

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **ECUADOR**

### **MULTIPHASE PROGRAM TO IMPROVE QUALITY IN THE DELIVERY OF SOCIAL SERVICES—PHASE I**

**(EC-L1227)**

#### **LOAN PROPOSAL**

This document was prepared by the project team consisting of: Mauricio García (ICS/CEC), Project Team Leader; Julia Johannsen (SPH/CEC) and Jesus Duarte (SCL/EDU), Alternate Project Team Leaders; Yyannu Cruz (SCL/SCL); Frederico Guanais (SPH/CPE); Pedro Farias, Ben Roseth, Raimundo Arroio, and Sonia Rojas (IFD/ICS); Roberto Fernández (ICS/CUR); Marcela Hidrovo, Juan Carlos Dugand, and Gumersindo Velásquez (FMP/CEC); Katherine Tobar (CAN/CEC); and Javier Jiménez (LEG/SGO).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problem addressed, and rationale.....	1
B.	Objectives, components, and cost .....	11
C.	Key results indicators .....	12
II.	FINANCING STRUCTURE AND MAIN RISKS .....	13
A.	Financing instruments .....	13
B.	Environmental and social risks .....	15
C.	Fiduciary risks .....	15
D.	Other project risks .....	15
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	15
A.	Summary of implementation arrangements .....	15
B.	Summary of arrangements for results monitoring .....	17

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Results matrix
Annex III	Fiduciary agreements and requirements

ELECTRONIC LINKS
<b>REQUIRED</b> <ol style="list-style-type: none"><li>1. <a href="#">Multiyear execution plan (MEP) / Annual work plan (AWP)</a></li><li>2. <a href="#">Monitoring and evaluation plan</a></li><li>3. <a href="#">Procurement plan</a></li></ol> <b>OPTIONAL</b> <ol style="list-style-type: none"><li>1. <a href="#">Itemized budget</a></li><li>2. Economic analysis<ol style="list-style-type: none"><li><a href="#">2.A. Report</a></li><li><a href="#">2.B. Spreadsheet</a></li></ol></li><li>3. <a href="#">Safeguard policy filter (SPF) and safeguard screening form (SSF) for classification of projects</a></li></ol>

## ABBREVIATIONS

AWP	Annual work plan
ICTs	Information and communication technologies
INEC	Instituto Nacional de Estadísticas y Censos [National Statistics and Census Institute]
INEVAL	Instituto Nacional de Evaluación Educativa [National Educational Assessment Institute]
MAIS	Modelo de Atención Integral en Salud Familiar Comunitario e Intercultural [Comprehensive Care Model for Family, Community, and Intercultural Health]
MEF	Ministry of Economy and Finance
MINEDUC	Ministry of Education
MSP	Ministry of Public Health
NPV	Net present value
PAHO	Pan American Health Organization
SERCE	Segundo Estudio Regional Comparativo y Explicativo [Second Regional Comparative and Explanatory Study]
SGD	Sistema de Gestión Docente [Education Management System]
SIISE	Sistema de Indicadores Sociales de Ecuador [Ecuadorian Social Indicator System]
TERCE	Tercer Estudio Regional Comparativo y Explicativo [Third Regional Comparative and Explanatory Study]
WAL	Weighted average life

## PROJECT SUMMARY

### ECUADOR MULTIPHASE PROGRAM TO IMPROVE QUALITY IN THE DELIVERY OF SOCIAL SERVICES—PHASE I (EC-L1227)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Ecuador			Flexible Financing Facility <sup>(a)</sup>	
			<b>Amortization period:</b>	25 years
<b>Executing agency:</b> Ministry of Economy and Finance (MEF) <b>Subexecuting agencies:</b> Ministry of Education (MINEDUC) and Ministry of Public Health (MSP)			<b>Disbursement period:</b>	3 years
			<b>Grace period:</b>	7.5 years <sup>(b)</sup>
			<b>Interest rate:</b>	LIBOR-based
Source	Amount (US\$)		%	<b>Credit fee:</b>
	Phase I	Phase II <sup>(c)</sup>		<sup>(d)</sup>
<b>IDB (Ordinary Capital)</b>	237,600,000	250,000,000	487,600,000	<b>Inspection and supervision fee:</b> <sup>(d)</sup>
<b>Local</b>	9,393,000	6,000,000	15,393,000	<b>Original weighted average life:</b> <sup>(e)</sup> 15.25 years
<b>Total</b>	246,993,000	256,000,000	502,993,000	<b>Approval currency:</b> United States dollars
Project at a Glance				
<b>Project objective/description:</b> The general objective of the program will be to improve quality in the delivery of public services in Ecuador, especially in the education and health sectors. This will be achieved through support to: (i) optimize the talent profile, and (ii) make greater use of information and communication technologies (ICTs) for improved service management in both sectors.				
<b>Special condition precedent to the first disbursement of the loan:</b> Presentation of evidence that the program Operating Regulations previously agreed upon with the Bank have entered into force (paragraph 3.6).				
<b>Exceptions to Bank policies:</b> None				
Strategic Alignment				
<b>Challenges:</b> <sup>(f)</sup>	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
<b>Crosscutting themes:</b> <sup>(g)</sup>	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>

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

<sup>(b)</sup> 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.

<sup>(c)</sup> The final cost of Phase II will be determined in the corresponding programming exercise.

<sup>(d)</sup> 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 relevant policies.

<sup>(e)</sup> The original weighted average life of the loan may be shorter, depending on the effective signature date of the loan contract.

<sup>(f)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(g)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Background.** Ecuador's 2008 constitution introduced substantive changes in the way public services are provided, with an emphasis on quality and efficiency principles. It states that education and health services are to be characterized by quality and care, under the exclusive purview of the State. It also calls for technological developments and innovations to support efficiency, productivity, and improved quality of life. This mandate is reflected in the "Buen Vivir" National Plan 2013-2017, which calls for: (i) public service delivery models with standards of quality and public satisfaction; (ii) continuous improvement of processes; (iii) strategic management and application of information and communication technologies (ICTs); and (iv) interoperability of information in the government.
- 1.2 As part of this constitutional mandate, a model for improved efficiency in internal management has been developed and is being expanded to public services. This model has entailed changes in roles and institutional structure, as well as implementation of multiple initiatives,<sup>1</sup> such as the "talent optimization" and "service management" initiatives. The former initiative aims to bring the talent profile in line with new institutional structures and the service delivery strategy, while facilitating the termination of employees who do not meet service needs or do not fulfill training requirements, or those who are of retirement age. A regulatory framework that requires the recruitment of new personnel through competitive, merit-based processes in accordance with the professional profiles for their respective positions has also been implemented. The "service management" initiative has promoted the implementation of plans to improve each public service with emphasis on process automatization.<sup>2</sup> The Bank has supported these efforts by financing comprehensive modernization programs, including the payment of bonuses for more than 8,000 employees of retirement age, helping save more than US\$17 million per month.
- 1.3 Addressing quality, talent optimization, and technology in connection with one another is purposeful. Service quality hinges on the profile and performance of talent<sup>3</sup> and on improvements and automation in the management of administrative and care or educational processes.<sup>4</sup> While there is consensus that effective talent management in health care is essential to ensuring service quality and patient

---

<sup>1</sup> "Programa Nacional de Excelencia" [National Program of Excellence], "Gobierno por Resultados" [Government by Results], "Gestión de Servicios" [Service Management], "Simplificación de Trámites" [Simplification of Procedures], "Medición de Clima y Cultura Organizacional" [Measurement of Organizational Climate and Culture], "Contacto Ciudadano" [Public Contact]. [See summary of initiatives.](#)

<sup>2</sup> Loan operations 2653/OC-EC and 3073/OC-EC financed the development and implementation of institutional investment and restructuring plans, which were used to plan, prioritize, and sequence the activities of each institution involved and were part of the "excellence in public service model" that was implemented. [See analysis of the Bank's experience.](#)

<sup>3</sup> For example, the medical license that physicians receive upon completing their education is not sufficient to ensure high-quality service in education or ongoing training and professional development (Organization for Economic Cooperation and Development, 2017).

<sup>4</sup> ICTs that facilitate the relationship between the public and the government have been shown to produce positive social outcomes. (*Social Dimensions of e-Government: Poverty Perspective*. Sandeep Kaur, N. Mathiyalagan).

satisfaction,<sup>5</sup> and in education there is clear evidence that teacher effectiveness is the most important factor in student achievement and skills development,<sup>6</sup> this factor is not sufficient. Environmental factors such as infrastructure, equipment, and supplies have an impact on the effectiveness of personnel, as well as on the introduction of ICTs that amplify improvements in service quality. In education, ICTs can achieve up to 20% increases in student achievement.<sup>7</sup> In health care, ICTs such as hospital information systems have the potential to reduce errors or incidents, improve automatic damage detection, monitor infections more effectively, and enhance the continuity of care during staff rotations.<sup>8</sup>

- 1.4 In Ecuador, the most important sectors in which to implement changes in service quality by optimizing talent are the education and health sectors because they employ 60% of government employees, account for 30% of the central government's budget, and are used by more than 75% of the population. Meanwhile, satisfaction with these services remains low compared with the average for government services.<sup>9</sup> This is troubling since they are among the five most utilized public services,<sup>10</sup> so their quality has a direct impact on public confidence in the government.<sup>11</sup> Lastly, improving quality is important especially because only at a certain level of quality are services effective in improving people's health and learning outcomes. This, aside from its intrinsic value as a factor in development and well-being, has a direct impact on a country's economic growth and productivity.<sup>12</sup>
- 1.5 In the education sector, the new service delivery model aims to improve quality and equity by restructuring educational services, strengthening talent with the introduction of a merit-based career path with better working conditions and updated teacher profiles, and instituting an educational evaluation system. The government has carried out significant efforts to this end by: (i) increasing public investment in the sector from 2.3% of GDP in 2006 to 4.5% in 2015;<sup>13</sup> (ii) improving

---

<sup>5</sup> Kabene et al, 2006: "[The Importance of Human Resources Management in Health Care: A Global Context](#)"; World Health Organization (WHO), 2006: [The World Health Report 2006: Working Together for Health](#).

<sup>6</sup> Education and Early Childhood Development Sector Framework Document, IDB 2016, p. 59.

<sup>7</sup> *Id.*, p. 8.

<sup>8</sup> Nogueira et al. (forthcoming): "Is There Evidence of Cost Benefits of Electronic Medical Records, Standards, or Interoperability in Hospital Information Systems? Overview of Systematic Reviews," unpublished document of PAHO.

<sup>9</sup> According to surveys by the National Public Administration Department (2015), [Evaluación de percepción ciudadana de servicios públicos](#).

<sup>10</sup> [INEC \(2008\), Encuesta de calidad de los servicios en Ecuador](#).

<sup>11</sup> [Gobiernos que sirven](#), IDB (2017).

<sup>12</sup> See Education and Early Childhood Development Sector Framework Document (GN-2708-5), IDB (2016); and Health and Nutrition Sector Framework Document (GN-2735-7), IDB (2016). Good health has effects in the form of greater savings and lower risk of impoverishment in the event of health problems (Commission on Macroeconomics and Health, 2001), which in turn is associated with productivity and economic growth (Strauss and Thomas, 1998; Bloom et al., 2013; Weil, 2007; Chakraborty and Das, 2005; Bloom et al., 2004; Rivera and Currais, 2004).

<sup>13</sup> In 2006 Ecuador trailed Peru (2.7%), Colombia (3.9%), and Latin America (4.3%). At 4.5% in 2015, however, it had surpassed Peru (2.9%) and Colombia (4.4%) and was on par with the regional average. Sources: Ecuador's Social Indicator System ([SIISE](#)) and the United Nations Educational, Scientific, and Cultural Organization (UNESCO).

school infrastructure after years of low investment levels;<sup>14</sup> (iii) facilitating children's access to school by distributing free textbooks, uniforms, and meals; and (iv) introducing a merit-based teacher hiring system and increasing pay from a starting salary of US\$290 per month in 2006 to US\$1,055 in 2014, which helped to attract stronger candidates to the teaching profession. The results of these efforts soon became evident. In this same period: (i) the percentage of three- and four-year-olds enrolled in early childhood education doubled to one third of this age group; (ii) the net enrollment rate in primary education rose four percentage points to 94%; (iii) the secondary school attendance rate rose to 77%, up from 64% in 2007; and (iv) 66% of adolescents are enrolled at the right age for grade in high school, up from 50% in 2007.

- 1.6 In the health sector, progress has been significant since the introduction of free universal health care. The country has been transitioning since then to a national health care system with the Ministry of Public Health (MSP) as sole lead entity and multiple providers, organized and coordinated among themselves, that are to implement a care model with an emphasis on prevention and primary care, continuity and integration of services, and adaptation to the characteristics of patients. The policy setting forth the guidelines for these structural reforms is the [Comprehensive Care Model for Family, Community, and Intercultural Health \(MAIS\)](#),<sup>15</sup> which has led to changes in (i) service delivery, (ii) the sector's governance structure, and (iii) the profiles of professional personnel. Substantial increases in health expenditure were authorized to finance this effort, and health spending rose from 5.9% of GDP in 2006 to 9.2% in 2014.<sup>16</sup> This translated to an increase in per capita expenditure from US\$450 in 2005 to US\$1,040 in 2014, surpassing the regional average.<sup>17</sup> These reforms led to, inter alia: (i) a near-tripling in the number of primary care outpatient visits between 2006 and 2014 to 30,000; and (ii) an increase in the percentage of pregnancies with five or more checkups from 54.7% to 82.2%.<sup>18</sup>
- 1.7 **Problem addressed.** Although the reforms undertaken in the social sectors have achieved significant outcomes, further efforts are still needed to overcome persisting limitations in service quality, which is this operation's main challenge.<sup>19</sup> In education,

---

<sup>14</sup> Only US\$51 million in such investments were made between 1999 and 2005, compared with US\$437 million between 2008 and 2012. SIISE.

<sup>15</sup> The MAIS replicates international experience with similar reforms that sought greater resolution capacity and timely health care at the primary care level through a new care model with an emphasis on prevention. It is being implemented with support from loan operation 2431/OC-EC.

<sup>16</sup> World Bank (2017). [Statistics on health expenditure as a percentage of GDP](#).

<sup>17</sup> WHO (2015). World health statistics. Expenditure measured in purchasing power parity.

<sup>18</sup> INEC (2012). Health statistics based on data from the National Health and Nutrition Survey.

<sup>19</sup> For the education sector, improved service quality will be understood to mean an increase in the percentage of students scoring at an "adequate" achievement level on the *Ser Estudiante* exams of the National Educational Assessment Institute (INEVAL) (see results matrix). Improvements in outcomes are partly the result of an increase in the number of teachers attaining an "excellent" or "favorable" score on INEVAL's *Ser Maestro* exam, given the strong correlation between quality teaching and student performance (see results matrix). For the health sector, improved service quality will be understood to mean a higher percentage of primary health care professionals out of the total workforce, given its correlation with disease prevention (see results matrix).



despite improvements in both coverage and learning outcomes,<sup>20</sup> about half of all students scored at the lowest-performing levels in fourth- and seventh-grade mathematics on the Third Regional Comparative and Explanatory Study (TERCE), compared with about 15% in Chile; only 3% achieved an “outstanding” performance level, compared with 7% in Peru, 14% in Mexico, and 18% in Chile; and achievement gaps persist on the basis of ethnicity, geographic area, and socioeconomic level.<sup>21</sup> In the health sector, Ecuador continues to face major tasks in addressing persistent challenges in morbidity and mortality where progress in the past decade has been slow or which represent emerging challenges in the epidemiological profile of the population, such as chronic disease.<sup>22</sup> Infant mortality, despite a decrease from 23.7 per 1,000 live births in 2006 to 18.4 in 2015, remains well above that of countries such as Colombia (13.6) and Peru (13.1), partly due to a slowdown in the decrease in neonatal mortality since 2010. The leading causes of infant mortality include respiratory problems (34%) and neonatal sepsis (13%), both of which are largely preventable.<sup>23</sup> An estimated 44% of neonatal deaths occur in the first three days of life, many of them within the first hour.<sup>24</sup> The maternal mortality rate decreased very slowly, from 47.7 per 100,000 births in 2008 to 44.6 in 2015.<sup>25</sup> In addition to alleviating indirect socioeconomic determinants, the identification of risk factors during pregnancy and the provision of timely specialized care during and immediately after childbirth are critical to reducing the causes of maternal and neonatal mortality.

- 1.8 Some of the causal factors behind the slow progress on these indicators are related to the adaptation of talent profiles in these sectors, as well as institutional weaknesses, deficiencies in equipment and supplies, and the degree of incorporation of ICTs, as described below:
- 1.9 **Limitations related to adapting the talent profile<sup>26</sup> to the requirements of the new models.** While this is a problem that affects the government generally, the impact is particularly acute in the education and health sectors. In education, teacher

---

<sup>20</sup> In 2006, Ecuadorian students scored considerably below the regional averages in third- and sixth-grade language and mathematics in the Second Regional Comparative and Explanatory Study (SERCE). Their scores in 2013 approached, but were still below, the Latin American average on the TERCE exam (see the IDB's education information portal [CIMA](#), IDB, 2017).

<sup>21</sup> [CIMA](#) data, IDB.

<sup>22</sup> Challenges include high rates of infectious disease, preventable causes of maternal and infant mortality, chronic child malnutrition, and emerging chronic diseases, including high rates of overweight and obesity among Ecuadorian adults (62.8%). The use of ICTs to routinely document and monitor chronic diseases (Freire et al., 2014) and to detect and monitor high-risk pregnancies is an underutilized opportunity in Ecuador.

<sup>23</sup> Pan American Health Organization (PAHO), 2005. [Mortalidad Materna y Neonatal en ALC y Estrategias de Reducción: Síntesis de Situación y Enfoque Estratégico](#).

<sup>24</sup> INEC (2014). [Anuario de Nacimientos y Defunciones, based on data on deaths](#) (2014).

<sup>25</sup> INEC (2016).

<sup>26</sup> “Profile” refers to the competencies, skills, and abilities that are considered crucial to the jobholder's successful performance, and which are associated with the results that the organization expects to achieve (IDB, 2014).

quality has been identified as the primary in-school factor in student achievement.<sup>27</sup> Despite the progress described above, educational quality still has challenges related to, inter alia, poor teacher quality. The 2016 *Ser Maestro* exam found that 70.8% of teachers are at a “basic” or “in training” level of performance and need training programs to improve their performance.<sup>28</sup> The groups of teachers with the lowest scores on these exams are those with only a high school diploma (secondary education), who are mostly intercultural/bilingual education teachers in indigenous areas,<sup>29</sup> and a significant percentage are near retirement age (who tend to score the lowest on these exams, see Figure 1).<sup>30</sup>

- 1.10 Since 2008, the Ministry of Education (MINEDUC) has been carrying out a program to renew the teaching force with the aim of bringing its professional profiles in line with the sector’s new standards, using retirement incentives for older teachers and further training for teachers in active service. This retirement incentive process has only benefited a limited number of teachers, due to fiscal constraints.<sup>31</sup> Despite these constraints, the strategy of generational renewal of talent is yielding favorable outcomes. The *Ser Maestro* exam, administered by the National Educational Assessment Institute (INEVAL) in 2016 to teachers in the Sierra and Amazon regions (see Figure 1), suggests that younger teachers, most of whom entered the educational system under the new standards (post-secondary education as a minimum requirement and job competitions with more demanding exams), attained much higher scores, while the vast majority of teachers over age 60 received the lowest scores.<sup>32</sup>

---

<sup>27</sup> S. Rivkin et al., 2005. “Teachers, Schools, and Academic Achievement.” *Econometrica* 73(2): 417-58. E. Vegas and A. J. Ganimian, 2013. [“Theory and Evidence on Teacher Policies in Developed and Developing Countries.”](#) A meta-analysis found that teacher training has an effect of 0.12 standard deviations on achievement test results (see P. J. McEwan, 2015. “Improving Learning in Primary Schools of Developing Countries: A Meta-Analysis of Randomized Experiments.” *Review of Educational Research*, Vol. 85, No. 3).

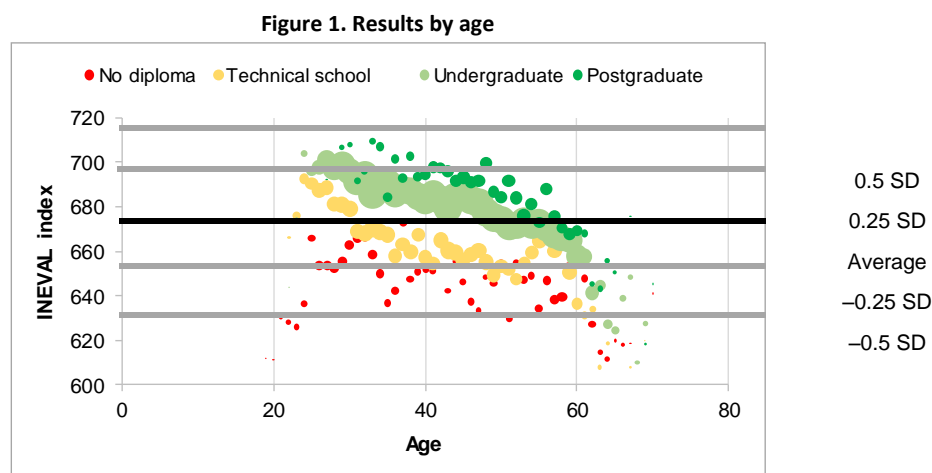
<sup>28</sup> The *Ser Maestro* exam scores on a scale of 0 to 1,000 points. Teachers scoring below 600, who were 5.5% of all teachers, are classified as “in training”; the 65.3% who scored between 600 and 700 are classified as at a “basic” level; and those scoring over 700 are classified as “favorable” or “excellent” (see evaluation process status report, INEVAL 2017).

<sup>29</sup> These teachers, who are 5% of all teachers, received very low scores on the performance evaluation. Twenty-four percent of intercultural/bilingual education teachers have only a high school diploma. *Ser Maestro*, INEVAL, 2017.

<sup>30</sup> About 5% of all teachers are over age 60, and a large percentage of them are classified as “in training” or “basic” (see INEVAL, *Ser Maestro*, 2016). In addition, MINEDUC and INEVAL have identified another group of teachers whose profile needs to be adapted to the new requirements: those who work at technical high schools, accounting for 13% of all teachers. Although these teachers score higher than teachers with only a high school diploma and teachers over age 60, their average score of 650 is below the national average of 680. Moreover, they sometimes lack the equipment they need to teach effectively, and many of them need to upgrade their skills in the use of new ICTs (INEVAL, 2017).

<sup>31</sup> According to the Ministry of Labor, out of the 9,981 personnel files for which the retirement bonus was requested between 2010 and 2017, only 28% have been validated.

<sup>32</sup> The first stage of *Ser Maestro* included 53,625 teachers in the Sierra and Amazon regions.



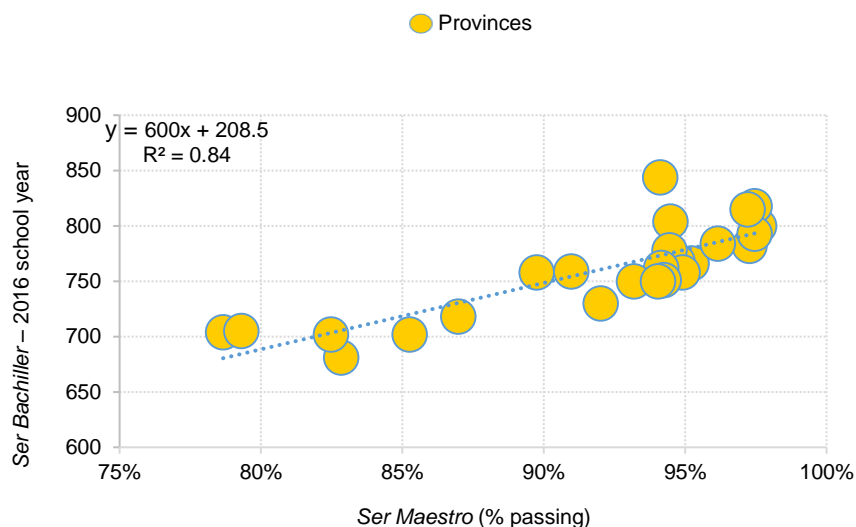
Source: INEVAL-2016.<sup>33</sup>

- 1.11 There is a strong correlation between teacher scores on the *Ser Maestro* exam and student performance as measured by the *Ser Bachiller* exam taken upon completion of high school. Students tend to score significantly higher on average in provinces with higher percentages of teachers passing the *Ser Maestro* exam (see Figure 2), suggesting that the generational renewal of talent is resulting not only in a more qualified and knowledgeable teaching corps but also in better learning.<sup>34</sup>

<sup>33</sup> SD: standard deviation.

<sup>34</sup> In comparing scores on the SERCE and TERCE exams in third-grade reading, the region achieved an increase of 18.5 points, while Ecuador achieved a 56-point increase. In sixth-grade reading, the region improved by 12 points, while Ecuador improved by 43 points. Regional scores in sixth-grade reading increased by 31 points, while Ecuador's increased by 51 points. Regional scores in mathematics rose by 19 points, compared with 53.6 points in Ecuador.

Figure 2. Correlation to learning: at the provincial level



Source: INEVAL-2016.

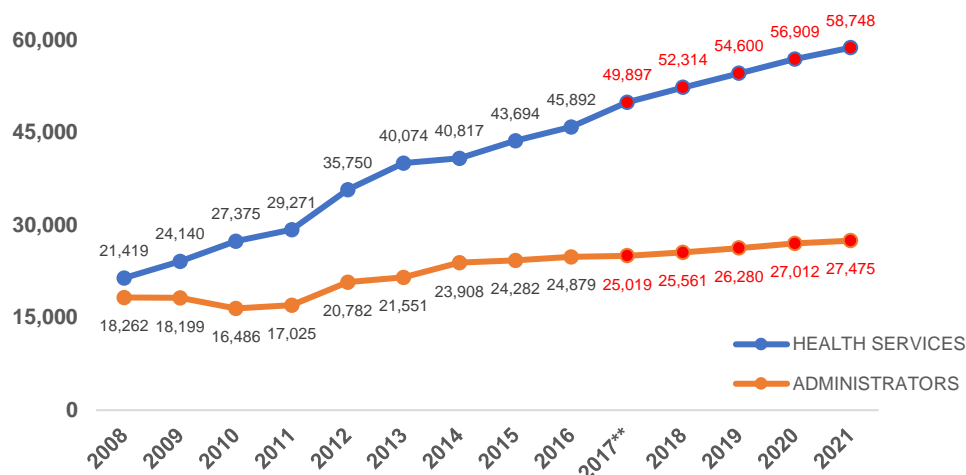
- 1.12 In the health sector, implementation of the MAIS has significantly expanded service coverage. This was accompanied by an increase in service usage and required the expansion of talent in (nonadministrative) patient-care positions, as well as the rejuvenation of the workforce and a change in the talent profile. The replacement of personnel whose profiles do not fit in the new patient-care models entailed the elimination of 306 health inspector positions, the termination of administrative personnel,<sup>35</sup> and the training and incorporation of 400 community-based family physicians and 1,513 primary care specialists in 2016 and 2017. More than 4,200 administrators (mainly) and professionals retired between 2011 and 2017, and US\$231 million in bonuses still need to be paid for these retirements.<sup>36</sup> The headcount at the MSP increased by 58% in the same period, from 46,296 to 74,916, while the percentage of administrative staff shrank from 46% to 33%,<sup>37</sup> significantly increasing the number and percentage of patient-care personnel (see Figure 3).

<sup>35</sup> This includes auxiliary personnel, drivers, maintenance personnel, etc.

<sup>36</sup> In addition to the monthly pension of retired employees, the government pays a one-time bonus at the time of retirement (Article 81, Public Service Act).

<sup>37</sup> Information provided by the MSP's National Talent Administration (MSP-DNTH, 2017).

Figure 3. MSP personnel working in health services vs. administrative services



Source: MSP-2017.

1.13 Despite this progress, a gap remains in the number of personnel replacements and new profiles required for the MAIS, estimated by the MSP at 29,956 employees (professional and administrative) to staff 19 new health centers, 2 new hospitals, and 4 hospitals to be strengthened with personnel in order to expedite nationwide implementation of the MAIS, including 2,500 new primary care specialists.<sup>38</sup> For example, the health care reforms call for the formation of comprehensive care teams consisting of one general physician, one primary care specialist, and one nurse for every 4,000 residents in urban areas and for every 1,500 to 2,000 residents in rural areas. The teams provide intramural and extramural primary care at the local level with a focus on attracting, monitoring, and caring for or referring the health-vulnerable population, including in cases of high-risk pregnancy, in order to reduce maternal and neonatal mortality. Personnel termination and the engagement of professionals with the necessary education and profiles will help improve the quality and performance of the talent corps, as will continuing education and training for these professionals in relevant areas, including childbirth and postpartum care, blood transfusion,<sup>39</sup> and neonatal resuscitation.

1.14 **Weaknesses in the personnel termination process.** Although the Employee Retirement Manual sets forth a clear process with interagency roles and responsibilities for formalizing terminations,<sup>40</sup> weaknesses remain in practical implementation. Only 4,272 of 15,413 employee resignation requests filed with the

<sup>38</sup> Estimates as of June 2017 by the MSP's National Talent Administration. These figures may vary in the short term due to temporary hires in decentralized governments. The sector lacks effective methodologies for diagnosis and planning to optimize the distribution of personnel and program the workload, which becomes especially significant in a context of fiscal constraints and crises (MSP-DNTH, 2017).

<sup>39</sup> Postpartum hemorrhaging is among the leading causes of maternal deaths in Ecuador (MSP, 2010: [Datos Esenciales en Salud: Una Mirada a la Década 2000-2010](#)).

<sup>40</sup> [Agreement MDT-2016-0100](#).

Ministry of Labor between 2010 and 2017 have been validated,<sup>41</sup> even though this is an employee right. Constraints on the availability of fiscal resources, the lack of systematic planning for the necessary flows of talent (in terms of both quantity and profiles), and a lack of budgetary mechanisms to effectively provision future payments for personnel resignations complicate the termination process and the related renewal of talent. This is compounded by the fact that new hiring efforts are in competition for the scarce resources that are also needed to finance payments related to termination of employment.

- 1.15 **Institutional and technological limitations adversely affecting education services.** This sector is further impacted by institutional limitations. Current information systems for management of personnel competencies (Education Management System (SGD)) have functional limitations and operate on an outdated technological platform. The current system does not allow for identification of teachers' or employees' technical and academic profiles, the professional development events in which they participated, the benefits for which they will be eligible, or their retirement date, all of which hinders effective planning of human and financial resources. Also, as mentioned above (paragraphs 1.9 and 1.10), the skills of teachers receiving low scores on the exams need to be strengthened, especially for (i) teachers who have only a high school diploma and work in schools serving indigenous communities; (ii) teachers who need refresher training in the subjects they teach; (iii) teachers at technical high schools; and (iv) teachers who need to improve their competencies in computer science. In addition, a group of technical high schools need to be properly equipped in order to improve teaching practices and promote effective learning.<sup>42</sup>
- 1.16 **Institutional and technological limitations adversely affecting health services.** In order for ongoing reforms related to headcount and talent profiles to be successful in improving services and reducing maternal and infant mortality, professionals depend on opportunities and conditions at the individual level, at their facility, and in the health system in order to perform their best.<sup>43</sup> Along these lines, they depend on suitable facilities, equipment, and supplies; clinical and administrative processes based on functional management models (for recording clinical histories, managing medication, providing imaging or laboratory services); and technological tools to document and monitor targets in production, budgeting, and clinical processes for diagnosis and treatment. Against this backdrop, the sector is impacted by: (i) deficiencies in up-to-date technological equipment for neonatal and emergency care and the lack of a national blood bank in the public health system; (ii) problems in its governance structure and process management, especially related to the integration of services between different providers and levels of specialization, and

---

<sup>41</sup> [Ministry of Labor 2017](#).

<sup>42</sup> See footnotes 30, 31, and 33, which quantify the needs and weaknesses related to teacher quality. As for equipment needs in technical schools, see the diagnostic assessments ([UNICEF, 2012](#)) that describe how schools "located outside the city have buildings made of wood, vines, or jatata palm leaves, among other materials; lack sanitation and electrical infrastructure; and have almost no educational equipment for technical and productive purposes." To update this diagnostic assessment, MINEDUC is conducting a study to verify the condition of all equipment and materials making up the mobile equipment or antenna point for the entire school year. This review will be supported by the "School-Community Relationship" project.

<sup>43</sup> WHO (2006): [The World Health Report 2006: Working Together for Health](#).

between principal and support services (laboratory and imaging) due to a lack of management models to govern these processes; and (iii) a failure to tap the advantages offered by ICTs in supporting improvements in clinical and administrative processes, since the information systems do not encompass all processes entailed in the service, they are not interoperable, and they are not connected to support information systems (e.g., for appointment scheduling or timely management of laboratory samples).<sup>44</sup>

- 1.17 To make progress in this area, the sector is gradually digitizing medical records and plans to introduce information technology systems to support patient-care services, such as tele-imaging and digital management of pharmaceutical inventories. However, deficiencies in basic ICT infrastructure (such as the lack of computers and connectivity in many facilities, and the lack of an alternate online data center) make it hard to digitize at the level of clinical operating systems. To identify priorities and targets, and for scheduling and budgeting purposes, the MSP needs tools such as a long-term sector-specific digital strategy and a short-term action plan for the systematic introduction of ICTs, as well as a regulatory framework and specification of functionalities and scaling for each system on the basis of management models for the services to be digitized.<sup>45</sup>
- 1.18 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the development challenge of productivity and innovation, the first objective of which is to eradicate extreme poverty, for which it refers to quality health and education services for the entire population (paragraph 3.5a) and the need to strengthen institutional capacity for improving the quality of services provided to the public. The program is also aligned with the crosscutting issue of institutional capacity and the rule of law, as it will make employees more productive, strengthen institutions, help improve civil service (talent management and profiles), and introduce technologies to help implement education and health policies. The program is also aligned with: (i) the Health and Nutrition Sector Framework Document (document GN-2735-7), which emphasizes the need for supply-side investments to ensure universal coverage of high-quality services (paragraph 5.9, dimension 2); (ii) the Education and Early Childhood Development Sector Framework Document (document GN-2708-5), which emphasizes the need for quality in educational services (paragraph 5.12, dimension 3); and (iii) the Institutions for Growth and Social Welfare Strategy (document GN-2587-2), which emphasizes the role of institutional capacity in service delivery, focusing the Bank's support in areas such as improving talent management and ICT usage (paragraph 5.29). The program contributes to the Corporate Results Framework 2016-2019 (document GN-2727-6), specifically to indicator 25 on "government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery"; to indicator 22 on reducing the maternal mortality rate; and auxiliary indicator 1 on "teachers trained." Lastly, the program is aligned with the Bank's country strategy with Ecuador 2012-2017 (document GN-2680), specifically with the objectives for

---

<sup>44</sup> For example, public-service satisfaction surveys have found that the interface technology that allows the public to schedule appointments is the least appreciated component in the health sector, well below the national average for access to services. National Public Administration Department (2016).

<sup>45</sup> For more information on sector investment in ICTs, see the following [link](#).



social development and effectiveness in managing revenues, expenditures, and financing as it promotes the population's access to higher-quality education and health services.

## **B. Objectives, components, and cost**

- 1.19 **Program objective.** The general objective of the program will be to improve quality in the delivery of social services in Ecuador, especially in the education and health sectors. This will be achieved through support to: (i) optimize the talent profile, and (ii) make greater use of information and communication technologies (ICTs) for improved service management in both sectors.
- 1.20 **Component 1. Improved talent management and optimization (US\$191,411,000).** The objective of this component is to adapt the talent profile in the education and health sectors to the positions needed under the new service delivery models. To this end, support will be provided to finance prioritized personnel terminations<sup>46</sup> in the form of (i) mandatory age-based (over age 70); (ii) voluntary due to catastrophic illness, incapacity, or disability; (iii) voluntary resignation; (iv) elimination of job positions.<sup>47</sup> Each of these categories must meet the eligibility and other requirements set forth in the program Operating Regulations. These modalities are supported by the current legal framework. These retirements will benefit 2,715 employees in the education sector and 931 in the health sector, with an average bonus of US\$52,112. This process will be accompanied by the recruitment of employees in both sectors through open, merit-based competitive processes, and it will be financed with budgetary resources.<sup>48</sup>
- 1.21 This component will also support better knowledge of the costs of personnel terminations and actions to strengthen fiscal sustainability by (i) preparing a strategic plan to allow for prospective planning of human resource requirements in the health and education sectors, with information disaggregated by gender; (ii) analyzing proposed mechanisms to ensure the fiscal solvency of payments stemming from employee terminations; and (iii) an accountability mechanism and corrective measures for the talent optimization process.
- 1.22 **Component 2. Improved services in the education sector (US\$25,760,000).** This component is aimed at strengthening educational management processes, thereby helping to improve quality in education. MINEDUC will be strengthened for talent management, and teachers' capacities and competencies will be strengthened to improve their pedagogical practices and teaching/learning processes. Financing will be provided for institutional modernization interventions aimed at more efficient

---

<sup>46</sup> This expenditure complies with the policy titled "Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans" (document GN-2331-5) and the country finance parameters agreed upon with Ecuador (document CP-28273 and Annex IX to document GN-2495).

<sup>47</sup> Support for other forms of personnel termination allowed in Ecuadorian law will be subject to their consistency with the country's legal and constitutional tenets and their adherence to program's criteria and objectives, subject to the Bank's no objection. The program Operating Regulations will include a detailed description of each form of personnel termination to be financed. Of the three modalities mentioned, priority will be given to those that contribute to generational renewal in the education sector and to the change in the health sector's talent profile from administrators to direct patient-care personnel.

<sup>48</sup> The Bank's support for these interventions in Ecuador has helped expedite the processes of institutional reform and personnel renewal, as well as helping to improve service quality and access for the public. Multigestión Asesores (2015). Estado de Avance del Proceso de Reforma del MINEDUC.



service delivery, such as: (i) automation of SGD processes, including reporting and management of personnel movements over the course of their career (recategorization in accordance with new standards and evaluation findings); and (ii) procurement of technological infrastructure for the SGD and the Online Educational Community. Financing will also be provided to improve talent through: (i) training of teachers in active service (specific subject areas, technical and general high schools, and professionalization of intercultural/bilingual education teachers); (ii) development of teacher training courses and assistance networks on MINEDUC's online platform, and strategies for assessing and improving computer skills; and (iii) equipment to improve teaching in technical high schools.

- 1.23 **Component 3. Improved services in the health sector (US\$29,441,000).** This component is aimed at strengthening the capacity of talent, the functionality of technological/medical equipment in critical areas, and health management processes through the use of ICTs, which will help improve selected maternal and child health services. To this end, financing will be provided for: (i) the development of functional management models for essential and/or support services (inventory management, laboratory, and/or imaging work) and components of a long-, medium-, and/or short-term digital agenda in view of functionalities, scaling, and specifications for priority projects;<sup>49</sup> (ii) initial implementation of critical components prioritized in the digital strategy, including procurement, development, and/or installation of equipment for digitization and basic ICT infrastructure; (iii) installation of a blood bank to provide donated blood on a national scale and provide training in blood transfusion;<sup>50</sup> (iv) training of patient-care personnel in areas related to reducing maternal and infant mortality; (v) installation of neonatology equipment in hospitals; (vi) an alternate data service; (vii) an initial connectivity network; and (viii) quality assurance mechanisms for investments in the health sector.
- 1.24 **Main beneficiaries.** The benefits of improved quality in the management and delivery of these two very important and high-demand social services will extend directly or indirectly to a large portion of the country's population.

### C. Key results indicators

- 1.25 **Expected outcomes.** The main outcomes expected upon completion of Phase I are: (i) improved management, as measured by an increase in the number of personnel termination files closed as a percentage of personnel termination files entered, and by the number of institutions benefiting from better technological and management tools; (ii) optimized talent, as measured by teachers' attainment of higher scores on the *Ser Maestro* exams and by an increase in the number of primary care professionals as a percentage of the total health care workforce; (iii) improved quality of educational services, as measured by the total number of teachers trained; and (iv) improved quality of health services, as measured by the number of patients who have electronic medical records, the availability of blood

---

<sup>49</sup> A complete digitization agenda in the health sector would include a long-term vision statement, a well-defined medium-term digital agenda for each thematic area, and a short-term digital action plan with a digital governance model, actions, resources, timetables, and expected results. It should also specify the technological architecture and provide detailed specifications on each component of the agenda.

<sup>50</sup> The investments may include the conditioning of physical facilities and/or the provision of equipment and furniture for the blood bank and/or blood collection centers.

components on the public network, and the number of health care professionals with certified knowledge as a percentage of the total number of enrollees in training events.

- 1.26 **Economic evaluation.** The project is expected to be reasonably viable both economically and socially. The project has a net present value (NPV) of US\$37.3 million (calculated on the basis of a 12% discount rate) and a cost-benefit ratio of 1.17. The benefits were estimated on the basis of: (i) an increase in the future income of students benefiting from the project; and (ii) years of healthy life generated as a result of a stronger focus on preventive health care. The critical variables identified for the sensitivity analysis are: (i) percentage of students who see an increase in their educational attainment level at the time they exit the education system, or who see a decrease in the age at which they reach the same attainment level they would have otherwise reached; (ii) percentage increase in monthly employment income as a result of increased educational attainment; and (iii) percentage of the gain in healthy years of life attributed to the project. The project still has a positive NPV and a cost-benefit ratio greater than 1.0 in downside scenarios such as: (i) a reduction from 60% to 50% in the number of beneficiaries successful in education as a percentage of all potential beneficiaries; (ii) an increase of only 3.5 percentage points above the discount rate (i.e. 15.5%) in employment income attributable to greater educational attainment; and (iii) only 50% of potential benefits in terms of years of healthy life gained attributable to the project ([economic analysis](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The financing instrument is a multiphase investment loan from the Bank's Ordinary Capital in the amount of US\$237.6 million for this Phase I and US\$9.4 million in counterpart funding. Of the total loan amount, US\$191.6 million will be executed by the Ministry of Economy and Finance (MEF), US\$23 million by the Ministry of Education (MINEDUC), and US\$23 million by the Ministry of Public Health (MSP).
- 2.2 The disbursement period for Phase I will be three years, which is justified since a large portion of the disbursements will be made in the first year, particularly for component 1, which will finance the program-eligible personnel terminations.

**Table 1. Budget by source**

<b>Component</b>	<b>IDB financing (US\$000)</b>	<b>Counterpart (US\$000)</b>	<b>Total financing (US\$000)</b>
<b>Component 1:</b> Improved talent management and optimization	191,260	151	191,411
<b>Component 2:</b> Improved services in the education sector	23,000	2,760	25,760
<b>Component 3:</b> Improved services in the health sector	23,000	6,441	29,441
<b>Project management</b>	<b>340</b>	<b>41</b>	<b>381</b>
Auditing	190	23	213
Monitoring and evaluation	150	18	168
<b>Total</b>	<b>237,600</b>	<b>9,393</b>	<b>246,993</b>

- 2.3 **Program phases.** The program, which will cost an estimated US\$487.6 million in Bank financing, will be structured in multiple phases to provide support, delivered sequentially, for the government's efforts to implement the medium-term strategy to optimize talent and take advantage of ICTs (paragraphs 1.1 and 1.2). Phase I will support improvements in capacities for the renewal, management, and optimization of talent, and professional competencies and information systems will be improved as well. These activities will be evaluated and may lead into a second phase aimed at (i) strengthening support for efforts to optimize talent in accordance with the new service models; (ii) furthering support for programs to incorporate new teachers and provide continuous education to teachers and health care personnel; and (iii) developing new technological applications to help improve the prioritized services. This two-phase design will help generate knowledge to support the testing of teacher-training mechanisms and will help progressively develop strategies, standards, and applications to digitize and modernize clinical processes and the management of patient information, incorporating lessons learned in subsequent stages of implementation. The national authorities are interested in maintaining a continuity of actions between the two phases. The program is aligned with the Bank's country strategy with Ecuador for 2012-2017 (document GN-2680) (paragraph 1.8).
- 2.4 **Triggers for phase II.** These triggers are aimed at generating inputs to improve management of expenditures related to personnel termination, while protecting employee rights and ensuring that the payments are transparent and fiscally sustainable, in order to allow for ongoing talent resourcing. According to [estimates by the Ministry of Labor](#), 15,423 applications for retirement bonuses are pending payment government-wide, for a total value of US\$809 million. Of these, 9,981 correspond to MINEDUC, for a total of US\$501 million, and 3,887 correspond to the MSP, for a total of US\$231 million. By the completion of the first phase, the program will have helped reduce this stock of unpaid bonuses by 24%. The second phase is expected to reduce it by a further 25%, for an overall reduction of 49% by completion of the entire program. The remaining 51% will be covered with fiscal revenue. For the efficient administration of retirement incentives going forward, support will also be provided in the form of government measures and studies to contribute to better knowledge and accounting of costs associated with the terminations, as well as actions to strengthen the fiscal sustainability of these expenditures. The targets that would trigger a second phase will be (i) disbursement of at least 75% of total Bank

financing; (ii) completion and Bank approval of the workforce analysis and planning study for the education and health sectors for the next 10 years, projecting changes in demand for services and human resource needs, including an analysis of health management requirements; identifying gaps in talent and strategies to close them; and estimating the flow of personnel terminations and hires and the fiscal impact of the plan; and (iii) completion and Bank approval of the study providing an analysis of mechanisms to ensure the medium- and long-term fiscal solvency of payments for personnel terminations, scaling present and potential liabilities for the next 10 years, and addressing proposals related to reducing potential liabilities, revenue collection related to payments, the amortization of payments, provisioning, and/or applicable potential measures.

**B. Environmental and social risks**

- 2.5 There are no environmental or social risks associated with the program. In accordance with the Bank's Environment and Safeguards Compliance Policy (document GN-2208-20 and operational policy OP-703), this has been classified as a category "C" operation.

**C. Fiduciary risks**

- 2.6 The potential for delays in the program's procurement processes was identified as a medium-level risk. To mitigate this risk, it was recommended that (i) assistance for subexecuting agencies in precontract procedures be included as part of the program Operating Regulations; (ii) procurement and financial teams for the executing and subexecuting agencies be formed and strengthened; and (iii) the staff members of subexecuting agencies be trained in the Bank's procurement and financial policies.

**D. Other project risks**

- 2.7 The risk workshop identified two medium-level risks in public management and governance: (i) potential delays in commissioning the initial technical assistance for ICTs in the MSP; and (ii) delays in executing the program's ICT activities. To mitigate these risks, the following was proposed: (i) technical support in the preparation and precontract phase of procurement processes in the MSP; (ii) assistance for the MSP in the procurement process in accordance with Bank policies; (iii) a specialized consulting contract for validation of ICT requirements and deliverables (quality assurance); and (iv) designation of an ICT project manager for each subexecuting agency, as well as specialized advisory services for such managers. In education and health, the risk of opposition to the program in Ecuador is regarded as low.

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

**A. Summary of implementation arrangements**

- 3.1 **Execution mechanism.** Borrower, executing agency, and subexecuting agencies. The borrower will be the Republic of Ecuador. The executing agency and official counterpart for the program will be the MEF, which has sufficient technical and administrative capacities and sufficient experience to implement the program. The subexecuting agencies will be MINEDUC and the MSP. The MEF was the executing agency for loan operations 2653/OC-EC, 3073/OC-EC, and 3726/OC-EC, which are similar to this operation.

- 3.2 The MEF will be responsible for executing component 1; MINEDUC, for executing component 2; and the MSP, for executing component 3. It will also be responsible for consolidating and submitting progress reports and disbursement requests, commissioning and submitting evaluations and audits to the Bank, and fulfilling the general conditions precedent to the first disbursement. Both the executing agency and each subexecuting agency will form their respective management teams to ensure execution of the program as provided in the Operating Manual. The subexecuting agencies will submit information to the MEF in a timely manner to comply with these provisions, and they will plan, monitor, manage, and report on the use of financial resources; tender and procure the goods, works, nonconsulting services, and consulting services for their respective components, and perform related technical and fiduciary management.
- 3.3 **Procurement of works, goods, nonconsulting services, and consulting services.** Procurement processes financed fully or partially 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-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9). Expenditures on personnel terminations will be supported through annual audits to be submitted to the Bank. The procurement plan contains detailed information on procurement processes and the Bank's procedures for reviewing these processes.
- 3.4 **Direct contracting.** Training services for mentors and administrators and the subject-specific teacher training represent a continuation of the investments under loan contract 3726/OC-EC, which includes the possibility that the provider who is awarded the contract may qualify for a direct contracting process for subsequent phases. The initial procurement plan allows for such services to be provided using this procurement method.
- 3.5 **Audits.** The external auditing services will be provided in accordance with the fiduciary agreements and requirements.<sup>51</sup> Within 120 days after the end of the fiscal period, the executing agency will submit the program's consolidated audited annual financial statements to the Bank. The last audited financial statement will be submitted within 120 days after the date specified for the last disbursement.
- 3.6 **Special condition precedent to the first disbursement of the loan: Presentation of evidence that the program Operating Regulations previously agreed upon with the Bank have entered into force.** This condition is justified because the Operating Regulations will establish (i) the mechanisms for coordinating and transferring resources between the executing agency and the subexecuting agencies; (ii) the designation, composition, and duties of the management teams (at a minimum, consisting of a coordinator and specialists in finance, procurement, and monitoring); and (iii) the eligibility criteria for personnel terminations. All of these are required for efficient execution of program resources.
- 3.7 **Retroactive financing.** The Bank may provide up to US\$47.52 million (20% of the loan amount) in retroactive financing against the loan proceeds and may recognize eligible expenditures for up to US\$1.88 million against the local contribution (20% of

---

<sup>51</sup> The audit reports will include information to allow for verification of full compliance with legal requirements and will generate information to ensure transparency in payments for personnel terminations.

the estimated local contribution) if incurred by the borrower prior to the loan approval date, for personnel terminations that are underway and are being financed with government resources, provided requirements substantially similar to those set forth in the loan contract have been met. Such expenditures must have been incurred on or after 13 April 2017 (project profile approval date) but may under no circumstances include expenditures incurred more than 18 months prior to the date of approval of the loan by the Bank's Board of Executive Directors.

**B. Summary of arrangements for results monitoring**

- 3.8 **Monitoring system.** To measure progress in the program and evaluate the fulfillment of program objectives, the outcome and output indicators described for each component in the results matrix and reflected in the progress monitoring report will be used. The executing agency will be responsible for monitoring progress in program execution. The instruments for program monitoring will be (i) the results matrix, (ii) the [multiyear execution plan \(MEP\)](#), (iii) the [annual work plan \(AWP\)](#), (iv) the [monitoring and evaluation plan](#), (v) the [procurement plan](#), (vi) the financial plan, (vii) the progress monitoring reports, and (viii) the audit reports. The MEF's management team will prepare semiannual consolidated progress reports for the Bank to review.
- 3.9 **Monitoring by the Bank.** Administrative missions and inspection visits will be carried out. The Bank agrees that the executing agency will use the Progress Monitoring Report, which shows the estimated disbursements and the fulfillment of physical targets and outcomes. An annual meeting will be held with the executing agency, the subexecuting agencies, and the Bank to discuss (i) progress in activities identified in the AWP; (ii) fulfillment of indicators in the results matrix, (iii) the AWP for the following year, and (iv) the [procurement plan](#) for the next 12 months and potential changes in budgetary allocations to each component. The executing agency and each subexecuting agency agree to maintain a monitoring system for each component, which will serve as the basis for their preparation of reports and data to be submitted to the Bank. Each subexecuting agency will include a specialist responsible for monitoring its activities.
- 3.10 **Evaluation.** The results matrix and the arrangements in the monitoring and evaluation plan will be used to conduct the evaluation. The following evaluations will take place upon completion of Phase I: (i) an evaluation on technical, administrative, and financial aspects—specifically, to review fulfillment of outcome and output indicators and to put forward recommendations. This will serve as a midterm evaluation for the series, in order to yield lessons learned for incorporation in the following phase; (ii) an ex post evaluation, which will verify whether the benefits estimated in the ex ante analysis have been attained or, if not, will explain any deviations; (iii) an accountability exercise to verify the degree of fulfillment of objectives related to optimizing the talent profiles in education and health through personnel terminations and hires; and (iv) verification of milestones attained to trigger Phase II. Consulting firms will be commissioned to conduct these evaluations, which will be financed with operation resources, subject to the Bank's authorization.
- 3.11 **The final evaluation of the multiphase program** will be performed when 90% of the disbursements for Phase II have been made, and its objectives will be to verify progress in meeting targets for expected outcomes and in generating the outputs for

each component. Detailed information on the arrangements for monitoring and evaluating program results may be found in the [monitoring and evaluation plan](#).

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Teachers trained (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2680	i) Improve education service offerings for 3- and 4-year-olds and expand enrollment at the baccalaureate level, and ii) Increased access to effective health services.
Country Program Results Matrix		The intervention is not included in the 2017 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	8.4	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	10.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	7.0	
5.1 Monitoring Mechanisms	2.0	
5.2 Evaluation Plan	5.0	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting.  Procurement: Information System, Price Comparison, National Public Bidding.
Non-Fiduciary	Yes	Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

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

The goal of the project is to improve the quality of the provision of public education and health services in Ecuador. The proposal describes one of two investment phases. The project proposes to implement three components in the first phase. The first component has the specific goal to strengthen human talent in education and health by improvements in management. The second component has the specific goal to improve the quality of public service delivery in education. The third component has the specific goal to improve the quality of public service delivery in health. The diagnosis is based on data provided by the Evaluation Institute (Instituto de Evaluación, INEVAL) and the National Institute of Statistics and Census (Instituto Nacional de Estadística y Censos, INEC).

The diagnosis quantifies weaknesses in the management of human talent with the proportion of disconnections accrued to the total of disconnections requested according to data provided by the Labor Ministry (Ministerio del Trabajo). The weaknesses in human talent in education are quantified according to the standardized teacher tests Ser Maestro by INEVAL. The weaknesses in human talent in health are quantified by the percentage of health professionals working on primary care over the total of working professionals according to data by the National Directorate of Human Talent (Dirección Nacional de Talento Humano). In education, the causes that limit human talent development -and thus, limit the quality of service delivery- include lack of teacher training provision and complementary inputs (such as ICTs and mobile workshops). These limitations are not quantified. However, the proposal provides evidence of its relationship to student learning. In health, the causes include limitations in the supply of ICTs, training for personnel, blood banks, and neonatal units. The limitations associated to ICTs and blood banks are quantified according to technical reports by the Ministry of Public Health (Ministerio de Salud Pública). There is no quantification for limitations on training or neonatal units. However, the proposal provides evidence of the relation between these inputs to maternal and neonatal mortality.

The results matrix captures 19 product indicators. The team proposes to follow up on these indicators through reports by the Ministry of Economy and Finance, the Ministry of Education, and the Ministry of Public Health. The results matrix also includes 8 results indicators. These indicators follow on the attention to the demand for disconnections, effective learning among teachers and health professionals, the use of electronic health records, and the blood bank. The team proposes to monitor these indicators with reports by the Ministry of Labor, the Ministry of Education and the Ministry of Public Health. The team will track the strengthening of human talent in education through the teacher evaluation Ser Maestro by INEVAL and Public Statistics by the Ministry of Education. The results matrix includes 3 impact indicators aligned to the measurement of the quality of public service delivery in health and education. The team proposes to follow these indicators through the standardized student test Ser Estudiante by INEVAL and vital statistics by INEC.

The ex-ante economic evaluation of the project consists in estimating the benefits derived from improved returns to education and savings in Disability Adjusted Life Years (DALY). These benefits are compared to the cost of the program. The analysis estimates a Net Present Value of US\$37 million. The proposal includes a cost-benefit analysis as the ex-post evaluation approach.



## RESULTS MATRIX

**Project objective:** The program will help improve quality in the delivery of public services in Ecuador, especially in the education and health sectors. This will be achieved through support to: (i) optimize the talent profile; and (ii) make greater use of information and communication technologies (ICTs) for improved service management in both sectors.

### EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Final target	Means of verification	Comments
<b>IMPACT: Improved quality in the delivery of educational and health services</b>						
I.1. Fourth-grade students at “adequate” achievement levels in: <ul style="list-style-type: none"> <li>• Language and literature</li> <li>• Mathematics</li> </ul>	Percentage points (not scaled)	<ul style="list-style-type: none"> <li>• 75.2%</li> <li>• 78.4%</li> </ul>	2016	<ul style="list-style-type: none"> <li>• 80%</li> <li>• 82%</li> </ul>	Report on the <i>Ser Estudiante</i> exam, INEVAL	See monitoring and evaluation plan.
I.2. Maternal mortality	Rate	44.6	2015	40.4	INEC vital statistics	See monitoring and evaluation plan.
I.3. Neonatal mortality	Rate	3.8	2014	3.5	INEC vital statistics	See monitoring and evaluation plan.

### EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Base-line year	Year 1	Year 2	Year 3	Final target	Means of verification	Comments
<b>Outcome #1: Improved management</b>									
R.1.1. Personnel termination files closed / Personnel termination files entered	%	0	2017	0	23.7	23.7	23.7	Ministry of Labor report	<p>A personnel file is deemed “closed” when payment has been made.</p> <p>A personnel file “entered” represents a public-sector employee who has met the minimum requirements for retirement and completes the application process with the Ministry of Labor.</p> <p>The baseline denominator is 15,413 personnel files entered as of June 2017. The program should lead to the closing of 3,646 files.</p>
R.1.2. Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery	Agencies	0	2017	0	0	2	2	Reports by MSP and MINEDUC ICT units	Financing will be provided to introduce ICTs in both ministries’ service provision areas.
<b>Outcome #2: Optimized talent</b>									
R.2.1. Teachers rated “excellent” or “favorable” on the <i>Ser Maestro</i> standardized tests	Percentage	29.2	2016	29.2	29.2	33	33	Report on the <i>Ser Maestro</i> exam, INEVAL	See monitoring and evaluation plan.
R.2.2. Primary care professionals as a percentage of the total health care workforce	Percentage	30	2017	31	32	33	33	Report by the National Talent Administration	

Indicators	Unit of measure	Baseline	Base-line year	Year 1	Year 2	Year 3	Final target	Means of verification	Comments
<b>Outcome #3:</b> Improved quality of educational services									
R.3.1. Teachers trained <sup>1</sup>	Teachers	0	2017	0	10,000	12,617	12,617	DNFC statistics on MINEDUC website	See monitoring and evaluation plan.
<b>Outcome #4:</b> Improved quality of health services									
R.4.1. Patients with electronic medical histories	Patients	1,500,000	2017	1,500,000	1,500,000	5,000,000	5,000,000	Report by MSP's national ICT unit	See monitoring and evaluation plan. The indicator refers to records in the MSP's Health Care Records Platform.
R.4.2. Blood components available each month in the comprehensive public health care network	Components	14,159	2017	14,159	14,159	36,263	36,263	Report on the MSP's national blood program	See monitoring and evaluation plan. Intrahospital blood banks in the comprehensive public network.
R.4.3. Health professionals with certified knowledge, as a percentage of all enrollees in training events	Percentage	0	2017	0	80	80	80	Report by the MSP's National Office for the Standardization of Talent with rosters of participants and certificates issued	See monitoring and evaluation plan.

<sup>1</sup> Corporate indicator.

## OUTPUTS

Outputs	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Final target	Means of verification	Comments
<b>Component #1: Improved talent management and optimization</b>									
1.1.1. MINEDUC personnel with termination-related benefits paid	Persons	0	2017	2,715	0	0	2,715	Verification reports, MEF	The baseline is 0 because the benefits paid thus far were paid with nonprogram resources.
1.1.2. MSP personnel with termination-related benefits paid	Persons	0	2017	931	0	0	931	Verification reports, MEF	See previous.
1.2. Strategic planning document to support analysis and prospective planning of talent requirements and flows in education, approved	Document	0	2017	1	0	0	1	Consultant's report, MINEDUC	Trigger for Phase II of the program.
1.3 Strategic planning document to support analysis and prospective planning of talent requirements and flows in health care, approved	Document	0	2017	1	0	0	1	Consultant's report, MSP	Trigger for Phase II of the program.
1.4. Study on mechanisms to ensure fiscal solvency of payments for personnel terminations, approved	Study	0	2017	1	0	0	1	Consultant's report, MEF	See previous.
1.5. Reports on implementation of accountability mechanism and corrective measures for talent optimization processes	Reports	0	2017	2	2	2	6	Consultant's report, MEF	
<b>Component #2: Improved services in the education sector</b>									
2.1. SGD modules operating	Software modules	0	2016	3	3	0	6	National ICT unit report on system operation, MINEDUC	See monitoring and evaluation plan.
2.2. Technological infrastructure for educational management services and support for the Online Educational Community, procured	Information-technology equipment	0	2016	0	8,750	0	8,750	Delivery/reception certificate for equipment, MINEDUC as subexecuting agency	See monitoring and evaluation plan.

Outputs	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Final target	Means of verification	Comments
2.3. Training programs provided to teachers in active service	Programs	0	2016	2	2	1	5	DNFC report on programs held, MINEDUC	See monitoring and evaluation plan.
2.4. Courses held to improve teachers' computer science skills	Courses	0	2016	1	1	1	3	DNFC report on programs held, MINEDUC as subexecuting agency	
2.5. Equipment procured to support teaching in technical high schools as part of the School-Community Project	Mobile workshop equipment	0	2016	0	25	0	25	Final delivery/reception certificate for equipment, MINEDUC as subexecuting agency	The equipment is mobile workshops to be used by groups at technical high schools to support teaching in technical or technological areas.
<b>Component #3: Improved services in the health sector</b>									
3.1. Functional management model reports, actions plan, and technical specifications for digitization in health care, approved	Reports	0	2017	2	2	0	4	Consultancy outputs approved by the MSP	Two management models will be prioritized (e.g., for management of medication, imaging and/or laboratory work) and two strategic documents for digitization in health care (e.g., strategy, digital agenda, and/or action plan) will be used.
3.2. Equipment prioritized for digitization in health sector, installed	Units of equipment	0	2017	0	4,000	4,000	8,000	Final delivery/reception certificate for goods installed, delivered by the MSP	This equipment is basic hardware (e.g., personal computers, printers) and/or other prioritized equipment for digitization. The target is based on an estimated unit cost of US\$1,100 and should be reviewed after the first output is in place.
3.3 National blood bank installed	Center	0	2017	0	0	1	1	Report by the MSP's Office of the Deputy Secretary for Health Service Quality	See description in POD.

Outputs	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Final target	Means of verification	Comments
3.4. Training events held to improve talent	Training events	0	2017	0	1	2	3	Report by MSP's National Office for the Standardization of Talent	These are various training events for health personnel in relation to maternal and child health (e.g., neonatal resuscitation, blood transfusion, maternal mortality). The target will be reviewed at the launch workshop.
3.5. Neonatology stations upgraded and functioning	Stations	0	2017	0	40	0	40	Final delivery/ reception certificate for equipment installed, delivered by the MSP	See monitoring and evaluation plan.
3.6. Alternate data center service installed	Service	0	2017	0	0	1	1	Final delivery/ reception certificate for installation of the data center, delivered by the MSP	The output is a data storage service.
3.7. Initial connectivity network installed	Network	0	2017	0	0	1	1	Final delivery/ reception certificate of initial installation of MPLS network, delivered by the MSP	
3.8. Reports prepared on implementation of quality assurance mechanism for investments in the health sector	Reports	0	2017	2	2	2	6	Consultant's report, MSP	

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Country:</b>	Ecuador
<b>Project number:</b>	EC-L1227
<b>Name:</b>	Multiphase Program to Improve Quality in the Delivery of Social Services — Phase I
<b>Executing agency:</b>	Ministry of Economy and Finance (MEF)
<b>Subexecuting agencies:</b>	Ministry of Education (MINEDUC) and Ministry of Public Health (MSP)
<b>Prepared by:</b>	Marcela Hidrovo, Juan Carlos Dugand, and Gumersindo Velázquez (FMP/CEC)

### I. EXECUTIVE SUMMARY

- 1.1 The institutional evaluation for fiduciary management of the project was based on (i) the country's fiduciary context, (ii) a fiduciary risk assessment, (iii) an institutional capacity assessment of the MEF and subexecuting agencies, and (iv) inputs from the work meetings with project teams and personnel from the aforementioned entities.

### II. THE COUNTRY'S FIDUCIARY CONTEXT

- 2.1 The country's fiduciary context has shown significant progress since 2008, as evidenced in recent evaluations of the public procurement system (MAPS 2011) and the public financial management system (PEFA 2014, repeat assessment).
- 2.2 **Procurement system.** On 25 February 2013, the Bank's Board of Executive Directors approved advanced use of the National Public Procurement System (SNCP) in Bank-financed operations (document GN-2680-2). The "Agreement for Use of the SNCP of the Republic of Ecuador in Projects Financed by the Inter-American Development Bank" was signed on 13 May 2014 between the MEF (borrower), the SNCP (lead entity), and the Bank. Paragraph 3.2 of this agreement states that use of the SNCP will begin gradually on seven projects.
- 2.3 **Financial management system.** Government entities use the e-SIGEF financial management system, which integrates budgetary, accounting, and treasury processes. Central government entities are subject to control and oversight by the Office of the Comptroller General (CGE). In general terms, the country financial management systems are adequately developed but need to be supplemented, for the purposes of executing Bank-financed projects, in relation to financial reporting and external auditing (performed by a Bank-eligible firm).

### III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY AND SUBEXECUTING AGENCIES

- 3.1 The MEF will be the executing agency for this program. MINEDUC will serve as subexecuting agency for component 2, and the MSP will serve as subexecuting agency for component 3.
- 3.2 In 2017 the MEF completed the Public Administration Institutional Reform Program (operation 2653/OC-EC) and is satisfactorily executing the Program to Improve Public Service Quality (operation 3073/OC-EC), Sector Support for Quality Education in Ecuador (operation 3726/OC-EC), the Emergency Program for an Immediate Response to the Earthquake in Ecuador (operation 3751/OC-EC), and the Contingent Loan for Natural Disaster Emergencies (operation 3670/OC-EC).
- 3.3 With regard to information systems in support of fiduciary management, the program will rely on e-SIGEF and the public procurement portal as applicable.

### IV. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 4.1 The potential for delays in the program's procurement processes was identified as a medium-level risk. To mitigate this risk, it was recommended that (i) assistance for subexecuting agencies in precontract procedures be included in the program Operating Regulations as a responsibility of EGP/MEF; (ii) procurement and financial teams for the executing and subexecuting agencies be formed and strengthened; and (iii) the staff members of subexecuting agencies be trained in the Bank's procurement and financial policies,

### V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 5.1 Not applicable.

### VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 **Procurement execution.** The Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) will apply. The procurement plan will cover at least the first 18 months and will be updated on an annual basis or as needed.
  - a. **Procurement of works, goods, nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> generated under the project and subject to international competitive bidding (ICB)<sup>2</sup> will be subject to the threshold specified on the [webpage](#). ICB processes will be executed using the standard bidding documents issued by the Bank. Selection processes that involve direct contracting will be identified. Along these lines, procurement

---

<sup>1</sup> Document [GN-2349-9](#) (paragraph 1.1): Nonconsulting services are treated as goods.

<sup>2</sup> At present, the ICB threshold is applicable in the case of amounts equal to or higher than US\$3,000,000 for works and in the case of amounts equal to or higher than US\$250,000 for goods and nonconsulting services.



processes for additional services of a similar nature in accordance with paragraph 3.6(a) of document GN-2349-9 are listed below.

**Table 1. Direct contracting processes**

<b>Procurement process</b>	<b>Amount in US\$</b>
Training services for mentors and administrators	248,850
Subject-specific training services for teachers	1,260,150

- b. These services represent a continuation of the investments made under loan operation 3726/OC-EC. They are being engaged under the procurement agreements for this loan operation, which allows for the possibility that the winning contractor, on the basis of satisfactory performance levels, may qualify for a direct contracting process for the subsequent phases of training planned by MINEDUC. The initial procurement plan allows for this procurement method to be used for these services. If this procedure is used for new procurement processes during project execution, the requirement stated in footnote 3 must be fulfilled.
- c. **Selection and contracting of consultants.** Contracts for consulting services will be executed using the standard request for proposals issued by or agreed upon with the Bank. The project's sector specialist will be responsible for reviewing the terms of reference for consulting service contracts. In addition, processes involving the single-source selection method will be identified. In selecting and contracting consulting services, any of the methods described in the Policies for the Selection and Contracting of Consultants may be used, provided that the method chosen has been identified for the corresponding contracting in the procurement plan approved by the Bank. The threshold for inclusion of international consultants on the short list<sup>3</sup> will be posted for the program on the [webpage](#).
  - (i) Selection of individual consultants: In the cases identified in the approved procurement plans, the contracting of individual consultants must be in accordance with the Policies for the Selection and Contracting of Consultants, section V, paragraphs 5.1 to 5.4.
  - (ii) Training: The procurement plan sets forth the procurement processes relating to each component of the project that involves training, which is contracted in the form of consulting or nonconsulting services.
- d. **Use of the country procurement system.** The Bank's Board of Executive Directors approved advanced use of the SNCP in operations financed by the Bank and executed by the agencies included in this system. Accordingly, procurements below the ICB threshold (US\$3 million for works, US\$250,000 for goods and nonconsulting services, and US\$200,000 for consulting firms) may be carried out within the framework of the SNCP, except in the case of a special regime, framework agreements, and selection of individual consultants.

<sup>3</sup> In contracting consulting firms, the threshold is for amounts equal to or greater than US\$200,000; for lower amounts, the short list may consist entirely of national consulting firms.

- e. The procurement plan for the operation and its updates will indicate which procurements will be carried out using the approved country systems.
- f. **Advance procurement and retroactive financing.** The Bank may provide up to US\$47.52 million (20% of the loan amount) in retroactive financing against the loan proceeds and may recognize eligible expenditures for up to US\$1.88 million against the local contribution (20% of the estimated local contribution) if incurred by the borrower prior to the loan approval date, for personnel terminations that are under way and are being financed with government resources, provided requirements substantially similar to those set forth in the loan contract have been met. Such expenditures must have been incurred no earlier than 13 April 2017 (project profile approval date) but may under no circumstances include expenditures incurred more than 18 months prior to the date of approval of the loan by the Bank's Board of Executive Directors.
- g. **National preference.** Offers of goods originating in the country of the borrower will be given a price preference<sup>4</sup> equivalent to 15% in contracts subject to ICB.
- h. **Other.** Component 1: Improved talent management and optimization. This component provides financing for the following prioritized categories of employee termination: (i) mandatory age-based; (ii) voluntary due to catastrophic illness, incapacity, or disability; (iii) voluntary resignation; and (iv) elimination of job position.

Table 2. Thresholds (US\$)

Works	Goods	Consulting services
ICB	ICB	International advertising for consulting
≥ 3,000,000	≥ 250,000	≥ 200,000

<sup>4</sup> Document [GN-2349-9](#), Appendix 2; and the loan contract

**Table 3. Main procurement processes**

Activity	Type of bidding	Estimated invitation date	Estimated amount (US\$000)
Personnel terminations	N/A	2nd half of 2017	144,000
<b>Goods</b>			
Equipment for documentation and control of inventory of medications and medical devices purchased for MSP warehouses	ICB	1st half of 2018	2,978
Hardware (personal computers, printers, and scanners) installed at prioritized health facilities and cold-chain equipment for preservation of vaccines	ICB	1st half of 2018	5,714
Technological infrastructure for MINEDUC services (work stations)	ICB	2nd half of 2017	5,335
MINEDUC database servers	ICB	2nd half of 2017	456
Tablet computers equipped with connectivity MINEDUC	ICB	2nd half of 2017	606
<b>Nonconsulting services</b>			
Training service for implementation of subject-specific teacher training in 330 hours MINEDUC	DC	To be determined	1,260
Mentor and administrator training services	DC	To be determined	248
<b>Services of consulting firms</b>			
Design of digital strategy for health care with long-, medium-, and short-term digital agenda and technical specifications.	QCBS	1st half of 2018	600
Development of talent capacities in strategic areas of patient care	QCBS	To be determined	1,152
Scaling of priority technological components and design of connectivity network and technical specifications, specifying value added to ICT area	CQS	1st half of 2018	80
<b>Individual consultants</b>			
Contracting of eight individual consultants (coordinator, plus specialists in procurement, finance, monitoring and evaluation, legal support, and specialized technical support) for the MSP	3 CVs	1st half of 2018	630

- 6.2 **Procurement supervision.** Procurement will be supervised ex post, except in cases in which ex ante review is justified. When procurement is executed through the country system, supervision will also be carried out through the country system<sup>5</sup> and/or as agreed upon with the Bank.

<sup>5</sup> Depending on the extent of use of the system, supervision may be supplemented with project audits, in which case this should be mentioned in this annex.

- 6.3 The supervision method will be determined for each selection process.<sup>6</sup> Ex post reviews will be conducted every 12 months in accordance with the supervision plan for the project. Ex post reviews will include at least one physical inspection visit,<sup>7</sup> selected from among the procurement processes subject to ex post review.

**Table 4. Threshold for ex post review**

Works	Goods	Consulting services	Individual consultants
< 3,000,000	< 250,000	< 200,000	< 50,000

Note: The thresholds for ex post review of procurement are applied on the basis of the executing agency's fiduciary capacity for execution.

- 6.4 **Special provisions.** Measures to reduce the likelihood of corruption: Follow the provisions of documents GN-2349-9 and GN-2350-9 regarding prohibited practices (lists of ineligible companies and individuals drawn up by multilateral institutions).
- 6.5 **Other special procedures.** None expected.
- 6.6 **Records and files.** The executing agency and/or subexecuting agencies will maintain updated records and appropriately organized files, with documentation on procurement and contracting kept in a single file that is distinguishable from those related to processes funded with resources from local counterpart or nonprogram resources. Project reports will be prepared and filed using formats or procedures that have been agreed upon and will be described in the program Operating Regulations.

## **VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

### **A. Programming and budget**

- 7.1 The Basic Code of Public Planning and Finance establishes the provisions governing the programming, formulation, approval, execution, control, evaluation, and settlement of budgets. These provisions are applied to the execution of Bank-financed programs in the country. The e-SIGEF implements and standardizes the application of these provisions throughout the government. Programming and budgeting will be performed for each component by the relevant executing or subexecuting agency.
- 7.2 **Accounting and information systems.** Project accounting will be carried out through e-SIGEF, which does not allow for the preparation of specific reports on the resources provided by the Bank. This means that separate reports will need to be prepared by the subexecuting agencies on project status and progress, with the MEF consolidating this information for the reports that are required.
- 7.3 The Bank will recognize financial reporting for the program on a cash basis.

<sup>6</sup> The procurement plan will indicate which review method will apply to each contract: (i) ex post; (ii) ex ante; or (iii) country system.

<sup>7</sup> The inspection verifies the existence of the procurement process, leaving verification of quality and of compliance with specifications to the sector specialist.

- 7.4 **Disbursements and cash flow.** Starting in 2008, the Government of Ecuador established the General Treasury Account as a mechanism designed to consolidate cash management at all entities in the central government.
- 7.5 The implementation of this mechanism did not eliminate the system of specific or special-purpose accounts set up at the Central Bank of Ecuador to receive the proceeds of multilateral loans. In view of the above, since the MEF will be coordinating and requesting the processing of Bank disbursements, the MEF will need to open a special account to manage the program's resources for the activities under its responsibility and make timely budgetary transfers of these resources to MINEDUC and the MSP to enable them to execute their respective components. All program payments will be processed through e-SIGEF by debiting the General Treasury Account.
- 7.6 The Bank will disburse loan proceeds in the form of advances of funds to meet the project's actual liquidity needs in accordance with a financial plan that reflects the program's actual financial needs for a period of up to six months. The financial plan must be consistent with the program execution plan/annual work plan and procurement plan, and it must cover a rolling horizon of at least 12 months. At the borrower's request, the Bank may also make direct payments to suppliers or reimburse expenditures.
- 7.7 The rendering of accounts for advances of funds will be done in accordance with the provisions of document OP-273-6. Disbursements will be justified in the following request, in aggregate and including all the subexecuting agencies, once 80% or more of the corresponding balance of fund advances has been executed.
- 7.8 The supporting documentation for expenditures or payments made by each source will be reviewed ex post with respect to the disbursement of resources by the Bank.
- 7.9 Since component 1 provides for the payment of personnel terminations, and since the rate of errors found in audits of similar programs has been low, justifications or reimbursements of payments for this component do not need to be supported at the time of submittal by an audited report, but this report will be submitted with the audited financial statements. The auditors will conduct a review using the "reasonable assurance" standard to verify records, supporting documentation, and the relevance of the expenditures incurred, taking into account the provisions of the Operating Regulations. If the Bank determines the need for expenditure justifications or reimbursements to be supported by audited reports, the Bank will notify the executing agency accordingly. This auditing work will be carried out in accordance with terms of reference previously approved by the Bank.

**B. Internal control and internal auditing**

- 7.10 The Constitution of Ecuador places the CGE in charge of the public-sector control system. As part of the public sector, the executing and subexecuting agencies each have internal audit units that report directly to the CGE, but the Bank will not use their services because reviews of this project are not included in the CGE's audit plans.

**C. External control and reports**

- 7.11 Since the CGE does not have sufficient capacity to exercise external control over externally financed projects, the external audit of the project will be performed by

independent auditors acceptable to the Bank, in accordance with Bank requirements and the provisions of document OP-273-6. The firm will be contracted using loan proceeds based on the terms of reference previously approved by the Bank. During execution, the MEF will submit the project's audited financial statements and the reports described in paragraph 7.9 within 120 days following the end of each fiscal year or the date of the last disbursement.

- 7.12 There is no national policy of public disclosure of audit reports. However, in accordance with the Bank's current Access to Information Policy, the audited project reports will be published in the Bank's systems.

**Table 5. Fiduciary supervision plan**

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Responsible entity	
			Bank	Other
Operational	Progress report review	Semiannual	Fiduciary and sector team	
	Portfolio review with the executing agency	Based on MEF requirements	Fiduciary and sector team	
Financial	Review of cash flow and disbursement schedule	With each disbursement request. When required by the circumstances of the project.	Fiduciary and sector specialists	Executing agency or subexecuting agencies
	Inspection visits	Annual	Fiduciary specialist	Consultant/Auditor
	Review of audited and unaudited financial statements	Annual	Fiduciary and sector specialists	Consultor/Auditor
	Review of audited reports on personnel terminations	Annual	Fiduciary and sector specialists	Executing agency or subexecuting agencies/External auditor
Procurement	Ex ante procurement review	During program execution	Project Team Leader / Procurement specialist	Executing agency or subexecuting agencies
	Update to procurement plan	Annual	Project Team Leader / Procurement specialist	Executing agency or subexecuting agencies
Compliance	Fulfillment of conditions precedent	One-time	Fiduciary team / Project Team Leader / Operations analyst	Executing agency or subexecuting agencies
	Review of prioritization and budget allocation	Annual, in June and January of each year	Fiduciary specialist / Project Team Leader / Operations analyst	Executing agency or subexecuting agencies / SENPLADES / MEF
	Presentation of audited financial statements	Annual	Project Team Leader and fiduciary specialist	Executing agency or subexecuting agencies/Auditor

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/17

Ecuador. Loan \_\_\_\_/OC-EC to the Republic of Ecuador  
Multiphase Program to Improve Quality in the Provision  
of Social Services – Phase I

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a multiphase program to improve quality in the provision of social services – phase I. Such financing will be for the amount of up to US\$237,600,000 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 \_\_\_\_\_)