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**ECUADOR**

**PROGRAM FOR STRENGTHENING THE PREINVESTMENT CYCLE**

**(EC-L1084)**

**LOAN PROPOSAL**

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## ANNEXES

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Annex I	Development Effectiveness Matrix (DEM) – Summary
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## ELECTRONIC LINKS

### REQUIRED

1. Plan of activities (annual work plan)  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35805892>
2. Monitoring and evaluation plan  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35805869>
3. Complete Procurement Plan  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36277752>
4. Safeguards Screening Form  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35809327>

### OPTIONAL

1. Multiyear execution plan  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35805906>
2. A. Economic Analysis. Economic Evaluation Document for the Program  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36806675>  
B. Tables for the Economic Evaluation of the Program  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35806567>
3. Itemized budget  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35806572>
4. Program Disbursement Plan  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35806695>
5. Operating Regulations  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35814479>
6. Demand for Preinvestment Studies Resources  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35806662>
7. Final Institutional Analysis Report on the National Preinvestment Institute (INP)  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35806668>
8. Terms of Reference for Program Consultants  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35806706>
9. Operational Input (OI)  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35735029>

## ABBREVIATIONS

AIP	Annual Investment Plan
CGE	Contraloría General del Estado [Office of the Comptroller General of the Nation]
ECLAC	Economic Commission for Latin America and the Caribbean
FAR	Fiduciary Agreements and Requirements
GDP	Gross domestic product
GSB	General State Budget
INP	Instituto Nacional de Preinversión [National Preinvestment Institute]
NFPS	Nonfinancial Public Sector
OI	Operational Input
PMR	Progress Monitoring Report
PNBV	Plan Nacional para el Buen Vivir [National Plan for Good Living]
PP	Procurement Plan
PRM	Project Risk Management
SENPLADES	National Secretariat of Planning and Development
SNCP	Sistema Nacional de Contratación Pública [National Public Contracting System]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
SRFP	Standard Request for Proposals

## PROJECT SUMMARY

### ECUADOR PROGRAM FOR STRENGTHENING THE PREINVESTMENT CYCLE (EC-L1084)

Financial Terms and Conditions				
Borrower: Republic of Ecuador Executing agency: National Preinvestment Institute (INP)			Amortization period:	25 years
			Grace period:	5 years
			Disbursement period:	5 years
<b>Source</b>	<b>Amount</b>	<b>%</b>	Interest rate:	LIBOR-based
IDB (Ordinary Capital)	US\$40,000,000	99.3	Inspection and supervision fee:	*
Local	US\$300,000	0.7	Credit fee:	*
Total	US\$40,300,000	100	Currency:	U.S. dollars from the Single Currency Facility of the Bank's Ordinary Capital
Project at a Glance				
<p><b>The program's general objective</b> is to support the Government of Ecuador in reducing the gap in the Annual Investment Plan (AIP) between what is planned and what is executed. <b>The program's specific objective</b> is to support the National Preinvestment Institute (INP) in increasing the percentage of projects that conduct preinvestment studies to demonstrate their technical and economic viability. To this end, an amount of US\$40 million is proposed to finance general and specific preinvestment studies during the next three years, in an attempt to achieve a critical mass of projects that can be included in the AIP.</p> <p><b>Special contractual clauses:</b> Conditions precedent to the first disbursement: (i) Preinvestment Manual issued by the executing agency; (ii) approval of the Operating Regulations (OR); (iii) management model implemented at a minimum in the executing agency's administrative and planning areas; and (iv) formation and appointment of the management team (see paragraph 3.1).</p> <p><b>Exceptions to Bank policies:</b> None</p> <p><b>Procurement:</b> Program procurement will be carried out in accordance with Bank policies (documents GN-2349-9 and GN-2350-9).</p> <p><b>Project consistent with country strategy:</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p><b>Project qualifies as:</b> SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/></p>				

\* 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 macroeconomic figures, starting in 2007, show major growth in investment in the nonfinancial public sector (NFPS) as a share of gross domestic investment for the economy as a whole, as outlined in Table I-1. In 2009, this growth offset the decline in private investment caused by the international crisis, thus helping to maintain the overall level of economic activity—a circumstance unanimously recognized by analysts, both inside and outside the country.

**Table I-1 Change in investment percentages as a share of gross domestic product (GDP)**

Year	Gross domestic investment 1/	NFPS 2/	Private investment 3/
2001	24.80%	11.94%	12.86%
2002	26.80%	7.39%	19.41%
2003	21.00%	3.86%	17.14%
2004	23.30%	5.52%	17.78%
2005	23.60%	5.31%	18.29%
2006	23.80%	5.28%	18.52%
2007	24.30%	6.75%	17.55%
2008	27.90%	11.51%	16.39%
2009	23.30%	14.01%	9.29%

<sup>1/</sup> Economic Commission for Latin America and the Caribbean (ECLAC), Economic Study of Latin America and the Caribbean 2009/2010.

<sup>2/</sup> National Secretariat of Planning and Development (SENPLADES), Presentation on Public Investment for Development.

<sup>3/</sup> By subtraction.

- 1.2 Despite the increase in public investment in recent years, the National Plan for Good Living (PNBV) 2009-2013 envisages higher amounts of public investment in order to implement the structural changes mandated by Ecuador's new constitution. The Government of Ecuador therefore increased its public investment budget, though it was unable to fully execute its plans in this respect. Between 1999 and 2009, the average gap between planned and executed public investments in Ecuador was 34.5%. This figure remained constant, even with the increase in the volume of public investment. If this execution gap continues, by 2011 there will be a total of US\$1.469 billion in funded but nonexecuted projects.<sup>1</sup>
- 1.3 In a representative sample of 141 public works projects representing 14% of the total number of programs in the Annual Investment Plan (AIP) for 2011, 51% are behind schedule for the following reasons: (i) 40% due primarily to delays resulting from technical and economic rescheduling; (ii) 34% due to changes in targets; and (iii) the remaining 26% largely due to administrative problems such as delayed

<sup>1</sup> Source: Análisis de Inversión Pública Sectorial y Ministerial 2006-2010 [Public investment analysis by sector and ministry, 2006-2010], Jaime Calles.

payments, weather conditions, lack of materials and other unspecified factors. The analysis conducted suggests that the need for technical and economic rescheduling and changes in targets could have been prevented in large measure had preinvestment studies been conducted.

- 1.4 The sample indicated that the projects subject to delays take, on average, 84% more time to execute than originally planned. It is estimated that the expected benefits of the investment projects are being similarly delayed.
- 1.5 The Ecuadorian government recognizes that this weakness in the preinvestment phase represented a major obstacle to maintaining and even increasing the level of investment for 2008 and 2009. Specifically, official assessments<sup>2</sup> point to weaknesses in the institutional planning departments, leading to projects whose designs are inadequate, unfeasible, and lack the guidelines for establishing priorities for individual programs. Moreover, while in the past, public investment has been a variable in fiscal adjustment plans, this variability has been even greater in the allocation of funds to the preinvestment phase, where resources have been limited to international cooperation funding, or the identification of new ideas by technical line units within public entities, leaving little possibility of carrying out general and specific studies, due to the lack of funding.
- 1.6 The Ecuadorian government's PNBV 2009-2013 proposes increasing public investment. The PNBV Multiyear Investment Plan for 2010-2013 involves public investment levels in the General State Budget (GSB) amounting to an annual average of approximately 8.6% of GDP. The AIP for 2011 included a total of US\$4.692 billion for 997 programs.
- 1.7 Proper preparation of investment projects is a prerequisite if public investment is to assume a new role as the foundation for implementing the PNBV and for achieving development gains. The Ecuadorian government has therefore been restructuring the National Planning System to adapt it to the new strategic approach in which the State and the planning process occupy a central role.
- 1.8 Among other measures, the restructuring now under way includes: (i) Executive Decree 878 of 18 January 2007, which transferred authority for public investment planning from the Ministry of Finance to the National Secretariat of Planning and Development (SENPLADES); (ii) Executive Decree 1263 of 19 August 2008, which created the National Preinvestment Institute (INP), to serve as a deconcentrated public entity with technical and administrative autonomy, within SENPLADES, charged with coordinating, executing, and certifying preinvestment operations and preinvestment studies conducted by the country's government entities, particularly those in strategic sectors; and (iii) the recently approved Organic Code of Planning and Public Finance, which regulates, in a coordinated, unified and interconnected manner, the National Decentralized Participatory

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<sup>2</sup> Assessment of the National Public Investment System (SNIP) for the National Development Plan 2007-2010 and ECLAC's 2008 SNIP Proposal.

Planning System and the National Public Finance System. The Code repeals all prior legal standards in both areas, and Article 56 of the Code establishes the “Viability of public investment projects and programs: Those executing public investment projects and programs must make use of viability assessments and the studies to support them.”

- 1.9 Total demand for preinvestment resources for 2011 is estimated at US\$190 million, to be channeled, by sector, through the INP as part of its institutional mandate.<sup>3</sup> The INP has identified and included in its planning, as unfunded demand from the sectors, a set of initiatives, which are summarized in Table I-2, amounting to approximate total preinvestment spending of US\$168 million.

**Table I-2 Demand identified by the INP for preinvestment programs, by sector**

Line item/sector	Preinvestment amount in US\$	% of total	Number of programs	% of total number of programs
Water	60,836,321	24.19	31	12.78
Electricity and renewable resources	53,895,727	11.29	58	32.01
Hydrocarbons	2,580,025	4.84	3	1.04
Industry and manufacturing	17,817,644	9.68	8	2.17
Research	8,625,152	4.84	3	3.00
State mining	4,089,200	4.84	3	2.23
Other productive sectors	3,210,000	16.13	62	31.23
Telecommunications	1,078,000	6.45	5	2.88
Transportation	14,805,599	14.52	15	7.00
Other	1,850,000	3.23	7	5.66
<b>Total</b>	<b>168,787,668</b>	<b>100</b>	<b>195</b>	<b>100</b>

- 1.10 The INP was created as an institutional tool specialized in breaking the vicious circle which, starting with the preinvestment phase, hinders advancement in the entire public investment cycle, providing cross-cutting support for all of the state entities carrying out investments. The INP has also developed a number of methodological tools for preparing and evaluating programs, which it is using to finance approximately US\$25 million of the demand identified in preinvestment studies for different institutions. While there has been progress, the INP is still a relatively young institution, and has not yet developed the standards, regulations, and procedures needed to regulate preinvestment; moreover, it still needs to expand its operational capacity for managing preinvestment studies. This operation, and the financing it will provide to the INP, will help to finance part of the preinvestment demand identified, and within the framework of technical assistance that is part of this operation, will also contribute to developing and implementing project evaluation methodologies, while at the same time building the institutional capacity of the INP for efficient operations.

<sup>3</sup> Source: Analysis by J. Calles.



- 1.11 In the framework of the Executive Branch Reform Plan, which has been in implementation since 2010, the INP has proposed a new management model for approval by the relevant authorities that would allow for more efficient operations consistent with its institutional mandates. This management model, which defines the institution's operational areas and the number of staff assigned to each, will be implemented prior to the start of this operation's activities, and will be one of the conditions precedent to the first disbursement.
- 1.12 Relationship to the Bank's strategy with the country and in the sector. The Bank, through document GN-2490, has agreed with the country to support the various government institutions in accordance with its priorities, emphasizing enhanced quality of public management through the use of information technologies and strengthening the institutions' regulatory frameworks and processes, which is consistent with the proposed operation. With respect to the Ninth General Capital Increase (GCI-9), this operation contributes to the goal regarding small and vulnerable countries.
- 1.13 The Bank also approved and is executing a series of national programs in Ecuador that have general or sector-specific preinvestment components. These are contributing to improving the quality of preinvestment programs and management, and include: the Road Infrastructure and Maintenance Program (2201/OC-EC); the Coastal Artisanal Fishing Project (2113/OC-EC); and Designs for Wastewater Treatment Plants (ATC/OC-11337-EC). These initiatives are channeled directly through the corresponding sectors. The sector experience and lessons learned during preparation and execution of the programs will be applied to this operation, in coordination with the sectors involved. In order to ensure consistency in the country's and the Bank's efforts in the different sectors (energy, water, etc.), the selection and execution of preinvestment studies by the executing agency will be supported and coordinated within the Bank on an ad hoc basis.
- 1.14 Framing the program as a solution to the identified problem is based on the Bank's experience in similar projects (BO-L1091 and AR-L1035), in which preinvestment studies were financed as part of the strengthening of the public investment cycle. In the first of these two examples, financing of the studies was subject to passage of legislation, which delayed the studies; in the second case, no such legislation was proposed. In this case, a solution was chosen to balance the need for financing the studies with lessons learned from prior experiences, thus reconsidering the rules governing the program while, at the same time, allowing the Ecuadorian government to establish its regulatory framework for preinvestment.
- 1.15 Technical cooperation funding. As a means of supporting the program and, specifically, building the INP's institutional capacity for administering financial resources provided by the Bank—and as governing body for preinvestment—the operation includes Operational Input (OI) ATN/FG-12779-EC to finance activities to strengthen areas within the INP related to the execution of preinvestment studies, while at the same time bolstering regulatory and operational aspects of the process it is overseeing, with emphasis on methodological considerations of the decision-

making process. This will involve developing regulations for the use of the resources provided to date. In addition, there will be financing to train staff in the beneficiary public entities on the use of these methodologies, solely for purposes of this operation. The OI will be implemented over two years, with execution beginning prior to the approval of this operation.

- 1.16 The rules and methodologies for carrying out preinvestment studies under this program will be issued at a later date, to be used throughout the public sector, once their technical consistency—and their validation in specific cases—has been established. This will not occur until the end of the operation. This will make it possible to leverage the experience gained during program execution as a future benchmark for institutions conducting preinvestment activities with their own resources.

**B. Objectives, components, and costs**

- 1.17 The program's general objective is to support the Ecuadorian government in reducing the gap in the AIP between what is planned and what is executed. The program's specific objective is to support the INP in increasing the percentage of projects that conduct preinvestment studies designed to demonstrate their technical and economic viability. To this end, an amount of US\$40 million is proposed to finance general and specific preinvestment studies during the next three years, in an attempt to achieve a critical mass of projects that can be included in the AIP.
- 1.18 **Sole component. Formulation of public investment programs.** This component will provide financing for carrying out specific studies (prefeasibility and technical and economic feasibility studies on specific programs and projects, as well as engineering, environmental impact, final design studies, and other supplementary studies); and general studies (basic regional and sector studies, preliminary studies, and other similar studies), in order to establish a portfolio of investment projects capable of obtaining financing for immediate implementation, without delays at startup or during execution, pursuant to PNVB priorities and to its quantitative targets for public investment. The INP will finance the studies of public entities that fall within the GSB and that will subsequently be responsible for financing a viable project or seeking firm financing for such a project.
- 1.19 The expected outputs of the program's sole component are the preinvestment studies (specific and general), with an analysis of technical and economic viability (including environmental, financial, management, community participation, and other factors) that can subsequently result in public investment initiatives.
- 1.20 Preliminary budget allocation for studies. In order to balance the inevitable differences between types of studies capable of laying the foundation for public investment policy, the operation's financing will be distributed as follows: (i) strategic sector studies to provide guidance and a foundation for investment (15% of the total); (ii) prefeasibility, feasibility, and basic engineering studies to determine the viability of investment projects (70% of the total); and (iii) supplementary studies for projects determined to be viable, to include final

design and engineering specifications for the projects (15% of the total). The above distribution may only be altered during project execution with prior Bank approval. The projects will be selected on the basis of the timing of the demand identified by the INP (first to arrive, first to be processed). No limit will be placed on the number of studies to be financed per project provided that they are related to the preinvestment phase.

- 1.21 Eligible beneficiaries. The INP, as executing agency, will oversee the contracting process for all studies approved for financing. In all cases, a government beneficiary will execute the investment deemed to be viable. Eligible beneficiaries will be: (i) public entities whose revenue and expenditures are determined and managed under the GSB; and (ii) decentralized autonomous governments, when the investment programs are interregional and/or community-based in scope.
- 1.22 The program's beneficiary public entities will be charged with executing the studies contracted by the INP, with financing provided by the operation. To this end, execution agreements will be signed detailing the responsibilities of each party (INP and the beneficiary entity), specifying the terms of reference, selection of consultants, provision of information and support for the projects, approval of studies conducted, and actions to execute programs that have been formulated and deemed technically and economically viable. The model for these Execution Agreements will be included in the Operating Regulations for the operation, the drafting of which will be a condition precedent to the first disbursement.
- 1.23 Eligibility and content of the studies and evaluation criteria. Only studies related to initiatives identified and incorporated in the set of projects or AIPs administered by SENPLADES will be eligible to receive financing from the program, regardless of their stage of preinvestment (basic, supplementary, prefeasibility, feasibility, basic engineering, or final design studies). The minimum content requirements and the economic evaluation criteria for determining viability will be governed by the Preinvestment Manual that the INP will issue as a condition precedent to the operation's first disbursement. Given that the INP works on demand and one of its institutional goals is to rapidly mobilize financial resources, it has been determined that preliminary allocations or sector priorities would not be considered effective. The national planning system already contains criteria for prioritizing investment programs within INP's purview. In the event of excess demand, the INP's Board of Directors will make the final determination in approving the list of project studies to be financed, once the technical staff has confirmed that they meet the program's eligibility criteria. Priority will be given to studies based on criteria to be agreed upon between the executing agency and the Bank, which will be included in the Preinvestment Manual.
- 1.24 As an initial work package, the INP has identified and begun preparation of 17 project studies in the water, electricity and renewable energy, production, and transportation sectors. For these, terms of reference have been prepared jointly with the respective beneficiary for potential financing. The INP has begun the contracting process, within the framework and guidelines established in the Bank's

procurement policy for advance contracting. Once contracted, based on previous experience, these studies will fine tune the general and specific criteria for prioritizing the selection of studies to be financed. These changes will be updated in the Preinvestment Manual. Sixty-seven preinvestment studies are expected to be financed, but the final number will be determined on the basis of the demand identified.

- 1.25 Content of the Preinvestment Manual. The Preinvestment Manual, to be adopted by the INP based on a current draft, will set the rules governing the preinvestment phase of the public investment cycle, and at a minimum, will include the following:
- a. Conceptual definitions of the preinvestment phase and the conceptual, background, prefeasibility, feasibility, basic engineering, and final design subphases, as well as basic, specific, and supplementary studies serving as a frame of reference for projects or supplementing them in any subphase.
  - b. Sector and institutional scope of the process, including identification of priority strategic sectors.
  - c. Eligibility criteria to be applied by the INP in selecting preinvestment studies and programs for financing.
  - d. Mechanisms to identify preinvestment financing demand.
  - e. General and specific criteria (ranking), by sector, for prioritizing eligible projects.
  - f. The management cycle for preinvestment and each of its subphases, including evaluation criteria for investment decisions (cross-cutting as well as cost-benefit and/or cost-effectiveness and sector-specific, as appropriate), and mechanisms for agreements with executing agencies that receive financing.
  - g. Guidelines, to ensure that current legislation considers the feasibility of management and financing mechanisms in the viability studies.
  - h. Management control of the preinvestment phase and final results thereof, in terms of approving studies and evaluation indicators to be used for decision-making, with these serving as feedback for the requesting entity and for SENPLADES, as the governing body of the National Planning System.

**C. Key results indicators**

- 1.26 Based on the program's objectives and expected outcomes, the following two key indicators have been defined:
- a. Average delay in execution with respect to the originally planned execution schedule.
  - b. Percentage of projects with preinvestment studies in relation to the total number of existing AIP projects.

- 1.27 These indicators measure the effective fulfillment of the program's purpose, which consists in strengthening the preinvestment phase, so as to produce projects that are bankable and programmable for execution.
- 1.28 Expected outcomes. To have a higher percentage of projects that have preinvestment studies funded under the GSB and that are capable of demonstrating the projects' technical and economic viability. The program is expected to reduce delays in execution for the group of projects financed by the program, from an average of 43% to 26% by the end of the program.
- 1.29 The program is expected to have a high return. The internal rate of return for the program is estimated at over 30%, with a net present value of US\$17.672 million, based on a conservative scenario set forth in the Economic Evaluation Sensitivity Analysis (see [optional link 2A](#)).
- 1.30 The Ecuadorian government has suggested that, while there is a high demand for resources to finance preinvestment studies, it will be able to maintain an annual allocation similar to this year's, using fiscal resources from the INP to help reduce the financing gap. This should make it possible to contract studies for approximately US\$40 million per year.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Costs and financing

- 2.1 The financing for this operation will be carried out through an investment loan. The total cost will be US\$40.3 million, of which the Bank will finance US\$40 million, charged to the resources of the Ordinary Capital, with the remaining amount of US\$300,000 to be financed by the local contribution.
- 2.2 The scale of the program was determined on the basis of the INP's capacity to administer consulting contracts for the next three years, taking into account that nearly US\$24 million in fiscal resources will be allocated annually to financing studies (see [optional link 6](#)). In addition to a list of potential projects to be financed, an evaluation determined that the projects could meet the criteria contained in the draft Preinvestment Manual and also have sufficient information to proceed with procurement. The outputs to be financed are preinvestment studies, as defined by the public investment system, and are expected to result in public investment.

**Table II-1: Program budget**

Component	IDB (US\$)	Local contribution (US\$)	Total (US\$)
Component I: Financing of preinvestment	40,000,000		40,000,000
Auditing expenses	-	300,000	300,000
<b>Program total</b>	<b>40,000,000</b>	<b>300,000</b>	<b>40,300,000</b>

**B. Environmental and social risks**

- 2.3 It is proposed that this operation be classified as a category “C” operation under the Bank’s Environment and Safeguards Compliance Policy. The operation will help finance preinvestment studies and thus, no socioenvironmental risks are expected.
- 2.4 The Operating Regulations will nevertheless include compliance with environmental and social regulations for each of the studies to be financed, in accordance with current legislation.

**C. Fiduciary risks and mitigating measures**

- 2.5 As part of the operation’s design, a Project Risk Management (PRM) exercise was conducted using the Bank’s methodology, with participation by beneficiary entities. This exercise included the following activities: (i) identification and recording of risks and probability factors; (ii) weighting of program risks; and (iii) preparation of a Risk Mitigation Plan. Details of the program risk analysis and the corresponding Risk Mitigation Plan will be reviewed annually. The program is considered to be of medium risk.
- 2.6 The most important fiduciary risk factors identified are: (i) failure to comply with Bank policies and conditions; and (ii) flawed or improper contracting. To mitigate the first risk, the following measures have been established: (a) the Bank’s fiduciary team will provide training; and (b) two individual consultants with a background in financing and procurement and experience in executing Bank-financed programs will be hired to provide fulltime on-site assistance to the program team. To mitigate the second risk, the following actions will be taken: (a) the contracting plan will be supervised; (b) a procurement plan monitoring system will be implemented; (c) procurement will be subject to ex ante review; (d) the call for consultants will be widely publicized so that short lists of consultants specialized in developing specific programs can be drawn up; and (e) a market study of consulting firms will be conducted. The measures to mitigate the first of the two risks and activity (e) to mitigate the second will be financed by the OI. The detailed analysis and the activities to mitigate the identified fiduciary risks appear in Annex III Fiduciary Agreements and Requirements. Measures to mitigate the sector risks are set forth in the Risk Evaluation Matrix, which also includes a timetable and the most important monitoring activities for the mitigation measures.

**D. Other special factors and risks**

- 2.7 Financial management by the executing agency for the specific and general preinvestment studies will be regulated as a condition precedent to the first disbursement under the operation. This will be duly described in the Operating Regulations. The INP, as the operation’s executing agency, will use the loan proceeds to finance all consulting services required to conduct studies for each preinvestment program that is part of the planned activities.
- 2.8 Other risks identified as potentially affecting fulfillment of program objectives are: (i) lack of coordination between the INP and the beneficiary institutions; and

(ii) failure to comply with the Bank's regulations, which could delay program execution. The measures to mitigate the first of these two risks consist in: (a) signing prior agreements (letters of commitment) and specific agreements with beneficiary institutions; (b) explaining and promoting INP processes among the financial and operational staff of the beneficiary entities; (c) structuring an Optimized Master Plan in the INP's Project Management Office; and (d) preparing documentation of processes, procedures, and the program's Operating Regulations. For the second risk, the following mitigation measures have been established: (a) training to be carried out by the Bank; (b) ex ante definition of risks; and (c) Bank efforts to strengthen the INP.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 Conditions precedent to the first disbursement: (i) Preinvestment Manual issued by the executing agency; (ii) approval of the Operating Regulations; (iii) management model implemented at a minimum in the executing agency's administrative and planning areas; and (iv) formation and appointment of the management team.**
- 3.2 The INP's Administrative-Financial Management unit will be responsible for the program's financial administration and monitoring. This unit will oversee coordination, with support from a program management team, the composition of which will be cleared with the Bank. The INP, with resources allocated to it through the budget, will cover expenses for the staff needed to implement the program.
- 3.3 The management team will be made up of: (i) a program manager; (ii) a technical manager; (iii) a procurement specialist; (iv) a financial specialist; and (v) a monitoring specialist. The Operating Regulations will establish the functions and responsibilities of each person involved in the coordination process, the structure for technical and fiduciary supervision, and the frequency and minimum content of the Monitoring Reports. Draft Operating Regulations are attached (see [optional link 5](#)).
- 3.4 The SENPLADES resolution regarding approval of the new management model, including assignment of the corresponding staff in the INP's administrative and planning areas, will constitute sufficient evidence of implementation of this model. Beneficiary public entities will sign agreements with the INP detailing the responsibilities of each party, including: preparation of terms of reference, selection of consultants, provision of information and support for projects, approval of studies conducted, proper supervision of each of the studies, and actions to ensure execution of the projects developed and declared viable and bankable. The model for these execution agreements will be included in the Operating Regulations.

- 3.5 The execution structure is based on the analysis and measures to mitigate the fiduciary risks identified in Annex III. Program execution will also include support for strengthening the INP through an OI, described in detail in paragraph 1.15.
- 3.6 Fiduciary Agreements and Requirements (FAR). The FAR provide guidelines for financial management and procurement to be applied in program execution. These have been developed based on an analysis of the fiduciary environment of the country, as well as the characteristics of the executing agency, the analysis using the Institutional Capacity Assessment System, the PRM workshop, and meetings with INP staff, as well as with key personnel from the participating entities. The FAR include the following topics: (i) audits; (ii) disbursements; (iii) internal and external control; (iv) methods and thresholds for procurement processes; (v) Procurement Plan; and (vi) Financial Supervision Plan.
- 3.7 The program considers contracting consultants in accordance with the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). For the contracting of consulting firms whose estimated cost exceeds US\$200,000, the Bank-approved Standard Request for Proposals (SRFP) will be used. For amounts below the established thresholds, the Bank will agree with the executing agency on an SRFP consistent with document GN-2350-9. The mechanism for coordination between the Bank and the INP will be detailed in the Operating Regulations.
- 3.8 The executing agency will update the procurement plan every six months or whenever there are substantial changes, covering the following 12 months of the program's execution period. Any proposed change to and/or revision of the procurement plan must be submitted to the Bank for approval.

**B. Summary of program monitoring and evaluation arrangements**

- 3.9 Monitoring by the executing agency. For program monitoring, the executing agency will use the indicators identified in the following documents: (i) the Results Matrix; (ii) the Program Execution Plan; (iii) the Monitoring and Evaluation Arrangements (see required [required link 2](#)); (iv) the Procurement Plan; (v) the Risk Matrix, Evaluation and Mitigation of Program Risks; and (vi) the Program Disbursement Plan.
- 3.10 It is agreed that the main methodological instrument bringing together both results indicators and management indicators for the program will be the Progress Monitoring Report (PMR). The executing agency will provide sufficient data from its information systems to administer the PMR.
- 3.11 Program monitoring will be conducted using a system that will monitor all program indicators, with special emphasis on those that measure the program's direct impact, namely: (i) average time delay in the execution of programs that have preinvestment studies financed by this operation, as a percentage of time delays for all programs; and (ii) number of projects that have preinvestment studies included in the SENPLADES annual investment plan, as a percentage of total number of



existing projects. There will also be monitoring of the variables needed for an ex post evaluation of the program, using a control group, described below.

- 3.12 Monitoring will be overseen by the INP Planning Unit, which will benefit from a specific OI component for this purpose (ATN/FG-12779-EC) as part of the program, which will: (i) use consulting services to support the construction and development of the monitoring system or management control mechanism; (ii) provide financing for instituting the information tool to monitor the management indicators; and (iii) provide training to INP staff in results-based management.
- 3.13 Once the work done on force account is complete, an ex post evaluation of the program will be carried out, based on the economic evaluation methodology used to assess program feasibility. The task of this evaluation will primarily be to determine whether the benefits identified during program preparation were, in fact, realized by the end of execution—or, if such an assessment cannot be made, to give some indication of the likelihood that these benefits will be realized at a later time. Thus, at a minimum, it will be important to establish whether the assumptions made during the ex ante evaluation remained valid during execution, and whether the data used were valid.
- 3.14 For purposes of this evaluation, it will be important to identify a control group with characteristics similar to those found in the projects whose preinvestment studies were financed by the program. This will make it possible to demonstrate whether there are fewer delays in achieving the expected benefits when preinvestment studies are in place. To the extent possible, the control group should be from the same sectors, and of similar size, as the ones being studied.
- 3.15 The objective of the evaluation will be to provide the INP with a tool to assess the program's impacts, while also supplying INP officials with sufficient information to maximize the benefits of future preinvestment projects financed by the INP. Given that the mission of the INP is primarily that of financing preinvestment studies, the expectation is that once the program has concluded, it will have sufficient capacity to carry out monitoring of its plan for financing preinvestment studies, along with the capacity to evaluate the results of these efforts.
- 3.16 It is also expected that important data will be obtained on the causal relationship between planning and execution in public investment budgets and on how to reduce the gap in these areas.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to the lending program 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	The Country Strategy does not include a sector objective related to this intervention.	
Country Program Results Matrix	GN-2617	The operation 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	Evaluable	Weight	Maximum Score
	7.0		10
3. Evidence-based Assessment & Solution	5.0	25%	10
4. Ex ante Economic Analysis	7.0	25%	10
5. Monitoring and Evaluation	6.0	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 relies on the use of Budget, Treasury, Internal Audit, Information Systems and Contracting Individual Consultants sub systems.	
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	Yes	An OI has been approved in order to prepare the project and to suport execution.	
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.			

This is an investment loan financed with ordinary capital for Ecuador which contributes to the lending target related to support for small and vulnerable countries. Its objective is to reduce the gap between planned and executed public investments by funding a prioritized package of pre-investment studies. The project is included in the Bank's Country Program Document for Ecuador 2011.

In its diagnosis the document describes a situation in which priority public investments are delayed or not executed due, in part, to the absence of timely pre-investment studies. The document states that the existence of timely and reliable pre-investment studies will help reduce the gap between planned investments and real execution. Although the project's logic is clear, quantitative information on pre-investment demand is limited and not all of the indicators are SMART. In addition, some indicators lack clearly identifiable data sources and collection methods.

The economic analysis includes an ex ante cost benefit study that suggests that this financing has a high potential return. Nevertheless, not all benefits and costs are included in the analysis. The document also proposes the funding of an ex-post cost benefit analysis using the same methodology of the ex-ante analysis.

The project presents a Risk Matrix that suggests potential execution challenges – some of which have high risk – and has mitigation measures, as well as indicators to monitor them.

## RESULTS MATRIX

**OBJECTIVES OF THE PROJECT:** The program's general objective is to support the Ecuador government in reducing the gap in the Annual Investment Plan (AIP) between what is planned and what is executed. The program's specific objective is to support the National Preinvestment Institute (INP) in increasing the percentage of projects that conduct preinvestment studies designed to demonstrate their technical and economic viability. To this end, an amount of US\$40 million is proposed to finance general and specific preinvestment studies during the next three years, in an attempt to achieve a critical mass of projects that can be included in the AIP.

## EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Midterm measurements				Targets		Source/Means of verification		Remarks		
		Value	Year	Value	Year	Value	Year	Value	Year				
<b>EXPECTED IMPACT:</b> By the end of the program, the gap in the AIP between planned investment and investment actually made is expected to have been reduced.													
Average delay in execution compared to the time originally planned for execution	%	43%	2011	-	2012	-	2013	-	2014	26%	2014	Monitoring and Evaluation System	

## EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/Mean of verification	Remarks
		Value	Year	Value	Year	Value	Year	Value	Year				
EXPECTED OUTCOME 1: Increase in the percentage of projects with preinvestment studies													
Percentage of projects with preinvestment studies as a share of the total number of existing projects in the AIP	%	31%*	2011	33.2%	2012	35.8%	2013	38%	2014	38%	2014	Study on preinvestment demand/INP Monitoring and Evaluation System	
It is estimated that loan proceeds will fund 67 preinvestment studies undertaken as follows: 21 in year one, 25 in year two; and 21 in year three, for an equal number of projects. The number of projects in the AIP averages 950 per year.													
* 31% of projects in the 2011 AIP have some type of preinvestment study. This percentage has been constant over the past three years, and the trend is expected to continue. (Source: INP)													

## OUTPUTS

[illegible]

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Project number:</b>	EC-L1084
<b>Name:</b>	Program for Strengthening the Preinvestment Cycle
<b>Executing agency:</b>	National Preinvestment Institute (INP)
<b>Prepared by:</b>	Marco Alemán (PDP/CEC); Gustavo Palmerio (PDP/CEC); and Santiago Schneider (PDP/CEC)

The institutional evaluation of the project's fiduciary management took into account: (i) the fiduciary context of the country; (ii) the results of the fiduciary risk evaluation and the project risk management (PRM) workshop; (iii) the analysis of the INP using the ICAS methodology; (iv) working meetings with the project team; and (v) meetings with personnel from the different areas within the INP. As a result of the evaluation, fiduciary agreements on financial management and procurement were prepared and will be applied in project execution.

### I. FIDUCIARY CONTEXT OF THE COUNTRY

- 1.1 *Procurement system:* The Sistema Nacional de Contratación Pública [National Public Contracting System] (SNCP), was approved through the SNCP Organic Law in August 2008. Among the substantive changes introduced is the creation of the Instituto Nacional de Compras Públicas [National Institute for Public Procurement] (INCOP), designated to oversee public procurement. INCOP, with support from the Bank, is currently conducting a diagnostic assessment of the SNCP, using the OECD/DAC methodology. This process is in its final stage, and will provide a basis for identifying the activities needed to strengthen the SNCP.
- 1.2 *Financial management system:* As of January 2008, government institutions have been using the e-SIGEF financial management system, which effectively integrates budgetary, accounting, treasury, electronic payments, and information technology-centralization processes, as well as the use of internet technology. Central government entities are also subject to control and oversight by the country's supreme audit institution, the Contraloría General del Estado [Office of the Comptroller General of the Nation] (CGE).
- 1.3 In general terms, the country financial management systems are reasonably well developed. At present, they need to be supplemented, for purposes of executing Bank-financed projects, in terms of specific financial reporting and external audits (to be conducted by a firm acceptable to the Bank).

### II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The INP was created through Executive Decree 1263 of 19 August 2008, as a deconcentrated public entity with technical and administrative autonomy, within

SENPLADES. The INP does not have experience in executing IDB-financed programs. At present it operates on a small scale and is going through a consolidation process. Its capacity to execute procurement for 2009 and 2010 has been low to medium; the institution therefore requires strengthening in this area during program execution.

- 2.2 As a public entity, the INP uses the country's national financial management and procurement systems. Internal control of the institution is carried out by the CGE.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 3.1 Based on available information on the program and on the INP, the following fiduciary risks have been identified:

**a. Weak execution capacity:**

- (i) Factors: New entity without experience in executing Bank-financed projects; currently operating on a small scale and going through a consolidation process; lack of familiarity with IDB rules.
- (ii) Impact: Delays in execution; failure to comply with contractual clauses.
- (iii) Mitigation measures: Formation of a management team of professionals experienced in executing projects, with technical and fiduciary expertise and skills. The Bank's fiduciary team will provide support, training, and assistance for execution. Using technical cooperation resources, two external consultants with a background in finance and procurement will be hired, offering the team full-time on-site support.

**b. Weaknesses in the contracting process:**

- (i) Factors: Weakness in preparing terms of reference and bidding documents; cumbersome procedures that discourage consultants; failure to monitor procedures; high percentage of bidding processes with no declared winning bidders; lack of specialized consultants; low to medium level of execution.
- (ii) Impact: Delays in execution; inefficient use of resources; failure to fulfill the program's objectives.
- (iii) Mitigation measures: Until the Procurement Plan Execution System (SEPA) is implemented, execution of the procurement plan will be supervised quarterly. Initially, oversight of procurement will be carried out on an ex ante basis. Technical cooperation funds will be used to finance the preparation of a short list of specialized consultants to assist in designing specific projects, as well as in conducting a market study of consulting firms. This list will be continually updated.

#### **IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF CONTRACTS**

- 4.1 Some points for consideration include:
- a. Formation of a management team
  - b. Approval of the Operating Regulations
  - c. An approved Preinvestment Manual

#### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

##### **Procurement execution**

- 5.1 The Procurement Plan (PP) will establish what procurements are to be included in the program; this may be updated annually or as needed. The Project Team Leader will be responsible for overseeing approval of the PP and for keeping it updated during program execution.
- 5.2 The program envisages the contracting of consultants falling within the framework established in document GN-2350-7, with this process being conducted in accordance with the Procurement Plan approved by the Bank. For the contracting of consulting firms involving amounts above US\$200,000, the Bank-approved Standard Request for Proposals (SRFP) will be used. For contracting involving lesser amounts, SRFPs agreed upon by the executing agency and the Bank will be used. The Procurement Plan is included as a link in the Proposal for Operation Development (POD).

##### **Procurement supervision**

- 5.3 Given the fiduciary context of the executing agency (medium) and the risk level of the operation (medium), procurement will initially be subject to ex ante review. This procedure may change during program execution in light of mitigation measures adopted and the degree to which the executing agency has been strengthened.

##### **Special provisions**

- 5.4 Special measures: No special measures are being adopted.
- 5.5 Other procedures: No other procedures are being put in place.

##### **Records and files**

- 5.6 The executing agency will maintain updated records and files, appropriately organized for review by the Bank pursuant to the following guidelines:
- a. The file with the documentation on procurement and contracting must be in a single file or folder that is distinguishable from those relating to processes funded by resources from local contributions or nonprogram resources.
  - b. The project team will provide the SICLAR tool, which will be implemented in the program, independent of the procurement supervision system used.

- 5.7 **Advance contracting and retroactive recognition of expenditures:** Not applicable. Financial Management Agreements and Requirements.

**Programming and budget**

- 5.8 The body of law that establishes the general rules governing programming and formulation, approval, execution, control, evaluation, and liquidation of budgets is the Organic Code of Planning and Public Finance. These general rules are applicable to the execution of Bank-financed programs in the country. The eSigef integrated system orchestrates and standardizes the application of these general rules throughout the national public management apparatus.
- 5.9 The program budget will be calculated based on the annual work plan agreed upon between the Bank and the executing agency, and will serve as the basis for formal inclusion in the general budget of the INP, which in turn is included in the pro forma budget submitted to the legislature for approval.

**Accounting and information systems**

- 5.10 Governmental accounting is done using the eSigef system, the parameters of which were determined according to the governmental chart of accounts issued by the Ministry of Finance.
- 5.11 Official accounting for projects receiving Bank financing is carried out using the eSigef system, in accordance with the government chart of accounts and the budget classifier. eSigef currently does not permit the preparation of reports related to the specific aspects of resources administered by the IDB; it is therefore necessary to use separate reports on the status and development of the projects.
- 5.12 For the above purpose, an agreement with the executing agency was reached, whereby the loan operation will implement the KETRA system to assist in preparing detailed financial reports on the project as it is being executed.

**Disbursements and cash flow**

- 5.13 Beginning in 2008, the Government of Ecuador established the National Treasury General Account, thus unifying cash management operations for all entities in the central government system.
- 5.14 Implementation of this mechanism did not involve eliminating the special accounts system or the specific-purpose accounts at the Central Bank of Ecuador used to receive funds from multilateral loans, including funds from the IDB. All program payments will be made by debiting the National Treasury General Account, which will serve as the mechanism for managing any cash necessary for the operation of the various entities within the central government.
- 5.15 Program disbursements will be made based on the actual liquidity needs of the project, through an advance of funds, for a maximum of 20% of the total amount of financing approved, at intervals of no less than 5 months. The executing agency will submit disbursement requests to the Bank, along with the Financial and Cash Flow Plan for the project covering the following 180 days.



Disbursements will be justified in the next disbursement request, once at least 80% of the advance funds have been executed.

- 5.16 The INP will open an account for the program at the Central Bank of Ecuador for receiving the loan proceeds.
- 5.17 Supporting documentation for expenditures and payments will be subject to ex post review. Reports will be issued providing the results of each ex post review. The ex post review of disbursements will be conducted by Bank personnel and/or consultants and external auditors.
- 5.18 Expenditures that the Bank deems to be ineligible will be reimbursed with resources from the local contribution.

#### **Internal control and internal audit**

- 5.19 With respect to internal control systems, the Constitution of the Republic of Ecuador stipulates that the CGE will be responsible for overseeing the control system, which consists of internal audit, external audit, and internal control of public sector entities, as well as private entities using public resources. The CGE is also responsible for issuing regulations on the performance of these functions.
- 5.20 Given that the INP is a new entity, the CGE has not yet assigned it its own internal audit unit. Currently, internal auditing is being carried out by personnel from the CGE itself.
- 5.21 The operating manual will include the main internal control processes needed to ensure that the controls are functioning properly. During execution, the fiduciary team will evaluate the quality of these processes.

#### **External control and reports**

- 5.22 Due to the fact that the CGE does not, at present, have sufficient capacity to exercise external control over projects financed with foreign debt, external auditing of the project will be carried out by top-tier independent auditors acceptable to the Bank (i.e., international auditing firms), in accordance with IDB requirements. During execution, the INP will submit audited annual financial statements for the project, pursuant to the Bank's guidelines and based on the terms of reference approved previously by the IDB. Audit costs will be covered by local counterpart funds.

### Financial Supervision Plan

Supervisory activity	Supervision Plan			
	Nature and scope	FREQUENCY	Responsible party	
			Bank	Third party
OPERATIONAL	Review of progress report	TWICE A YEAR	Fiduciary and sector team	
	Review of portfolio with the executing agency and the Ministry of Finance	TWICE A YEAR	Fiduciary and sector team	
FINANCIAL	Inspection visits	TWICE A YEAR	Fiduciary specialist	
	Financial audits	ANNUAL	Fiduciary specialist	Executing agency
	Ex post review of disbursements	ANNUAL	Fiduciary specialist	
	Review of disbursement requests	PERIODIC	Fiduciary team	
PROCUREMENT	Ex ante review of procurement	N/A	Project Team Leader, with support from procurement specialist	Executing agency
	Updating the Procurement Plan	Quarterly until SEPA implementation	Project Team Leader, with support from procurement specialist	Executing agency
COMPLIANCE	Fulfillment of conditions precedent	ONCE	Fiduciary team	
	Budget allocation	ANNUAL	Fiduciary specialist	Executing agency
	Submission of audited financial statements	ANNUAL	Fiduciary specialist	

### Implementation mechanism

- 5.23 The INP will be the program's executing agency, for which it will assemble a management team to work full-time on program executing.
- 5.24 Given that the INP does not have experience in executing IDB-financed programs, it is deemed essential that the management team be made up of professionals with extensive experience in executing programs of this type. The team should include, at a minimum, a general coordinator, a financial specialist, and a procurement specialist, and should utilize INP's technical and administrative infrastructure for additional support. Furthermore, with the OI funds to support program execution, specialized consultants in specific areas will be hired to assist in reviewing the Terms of Reference for the consulting services to be financed with loan proceeds.
- 5.25 The types of consulting projects, as well as the requirements for their financing, will be established in the Preinvestment Manual, and in the guidelines of the Operating Regulations, which must be approved by the executing agency's highest authority.

## PROCUREMENT TABLE

[illegible]

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-102/11

Ecuador. Loan 2585/OC-EC to the Republic of Ecuador  
Program for Strengthening the Preinvestment Cycle

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 program for strengthening the preinvestment cycle. Such financing will be for an amount of up to US\$40,000,000 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 28 September 2011)