

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

PROGRAM TO IMPROVE TAX AND CUSTOMS ADMINISTRATION

(EC-L1253)

LOAN PROPOSAL

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REQUIRED LINKS	
1.	Multiyear execution plan/ Annual work plan
2.	Monitoring and evaluation plan
3.	Procurement plan

OPTIONAL LINKS	
1.	Program Economic Analysis
2.	Program Operating Regulations
3.	Bank experience in the region and technical basis for intervention
4.	Digital transformation roadmap for SRI and SENAE (prepared by EY, 2021)
5.	SRI Institutional Strategic Plan 2021–2025
6.	Climate change annex
7.	Safeguard policy filter and safeguard screening form

ABBREVIATIONS

ATA	Tax and Customs Administration (Ecuador)
CDS-CNT	Centro de Datos Seguros de la Corporación Nacional de Telecomunicaciones [Secure Data Center of the National Telecommunications Corporation]
CIAT	Inter-American Center of Tax Administrations
COPLAFIP	Código Orgánico de Planificación y Finanzas Públicas [Organic Law on Public Planning and Finance]
ECLAC	Economic Commission for Latin America and the Caribbean
GDP	Gross domestic product
ICB	International competitive bidding
ICTs	Information and communication technologies
IMF	International Monetary Fund
KIF	Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean
LAC	Latin America and the Caribbean
MEF	Ministry of Economy and Finance
N/A	Not applicable
NCB	National competitive bidding
NPV	Net present value
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PEU	Program execution unit
SENAE	Servicio Nacional de Aduanas del Ecuador [National Customs Service of Ecuador]
SNCP	Sistema Nacional de Contratación Pública [National Government Procurement System]
SRI	Servicio de Rentas Internas [Ecuadorian Internal Revenue Service]
VAT	Value-added tax
VUCE	Ventanilla Única de Comercio Exterior [Single Window for Foreign Trade]
WEF	World Economic Forum
WTO	World Trade Organization

PROGRAM SUMMARY

ECUADOR

PROGRAM TO IMPROVE TAX AND CUSTOMS ADMINISTRATION
(EC-L1253)

Financial Terms and Conditions					
Borrower:			Ordinary Capital Flexible Financing Facility ^(a)		KIF ^(d)
Republic of Ecuador			Amortization period:	23 years	25 years
Executing agencies:			Disbursement period:	5 years	5 years
Internal Revenue Service (SRI) and National Customs Service of Ecuador (SENAE)					
Source	Amount (US\$)	%	Grace period:	7.5 years ^(b)	7 years
IDB (Ordinary Capital):	49,000,000	55.35	Interest rate:	SOFR-based	1.3%
Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean (KIF):	35,000,000	39.53	Credit fee:	(c)	(d)
			Inspection and supervision fee:	(c)	N/A
			Front-end fee:	N/A	0.1%
Local:	4,530,968	5.12	Weighted average life:	15.25 years	N/A
Total:	88,530,968	100.00	Approval currency:	U.S. dollar	
Program at a Glance					
Program objective: The program’s general development objective is to strengthen the management capacity of the SRI and SENAE in order to increase tax revenue as a percentage of GDP and boost economic competitiveness by offering a better climate for foreign trade and investment. The specific development objectives are to: (i) increase the operational efficiency of the SRI in the area of tax control; (ii) increase the operational efficiency of SENAE in the area of customs control; and (iii) boost the quality of services used by foreign trade operators.					
Special contractual conditions precedent to the first disbursement of the financing: (i) the borrower will have submitted evidence that the agreement for the transfer of loan resources has entered into effect, signed with each of the executing agencies under the terms previously agreed upon with the Bank; (ii) the borrower, whether directly or through the executing agencies, will have submitted evidence that the program Operating Regulations have been approved and entered into effect in accordance with the terms previously agreed upon with the Bank; and (iii) the borrower, whether directly or through the executing agencies, will have submitted evidence that program execution units (PEUs) have been established within each executing agency and that their minimum necessary staff have been designated (paragraph 3.8).					
Exceptions to Bank policies: None.					
Strategic Alignment					
Challenges: ^(e)	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>		EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(f)	GE <input type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>		IC <input checked="" type="checkbox"/>

^(a) Under 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. When considering such requests, the Bank will take operational and risk management considerations into account.

^(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) These funds are to be administered by the Bank under the Korea Infrastructure Development Co-Financing Facility for Latin America and the Caribbean (KIF), in accordance with the agreement signed between the Government of the Republic of Korea and the Bank on 28 March 2015, as amended on 26 August 2021, to increase the facility's resources.

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

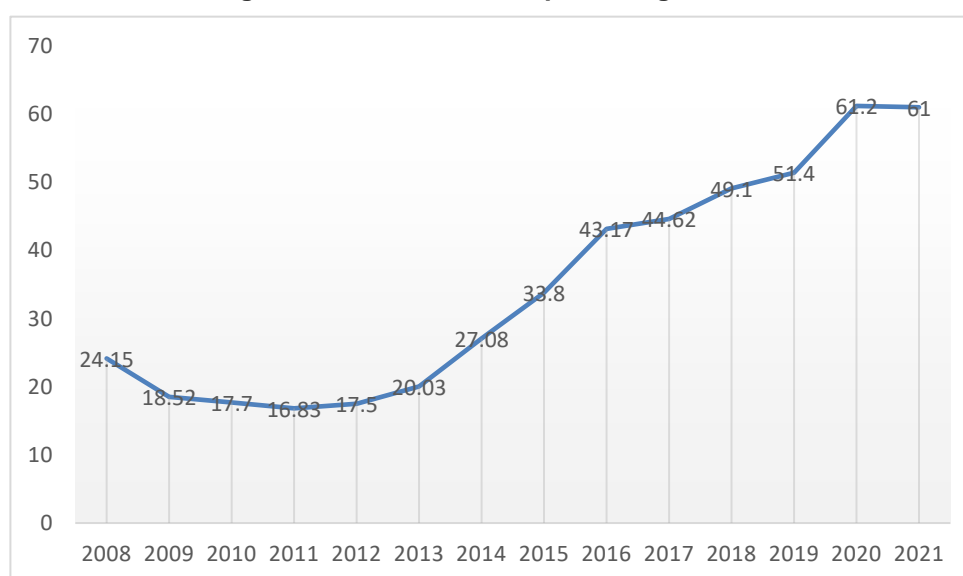
^(f) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 Even before the pandemic, the Ecuadorian economy was in a deep macroeconomic crisis. Ecuador had been experiencing difficulties since 2014 as a result of the end of the commodity super cycle. Fiscal sustainability was compromised by very high public spending that insufficient revenue collection was unable to meet, resulting in a steady rise in the debt-to-GDP ratio (see Figure 1). To compound matters, quality of employment in Ecuador was in a steady decline, as reflected, for example, in the adequate employment rate, which fell from 49.3% of total employment in 2014 to 32.4% in August 2021.

Figure 1. Public debt as a percentage of GDP



Source: International Monetary Fund (IMF).

- 1.2 These prepandemic macroeconomic outcomes were mainly the result of the high vulnerability of its economy to external shocks, an inherent condition of a dollarized oil economy. In addition to this structural attribute, the country needed to organize its public finances and make them more transparent, given its high primary current expenditure, low tax collection, and inefficient—and even regressive—transfer and subsidy systems, such as the fuel subsidy. Ecuador's inflexible labor laws also contributed to the economy's rigidity in the face of external shocks, giving its fiscal policy (particularly borrowing) a critical role.
- 1.3 At the onset of the pandemic, the Ecuadorian government-imposed lockdown and social isolation measures that further restricted domestic demand and supply, even as the Brent oil price benchmark slumped from US\$67 per barrel in December 2019 to US\$18 in April 2020.¹ The expectation of deteriorating liquidity from exports and domestic revenues led the government to accelerate its agenda

¹ At 7.2% of GDP in 2019, natural resource utilization accounts for a significant portion of tax revenues.

for achieving fiscal sustainability. Thus, in August 2020, the government renegotiated its debt with international bondholders. It also negotiated an Extended Fund Facility arrangement with the IMF for US\$6.5 billion over three years.² The Bank also increased its support to the country through a special development loan (loan [5403/OC-EC](#)) for US\$500 million, linked in terms of its objectives and execution to that of the IMF.

- 1.4 In 2020, GDP contracted by 7.8%, while the public debt reached 61.2% of GDP.³ The recovery in the primary fiscal surplus, which had gone from -6.67% of GDP in 2016 to -0.45% in 2019, fell back to -4.7% of GDP in 2020, recovering somewhat to -3.5% in 2021. The economy grew by 4.2% in 2021, beating the forecasts of the government, the IMF, and investment banks. Official projections for 2022, set at the beginning of the year, were quite positive and showed GDP growth of 2.8% (Central Bank of Ecuador), 2.9% (IMF), and 3.7% (World Bank) due to solid performance in 2021, the effect of Russia's war on Ukraine on raw material prices, and economic reforms adopted at the domestic level. Fiscal consolidation is expected to generate a fiscal surplus of 1% of GDP in 2022.
- 1.5 Ecuador, whose tax collection (19.1% of GDP)⁴ was 2.8 percentage points below the average for Latin America and the Caribbean (LAC) in 2020 (see Figure 2), needs to increase its tax revenue in order to ensure macroeconomic stability by reducing its dependence on commodity exports, which are highly volatile by nature. As in any collection gap, Ecuador's has two components: policy and compliance.⁵ A recent study by the Inter-American Center of Tax Administrations (CIAT) shows that the corporate income tax compliance gap is 22%.⁶ This is due to the fact that the country's Internal Revenue Service (SRI) has low audit coverage: until recently it had no unit specializing in large-taxpayer control, while the risk management system is very weak (IMF, 2019 a).

² IMF (2020): [Ecuador. Request for an Extended Arrangement under the Extended Fund Facility](#).

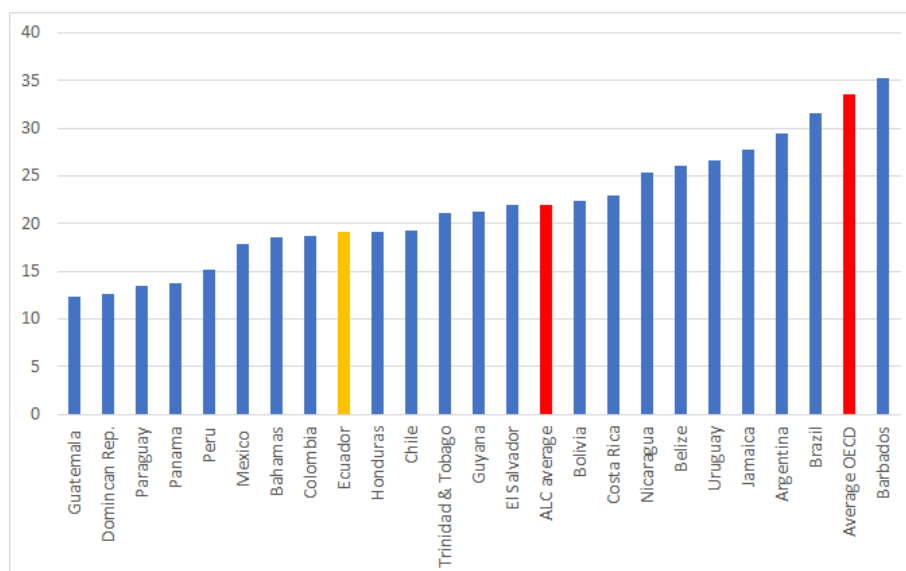
³ [Boletín de Deuda Pública](#), Ministry of Economy and Finance (MEF).

⁴ Includes social security contributions. See: Inter-American Development Bank (IDB). [Revenue Statistics in Latin America and the Caribbean 2022](#).

⁵ On November 19, 2021, the Organic Law on Economic Development and Fiscal Sustainability was enacted to alleviate the situation.

⁶ Where value-added tax (VAT) is concerned, however, the gap is narrow. See Efficiency and Tax Gap in Latin America and the Caribbean: Value-added Tax and Corporate Income Tax, CIAT (2022).

Figure 2. Tax burden in LAC in 2020 (revenue as % of GDP)



Source: IDB, Organisation for Economic Co-operation and Development (OECD), Economic Commission for Latin America and the Caribbean (ECLAC), and CIAT (2022) [Revenue Statistics in Latin America and the Caribbean 2022](#).

- 1.6 State tax collection in Ecuador has followed a rising trend in recent decades,⁷ partly influenced by the creation of the SRI (paragraph 1.13); however, in recent years it has stagnated, as illustrated in Figure 3.

Figure 3. Tax revenue in Ecuador 1990-2020 (US\$ millions) and tax burden

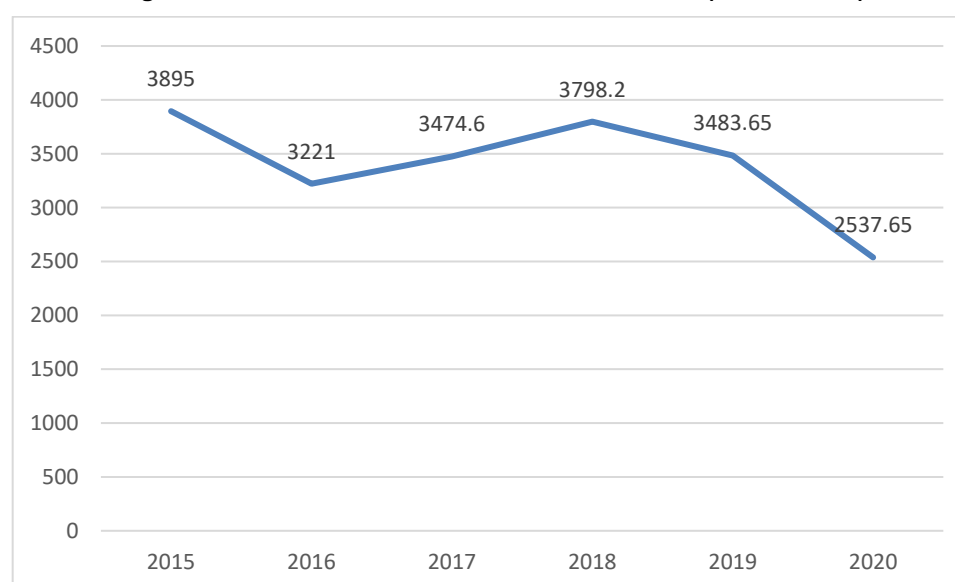


Source: IDB, OECD, ECLAC, and CIAT (2022). [Revenue Statistics in Latin America and the Caribbean 2022](#).

⁷ The State tax system collects 70.2% of total tax revenue. Social security is the second largest tax source, with 27.1%, while local taxes account for 2.6% (OECD/IDB/ECLAC/CIAT, 2021, p. 57).

- 1.7 Apart from tax policy measures, achieving significant tax revenue growth requires strengthening the management capabilities of the Internal Revenue Service (SRI) and the National Customs Service of Ecuador (SENAE) by supporting their digital transformation and boosting the effectiveness of the tax and customs administrations in countering tax evasion by bolstering their control functions around an effective risk management model.⁸
- 1.8 Ecuador also faces the challenge of developing its foreign trade to increase its competitiveness and contribute to growth and employment. In 2020, Ecuador's foreign trade, in terms of gross value of exports and imports, accounted for 38.65% of GDP (US\$33.431 million),⁹ while the taxes associated with it amounted to revenue of 2.57% of GDP.¹⁰ Even before the pandemic, customs revenues were practically stagnant (see Figure 4). Improving customs integrated risk management will speed up customs clearance, which, supported by a more efficient Single Window for Foreign Trade (VUCE), will leverage trade facilitation. The resulting increased volume of trade, coupled with improvements in customs control, should increase customs revenue.

Figure 4. Customs collection in Ecuador 2015-2020 (US\$ millions)



Source: SENAE.

- 1.9 The 2019 [World Economic Forum Global Competitiveness Index](#) ranked Ecuador 90th out of 141 countries,¹¹ and specifically 130th for Pillar 7, which measures ease

⁸ Ecuador does not publish official estimates on tax evasion, but studies suggest the figures are high. Jiménez, Gómez Sabaini, and Podestá (2010) estimated an income tax evasion rate of 65.3% for legal entities and 58.1% for natural persons; however, the data refer to 2005. More recently, CIAT has calculated that the corporate income tax gap is 22% (CIAT, 2022).

⁹ [Datosmacro.com](https://datosmacro.com).

¹⁰ US\$2,537 million in 2020 divided into VAT on imports (56%), Ad valorem tariff (34%), Child Development Fund (10.3%), Excise tax (6%), and Others (1%) ([Customs Government of Ecuador](#)).

¹¹ The 2019 ranking is the latest available for the time being.

of market access for companies. SENAE does not have sufficient management capacity which, considering its importance as a link in the logistics chain, compromises foreign trade growth and Ecuador's insertion in regional and global markets. In addition, the average cost of exporting associated with regulatory formalities was US\$560, compared to the LAC average of US\$516. Likewise, Ecuador ranks 103rd on the indicator for cross-border trade, consuming 120 hours in import and 96 hours in export times, due to border documentation obligations, whereas the LAC average is 43 and 55 hours, respectively.

- 1.10 Ecuador's trade liberalization ushered in by its signing of the Trade Agreement with the European Union and the decision to become an associate member of the Pacific Alliance, in addition to its accession to the [SAFE Framework of Standards](#) of the World Customs Organization and ratification of the World Trade Organization (WTO) Trade Facilitation Agreement, underscore the need for improved performance by SENAE in terms of facilitation, security, and control. Increasing SENAE's efficiency by strengthening its technology platform and enhancing the quality of services provided to foreign trade operators is a priority for the country.
- 1.11 SENAE and SRI are the agencies that enforce the country's tax and customs system, along with the Ecuadorian Social Security Institute (IESS). In 2021, US\$12.794 million was collected in domestic taxes (14.25% of GDP),¹² US\$3.436 million in taxes on foreign trade (3.82% of GDP),¹³ and US\$5.863 million in social security contributions (6.33% of GDP). These institutions are essential for fiscal sustainability in Ecuador.
- 1.12 Like most of the world's countries, Ecuador adheres to the separate tax administrations model, under which SRI and SENAE are organically and functionally independent.¹⁴ In 2018, the [Plan de Prosperidad 2018-2021](#) [Prosperity Plan 2018-2021] announced the merger of a number of public agencies, including SRI and SENAE, which meant addressing the process of institutional strengthening of both entities jointly. However, following a review conducted with support from the Bank, the government decided to keep them separate, given the disparity of functions and institutional capacity of the two entities. In such a situation, cooperation between the tax and customs administrations is key.¹⁵
- 1.13 The SRI is an autonomous technical entity established in 1997 to be in charge of the collection and management of internal taxes. It aspires, by 2025, to be an institution recognized for its constant innovation and digital transformation, strengthened by the timely fulfillment of tax obligations and the fight against tax evasion, fraud, and avoidance, with a risk management focus.¹⁶ A series of reforms supported by the

¹² [SRI, Estadísticas generales de recaudación.](#)

¹³ [Datos de recaudación, SENAE.](#)

¹⁴ According to the International Survey of Revenue Administration (ISORA), 63.7% of administrations adhere to this model (IMF, 2019).

¹⁵ [Guidelines for Strengthening Cooperation and the Exchanging of Information between Customs and Tax Authorities at the National Level.](#)

¹⁶ SRI, Plan Estratégico Institucional 2021-2025. See [optional link 5](#).

Bank were important in its inception (Office of Evaluation and Oversight, 2007).¹⁷ Since 2014, with the support of the Bank (loan [3325/OC-EC](#)), the SRI has strengthened the taxpayer service dimension. Now, it seeks to strengthen tax control mechanisms, and to do so it must solve the following problems:

Problem 1. Risks that compromise the integrity of information and the operational continuity of the SRI

- 1.14 The data center is exposed to significant risks. The main data center, located in Quito, is housed in a building whose poor location, security, and service conditions would relegate it to the tier 1 category if it were certified,¹⁸ with a risk of massive operational failure that would impair the institution's operational continuity.¹⁹ In addition to the fact that it lacks possibilities for improvement and expansion,²⁰ its energy efficiency is inferior to that of a modern data center. The SRI also has an alternate data center located in Guayaquil, but its capabilities are basically limited to a backup function.
- 1.15 There is a significant gap in terms of technological infrastructure. In 2012, the institution opted for a robust information system to increase its operational efficiency, laying the foundations for automated management with a functional technological platform on which to implement applications built on the basis of a process map or business rules. This approach was reinforced in 2015 through the Program to improve Ecuador's Internal Revenue Service (loan [3325/OC-EC](#)), which is still in execution, and has enabled the SRI to make headway on modernizing its information processing equipment. However, the increased capacity needs resulting from the implementation of the Comprobante Electrónico en Línea [electronic invoicing system], as well as the need to replace other old information processing equipment—the obsolescence of which jeopardizes operational continuity²¹—will require additional investment. Consequently, the SRI has neither an operational backup nor high availability in critical services that would allow service continuity in the event of a catastrophic event.

Problem 2. Inefficiencies in tax control processes

- 1.16 Several key tax compliance processes need to be newly implemented or significantly strengthened. The set of computer applications that support SRI business processes are integrated in a portfolio divided into two batches according to thematic area and development over time: "Mejora 2015-2022," which

¹⁷ Ecuador - Modernization of the Tax System (document ATN/SF-3361-EC); Ecuador - Modernization of the Tax System II (document 904/SF-EC); and Tax System Modernization Program (document 1062/OC-EC).

¹⁸ According to [Uptime Institute](#) (2018), data centers are classified into four categories or tiers, the first being the most basic.

¹⁹ It has single points of failure in the electrical power regulation and cooling system. In addition, the building that houses it is not earthquake resistant.

²⁰ The SRI does not have full control of the facilities of the complex, which it shares with the Ministry of Foreign Affairs.

²¹ The main deficiencies can be seen in the middle layer infrastructure, obsolescence of the storage infrastructure, obsolescence and lack of guarantees for the database processing infrastructure, and network infrastructure for agencies.

essentially developed part of the generic processes²² and taxpayer services processes,²³ as well as “Innova 2022-2027” to strengthen the tax control area, where progress has been very modest to date, especially in the area of integrated risk management and other still undeveloped crosscutting processes. This gives rise to inefficiencies and even a lack of timeliness and coverage in tax management. The shortcomings are:

- (i) The management of the motor vehicle registry is deficient, and the assessment of vehicle and tax obligations and/or benefits is inefficient because it is managed through non-integrated and obsolete applications;
- (ii) Improvements in the validation, receipt, and storage stages are needed in the implementation of the electronic invoicing system;
- (iii) The lack of case management and work paper preparation applications leads to inefficiency, since they are done manually or, in some cases, from various institutional systems and are not systematized;
- (iv) Shortcomings in generic processes prevent the implementation of case management and work paper applications;
- (v) The information system does not allow for the creation of a comprehensive file for each taxpayer, hampering management;
- (vi) The limited rollout of the integrated risk management model means that it is suboptimal, as it is implemented using ad hoc strategies and guidelines, resulting in significant opportunity cost;²⁴
- (vii) Documentary management is largely paper-based, with a high economic and ecological cost due to the production, notification, and filing of more than three million documents, as well as creating difficulties for procedural tracking. Even where it has been possible to generate digital archiving media, each system stores its own documentation, unconnected to a central archive from which to visualize and organize procedural tracking;
- (viii) SRI data guidelines need to be strengthened to ensure their quality. In addition, the potential of the electronic invoicing system for smart auditing is not being utilized.²⁵ The process to reduce the veracity gap is unable to reach its potential due to the absence of a strategy to utilize information that is fragmented and disjointed in 7 systems, 97 applications, 24 modules, 15 components, 35 tools and 4 external applications; and
- (ix) The human resources information management system has become obsolete, which implies human resources management risks as well as operational risks, since the system manages access permissions to

²² Working groups, administrative acts, document generator and numberer, alerts and notices, accumulation and division, document signature, and calculation of taxes and fines.

²³ Management of obligations and benefits, tax roll, in person and online, filing of returns and applications, inquiries or searches, and taxpayer’s tax account.

²⁴ Technical Cooperation (TC) ATN/OC-18895-EC contributes with the creation of a data lab and advanced analytical tools.

²⁵ There is only regular access to the header data of the file, since the XML file splitting process has not been developed due to a lack of capabilities in its technology base.

systems, procedures, and data sources. Moreover, it does not allow the operational load of administrative units to be monitored.²⁶

- 1.17 SENAE was established on 30 December 2010 by the Organic Code of Production, Trade, and Investment. It is an agency focused on service and facilitating foreign trade, and has fiscal and parafiscal functions.²⁷
- 1.18 In 2010 it undertook a major investment to automate its customs management system and implement VUCE, acquiring the ECUAPASS software platform. However, its functionalities were not 100% implemented, given that it is a system focused on data recording, with limited management functionality.
- 1.19 The Institutional Plan 2021–2025 adopts the following vision:²⁸ “To be recognized as an important institution of integrity in the country’s strategic economic-productive sector and as a role model for other countries, with innovative processes and dedicated employees, promoting a culture of continuous improvement that contributes in a timely and effective way to the facilitation of foreign trade.”
- 1.20 As indicated by the IMF in 2019, SENAE needs deep-seated reform in its strategic, tactical, and operational areas.²⁹ Its institutional weaknesses include:

Problem 3. Threats to the operational continuity of SENAE

- 1.21 The information technology system faces sustainability risks associated with technological obsolescence and IT architecture obsolescence. It also has functional weaknesses since, although it records operations, it does not support integrated customs management, enable the creation of customs intelligence, or feed integrated risk management and ex post audits.
- 1.22 SENAE does not have data mining processes for large volumes of information from external sources that might allow automatic inference of data patterns, nor is automated learning applied to detect behaviors by operators subject to control and, therefore, tax evasion due to incorrect tariff classification and customs valuation; this results in weak design and execution of customs control plans, with a direct impact in terms of their limited effectiveness.
- 1.23 Information management does not follow international best practices; there is no information culture to support daily operations with the generation and permanent updating of relevant management indicators, which reduces efficiency and effectiveness in strategic decision-making and customs control processes.
- 1.24 Another risk is the possible interruption of its operations due to the obsolescence and lack of support for its technological infrastructure, particularly in terms of security, end-user equipment, communications, and networks.
- 1.25 SENAE’s integrated risk management model is outdated and does not respond to the reality of current foreign trade; the probabilistic criteria have only 16 variables

²⁶ Of its 3,026 workers, 61.04% are women. There is no apparent need to adopt gender measures.

²⁷ Import VAT, customs tariffs, and excise taxes on imports.

²⁸ Published by Resolution SENAE-SENAE-2022-0035-RE of 3 April 2022.

²⁹ Ecuador: Risk Management from the Institutional Strengthening of SENAE, IMF (2019).

that have not been updated since 2012 and are applied only to import and courier processes. This situation that has generated low levels of control effectiveness, which has accentuated over the years.³⁰ Likewise, the deterministic criteria are managed manually, resulting in low effectiveness of controls.

Problem 4. Shortcomings in SENA operational processes

- 1.26 The control capacity of SENA has diminished in recent years,³¹ enabling groups that engage in illicit activities to grow stronger. In particular, the following operational shortcomings have been identified:
- (i) Patrol vehicles have reached the end of their useful life and keeping them operational is costly, resulting in frequent suspensions of control activities;³²
 - (ii) The lack of technology and communications undermines the effectiveness of patrols and controls in the secondary zone. In addition, customs guards do not have equipment for tactical, operational, and security control, thus aggravating health and safety risks for officials; and
 - (iii) The laboratory cannot perform chemical analysis of certain products (e.g. fertilizers, petroleum products, and products with complex chemical compositions).³³ The lack of equipment for qualitative and quantitative analysis of tax-,³⁴ environmentally-, and security-sensitive goods consistent with international standards³⁵ means that there is no underpinning for the customs administration's positions on customs valuation and tariff classification of goods, which can be easily challenged in the courts, impairing both customs revenue and the institutional image.

Problem 5. Weak human resources management

- 1.27 The following weaknesses have been identified:
- (i) Payroll calculations, per diems, vacations, benefits, and other processes are performed manually. There is no integrated management system to control the interaction between employees and the institution. Manual handling leads to errors and rules out the possibility of savings in processing times. The intensive use of employees for tasks that could be automated distracts from important human resources issues, such as the workplace environment, administrative careers, and development of advancement policies; and
 - (ii) SENA needs to enhance the capacities and competencies of its officials. Civil servant training is centralized through the Ministry of Labor, which

³⁰ According to SENA estimates, the effectiveness of the 2021 risk criteria was 29%, compared to 35% in 2017.

³¹ According to the Gobierno por Resultados [Government by Results] tool, the "Percentage fulfillment of projected withholdings (goods seizures)" indicator was 133.5% in 2017, compared to 84.87% in 2020.

³² 50% are more than 10 years old (Source: SENA).

³³ IMF, 2019.

³⁴ According to SENA estimates, the ad valorem projection, not collected in the period 2017 to 2021 for subheadings covering goods such as textiles, paper, and cardboard amounts to US\$2,185,337.13.

³⁵ ISO 17025/World Customs Organization Customs Laboratory Guide/World Trade Organization Trade Facilitation Agreement.

disregards the development of specific customs competencies. The only existing training platform is outdated and lacking in functionality.

- 1.28 **Rationale.** Ecuador needs to increase tax collection to balance its public finances and prevent macroeconomic shocks by reducing dependence on natural resource extraction. With revenue collection lagging behind the LAC average by 1.8 percentage points of GDP, it has committed to the IMF to close its tax policy and compliance gaps through a combination of tax reforms and strengthening of its tax administration. It also needs to optimize and automate the customs process, improve the effectiveness and efficiency of controls, and facilitate foreign trade. This program helps to solve compliance gaps with an integrated risk management based on the strategic utilization of tax and customs information, for which they need to strengthen their technological equipment.
- 1.29 **The Bank's experience in the region and lessons learned.**³⁶ Lessons learned in Jamaica and Uruguay³⁷ were applied, in particular the importance of quickly seizing opportunities and working with organizations that assume the role of "champions of reforms";³⁸ that the effectiveness of administrative reforms is greater when combined with tax policy reforms; and the advantages of working in partnership with the IMF (paragraph 1.32) and of keeping up sustained work over the long term (OVE, 2017). The program's multisectoral approach ensures a comprehensive level of service and replicates experiences from other similar operations, such as the Program to Support the Modernization of the National Tax and Customs Directorate (loan [5148/OC-CO](#)) in Colombia and the Improving Tax and Customs Revenue Collection Services through Digital Transformation (loan [4725/OC-PE](#)) in Peru. This joint work makes it possible to identify areas of collaboration and synergies in the tax and customs areas.
- 1.30 **The Bank's experience in the country and lessons learned.** The program comes in addition to important measures to strengthen Ecuador's public finances, including the following programs: (i) Program to Enhance Fiscal Capacity for Public Investment (loan [4670/OC-EC](#), approved in 2018 for US\$50 million, 2% disbursed); (ii) Financial Management Modernization Program (loan [4812/OC-EC](#), approved in 2019 for US\$43 million, 22% disbursed); (iii) State-owned Enterprise Reform Support Program (loan [4845/OC-EC](#), approved in 2019 for US\$75 million, 4% disbursed); and (iv) Program to Support Improved Fiscal Management and Productive Development (loan [4825/OC-EC](#), approved in 2019 for US\$300 million, fully disbursed and closed), in addition to several operations in the pipeline (paragraph 1.31). The program also incorporates lessons learned from the operation Border Crossings Optimization in Ecuador (loan [3324/OC-EC](#), approved in 2014), which was cancelled in 2019, especially regarding the importance of setting up an executing unit with appropriate resources and ensuring good coordination between the executing agency and the other relevant agencies, particularly the MEF (see paragraph 3.2).
- 1.31 **Complementarity with portfolio operations.** The SRI, with support from the Bank, is in the process of closing the Program to Improve the Internal Revenue

³⁶ For the conceptual basis of the intervention, see [optional link 3](#).

³⁷ Fiscal Administration Modernization Program, 2658/OC-JA, and Program to Support Uruguay's National Customs Bureau, 1894/OC-UR.

³⁸ The SRI is conceived as a permanently innovating entity undergoing transformation ([optional link 5](#)).

Service (loan [3325/OC-EC](#), approved in 2014 for US\$49.4 million and now fully disbursed) which aims to increase its technological capacity and address online service needs.³⁹ This program complements this by strengthening technological capacity and focusing on back-office operations. It also complements the project National System for Investment Attraction and Facilitation (loan 4754/OC-EC, approved in 2019 for US\$13.3 million, 6% disbursed) by improving the business climate and attracting foreign investment with more efficient tax and customs services. Also, technical cooperation operation [ATN/OC-18895-EC](#) (approved in 2021 for US\$250,000, 30% disbursed) provides data governance and advanced data analytics tools for the SRI.

- 1.32 **Coordination with multilateral agencies and other donors.** The preparation of the operation has been coordinated with the IMF on key issues such as the importance of integrated risk management as a key element of SRI and SENAE operations, the necessary coordination between the two, and SENAE reform priorities. In addition, reforms to the Tax and Customs Administration (ATA) are envisaged in the current US\$6.5 billion Extended Fund Facility (EFF) operation with the IMF (paragraph 1.3). The IDB and the IMF hold regular discussions on the SRI and SENAE, since improving tax revenue is a requirement of the aforementioned financial operation.
- 1.33 **Strategic alignment.** The program is aligned with the Second Update to the Institutional Strategy 2020-2023 (document AB-3190-2), in particular with the challenges of: (i) productivity and innovation, by promoting the dissemination of digital technologies in the public sector and even in the private sector, since taxpayers will be obliged to interact with the ATA by means of information and communication technologies (ICTs); (ii) economic integration, by optimizing customs management with automated services; as well as with the crosscutting issues of (i) climate change, by closing inefficient data centers (SRI and SENAE) and housing information processing equipment in the Secure Data Center of the National Telecommunications Corporation (CDS-CNT), and by replacing obsolete equipment with more advanced, energy-efficient certified equipment. In accordance with the [Joint Report on Multilateral Development Banks' Climate Finance](#), 42.7% of the operation's proceeds are invested in climate change mitigation activities through the procurement of energy-efficient IT equipment and the digitalization of services. These resources contribute to the IDB's institutional goal of an annual approval volume for climate finance of at least 30%; and (ii) institutional capacity and rule of law, by strengthening the technological capacity and processes of the SRI and SENAE, enhancing their capacity to correctly implement the tax and customs system, and limiting corruption.⁴⁰
- 1.34 In addition, it will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12), in particular to the following indicators: (i) Emissions avoided (annual tons CO₂ equivalent); (ii) Countries with strengthened tax and expenditure policy and management; (iii) Agencies with strengthened digital technology and managerial capacity by projects that consolidate technological and

³⁹ The program has satisfactorily delivered all of the outputs envisaged. The program's final and impact evaluation are still pending.

⁴⁰ Automating formalities and procedures limits opportunities for corruption (Wait No More: Citizens, Red Tape, and Digital Government, IDB, 2018).

management instruments to enhance the provision of public services; and (iv) Amount of international trade supported. It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-4) in that it has an impact on income mobilization capacity and trade integration; and with the Sector Strategy to Support Competitive Global and Regional Integration (2012-2015) – Action Plan (2012-2015) (document GN-2565-4) by promoting an increase in the volume of international trade. In addition, it is consistent with the Climate Change Sector Framework Document (document GN-2835-8) through the reduction of greenhouse gas emissions; with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8) through improved revenue collection; and with the Integration and Trade Sector Framework Document (document GN-2715-11) through trade facilitation as a result of improved customs operations. The program, which is part of the IDB Group Country Strategy with Ecuador 2022-2025 (document GN-3103-1), includes the following strategic objectives: (i) strengthen the regulatory frameworks that facilitate private investment; (ii) reduce inefficiencies in public administration; (iii) expand the coverage and quality of physical and technological infrastructure; and (iv) increase revenue collection. It also aligns with the Bank's Vision 2025 (document AB-3266) of working for sustainable and inclusive economic growth by increasing tax collection, strengthening tax and customs administration, and promoting formality and growth. Lastly, the operation is included in the 2022 Operational Program Report (document GN-3087).

B. Objectives, components, and cost

- 1.35 The program's general development objective is to strengthen the management capacity of the SRI and SENAE in order to increase tax revenue as a percentage of GDP and boost economic competitiveness by offering a better climate for foreign trade and investment. The specific development objectives are to: (i) increase the operational efficiency of the SRI in the area of tax control; (ii) increase the operational efficiency of SENAE in the area of customs control; and (iii) boost the quality of services used by foreign trade operators.
- 1.36 **Component 1. Institutional strengthening of SRI (US\$55,400,899 as follows: US\$32,317,191 (IDB) and US\$23,083,708 (KIF)). Subcomponent 1.1. Migration to the CDS-CNT (US\$1,104,143 as follows: US\$644,083 (IDB); and US\$460,060 (KIF)).** This subcomponent solves the data center problem (paragraph 1.14) by migrating it to the CDS-CNT, which ensures the sustainability of the program and brings it in line with international best practices. Accordingly, it will finance: (i) works to fit out the space leased by the SRI at the CDS-CNT; and (ii) the migration of information processing equipment and the necessary expenditure to make it operational. The space should consider energy-efficiency criteria, such as efficient air-conditioning and lighting.⁴¹
- 1.37 **Subcomponent 1.2. Technological renewal (US\$35,036,241 as follows: US\$20,446,872 (IDB) and US\$14,589,369 (KIF)).** This subcomponent will contribute to solving the technological infrastructure gap (paragraph 1.15). It includes the renewal of hardware for the main data center⁴² (located at the CDS-CNT) and the

⁴¹ [2021 Best Practice Guidelines for the EU Code of Conduct on Data Centre Energy Efficiency.](#)

⁴² Energy efficiency criteria will be taken into account in replacing equipment, with *Energy Star* or equivalent certification.

alternate center,⁴³ and includes: (i) equipment for communications, security (including cybersecurity), and application infrastructure, with their respective conceptual designs, management plans, procurement, and implementation; and (ii) automation of technological processes.

1.38 **Subcomponent 1.3. Innovating and improving tax control processes (US\$19,260,514 as follows: US\$11,226,236 (IDB) and US\$8,034,279 (KIF)).** This subcomponent will help to resolve inefficiencies in tax control processes (paragraph 1.16) with the developments in the “Innova” portfolio to make control management more efficient and timelier. Accordingly, it will finance the following outputs:

- (i) Motor vehicle registry control model, including: (a) process redesign; (b) conceptual and functional design, including use cases and business rules; (c) component development and subsystem integration; (d) virtualization; (e) training; and (f) change management;
- (ii) Electronic invoicing system revamped, including: (a) redesign of processes to optimize the current model; (b) development of a widespread adoption plan, with a standardized catalog of stratified products; (c) conceptual and functional systems design, including the free application for the provision of electronic invoicing; (d) component development and subsystem integration; (e) training; and (f) change management;
- (iii) Implementation of the case management system implemented, including: (a) conceptual and functional design; (b) process automation plan by components; (c) component development and subsystem integration; (d) training; and (e) change management;
- (iv) Renewal of generic processes, including: (a) improvements in conceptual and functional design; (b) development of components to support automated processes in case management and subsystem integration; (c) training; and (d) change management;
- (v) Comprehensive taxpayer file, including: (a) file conceptualization and process redesign; (b) conceptual and functional systems design; (c) component development and subsystem integration; (d) integration and availability of audit trail records generated by the applications; (e) change management; and (f) training;
- (vi) Integrated risk management model, including: (a) process redesign; (b) conceptual and functional systems design; (c) component development and subsystem integration; (d) process automation; (e) training; and (f) change management;
- (vii) Document management system, including:⁴⁴ (a) review of document management processes; (b) design of a centralized digital repository; (c) conceptual and functional systems design; (d) component development and subsystem integration; (e) change management plan; and (f) training;

⁴³ Despite the move to the CDS-CNT, the SRI will continue to have an alternate facility to ensure business continuity.

⁴⁴ The assessment of carbon emission reductions due to digitalization measures is summarized in the [climate change annex](#).

- (viii) Information management model, including: (a) information governance model; (b) business cases prioritized and surveyed; (c) advanced analytics solution for massive information implemented; (d) information models of prioritized business cases implemented; (e) component development and subsystems integration; (f) communication outputs by deliverable phases; (g) training; and (h) change management; and
- (ix) Human resources competency-based management system: (a) review of the human resources management model and its processes; (b) conceptual and functional design; (c) component development and subsystem integration; (d) training; and (e) change management.

1.39 **Component 2. Institutional strengthening of SENA E (US\$28,282,980 as follows: US\$15,317,061 (IDB); US\$10,940,757 (KIF); and US\$2,025,162 (Local)). Subcomponent 2.1. Modernization of the technological platform (US\$23,860,100 as follows: US\$12,737,047 (IDB); US\$9,097,891 (KIF); and US\$2,025,162 (Local)).** This subcomponent will contribute to the operational continuity of SENA E (paragraph 1.21) through:

- (i) Improved and integrated customs information technology system: (a) redesign of the architecture and implementation of the Experian Web Access Control System (EWACS) portal; (b) implementation of the new customs information technology system, VUCE, and risk management module; (c) training (internal and external users); and (d) ICT support consulting and mentoring for project management;
- (ii) Platform based on big data and artificial intelligence, including: (a) structured and unstructured data analysis; (b) incorporation of machine learning; (c) definition of customs fraud detection algorithms; (d) implementation of a selectivity system based on analytical models and artificial intelligence; and (e) training;
- (iii) Data warehouse and business intelligence platform that promotes the adoption of an information culture with effective data utilization, the generation of relevant management indicators aligned with the strategic plan, and for follow-up on operational plans: (a) Implementation of data warehouse and business intelligence; (b) update of the extraction, transformation, and loading process; (c) design of reporting and management indicators; and (d) update of dashboards and datamarts;
- (iv) Technological infrastructure renewal plan: (a) renewal of network equipment; (b) renewal of communication equipment; (c) procurement of data loss prevention solution; and (d) renewal of user computers; and
- (v) Integrated risk management model: (a) consultancy for the design and implementation of a new model for integrated risk and other elements of governance, analytics, and artificial intelligence.

1.40 **Subcomponent 2.2. Strengthening of SENA E operational processes (US\$3,703,280 as follows: US\$2,160,247 (IDB); and US\$1,543,033 (KIF)).** This subcomponent will contribute to improving SENA E's operational processes (paragraph 1.26) through the following elements to support operational controls:

- (i) Mobile ground units: (a) equipped patrol cars; and (b) seven-ton trucks;
- (ii) Security, protection, and control equipment: (a) security and protection equipment (vests, helmets, flashlights, handcuffs, batons, etc.); (b) K-9 unit and D15 counterfeit money detector; (c) communication equipment; (d) control technology - trace detector; and (e) control technology - borescope video inspection camera system; and
- (iii) Support to the customs laboratory: (a) consultancy for equipment maintenance and calibration; (b) procurement of equipment and services for the laboratory; and (c) consultancy for ISO-17025 certification.

1.41 **Subcomponent 2.3. Human resources strengthening (US\$719,600 as follows: US\$419,767 (IDB); and US\$299,833 (KIF)).** This subcomponent will help enhance human resources management (paragraph 1.27) through:

- (i) Integrated human resources management system: (a) integrated software with payroll, per diem, personnel travel, recruitment, training, evaluation, work environment, and social security functionalities; and (b) organizational consultancy on human resources, human resources planning, and performance evaluation;
- (ii) SENAE officials with new skills, through a specific training plan and computerized training management tools: (a) capacity building plan; (b) implementation of training software; (c) procurement of a server to host the platform; and (d) consultancy for management of the SENAE modernization program.

1.42 **Program administration.** A total of US\$4,847,089 was budgeted for program administration: US\$1,845,500 for the operation of the SRI program execution unit (PEU);⁴⁵ US\$2,234,352 for SENAE's PEU; US\$336,000 for audits; US\$224,000 for evaluation; and US\$207,237 for contingencies.

C. Key results indicators

1.43 **Expected outcomes** The expected impacts of the program are an increase in tax revenue as a percentage of GDP (*ceteris paribus*), and progress under Pillar 7 (product market) of the World Economic Forum Global Competitiveness Index. The indicators for the specific objectives are: (a) regarding the increase in the operational efficiency of SRI: tax debt generated in intensive controls/audit budget; (b) regarding the improvement in SENAE's operational efficiency: number of import operations subject to concurrent control administratively settled over the total number of import operations subject to concurrent control; and (c) regarding the increase in the quality of services to foreign trade operators: average time for the release of imported goods.

1.44 **Main outputs.** The priority outputs of Component 1 are the migration of computer equipment from the current SRI data center to the CDS-CNT; the renewal of SRI hardware; and the development of tax control applications (software). These investments will improve the SRI's operational efficiency in the area of tax control with advanced integrated risk management. The indicator for specific development objective 1 captures this in the form of tax debt disclosed in audit controls. For

⁴⁵ Includes freely available resources.

Component 2, the priority outputs are the modernization of its technological platform, with investments in hardware and software. Various equipment is also provided, including vehicles, to improve SENAE's operational processes, and human resources are strengthened through computer applications and training. These investments should improve the effectiveness of customs in their mission to counter smuggling. The indicator that best reflects this is the percentage of controls that result in administrative settlements (indicator for specific development objective 2 in the results matrix) as a result of control actions being better oriented thanks to integrated risk management.

- 1.45 **Economic analysis.** The economic analysis studied the cost-effectiveness of the two components of the program, comparing effectiveness in the collection work of the SRI and SENAE with and without the project ([optional link 1](#)).⁴⁶ The effectiveness indicator used was the cost per dollar of customs collection (SENAE) and internal tax collection (SRI). Without the program, the net present value (NPV) of the combined costs of the SRI and SENAE control activities amounted to US\$1,229,300, while the NPV of the taxes collected through those activities came to US\$121,104,700, which means that the average cost of collecting one dollar is US\$0.01015. As a result of the planned interventions, the NPV of the SRI and SENAE control costs rises to US\$1,250,100, but the NPV of the collection achieved rises in greater proportion, to US\$123,934,500. As a result, the cost per dollar collected (with the program) is reduced to US\$0.01009. In addition, with the program, the cost of achieving an additional dollar in revenue (incremental cost-effectiveness indicator) will be only US\$0.00732. The results of the analysis reflect two aspects: (i) due to the effect of the program, the cost of collection will be lower than without the interventions (reduction of the average cost to US\$0.01009); and (ii) the additional collection that will be achieved than without the program will come at a lower cost (only US\$0.00732 per dollar). Similar results were found when the analysis was performed separately for the SRI and SENAE. A [sensitivity analysis](#) was performed to determine what would be the minimum percentage of additional SRI and SENAE collection with respect to the baseline that would be required for the cost-effectiveness of the program to remain at the same levels as without the program. The results of the analysis showed that for that to occur would require an increase of 0.70% in SRI revenue and 2.23% in the case of SENAE.
- 1.46 **Beneficiaries.** The program will directly benefit the SRI and SENAE with a comprehensive technological renewal; and indirectly: (i) the Ecuadorian State, with more resources to implement its public policies; (ii) the population, with better conditions for meeting its tax obligations; and (iii) the foreign sector, with higher quality customs services.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The program is structured as a specific investment loan, since it will finance a project with clearly defined activities at the time of approval in terms of cost and design, and it is deemed technically, financially, and economically feasible. The total cost of the operation is US\$88,530,968, financed with a US\$49,000,000 loan

⁴⁶ This state would represent the counterfactual situation of "business as usual."

from the Bank's Ordinary Capital resources; US\$35,000,000 from the Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean (KIF); and US\$4,530,968 from the local counterpart financing.

Table 1. Estimated costs (US\$)

Components / Subcomponents	IDB	KIF	Local	Total	%
Component 1. Institutional strengthening of the SRI	32,317,191	23,083,708	0	55,400,899	62.58
Subcomponent 1.1. Migration to CDS-CNT	644,083	460,060	0	1,104,143	1.25
Subcomponent 1.2. Technological renewal	20,446,872	14,589,369	0	35,036,241	39.56
Subcomponent 1.3. Innovating and improving tax compliance processes	11,226,236	8,034,279	0	19,260,514	21.77
Component 2. Institutional Strengthening of SENAE	15,317,061	10,940,757	2,025,162	28,282,980	31.95
Subcomponent 2.1. Modernization of the technological platform	12,737,047	9,097,891	2,025,162	23,860,100	26.95
Subcomponent 2.2. Strengthening of SENAE's operational processes	2,160,247	1,543,033	0	3,703,280	4.18
Subcomponent 2.3. Human resources strengthening	419,767	299,833	0	719,600	0.81
Administration and other expenses	1,365,748	975,535	2,505,806	4,847,089	5.48
Administration, Component 1 SRI	32,587	23,277	1,789,636	1,845,500	2.08
Administration, Component 2 SENAE	885,606	632,576	716,170	2,234,352	2.52
Audit	196,000	140,000	0	336,000	0.38
Evaluation	130,667	93,333	0	224,000	0.25
Contingencies	120,888	86,349	0	207,237	0.23
Total	49,000,000	35,000,000	4,530,968	88,530,986	100

* Costs by activity are estimates.

2.2 Disbursement program. Disbursements of funds will be made over five years:

Table 2. Disbursement program (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	3,279,943	11,095,929	16,394,321	15,728,235	2,501,572	49,000,000
KIF	2,342,816	7,925,664	11,710,229	11,234,454	1,786,837	35,000,000
Local	906,94	906,194	906,194	906,194	906,194	4,530,968
Total	6,528,953	19,927,787	29,010,744	27,868,883	5,194,603	88,530,968
%	7.37	22.51	32.77	31.48	5.87	100.00

B. Environmental and social risks

- 2.3 In accordance with the Environmental and Social Policy Framework (ESPF) (document GN-2965-23), the operation was classified in Category "C," as it is expected to cause minimal or no negative environmental or social impacts.
- 2.4 The program will support the strengthening of tax processes through the development of systems and institutional strengthening. According to the Bank's Socioenvironmental Services Unit, an environmental and social assessment will not be required, but safeguards monitoring will be.

C. Other risks and key issues

- 2.5 **Institutional.** The possibility of cyberattacks that may cause damage to a strategic asset, such as tax information, and to the reputation of the public entities that manage the tax and customs system was identified as a medium-high risk. This risk will be mitigated by including state-of-the-art cybersecurity measures in the procurement program and by security plans (that include cybersecurity) to be developed by the SRI and SENAE.
- 2.6 **Sustainability.** The program is technically sustainable because it is based on macro-processes that are aligned with international best practices. The housing of SRI and SENAE information processing equipment at the CDS-CNT enhances the sustainability of the program. Latest generation equipment will be acquired, with special attention to cybersecurity. In the medium term, it is a fact that the Tax and Customs Administration (ATA) will need to adapt to a changing environment, including technological change, new business models, and the digital economy; and the assets financed by the program will enable the SRI and SENAE to do so. In addition, Ecuadorian regulations require budgeting for six years of maintenance for technology investments, and this has been reflected in the disbursement schedule.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Ecuador, and the executing agencies will be the SRI and SENAE. The SRI will execute Component 1, and SENAE, Component 2. Each will have its own PEU. The Ministry of Economy and Finance (MEF) will enter into an agreement with each of them for the transfer of funds under terms previously agreed upon with the Bank.
- 3.2 According to the February 2021 institutional capacity analysis conducted for the two executing agencies, both have the capacity to execute this program. The SRI is currently implementing the Program to Improve the Internal Revenue Service (operation [3325/OC-EC](#), paragraph 1.31), so it has experience and has proven its capacity, although it will need to hire the personnel detailed in paragraph 3.3, under the conditions foreseen in that paragraph. SENAE was the executing agency of the project Border Crossings Optimization in Ecuador (operation [3324/OC-EC](#), paragraph 1.30), which was cancelled due to poor execution as a result of high turnover in authorities and a change in government priorities. These lessons learned were taken into account when designing the respective PEUs (paragraphs 3.3 and 3.4) and programming training activities. Against this backdrop, it was decided that the PEUs would be financed with program funds and that the staff hired would be full-time and subject to regular monitoring by the IDB as part of the permanent technical support to be provided to the executing agencies.
- 3.3 The SRI's PEU will be comprised of: (i) a general director of the program, who will report directly to the Office of the Director General of the SRI; (ii) a portfolio manager; (iii) a management coordinator; (iii) three procurement specialists; (iv) two financial specialists; (v) a planning and monitoring specialist; (vi) two legal specialists; (vii) two human resources specialists; and (viii) two administrative assistants.

- 3.4 The SENAE's PEU will be comprised of: (i) a general coordinator, who will report directly to the Office of the Director General of SENAE; (ii) a financial specialist; (iii) a procurement specialist; (iv) a planning and monitoring specialist; and (v) three ICT specialists (architecture, development, and infrastructure).
- 3.5 **Functions of the PEUs.** Their functions will be to: (i) prepare and periodically update the program's [multiyear execution plan](#), [annual work plan](#), [procurement plan](#), and financial/cash flow plan; (ii) see to the selection processes for works, goods and consulting services, and the signing of contracts financed by the program; (iii) carry out works supervision activities, monitoring, and follow-up of execution, as well as submitting progress reports to the Bank; and (iv) conduct the financial management of the program, including the preparation of supporting documents for disbursement requests, accountability, and audit contracting, among others.
- 3.6 **Coordination of the executing agencies and at the strategic level.** At the interagency level, based on national legislation, the MEF will coordinate execution through the Office of the General Coordinator of IDB Programs, which will monitor overall program implementation. The MEF will be the Bank's counterpart in signing the contract and monitoring compliance with disbursement conditions. At least one person will be designated to be responsible for monitoring the program and, among other tasks, maintaining official communication with the Bank, coordinating with the executing agencies to carry out the periodic tasks of preparing the [multiyear execution plan](#), [annual work plan](#), [procurement plan](#), and financial/cash flow plan, and coordinating the submission of semiannual progress reports to the Bank as well as the midterm, final, and impact evaluations. As regards coordination with the Ministry of Telecommunications and the Information Society, the migration of the SRI and SENAE data centers to the CDS-CNT is part of compliance with [Ministerial Decision 030-2019](#), issuing the Migration Plan for the Information Systems of Central Public Administration and Executive Branch Institutions to a Secure Data Center.
- 3.7 **Program Operating Regulations.** Program execution will be governed by the provisions of the [program Operating Regulations](#), which will cover, *inter alia*, the following: (i) roles and responsibilities of the agencies involved, including the executing agencies and MEF; (ii) communications between the executing agencies and the Bank; (iii) minimum composition of each executing agency for purposes of the special contractual conditions precedent; (iv) rules and procedures for the selection and contracting of works, goods and services; (v) rules and procedures for administrative and financial management; (vi) rules and procedures for follow-up and monitoring; and (vii) rules and procedures for internal control and auditing.
- 3.8 **Special contractual conditions precedent to the first disbursement of the financing:** (i) the borrower will have submitted evidence that the agreement for the transfer of loan resources has entered into effect, signed with each of the executing agencies under the terms previously agreed upon with the Bank (This condition is critical for establishing a successful execution framework and consistent with applicable Ecuadorian regulations.); (ii) the borrower, whether directly or through the executing agencies, will have submitted evidence that the [program Operating Regulations](#) have been approved and entered into effect in accordance with the terms previously agreed upon with the Bank (This condition is critical because the program Operating Regulations

- will have the key technical and operational guidance for the efficient implementation of each component.); **and (iii) the borrower, whether directly or through the executing agencies, will have submitted evidence that program PEUs have been established within each executing agency and that their minimum necessary staff have been designated.** This condition is critical because adequate equipment is needed for execution.
- 3.9 **Procurement of goods, works, and nonconsulting services.** Any procurement operation financed in whole or in part with Bank resources will be carried out 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).
- 3.10 **Financial management and audits.** Financial management will follow the guidelines contained in the Financial Management Guidelines for IDB-financed Projects, as amended (document OP-273-12), and each executing agency will be responsible for managing its disbursements. Advances will be made to cover the resource needs of each executing agency for a period of up to 180 days. At the borrower's request, direct payments to suppliers and reimbursements of expenditures may also be made. Audited financial statements for the program will be requested from each executing agency on an annual basis, within 120 days following the close of each fiscal year or the date of the last disbursement at the end of execution.
- 3.11 **Retroactive financing.** Considering the urgency of the investments in technology (due to the precariousness of the information processing equipment, particularly that of SENAE, which threatens the continuity of business), the Bank may retroactively finance up to US\$8.4 million (10% of the proposed loan amount and 10% of the KIF facility) as eligible expenditures of Components 1 and 2 incurred by the borrower prior to the loan approval date, provided requirements substantially similar to those stipulated in the loan contract have been met. Such expenditures must have been incurred up to 18 months prior to the date of approval of the loan by the Bank's Board of Executive Directors.
- 3.12 **Recognition of expenditures.** To facilitate, among other purposes, the rapid establishment of the PEUs, the Bank may retroactively recognize up to US\$453,096 (10% of the estimated amount of the local contribution) against the local contribution, as eligible Component 1 and 2 and administrative expenditures incurred by the borrower, provided that requirements substantially similar to those stipulated in the loan contract have been met. Expenditure incurred more than 18 months prior to the loan approval date will not be included.
- B. Summary of arrangements for monitoring results**
- 3.13 **Monitoring.** To measure the program's progress, the result and output indicators described for each component in the results matrix and reflected in the progress monitoring report will be used. Each executing agency will be responsible for maintaining its data collection and monitoring systems. The management instruments are (i) the results matrix; (ii) the [annual work plan](#); (iii) the [multiyear execution plan](#); (iv) the [procurement plan](#); and (v) the [monitoring and evaluation plan](#). Each executing agency will submit semiannual progress reports within

60 days after the end of each six-month period. The instruments for monitoring the program are detailed in the monitoring and evaluation plan.

- 3.14 **Evaluation.** The program will be evaluated, as stipulated in the [monitoring and evaluation plan](#), according to the goals and outcome and output indicators contained in the results matrix. A midterm and a final evaluation will be conducted for each component, covering technical, administrative and financial aspects, as well as an ex post cost-effectiveness analysis. The midterm evaluation will be conducted once 36 months of program execution has elapsed. The final evaluation will be conducted when disbursements reach at least 95% of the IDB and KIF resources of the respective component. Its objective will be to verify progress in the fulfillment of the goals set for each of the expected results and the generation of the outputs by component. The final evaluation report, which may be prepared jointly if the executing agencies complete execution at the same time, or separate if not, will be input for the project completion report.
- 3.15 **Impact assessment.** The program also envisages an impact assessment to identify its causal effect on tax collection. An experimental exercise will be conducted to quantify how information automation processes, data analytics tools, and the new integrated risk management model affect the effectiveness of tax controls. The exercise, to be carried out at the SRI, will consist of the use of automated electronic invoicing information for the preparation of audits, as well as the implementation of new risk profiles for the selection of taxpayers. It is expected that SRI audit work will be more efficient and that taxpayers will perceive the authority as being more forceful in detecting evasion and, as a result, that they will increase the amount of their VAT and sales declarations.

Development Effectiveness Matrix		
Summary		EC-L1253
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Economic Integration -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Amount of international trade supported (\$) -Emissions avoided (annual tons CO2 equivalent) -Countries with strengthened tax and expenditure policy and management (#) -Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3103-1	(i) strengthen regulatory frameworks to attract private investment; (ii) reduce inefficiencies in public management; (iii) expand scope and quality of physical and technological infrastructure; and (iv) increase revenue.
Country Program Results Matrix	GN-3087	The intervention is included in the 2022 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.8
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		2.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
5. Monitoring and Evaluation		8.9
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		4.9
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
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. Procurement: Information System, Price Comparison, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/OC-18895-EC; EC-T1430 - Large Taxpayers Office in Ecuador. It makes it possible to provide data governance and advanced data analytics tools for the Internal Revenue Service of Ecuador.

Evaluability Assessment Note:

The investment project has the general objective of strengthening the management capacity of the Internal Revenue Services (SRI) and the National Customs Service of Ecuador (SENAE) to increase tax revenues and economic competitiveness in the country. To this end, it is proposed to work on three specific objectives: (i) to increase the operational efficiency of the SRI in the area of tax control; (ii) increase the operational efficiency of SENAE in the area of customs control; and (iii) increase the quality of services to Foreign Trade Operators (ECO's). Ecuador faces challenges to its fiscal balance. In this context, the modernization of tax management is key for the government to continue expanding its institutional capacity and meeting the needs of citizens. The diagnosis of the project has been evidence-based. The project will work on the following specific problems: (i) the lack of modernization to manage information in the SRI, (ii) inefficiencies in the internal tax control processes, (iii) the lack of modernization of SENAE's information system, (iv) the low control capacity of SENAE, and (v) the weak management of human talent in SENAE.

The results matrix presents appropriate indicators (SMART) to measure the achievement of specific objectives. The project appropriately addresses monitoring and evaluation requirements. The PME includes an impact assessment proposal that seeks to quantify how the new tax control model will affect the effectiveness of the tax authority's (SRI) audit and collection. The proposed methodology is a randomized controlled experiment.

The project presents a cost-effectiveness analysis in which the effectiveness in the collection task without project (business as usual) and with project is compared. The indicator of effectiveness used is the cost per dollar of collection. The analysis presented shows that, once the borrowing costs are considered, the scenario with a program would lead us to have a more efficient collection in Ecuador. The analysis presented disaggregates the analysis for CRS and SENAE.

RESULTS MATRIX

PROJECT OBJECTIVE	The program's specific development objectives are to: (i) increase the operational efficiency of the Internal Revenue Service (SRI) in the area of tax control; (ii) increase the operational efficiency of the National Customs Service of Ecuador (SENAE) in the area of customs control; and (iii) boost the quality of services to foreign trade operators. Its general development objective is to strengthen the management capacity of the SRI and SENAE in order to increase tax revenue as a percentage of GDP and boost economic competitiveness by offering a better climate for foreign trade and investment.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
INDICATOR 1. STATE'S FINANCIAL CAPACITY							
Tax collection / GDP ¹	% GDP	12.8%	2020	2027	13.0%	SRI statistics	Calculation formula: Tax collection/GDP In the event the GDP calculation methodology changes, the baseline will be recalculated. Tax collection in 2020: US\$12.381 million GDP: US\$96.677 billion
INDICATOR 2. INCREASED INTERNATIONAL COMPETITIVENESS OF THE COUNTRY							
World Economic Forum (WEF) Competitiveness Index (Pillar 7)	Score (scale 0-100)	43.3 ²	2018	2027	45.3	WEF Global Competitiveness Report	This sub-index corresponds to "Pillar 7: Goods Market" and considers eight variables, including customs and border clearance efficiency.

¹ The target increase of 0.2% over GDP is realistic considering the international experiences of successful reforms, as described in Akitoby and others (2020): Tax revenue mobilization episodes in developing countries, Policy Design and Practice, 3:1, 1-29, DOI: [10.1080/25741292.2019.1685729](https://doi.org/10.1080/25741292.2019.1685729). According to Akitoby, a successful reform that includes administration and policy is one that surpasses 0.5% of GDP. Given that this is exclusively administrative, prudence suggests that 0.2% is ambitious but feasible.

² Ecuador ranked 130th of 140 countries in pillar 7 "Goods Market" of the WEF Global Competitiveness Report 2019. Ecuador is currently one of the three lowest rated countries in the Latin America and Caribbean region. There are well-founded hopes that Ecuador will become more receptive to foreign investment (loan proposal document, paragraph 1.10), which should be enough to allow it to increase two points to 45.3, the score reached by Pakistan in the last ranking.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
SPECIFIC DEVELOPMENT OBJECTIVE 1. Increase the operational efficiency of the SRI in the area of tax control											
1. Tax debt generated in intensive controls	Ratio	31.8	2021	31.8	32.2	32.8	33.6	34.5	35.4	SRI annual work report	<p>This indicator measures the amount of tax debt generated in intensive controls per dollar budgeted for auditing.</p> <p>Calculation formula: Tax debt generated in intensive controls / audit budget</p> <ul style="list-style-type: none"> Tax debt generated (intensive controls) in 2021: US\$334.9 million Audit personnel budget in 2021: US\$10.5 million
SPECIFIC DEVELOPMENT OBJECTIVE 2. Increase the operational efficiency of SENAE in the area of customs control											
2. Number of import operations subject to concurrent control administratively settled / Total import operations subject to concurrent control (SENAE)	%	18	2021	20	25	30	35	40	45	SENAE annual management report	<p>Calculation formula: Number of import operations administratively settled / Total import operations subject to concurrent control (SENAE)</p>
SPECIFIC DEVELOPMENT OBJECTIVE 3. Boost the quality of services to foreign trade operators											
3. Average release time for imported merchandise	Day	2.2	2021	2.2	2.1	2.1	2	1.9	1.8	SENAE annual management report	<p>Calculation formula: Average days calculated between the payment of taxes associated with the import declaration and the release of the merchandise</p>

OUTPUTS³

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification
Component 1. Institutional strengthening of SRI										
Subcomponent 1.1. Migration to Secure Data Center of the National Telecommunications Corporation (CDS-CNT)										
1.1.1 Plan to fit out the space leased by the SRI at the CDS-CNT and information processing equipment migration implemented	Plan	0	2021	0	1	0	0	0	1	CDS-CNT report and invoices
Subcomponent 1.2. Technological renewal										
1.2.1 Equipment plan for communications, security and application infrastructure and automation of technological processes implemented	Plan	0	2021	0	0	0	0	1	1	SRI report, including energy-efficient equipment requirements
Subcomponent 1.3. Innovating and improving tax control processes										
1.3.1 New vehicle registry model implemented	Model	0	2021	0	0	0	1	0	1	SRI report The digitalization of processes is expected to reduce annual greenhouse gas emissions by 4,171 tons of CO ₂ per year.
1.3.2 Information management model and electronic invoicing system, upgraded	Model	0	2021	0	0	0	1	0	1	
1.3.3 Case and work paper management system implemented	System	0	2021	0	0	0	1	0	1	
1.3.4 Generic processes system upgraded	System	0	2021	0	0	0	1	0	1	
1.3.5 Comprehensive taxpayer file implemented	Model	0	2021	0	0	0	1	0	1	
1.3.6 Integrated risk management model implemented	Model	0	2021	0	0	0	0	1	1	
1.3.7 Paperless document management model implemented	Model	0	2021	0	0	0	1	0	1	
1.3.8 Information management model implemented	Model	0	2021	0	0	0	0	1	1	
1.3.9 Human resources management system implemented	System	0	2021	0	0	0	1	0	1	

³ The outputs are annual. See [monitoring and evaluation plan](#) for the milestones corresponding to each output.

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification
Component 2. Institutional strengthening of SENAE										
Subcomponent 2.1. Modernization of the technological platform										
2.1.1 Customs system enhanced and integrated, with a platform based on big data and artificial intelligence implemented, and data warehouse and business intelligence platform implemented	System	0	2021	0	0	0	0	1	1	SENAE report, including energy-efficient labeled equipment requirements
2.1.2 Technological infrastructure renewal plan implemented	Plan	0	2021	0	1	0	0	0	1	
2.1.3 Integrated risk management model implemented	Model	0	2021	1	0	0	0	0	1	
Subcomponent 2.2. Strengthening of SENAE operational processes										
2.2.1 Mobile ground units purchased	Vehicles	0	2021	0	15	10	10	0	35	SENAE report, including replacement of vehicles with less polluting ones
2.2.2 Safety, protection, and control equipment purchased	Equipment	0	2021	0	0	0	1	0	1	
2.2.3 Customs laboratory modernized	Equipment	0	2021	0	0	0	0	1	1	
Subcomponent 2.3. Human resources strengthening										
2.3.1. Comprehensive human resources management system implemented	System	0	2021	0	0	0	0	1	1	SENAE report
2.3.2. SENAE officials with new capabilities incorporated	Officials	0	2021	0	0	0	0	1	1	

Country: Ecuador

Division: IFD/FMM

Operation number: EC-L1253

Year: 2022

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Internal Revenue Service (SRI) and National Customs Service of Ecuador (SENAE)

Operation Name: Program to Improve Tax and Customs Administration

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation.

<input checked="" type="checkbox"/> Budget	<input type="checkbox"/> Reporting	<input checked="" type="checkbox"/> Information system	<input checked="" type="checkbox"/> National competitive bidding
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal Auditor's Office	<input checked="" type="checkbox"/> Price comparison	<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Co-executors / Sub-executors	<p>The SRI and SENAE are the program executing agencies. The SRI will execute Component 1 and SENAE, Component 2. Each will have its own program execution unit (PEU).</p> <p>Each executing agency will manage the budget allocation for this program, as well as contracting and payments through the Treasury Single Account. The Ministry of Economy and Finance will enter into an agreement with each executing agency for the transfer of funds under terms previously agreed upon with the Bank. They will be responsible for preparing and reporting program financial information, managing disbursements with the IDB, submitting required audited and unaudited financial reports, and preparing the respective procurement plans in either the Procurement Plan Execution System (SEPA) or another, as directed by the Bank.</p> <p>The executing agencies will use the national procurement system once the Bank and the Government of Ecuador have signed the agreement for the application of said system; this will be reflected in the program's procurement plan. For financial management, the executing agencies use the national financial management system (e-SIGEF), have internal control units, and are subject to the external control of the Office of the Comptroller General.</p>
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3. Fiduciary capacity

Fiduciary capacity of the executing agencies	<p>According to the institutional capacity analysis conducted for the two executing agencies in February 2021, both have the capacity to execute this program. The SRI is currently implementing the Program to Improve the Internal Revenue Service (3325/OC-EC), so it has experience and has proven its capacity, although it will need to hire the personnel detailed in paragraph 3.3 of the loan proposal document under the conditions established in this paragraph. SENAE was the executing agency of the project Border Crossings Optimization in Ecuador (3324/OC-EC), which was cancelled due to poor execution as a result of high turnover in authorities and a change in government priorities. These lessons learned were taken into account when designing the respective PEUs (paragraphs 3.3 and 3.4 of the loan proposal) and programming training activities. Against this backdrop, it was decided that the PEUs would be financed with program funds and that the staff hired would be full-time and subject to regular monitoring by the IDB as part of the permanent technical support to be provided to the executing agencies.</p>
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4. Fiduciary risks and risk response

Risk type	Level	Risk level	Risk response
Internal processes	Possible difficulties in the formation of the PEUs due to a shortage of qualified and experienced technical, fiduciary, and/or technical documentation development personnel for procurement (e.g. preparation of bidding documents and contracts, bid evaluation reports, contract administration) and for the execution of projects financed by multilateral agencies, which could lead to delays in program execution.	Medium-low	N/A
Internal processes	Possible delay in engaging the program's external audit due to delays in the issuance of multiyear and budgetary certifications by the Ministry of Economy and Finance.	Low	N/A

5. Policies and guidelines applicable to the operation: documents GN-2349-15 and GN-2350-15.

6. Exceptions to policies and guidelines: Not applicable.

II. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE LOAN CONTRACT

<p>Exchange rate: The parties agree that the applicable exchange rate will be the rate specified in Article 4.10(b)(ii) of the General Conditions. For this purpose, the agreed exchange rate will be the exchange rate on the date on which the borrower, the executing agency, or any other natural or legal person to whom expenditure authority has been delegated, effectively makes the respective payments to a contractor, supplier, or beneficiary.</p>
<p>External audit: Considering that the SRI and SENAE are each separately executing one component of this loan, each executing agency must submit within one hundred and twenty (120) days following the close of each fiscal year or the date of the last disbursement, the annual financial reports of the project, duly audited by an independent auditing firm acceptable to the Bank. Similarly, the auditors must issue an annex containing supplementary financial information that includes a consolidated report of the two financial statements to show the combined execution of the program, as well as the reports of internal control findings (management letter). The independent audit firm must be contracted at least one hundred and twenty (120) days prior to the close of each fiscal year or the date of last disbursement.</p>

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	For procurements of works, goods and nonconsulting services executed in accordance with procurement policies (document GN-2349-15) and subject to international competitive bidding (ICB), the Bank's standard bidding documents (SBD) or those agreed between executing agency and the Bank for the procurement in question will be used. Likewise, the selection and contracting of consulting services will be carried out in accordance with the consultant selection policies (document GN-2350-15) and the standard request for proposals (SEP) issued by the Bank or agreed between the executing agency and the Bank for the particular selection process will be used. For procurement below the ICB threshold, executing agencies may develop procurement documents to address specific procurement needs, which should be agreed between the country's competent authority and the Bank prior to implementation. The project's sector specialist is responsible for reviewing the technical specifications and terms of reference for procurement items during preparation of the selection processes. This technical review can be ex ante and is independent from the procurement review method.
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<input checked="" type="checkbox"/>	Use of country systems	The national government procurement system (SNCP) will be applied once it is subscribed by the Bank and the Borrower and will be subject to the approval of the Bank's Board of Executive Directors for the use of SNCP. The operation's approved procurement plan will indicate the procurements to be carried out using the SNCP. In the event that the scope of the Board's approval for the use of the national system is extended, it will be applicable to the operation.												
<input checked="" type="checkbox"/>	Advance procurement and retroactive financing	<p>Retroactive financing. Considering the urgency of the investments in technology (due to the precariousness of the information processing equipment, particularly that of SENAE, which threatens the continuity of business), the Bank may retroactively finance up to US\$8.4 million (10% of the proposed loan amount and 10% of the KIF facility) as eligible expenditures of Components 1 and 2 incurred by the borrower, provided requirements substantially similar to those stipulated in the loan contract have been met. Such expenditures must have been incurred up to 18 months prior to the date of approval of the loan by the Bank's Board of Executive Directors.</p> <p>Recognition of expenditures. To facilitate, among other purposes, the rapid establishment of the PEUs, the Bank may retroactively recognize up to US\$453,096 (10% of the estimated amount of the local contribution) against the local contribution, as eligible Component 1 and 2 and administrative expenditures incurred by the borrower, provided that requirements substantially similar to those stipulated in the loan contract have been met. Expenditure incurred more than 18 months prior to the loan approval date will not be included.</p>												
<input checked="" type="checkbox"/>	Procurement supervision	<p>The method of supervision will be ex post, except in those cases where ex ante supervision is warranted. Ex post reviews will be conducted annually or at such other periods as the Bank may determine. Ex post review reports will include at least one visit if the Bank so determines. The threshold amounts for ex post review are as follows:</p> <table><tr><th>Executing agency</th><th>Works</th><th>Goods/Services</th><th>Consulting services</th></tr><tr><td>SRI</td><td>US\$3,000,000</td><td>US\$250,000</td><td>US\$200,000</td></tr><tr><td>SENAE</td><td>US\$3,000,000</td><td>US\$250,000</td><td>US\$200,000</td></tr></table>	Executing agency	Works	Goods/Services	Consulting services	SRI	US\$3,000,000	US\$250,000	US\$200,000	SENAE	US\$3,000,000	US\$250,000	US\$200,000
Executing agency	Works	Goods/Services	Consulting services											
SRI	US\$3,000,000	US\$250,000	US\$200,000											
SENAE	US\$3,000,000	US\$250,000	US\$200,000											
<input checked="" type="checkbox"/>	Records and archives	The executing agencies will maintain properly organized files, arranging them chronologically and separately by process and source of financing.												

7. Main procurements

Procurement description	Selection method	Estimated date	Estimated amount (US\$000)
Goods			
Renewal of SENAE technological infrastructure (9 contracts through ICB)	ICB	Q3-2023	4.5
SRI technological process automation management plan (4 contracts through ICB)		Q1-2025	1.5
Logistics services for the transfer of equipment to the new SRI data center		Q2-2024	0.95
Equipment plan for communications, security and application infrastructure for the SRI (29 contracts through ICB)		Q1-2023/ Q2-2025	32.9

Procurement description	Selection method	Estimated date	Estimated amount (US\$000)
Signatures			
Consultancy for structured and unstructured data analysis, incorporation of machine learning, definition of customs fraud detection algorithms, implementation of a selectivity system based on analytical models and artificial intelligence, and user training.	Quality- and cost-based selection (QCBS)	Q3-2023	2.5
Consultancy for the design of the new architecture of the Ecuapass system, for the design and implementation of the new version of the customs system, and training for internal and external users		Q3-2023	14.5
Individuals			
Experts to develop SRI technology products (78 consultants)	Service contractor	Q3-2023	4.5
Developers of SRI software products (155 consultants)		Q3-2023	8.7

Click the link to access the [procurement plan](#).

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	<ul style="list-style-type: none"> The Organic Law on Public Planning and Finance (COPLAFIP) establishes the rules governing the programming, formulation, approval, execution, control, evaluation, and liquidation of budgets. The executing agencies are responsible for advancing the procedures in order to have available the corresponding budget items in their budgets. SENA E and the SRI will incorporate the budget into an existing priority investment program.
<input checked="" type="checkbox"/>	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 to a dedicated account at the Central Bank of Ecuador (BCE) and from there transferred the same day to the Single Treasury Account, from which project payments will be made or payments already made will be reimbursed. Advances will be made for a period of up to 180 days, depending on actual liquidity needs, in accordance with each executing agency's detailed financial plan and cash flow. The accountability percentage for either executing agency will be 80% on the accumulated balances of previous advances.

☒	Accounting, information systems and reporting	<ul style="list-style-type: none"> • SENAE and SRI will be responsible for the financial management of their respective project components. • The accounting standards to be followed will be the government accounting standards, which are converging toward the International Public Sector Accounting Standards (IPSAS). The legal and reporting currency in Ecuador is the U.S. dollar. • The executing agencies use the e-SIGEF financial management system, which integrates the budget processes for expenditure execution; accounting for recording transactions on an accrual basis; and treasury for making payments to suppliers and contractors. • Reports are generated through the e-SIGEF, which is the basis for the preparation under the cash accounting method of the statement of cash flows and statement of accumulated investments, prepared based on information from the e-SIGEF and auxiliary information in Excel.
☒	External control and financial reporting	<ul style="list-style-type: none"> • The executing agencies, in agreement with the Bank, will select and engage the services of a Bank-eligible auditing firm to carry out the audit of special purpose financial statements in accordance with the financial management guidelines for Bank-financed projects; the financial reporting and external audit management instructions; and the agreements with the terms of reference previously agreed upon with the Bank. • The cost of the external audit services may be financed from the loan proceeds.
☒	Financial supervision of the operation	<ul style="list-style-type: none"> • Financial supervision will be carried out through virtual and/or in-person work meetings, as well as for specific issues that require the Bank's support and through the review of audited financial reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Program to Improve Tax and Customs Administration

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 aimed at cooperating in the execution of the Program to Improve Tax and Customs Administration. Such financing will be for the amount of up to US\$49,000,000, 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 ____ 2022)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Ecuador. Loan ____/KI-EC to the Republic of Ecuador
Program to Improve Tax and Customs Administration

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, acting as Administrator of the Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean (hereinafter, the "Facility") 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 aimed at cooperating in the execution of the Program to Improve Tax and Customs Administration. Such financing will be for the amount of up to US\$35,000,000, from the resources of the Facility, 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 ____ 2022)

PROGRAM TO IMPROVE TAX AND CUSTOMS ADMINISTRATION

EC-L1253

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Code	Currency	Amount Up to
Korea Infrastructure Development Co-Financing Facility for Latin America And The Caribbean	KIF	USD	35,000,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Approved By: _____

Maria Fernanda García
Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date