebtedness, sharp drop in oil prices and exchange rate appreciation that resulted in a real contraction of 7.5% of GDP during 2020, with the consequent increase in unemployment (5%), poverty (32.4%), extreme poverty (14.9 %) and the proportion of the population with unsatisfied needs (32.6%). The only component of the project consists of expanding the coverage of the BDH and the BDH with a variable component (US \$ 299.6 million), programs aimed at providing cash transfers to the poorest 20% of the population. The expansion will provide coverage to current program users and new users who have a socioeconomic classification in the Social Registry and are included in the MIES user expansion plans. To this end, the range of the eligibility score of the socioeconomic index will be expanded, prioritizing family nuclei led by women and indigenous and Afro-Ecuadorian populations. The results matrix is consistent with the vertical logic of the operation and presents indicators of impact and reasonable and well-specified results. The result indicator is suitable for measuring the achievement of the specific objective. The evaluation plan includes (i) a before and after evaluation that uses available time series information on the results and impact indicators included in the results matrix; and (ii) a review of the vertical logic of the intervention, supported by relevant evidence of the effectiveness of similar interventions in comparable settings. In a complementary manner, and to the extent that a new Quality of Life Survey (CVS) is carried out in due course, it is proposed to carry out an impact evaluation that compares the consumption levels of beneficiary and non-beneficiary households of the BDH, exploiting the third decile of eligibility for benefits. An ex ante Cost Benefit Analysis was carried out, which yields a benefit-cost ratio of 1.15 in the base scenario. The operation was classified as Category "C" because it is estimated that it will not cause negative environmental and social impacts or they will be minimal. Based on the fiduciary evaluation of the Executing Agencies, the risk of the project is considered medium, due to the possible delay in disbursements and accountability due to the fact that they are dispersed massive payments that involve multiple data records and necessary verifications. The main risk identified is associated with the governance system, due to internal coordination weaknesses in the Ministry of Economic and Social Inclusion (MIES) and between institutions with the Ministry of Economy and Finance (MEF) and Planifica Ecuador, which could delay the transfer of the bond to the beneficiaries. As a mitigation measure, the following actions have been planned: (i) create a Management Team (EDG) financed with resources from the loan with exclusive dedication to achieve the execution of the operation and coordinate with the other government institutions involved; and (ii) maintain dialogue through monthly meetings at the highest level between the authorities of the MIES, the MEF, and the IDB to unblock bottlenecks and ensure agile execution.

RESULTS MATRIX

Project objective:	The general development objective of this project is to contribute to ensuring minimum levels of quality of life for vulnerable persons amid the economic crisis caused by COVID-19 and measures to mitigate the health crisis. The specific objective is to support minimum income levels for those affected by the coronavirus during the recovery.
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EXPECTED IMPACT

Indicator	Unit of measure	Baseline	Baseline year	End target	Means of verification	Comments
General development objective: To contribute to ensuring minimum levels of quality of life for vulnerable persons amid the crisis caused by COVID-19 and measures to mitigate the health crisis.						
Consumption level of vulnerable families, compared to the consumption level of nonvulnerable families	Percentage	48.1	2016	48.1	Survey of Living Conditions (ECV)	<p>The baseline uses ECV 2016. It is calculated as the consumption expenditure of households in the three poorest quintiles divided by the consumption expenditure of families in the two wealthiest quintiles.</p> <p>The desired direction of the end-of-project indicator is to maintain or exceed the baseline value.</p>

EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline	Baseline year	2021	2022	2023	End target	Means of verification	Comments
Specific development objective 1. To support minimum income levels of persons affected by COVID-19 by expanding the coverage of the BDH during the recovery period.									
Beneficiary families of the BDH and BDH with variable component that receive transfers for at least one month as part of the strategy to address the impacts of COVID-19	Percentage	51%	2020	70%	70%	70%	70%	MIES report based on the Social Registration Form and MIES administrative system	<p>The denominator is the total number of families in deciles 1-3, as measured by the 2018 Social Registration Form. The numerator is the number of families that received transfers of the BDH and BDH with variable component for at least one month.</p> <p>The baseline corresponds to December 2020 data, and the target corresponds to information as of December of each year.</p> <p>The loan provides part of the resources to meet the target, which is financed by other, additional sources and is part of the country's commitments to the IMF.</p>
Relative share of families headed by women in the BDH and BDH with variable component	Percentage	88.8%	2020	88.8%	88.8%	88.8%	88.8%	MIES report based on the Social Registration Form and MIES administrative system	<p>The denominator is the total number of beneficiaries of the BDH and BDH with variable component. The numerator is the number of women beneficiaries.</p> <p>The baseline corresponds to December 2020 data, and the target corresponds to information as of December of each year.</p> <p>The desired direction of the end-of-project indicator is to</p>

Indicator	Unit of measure	Baseline	Baseline year	2021	2022	2023	End target	Means of verification	Comments
									maintain or exceed the baseline value.
Relative share of indigenous and Afro-descendent families in the BDH and BDH with variable component	Percentage	19.5%	2020	19.5%	19.5%	19.5%	19.5%	MIES report based on the Social Registration Form and MIES administrative system	<p>The denominator is total beneficiaries of the BDH and BDH with variable component. The numerator is the number of indigenous and Afro-descendent beneficiaries, according to the MIES ethnic classification.</p> <p>The baseline corresponds to December 2020 data, and the target corresponds to information as of December of each year.</p> <p>The desired direction of the end-of-project indicator is to maintain or exceed the baseline value.</p>

OUTPUTS

Output	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	End target	Means of verification	Comments
Component 1. Protection through the use of existing cash transfer programs: Expansion of the coverage of the BDH									
Monthly transfers paid to families benefitting from the BDH and BDH with variable component	Transfers	0	2020	5,596,554	0	0	5,596,554	MIES report based on the MIES administrative system	<p>The target is the total number of transfers financed by the Bank during 2021.</p> <p>The indicator will be monitored by gender and ethnic group.</p>

Country: Ecuador **Sector:** SCL/SPH **Project number:** EC-L1276 **Year:** 2021
Cofinancing: Not applicable **Coexecution:** Not applicable

Fiduciary Agreements and Requirements

Executing agency: Ministry of Economic and Social Inclusion (MIES)

Project name: Support for Vulnerable Populations Affected by Coronavirus

I. Fiduciary Context of the Executing Agency

1. Use of country systems¹

<u>Budget</u> <input checked="" type="checkbox"/>	<u>Reporting</u> <input type="checkbox"/>	<u>Information system</u> <input checked="" type="checkbox"/>	<u>National NCB</u> <input type="checkbox"/>
<u>Cash flow</u> <input checked="" type="checkbox"/>	<u>Internal audit</u> <input type="checkbox"/>	<u>Shopping</u> <input checked="" type="checkbox"/>	<u>Advanced NCB</u> <input type="checkbox"/>
<u>Accounting</u> <input checked="" type="checkbox"/>	<u>External control</u> <input type="checkbox"/>	<u>Individual consultants</u> <input type="checkbox"/>	<u>Consulting firm</u> <input type="checkbox"/>

Applicable laws/regulations: The Planning and Public Finance Code (COPLAFIP); the National Government Procurement System Act (LOSNCP); and the COVID-19 Emergency Resolutions, Recommendations, and Orders in effect, issued by Ecuador's National Public Procurement Service (SERCOP).

2. Fiduciary capacity of the executing agency

During preparation of program EC-L1235 (loan 4607/OC-EC), the fiduciary capacity of the executing agency was assessed, and the need was detected to have a team of professionals dedicated to program execution. Although the team was established as a management office, for execution of the proposed project it is recommended that the office report to a crosscutting area of the ministry for effective coordination with the other agencies involved.

3. Fiduciary risks and mitigation actions

Fiduciary risk: High ☐; Medium ☒; Low ☐

Risk	Risk level	Mitigation plan
Disbursements and accountability reporting may be delayed, given the massive number of separate payments involving multiple databases and the necessary verifications.	Medium	Reimbursements of expenditures and/or justifications of advances will be verified by an independent audit firm through reasonable assurance reports.

II. Considerations for the Special Provisions of the Contract

Conditions precedent to the first disbursement: No fiduciary conditions precedent.

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

Exchange rate: For accountability reporting, the rate in effect on the effective date of the respective payments or transfers. Article 4.01(b)(ii) of the General Conditions.

External audit: The MIES will deliver the project's annual audited financial statements, issued by an independent audit firm acceptable to the Bank, within 120 days after the close of each fiscal year of the executing agency or the date of the last disbursement. The auditors will also issue reasonable assurance reports on agreed criteria met for the payments submitted in the justifications and/or reimbursements of expenditures. The independent audit firm will be engaged at least 120 days before the close of each fiscal year or the date of the last disbursement.

Other: The justification percentage for a new advance will be 50%.

III. Agreements and Requirements for Procurement Execution

Exceptions to policies and guidelines

No exceptions to Bank policies are foreseen.

Retroactive financing and/or advance procurement²	<ul style="list-style-type: none"> The Bank may retroactively finance eligible expenditures made by the borrower prior to the loan approval date for up to US\$150 million (50% of the loan amount), provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been made on or after 1 January 2021. Although this predates the project officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified, given the exceptional circumstances surrounding the global health emergency. This justification is based on the need to maintain support for vulnerable populations substantially impacted by the economic crisis caused by the pandemic, which will continue as the recovery begins in 2021 through transfer programs designed and implemented with Bank support for the Ecuadorian government since the early days of the pandemic.
Expenditures before entry into effect of the amendatory contract	<ul style="list-style-type: none"> Not applicable
Additional procurement support	<ul style="list-style-type: none"> Not applicable.
Alternative procurement arrangements	<ul style="list-style-type: none"> Not applicable.
Projects with financial intermediaries	<ul style="list-style-type: none"> Not applicable.

² In accordance with the Bank Policy on Retroactive Financing, Recognition of Expenditures, and Advance Procurement (document GN-2259-1) or the equivalent policy in effect at the time of the operation.

Procurement agents	<ul style="list-style-type: none"> Not applicable.
Direct contracting	In accordance with paragraph 5.4(a) ³ of policy document GN-2350-15, individual consultants previously selected competitively to perform the functions of the project management team, using other sources of financing, may be contracted directly.

Operating costs: <input type="checkbox"/> Not applicable.	Domestic preference: <input type="checkbox"/> Not applicable.
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General project procurement supervision method: No procurement of works, goods, or nonconsulting services is expected. However, if it does occur, all procurement processes will be subject to the thresholds established for Ecuador.

Country thresholds: www.iadb.org/procurement

IV. Financial Management Agreements and Requirements

Programming and budget	<ul style="list-style-type: none"> The Planning and Public Finance Code (COPLAFIP) establishes the rules governing the programming, formulation, approval, execution, control, valuation, and liquidation of budgets. The executing agency is responsible for arranging to have the corresponding items included in its budget. The MIES will include the budget in an investment program that already exists and has been prioritized.
Treasury and disbursement management	<ul style="list-style-type: none"> The disbursement mechanism will be manual or electronic, if the latter is implemented in Ecuador. Disbursements will be made into an exclusive account at Banco Central del Ecuador (BCE) and transferred from there into the Treasury Single Account, from which project payments will be made, or into which payments already made will be reimbursed. Advances will be made for a period of up to six months, based on actual liquidity needs, in accordance with the itemized financial and cash flow plan. The justification percentage will be 50% of the balances of previous advances, since the justifications will be verified by independent auditors, which takes additional time. The first two disbursement requests involving transfers of resources (advances and/or reimbursements of expenditures) may be made without having received the respective reasonable assurance reports on justifications or reimbursements of expenditures; however, any applicable adjustments will be made once the reports have been received. After the second disbursement request (advance and/or reimbursement), expenditures will be justified, or reimbursements processed, only when the respective reasonable assurance report has been received.

³ Paragraph 5.4(a) of policy document GN-2350-15: "tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively."

Accounting, information systems, and reporting	<ul style="list-style-type: none"> • The MIES will be responsible for financial management of the project. • Specific accounting standards: Government accounting standards which are converging with the International Public Sector Accounting Standards. • Accountability reports: Statement of Cash Flows and Statement of Cumulative Investments, prepared on the basis of information in the e-SIGEF integrated financial management system and supporting information in Excel. If the new SINAFIP Integrated Public Finance Administration System becomes operative during the project, it will be used as determined by the government. • Accounting method and currency: Accounting will be on an accrual basis, but financial reports will be prepared on cash basis in U.S. dollars, which is the currency in circulation in Ecuador.
External control:	<ul style="list-style-type: none"> • The executing agency, in agreement with the Bank, will select and engage the services of an eligible auditor, based on previously agreed terms of reference. • The same independent audit firm engaged to audit the project financial statements will produce the necessary reasonable assurance reports to verify justifications or reimbursements of expenditures. • This audit firm may be engaged with other IDB financing resources, such as program EC-L1270 (loans 5031/OC-EC, 5031/OC-EC-1, and 5031/OC-EC-2), which is also being coexecuted by the MIES and has the same objective of offering support in the COVID-19 pandemic emergency, or another source agreed upon with the Bank, for the purpose of advancing the contracting process and streamlining project execution.
Project financial supervision	<ul style="list-style-type: none"> • Financial supervision will take the form of working meetings and review of the assurance reports and the audited financial reports.

V. Relevant Information for the Operation

Applicable policies and guidelines

Financial management	Procurement
<ul style="list-style-type: none"> • GN-2811 [OP-273-12] 	<ul style="list-style-type: none"> • GN-2349-15 [ES] • GN-2350-15 [ES]

Records and files

The MIES will keep the project's files and records in accordance with best practices and retain them for three years after the date of the last disbursement of the operation. The Bank may verify the standards of organization, control, and security of the files at any time.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Support for Vulnerable Populations
Affected by Coronavirus

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as borrower, for the purpose of granting it a financing to cooperate in the execution of the project "Support for Vulnerable Populations Affected by Coronavirus". Such financing will be for the amount of up to US\$300,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2021)