

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

DEVELOPMENT SUSTAINABILITY CONTINGENT CREDIT LINE

(EC-L1145)

LOAN PROPOSAL

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ELECTRONIC LINKS
REQUIRED <ol style="list-style-type: none">1. Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39087806
OPTIONAL <ol style="list-style-type: none">1. Economic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=390878022. Project risk management analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=390886523. Matrix of Protected Investment Expenditures and Programs http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=391747504. Ecuador contingent credit line triggers http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=390878125. Monthly Statistical Information, August 2014. Central Bank of Ecuador http://contenido.bce.fin.ec/home1/estadisticas/bolmensual/IEMensual.jsp6. World development indicators for Ecuador. World Bank 2014 http://data.worldbank.org/country/ecuador7. Safeguard policy filter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39002950

ABBREVIATIONS

BCE	Banco Central del Ecuador [Central Bank of Ecuador]
CGE	Contraloría General del Estado [Office of the Comptroller General]
DEM	Development Effectiveness Matrix
DSL	Development Sustainability Contingent Credit Line
ECLAC	Economic Commission for Latin America and the Caribbean
EMBI	Emerging Markets Bond Index
GCI-9	Ninth General Capital Increase, or Ninth General Increase in the Resources of the Inter-American Development Bank
HDB	Human Development Bond
IAMC	Independent Assessment of Macroeconomic Conditions
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadística and Censos [National Institute of Statistics and Censuses]
MCDS	Ministry for Social Development Coordination
MIES	Ministry of Economic and Social Inclusion
MINFIN	Ministry of Finance
OC	Ordinary Capital
VAMS	Office of the Deputy Minister for Noncontributory Insurance and Social Mobility

PROJECT SUMMARY
ECUADOR
DEVELOPMENT SUSTAINABILITY CONTINGENT CREDIT LINE
(EC-L1145)

Financial Terms and Conditions			
Borrower: Republic of Ecuador Executing agency: Ministry of Finance (MINFIN)		Flexible Financing Facility*	
		Amortization period:	6 years
		Original WAL:	4.5 years
Source	Amount (US\$)	Drawdown period:**	3 years
IDB: Ordinary Capital (OC)	300 million	Grace period:	3 years
		Upfront fee:	50 basis points
		Interest rate:	US\$ LIBOR-based + 165 basis points
		Commitment fee:	50 basis points
		Inspection and supervision fee:	***
Total	300 million	Currency of approval:	U.S. dollars from the Ordinary Capital
Project at a Glance			
Project objective/description: The program objective is to help minimize the effects of exogenous systemic economic shocks or events specifically impacting the country on the sustainability of investment expenditures in programs targeting the poor and vulnerable population (see paragraph 1.31).			
Special contractual conditions precedent to the first disbursement: (i) the Bank has determined that the borrower's macroeconomic framework is adequate; (ii) one or more of the events (triggers) previously agreed upon between the borrower and the Bank has occurred; and (iii) the conditions set in the Matrix of Protected Investment Expenditures and Programs to protect the investment expenditures of the Human Development Bond (HDB) and the pensions of older adults and persons with disabilities have been met, and these programs and being duly financed by the borrower (see paragraph 3.7).			
Exceptions to Bank policy: None.			
Project qualifies as: SEQ [X] PTI [X] Sector [] Geographic [X] Headcount [X]			

* The loan will benefit from the options offered by the Flexible Financing Facility (FFF) (currency and interest rate conversions), with the exception of the flexibility to modify amortization schedules. The amortization schedule applicable to the loan will be consecutive, semiannual installments, equal insofar as possible, upon completion of the grace period.

** The drawdown (disbursement) period, as stipulated in the "Proposal to establish a set of contingent lending instruments of the IDB" (document GN-2667-2), is three years, running from the effective date of the loan contract.

*** The inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

I. DESCRIPTION AND RESULTS MONITORING

A. Frame of reference, problem to be addressed, and rationale for Bank support

- 1.1 **Macroeconomic context.** From 2009 to 2013, Ecuador's GDP grew at an average 4.4% per year, higher than the rate for Latin America and the Caribbean as a whole (3%).¹ The International Monetary Fund (IMF), which has recently concluded its Article IV consultation with Ecuador, projects economic growth near 4% for 2014 and 2015. That consultation further concluded that risks to the outlook are broadly balanced.²
- 1.2 One factor that helps to explain Ecuador's recent economic buoyancy is the steep rise in public expenditure and investment of recent years.³ Largely accounting for that trend are: (i) increased social expenditure,⁴ which has contributed to a substantial reduction in poverty;⁵ and (ii) the public investment program undertaken by the government to modernize the country's infrastructure, especially in roads and energy.⁶
- 1.3 Although State revenue has also risen steeply in recent years as a result of advances in the taxation area and high oil prices, the increased expenditure and public investment described above generated a fiscal deficit that, in 2013, was 4.7% of GDP. For the next two years, the authorities project substantial deficits and financing requirements, given the need to complete the construction of large hydroelectric plants now under way.⁷ From 2017 onward, the government projects smaller deficits, since the projects will be completed and the resulting change to the energy matrix will help generate fiscal headroom.⁸

¹ Central Bank of Ecuador (BCE) and IMF. Based on BCE preliminary figures, Ecuador has achieved a GDP of US\$94.473 billion for 2013.

² Press Release 14/393, IMF, 20 August 2014.

³ According to the BCE, from 2009 to 2013, total expenditure of the nonfinancial public sector grew 101.9% in nominal terms.

⁴ According to data from the Economic Commission for Latin America and the Caribbean (ECLAC), between 2006 and 2010, Ecuadorian public social expenditure rose from 4.7% of GDP to 9.8% of GDP. According to BCE figures, social expenditure on education and health rose from 5% of GDP in 2007 to 7.5% at the end of 2013.

⁵ From 2009 to June 2014, the income poverty rate fell from 36% to 24.5%. Source: National Institute of Statistics and Censuses (INEC).

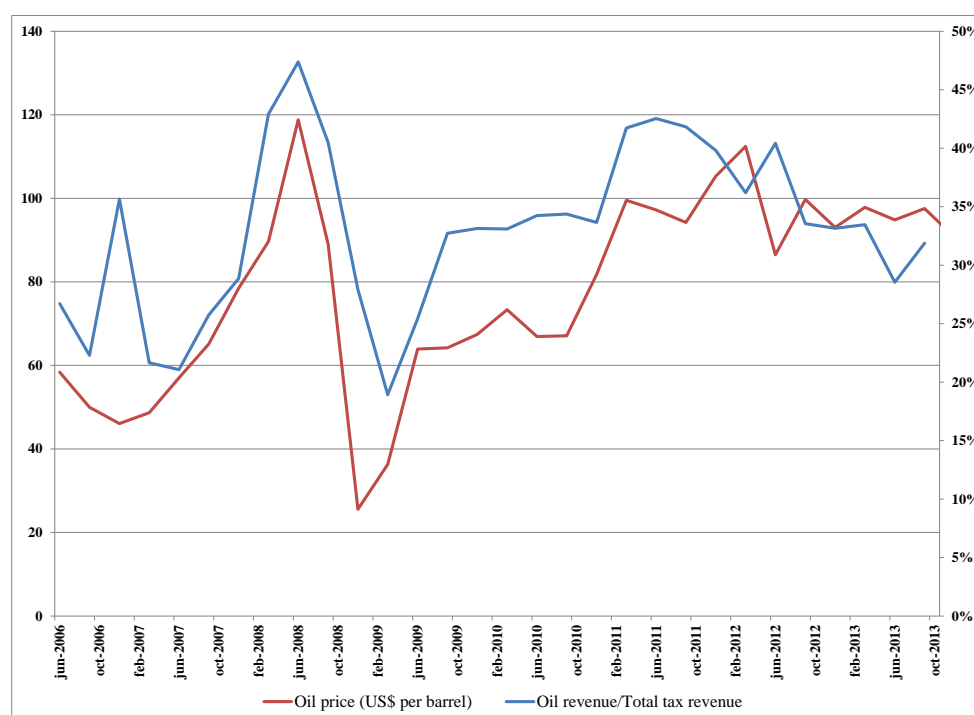
⁶ Between 2008 and 2013, public investment rose from representing 11.3% to 15.6% of GDP (BCE).

⁷ In the coming years, 29 plants of a wide variety of sizes are expected to come onstream, notably Coda Codo Sinclair, in 2016 (1,500 MW), Sopladora, in 2015 (487 MW), Minas-San Francisco, in 2016 (275 MW), and Toachi Pilatón, in 2015 (253 MW).

⁸ This fiscal headroom will be generated by: (i) the hydroelectric plants coming onstream, leading to a reduction in the existing thermal power generation subsidies now provided for fuel; and (ii) the government's intention to rationalize the liquefied petroleum gas subsidies, leading to the replacement of existing gas ranges with induction ranges, mitigating the impact of this measure on the residential sector.

- 1.4 In 2013, the Ecuadorian economy's trade deficit in goods also rose to 1.2% of GDP, against deficits of 0.5% of GDP in 2012 and 1% of GDP in 2011. The current account deficit recorded in 2013 was 1.4% (0.4% in 2012 and 2011), financed primarily through State borrowing operations.

Figure 1: Oil Tax Revenue/Total Tax Revenue (%) versus the Ecuadorian Oil Price (US\$ per barrel), 2006-2013



Source: Central Bank of Ecuador, Ministry of Economy, Internal Revenue Service, 2014.

- 1.5 In 2013, the oil GDP represented 12.6% of total GDP. However, the importance of the oil sector from a macroeconomic sustainability standpoint is greater than that figure may suggest. This because external crude sales are the country's main source of foreign exchange, rising in 2013 to US\$14.108 billion. Additionally, in 2013 the State's oil revenue was US\$11.433 billion, accounting for 12.1% of GDP and 30.7% of total revenue of the nonfinancial public sector. Production of Ecuadorian crude has risen moderately in recent years, reaching 192.12 million barrels in 2013 (526,356 barrels/day).⁹

⁹ Following declines from 2006 to 2009, in the last three years, Ecuadorian crude production has risen 8.3%. Production is expected to continue to increase in coming years, since investments are being made to recover marginal fields, and new fields will come onstream in 2016.

- 1.6 Inflation has also trended downward in recent years, closing out 2013 at 2.7%. This moderation of inflationary pressures reflects the environment of price stability that has taken hold in Ecuador since the 2001 dollarization of the economy.

B. The program's rationale

- 1.7 **Dollarization.** The dollarization of Ecuador's economy means that its liquidity is directly impacted by the behavior of the balance of payments. Balance of payments deficit positions tend to fuel net outflows of dollars, contracting domestic liquidity, and with the ensuing impact on economic activity and growth.
- 1.8 In a dollarized economy, the ability to absorb external shocks—whether to the terms of trade, financial shocks, or shocks to external demand—is limited by the absence of monetary and exchange policy. In that context, the real sector impact of exogenous shocks affecting the balance of payments is greater in Ecuador than in countries with their own currency, where authorities have additional monetary policy instruments to influence the behavior of liquidity in the economy.
- 1.9 **Social expenditure.** In Ecuador, public social spending has been strongly procyclical over the long-term and dependent public expenditure.¹⁰ Therefore, shocks affecting the balance of payments and current account deficits and the ensuing declines in output and tax revenue could lead to lower investment in social programs such as the Human Development Bond (HDB), as it has elsewhere in Latin American and the Caribbean.¹¹ As indicated in *Social Panorama of Latin America* (2013, pp. 8-9): “new data on budget execution in the social sphere points to slower growth in social expenditure from 2012. This was intended to lower the fiscal deficits recently posted by many of the countries of the region, however the relative slowdown in the growth of social expenditure also reflects the scaling back or cancellation of social assistance programmes and other measures applied to tackle the effects of the international financial crisis of 2008-2009.”¹²
- 1.10 **Shocks and their effects.** For the reasons given above, the risk of an exogenous shock, whether systemic or specific, adversely impacting liquidity in Ecuador's economy is especially pronounced. This in turn would impact growth and therefore tax revenue and public finance, which could force the government to reduce the social investment that has contributed to the poverty reduction seen in Ecuador in recent years.¹³

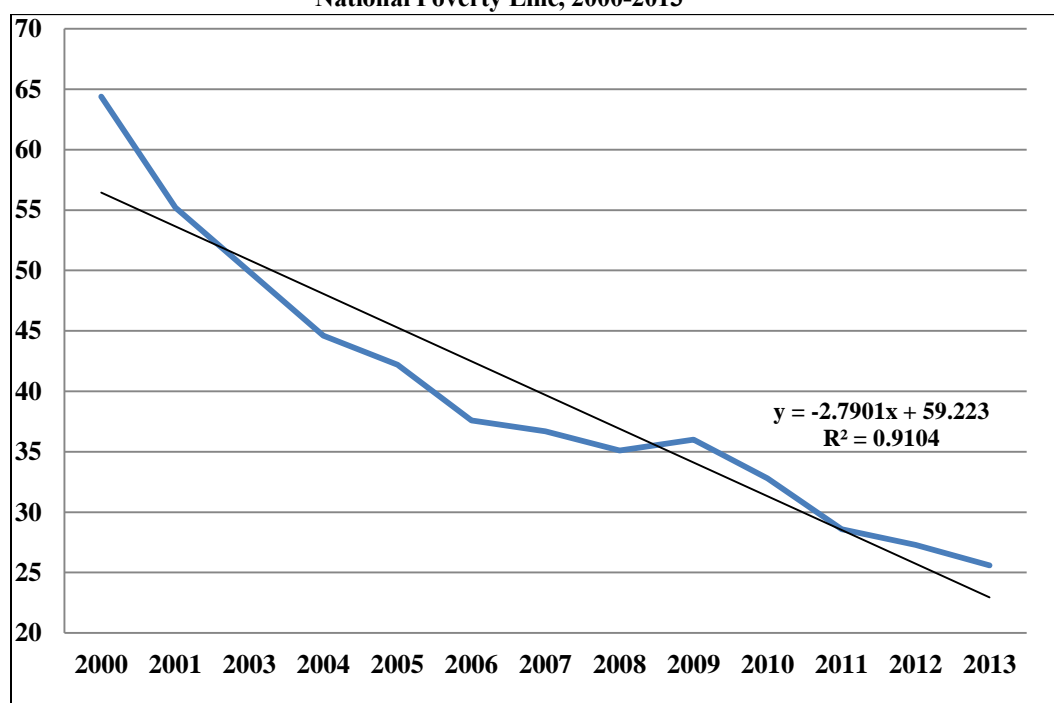
¹⁰ Economic Commission for Latin America and the Caribbean (ECLAC): *Social Panorama of Latin America* (2013). New York.

¹¹ ECLAC: *Social Panorama of Latin America* (2012), New York.

¹² *Social Panorama of Latin America* (2013).

¹³ Thus far in the period 2000-2013, the poverty incidence rate, measured in relation to the national poverty line, has declined from 64.4% to 25.6%. Source: World Bank: *World Development Indicators* (2014).

Figure 2: Poverty Incidence Rate, Measured in Relation to the National Poverty Line, 2000-2013



Source: World Development Indicators, World Bank, 2014.

- 1.11 **Shock 1: Oil prices.** A first exogenous shock that could adversely impact balance of payments behavior (and therefore domestic liquidity and tax revenues) is a drop in international crude prices, affecting Ecuadorian oil prices.¹⁴ Crude oil exports accounted for 56% of the country's total exports from 2009 to 2013. A fall in oil prices would also have direct fiscal impact, since from 2009 to 2013 oil revenue accounted for an average 34% of total revenue of the nonfinancial public sector.
- 1.12 **Shock 2: Tapering.** A second exogenous shock would be generated by normalization (expansion reduction) of U.S. Federal Reserve monetary policy (tapering),¹⁵ which could affect Ecuador's balance of payments and fiscal accounts through two channels: (i) an appreciation of the dollar,¹⁶ and therefore Ecuador's real exchange rate, adversely impacting the competitiveness of national exports vis-à-vis those of its main competitors, reducing tax revenue generated by the

¹⁴ For example, in the context of the global financial crisis, the export price of Ecuadorian crude plunged from an average US\$82.95 in 2008 to an average US\$52.30 in 2009. This led to a 40.6% decline in the value of Ecuadorian oil exports, generating a reversal of the US\$1.081 billion trade surplus in 2008, which became a US\$233.8 billion trade deficit in 2009. Significantly, in the course of 2014 the price of West Texas Intermediate fell from US\$95.44 per barrel (2 January 2014) to US\$75.83 (14 November 2014).

¹⁵ This policy already took effect in November 2014.

¹⁶ As mentioned above, Ecuador has a dollarized economy and therefore has no set exchange rate.

export sector; and (ii) a rise in benchmark interest rates, increasing the Ecuadorian economy's financing costs.

- 1.13 **Shock 3: Unforeseen events.** A third exogenous shock that would impact the balance of payments is associated with the occurrence of adverse events impacting Ecuador's oil sector, reducing the volume of national crude exports or increasing imports of petroleum products.¹⁷ One such scenario would be a rupture of a pipeline carrying Ecuadorian crude from the production fields to the ports of export, or a national refinery breakdown, forcing the country to import more petroleum products to meet domestic demand.
- 1.14 **Shock 4: Sudden stop in public investment financing.** A fourth shock that could impact the Ecuadorian economy is associated with the possibility of adverse developments on international financial markets leading to a slowdown or exogenous stoppage of external disbursements used to finance the country's public investment. Such a scenario would have an adverse impact given the potentially high cost of relaunching projects upon normalization of disbursements. Such events, as explained in paragraph 1.9, could lead the Government of Ecuador to cut public expenditure and, as part of this, social expenditure.
- 1.15 For these reasons, Ecuador may require contingent resources to enable it to protect its economy from external shocks and their possible adverse impact on financing the social programs that benefit the poor and vulnerable population.
- 1.16 **Social programs.** Ecuador now has a series of social programs under the responsibility of the Ministry of Economic and Social Inclusion (MIES). For their implementation, the Ministry of Finance (MINFIN) must allocate tax resources to these programs in the national general budget. One such program is the Human Development Bond (HDB).¹⁸
- 1.17 **Human Development Bond (HDB).** The HDB is a pillar of Ecuador's social safety net¹⁹ and consists of a monthly conditional transfer received by vulnerable households in the poorest 40% of the population. This instrument is designed to have two types of impact on poverty: (i) immediate, by maintaining a minimum family consumption level; and (ii) structural, by boosting levels of child school

¹⁷ Although Ecuador exports oil, the country's insufficient installed refinery capacity means that it must import petroleum products. In 2013, Ecuador produced 192 million barrels of oil. That same year, petroleum product consumption was 90 million barrels of oil equivalent, 57% of which was produced locally, and the remaining 43% imported.

¹⁸ The HDB originated as the Solidarity Bond, established in 1998 by the Government of Ecuador as an unconditional cash transfer to meet the needs of low income households impacted by the economic crisis of the late 1990s. Its name was changed in 2003 by Executive Decree 347, creating the HDB and turning it into a conditional transfer. Since its creation, the HDB has undergone a number of regulatory reforms.

¹⁹ Martínez Dobronsky, José, and José Rosero Moncayo. "Impacto del BDH en el trabajo infantil" [Impact of the HDB on child labor]. Quito: Ministry for Social Development Coordination (MCDS) (2007), p. 3.

enrollment and health through the shared responsibility between the State and the heads of family units.²⁰

- 1.18 **Pensions.** Supplementing the HDB are Ecuador's two pension programs for specific vulnerable groups. Under one, assistance is provided to older adults aged 65 or above, and under the other, to persons with disabilities.
- 1.19 **Legal basis.** In their present form, the programs have their legal basis in the Constitution of Ecuador²¹ and are established, in their most recent regulatory reform, by Executive Decree 1395 of 14 January 2013.²² The decree sets the monthly value of HDB monetary transfers at US\$50 per family. It also sets pensions at US\$50 for older adults aged 65 or above and persons with disabilities rated at 40% or higher.²³
- 1.20 **HDB: shared responsibility.** The ministries discharging the State's responsibility for the HDB are the ministries of Health, Education, and MIES, a responsibility shared with the heads of family units receiving the transfer.²⁴ That coresponsibility applies to meeting health and education conditions for recipient families with children under age 18. Essentially, family units are obliged to attend regular medical checkups in prenatal health and for their children from birth to age 5, and household members of child-bearing age must attend a family planning talk each year. Children and adolescents aged 5 to 18 must be enrolled in primary and secondary education and attend regularly. Lastly, beneficiary households undertake to not to build in hazard-prone areas or send their children under age 15 to work or beg.
- 1.21 **Pensions: conditions.** Older adults aged 65 or above must be living in vulnerable circumstances and not be included in the pensioner databases of the Instituto Ecuatoriano de Seguridad Social [Ecuadorian Social Security Institute], the Instituto de Seguridad Social para las Fuerzas Armadas [Armed Forces Social Security Institute], or the Instituto de Seguridad Social para la Policía Nacional [National Police Social Security Institute]. Persons with disabilities must have disabilities rated at 40% or above, as determined by the Consejo Nacional de

²⁰ O'Connell, Lesley. Technical note: "Promover las oportunidades para las familias más pobres mediante un sistema integrado de promoción y protección social: estrategia de país 2012-2017" [Promote opportunities for the poorest families through an integrated social protection and promotion system: country strategy 2012-2017] (2013). IDB, Washington, D.C., p. 16.

²¹ Articles 35, 276, 283, and 284 of the Constitution of the Republic of Ecuador stipulate, inter alia: (i) to provide priority and specialized care to older adults, girls, children and adolescents, and persons with disabilities; (ii) to improve quality of life and life expectancy, and build the capacities and potential of the population; (iii) to ensure the production and reproduction of the material and immaterial conditions that can bring about the "good life;" and (iv) to ensure an adequate distribution of the country's revenues and wealth.

²² Decree 1395, of 2013. Quito, Ecuador: Office of the President of the Republic, 2013.

²³ Since the regulatory reform of 2003, the HDB has risen from US\$15 to US\$50 at the time of writing of this document.

²⁴ Technical report MF-SPF-DNEF-2014-132. Quito, Ecuador: MINFIN, 2013, p. 6.

Igualdad de Discapacidades [National Council for Equality of Disabilities], and must be living in vulnerable circumstances and not be members of the above-mentioned public social security systems.

- 1.22 **Administrative structure.** These programs are governed by the MIES and the Social Protection Program, which is responsible for their administration. The Ministry for Social Development Coordination (MCDS) is responsible for compiling information on potential transfer beneficiary households, using an instrument known as the Social Registration Form, which contains 59 variables for assigning points to families for classification and targeting of conditional transfers. The MIES and the MCDS are now updating the databases of the Social Registry and the public social security systems in order to improve HDB targeting.
- 1.23 **Beneficiaries.** According to MINFIN data, as of August 2014, the number of program beneficiaries stood at 1,280,393, which breaks down as HDB (47.5%), pensions for older adults (43.2%), and disability pensions (9.3%). Significantly, 70.3% percent of the beneficiaries of the three programs are women, who account for 94% of the HDB program alone.
- 1.24 **Cost.** The programs to be protected during the drawdown period of this operation have an estimated monthly budget of US\$64 million, in August 2014 figures. MINFIN projections (2014) put coverage at nearly 1.2 million people per month by 2015, at an estimated total annual cost of US\$732.1 million.
- 1.25 **Impact of the HDB.** Studies of the impact of conditional transfer conditionalities have focused, for Latin America, on percentages of child beneficiary school enrollment (education) and numbers of visits to health care facilities (health).²⁵ A notable study for Ecuador is Schady and Araujo (2006), who demonstrate an increase of up to 17.8% in sixth grade enrollment among children of beneficiary families and an average 8.6% in all school grades.²⁶ Paxson and Schady (2007) show the apparent positive impact of the HDB on child nutrition and treatment of infections, but not on health care facility visits for checkups and preventive care. Oosterbeek, Ponce, and Schady (2008)²⁷ show a rise from 75% to 85% in school enrollment rates for the poorest quintile of the population, although the impact on the second poorest quintile is unclear; in other words, the most vulnerable sector is benefited. Ponce and Bedi (2008) demonstrate that the HDB has no impact on the cognitive development of children of recipient families, but that it does have

²⁵ Fiszbein, Ariel, and Norbert Ru Schady. Conditional cash transfers reducing present and future poverty (2009). World Bank, Washington, D.C.

²⁶ Schady, Norbert Ru, and Maria Caridad Araujo. Cash transfers, conditions, school enrollment, and child work evidence from a randomized experiment in Ecuador (2006). World Bank, Development Research Group, Public Services Team. Washington, D.C.

²⁷ Oosterbeek, Hessel, Juan Ponce, and Norbert Ru Schady. The impact of cash transfers on school enrollment: evidence from Ecuador (2008). Policy Research Working Paper, World Bank, Development Research Group.

positive impact on school enrollment.²⁸ Other references for consultation are Badillo (2011)²⁹ and Dobronsky and Rosero (2007).³⁰

- 1.26 It should be mentioned that the Office of the Deputy Minister for Noncontributory Insurance and Social Mobility (VAMS) of Ecuador periodically publishes the VAMS report. The 2013 report indicates that HDB user families are meeting their shared responsibilities in education and health, exceeding 100% of the government's targets.³¹
- 1.27 **Similar programs (contingent and social expenditure protection).** The Bank's experience of these types of programs was gained through the Liquidity Program for Growth Sustainability (operation 2104/OC-ES), under which the Bank made 1,915 loans totaling US\$289.9 million to fund small businesses in El Salvador, supporting job creation.³² Also approved in El Salvador, in 2013, was a Development Sustainability Contingent Credit Line (operation 3143/OC-ES), the proceeds of which have not yet been disbursed. However, the Banco de Desarrollo de El Salvador has been meeting its commitment to maintain the protected programs that provide small business financing. The Central Reserve Bank of El Salvador, which is the lender for the line, has incorporated the DSL triggers into its day-to-day monitoring. Lastly, the central bank's regular reporting of these triggers to the Bank has produced ongoing, up-to-date information on their status for ease of tracking. This methodology will be used for the present operation.
- 1.28 The World Bank, in response to the international financial crisis, has made special loans to Latin American countries for social protection.³³ Among other operations, it loaned nearly US\$3 billion to Mexico, primarily for Oportunidades, a conditional transfer program like the HDB.³⁴ According to the World Bank, the beneficiaries of that program and a nutrition program numbered one million, reducing poverty severity by 0.4% and the number of the poor by 1.8%.
- 1.29 **Alignment with the Bank's strategies and policies.** The program will contribute to the following lending program priority targets of the Bank's Ninth General Capital Increase (GCI-9) (document AB-2764): (i) lending for small and vulnerable

²⁸ Ponce, Juan, and Arjun S. Bedi. "The impact of a cash transfer program on cognitive achievement: the Bono de Desarrollo Humano of Ecuador." *Economics of Education Review* (2008).

²⁹ Badillo, Ana. Master's thesis: "El efecto asociado de la condicionalidad del Bono de Desarrollo Humano del Ecuador en la salud y desarrollo infantil" [The associated impact of the conditionality of Ecuador's Human Development Bond on health and child development]. Quito, Ecuador: Facultad Latinoamericana de Ciencias Sociales, Sede Ecuador, 2011.

³⁰ Martínez Dobronsky, José, and José Rosero Moncayo. "Impacto del BDH en el trabajo infantil" [Impact of the HDB on child labor]. Technical Secretariat of the MCDS (2007).

³¹ [VAMS Annual report 2013](#).

³² Project completion report, loan 2104/OC-ES.

³³ El Salvador, Guatemala, Mexico, and Jamaica.

³⁴ Independent Evaluation Group. The World Bank Group's response to the global economic crisis. World Bank (2012). Washington, D.C.

countries; and (ii) lending for poverty reduction and equity enhancement. It will also contribute to the regional goal of the share of youth ages 15 to 19 who complete ninth grade, and to the output of individuals receiving a targeted antipoverty program, as defined in the results matrix. The operation is also aligned with the objectives of the Bank's country strategy update with Ecuador (2012-2017) (document GN-2680-2), specifically its objective to contribute to inclusive and sustainable economic development in Ecuador by supporting the country's efforts to overcome the long term constraints on economic growth and the structural barriers to overcoming poverty, as well as the strategy's objectives in the social development sector.

- 1.30 Moreover, if disbursements are requested, this sustainable development contingent credit line (DSL) would supplement the analysis of Ecuador's HDB now being conducted by the Bank under technical-cooperation operation ATN/OC-13569-EC, "Support for public policy design and evaluation."

C. Objective, components, and features

- 1.31 The program objective is to help minimize the effects of exogenous systemic economic shocks or events specifically impacting the country on the sustainability of investment expenditures in programs targeting the poor and vulnerable population.
- 1.32 The objective will be achieved through a loan operation designed under the sustainable development contingent credit line (DSL) framework to provide Ecuador with contingent financing to protect and provide sustainability to investment expenditures on programs targeting the poor and vulnerable population.
- 1.33 The programs to be protected and provided sustainability will be the Human Development Bond (HDB) and the pension programs described above for older adults and persons with disabilities. The consensus reached with the country authorities on the selected programs was based on their level of coverage and the availability of information for their monitoring and evaluation, as indicated in paragraph 3.10.

D. Key results indicators

- 1.34 In the event of an economic shock specific to Ecuador, and subject to fulfillment of the conditions set in the Bank's policy, "Proposal to establish a set of contingent lending instruments of the IDB" (document GN-2667-2), and in this loan proposal, the Bank and the borrower have agreed on the number of beneficiaries and estimated allocations for transfers included in the national general budget during the drawdown period of three years, running from the effective date of the corresponding loan contract.
- 1.35 **Results Matrix.** An expected output is at least US\$300 million allocated to the eligible social programs for each year during the drawdown period of the DSL. This means an impact of 500,000 beneficiary households per year and an average 6.7 years of school enrollment for beneficiary children.

- 1.36 **Ex ante economic evaluation.** There is ample evidence to support the HDB's impact on school enrollment. Because limited information is available for comparison of the cost-effectiveness ratio of the HDB with other programs, a calculation was made of the additional years of school enrollment that would accrue from each additional expenditure of US\$100. The findings of Schady et al. (2008) were used for this calculation,³⁵ yielding a cost-effectiveness ratio of 0.039 additional years of education for each US\$100. This ratio is comparable to that of the Progresa program in Mexico. Therefore, as shown in the Results Matrix, an expected benefit of the HDG will be a similar increase in school enrollment among children in Ecuador. For details, see the [Economic analysis](#).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Source and use of funds.** This operation will be executed as a sustainable development contingent credit line (DSL), in accordance with the "Proposal to establish a set of contingent lending instruments of the IDB" (document GN-2667-2). Under the DSL, contingent lending operations may be financed to support individual borrowing member countries of the Bank that meet the eligibility criteria stipulated in the policy, so that they can respond adequately to protect the financing of social programs that benefit the poor from exogenous systemic or country-specific shocks.
- 2.2 The DSL will be financed with resources made available through the temporary increase in the unused borrowing capacity (UBC) created by the GCI-9 subscription schedule, as indicated in document GN-2667-2.
- 2.3 **Program amount.** The program amount is US\$300 million. This amount is the total maximum that could be made available to Ecuador as a DSL under paragraph 4.15 of document GN-2667-2. This amount corresponds to 41% of the 2015 social expenditure projected by the Government of Ecuador for the HDB program and the pension programs for older adults and persons with disabilities, which are the programs protected by the Matrix of Protected Investment Expenditures and Programs.

B. Fiduciary risks

- 2.4 The executing agency, which is the Ministry of Finance (MINFIN), may not request disbursement of the loan proceeds by the Bank within the stipulated time following the triggers, and may not have made the budgetary allocation for the programs stipulated in the [Matrix of Protected Investment Expenditures and Programs](#). MINFIN has an appropriate organizational structure and personnel, and is the government agency responsible for ensuring the availability of financial resources

³⁵ Schady, N., M.C. Araujo, X. Peña, and L.F. López-Calva. Cash transfers, conditions, and school enrollment in Ecuador (2008), Brookings Institution Press, pp. 43-77.

for fiscal planning and development. Therefore, the financial management risk is low (see Annex III).

C. Environmental and social risks

- 2.5 This operation does not require classification under Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703).

D. Implementation risks

- 2.6 The implementation risks are associated with endogenous and exogenous factors that would prevent the Government of Ecuador from maintaining the protected programs during the life of the DSL. At present, the corresponding fiscal allocation has been made, and is expected to be maintained going forward. This risk was rated as low.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Ecuador. The executing agency for the program will be the Ministry of Finance (MINFIN), which will be responsible for its technical and financial management. MINFIN will execute the program under its organizational structure, establishing the necessary roles and responsibilities. To exercise this authority, MINFIN must have all relevant information on a timely basis, calling upon the necessary government sources in such manner as it sees fit.
- 3.2 MINFIN, as executing agency, will be responsible for ensuring allocation of the resources necessary for compliance with the guidelines stipulated in the Matrix of Protected Investment Expenditures and Programs,³⁶ as well as for monitoring the status of their execution by the ministries involved (see paragraph 3.12).
- 3.3 To that end, MINFIN will channel the funds, provided that it considers that their proper management complies with the parameters established by this program for the social policies of the Republic of Ecuador. MINFIN will also assess whether, in its judgment, management of the HDB in terms of planning, structuring, coordination, operational supervision, legal supervision, and accounting and financial control is adequate for the funds to be channeled, and will provide the information necessary for adequate Bank monitoring, financial supervision, evaluation, and any other function necessary to achieve the program objective.
- 3.4 To facilitate timely loan verifications and audits by the Bank, MINFIN will be responsible for ensuring that the institutions responsible for the social programs eligible for the operation retain records and files available to the borrower, the Bank, or third parties designated by the Bank, containing the documentation for all

³⁶ The ex ante evaluation of how the selected investment expenditures and programs would benefit poor and vulnerable populations during a shock is provided in the [Cost-benefit analysis](#).

eligible expenditures made with proceeds of the loan for a period of up to two years after the date of the last period for disbursement of the loan proceeds agreed upon between the borrower and the Bank. A detailed description of execution and management is given in paragraphs 3.13 to 3.17 of Annex III.

3.5 **Triggers.** As stipulated in document GN-2667-2, the following triggers are defined below: (i) systemic crisis triggers; and (ii) exogenous nonsystemic country-specific triggers for Ecuador.³⁷ For further information, see [triggers](#).

- a. **Systemic trigger: Emerging Markets Bond Index (EMBI) spreads.** As defined in document GN-2667-2, a “systemic crisis” is an episode in which at least a third of countries in the sample of the Bank’s 26 borrowing member countries have their EMBI spreads exceed their mean by two standard deviations over a five-year rolling window.
- b. **Country-specific trigger 1: Spot prices for Ecuadorian oil.** An episode in which the spot prices for Ecuadorian oil are below their mean by one standard deviation over a 90-day rolling window.
- c. **Country-specific trigger 2: 3-month US\$ LIBOR.** An episode in which the value of the daily 3-month LIBOR rate exceeds its mean by one standard deviation over a 180-day rolling window.
- d. **Country-specific trigger 3: Ecuador’s oil exports.** An episode in which the volume of Ecuador’s oil exports is below its mean by more than one standard deviation over a three-month rolling window.
- e. **Country-specific trigger 4: Installed refinery capacity.** An episode in which crude processing at Ecuador’s refineries is 70% below installed capacity for two consecutive months.
- f. **Country-specific trigger 5: Debt disbursements and EMBI spread.** An episode in which the following two conditions are met: (i) the cumulative external debt disbursements during the past six months falls below 50% of external debt disbursements during the same six months of the preceding year; and (ii) the differential between Ecuador’s EMBI and the EMBI for Latin America is less than 364 basis points.³⁸

3.6 **Specific macroeconomic requirements for approval and disbursement in the event of shock.** For an individual operation to be approved, the country must have an adequate macroeconomic environment, which will be determined through an Independent Assessment of Macroeconomic Conditions (IAMC). For each disbursement of funds, in addition to verification of the triggers (eligible events)

³⁷ The occurrence of any trigger will give the country the option of requesting DSL funds and, to the extent that the other conditions stipulated for the program are met.

³⁸ The 364 basis point threshold was calculated as the average differential between Ecuador’s EMBI and the EMBI for Latin America in the period from October 2012 to September 2014, plus one standard deviation in that period.

and of compliance with the Matrix of Protected Investment Expenditures and Programs, a determination must be made that the country's macroeconomic framework is adequate on a sustained basis.

- 3.7 **Special contractual conditions precedent to the first disbursement:** (i) the Bank has determined that the borrower's macroeconomic framework is adequate; (ii) one or more of the events (triggers) previously agreed upon between the borrower and the Bank has occurred (see paragraph 3.5); and (iii) the conditions set in the Matrix of Protected Investment Expenditures and Programs to protect the investment expenditures of the Human Development Bond (HDB) and the pensions of older adults and persons with disabilities have been met, and these programs and being duly financed by the borrower (see paragraph 3.11).

B. Summary of arrangements for monitoring results

- 3.8 **Requirements subsequent to DSL approval.** The Bank and the MINFIN will maintain a close dialogue throughout the drawdown period. During that period, the Bank will monitor the macroeconomic framework to ensure the existence of a set of cogent macroeconomic policies, as well as the Matrix of Protected Investment Expenditures and Programs, according to a schedule that meets the Bank's information needs, but at a minimum every six months.
- 3.9 **Monitoring of programs.** The Government of Ecuador, acting through MINFIN, will provide the Bank with the information it requires for the monitoring and evaluation proposed for this DSL. In particular, the Bank will receive the information required to estimate and monitor the indicators proposed in the Results Matrix.
- 3.10 **Ex post economic evaluation.** As mentioned in the economic analysis, the information required for the ex post calculation of cost-effectiveness is generated and compiled within the existing information systems of the Ministry of Economic and Social Inclusion (MIES), and additional information not generated by that ministry is prepared by other agencies (National Institute of Statistics and Censuses (INEC)) in the normal course of their operations. This will make ex post evaluation of the program by the Bank feasible.
- 3.11 **Failure to meet conditions.** The Bank will advise the borrower if any conditions are not being fulfilled in a prompt manner and determine the timing of a subsequent review to confirm that all conditions are again satisfied.
- 3.12 **Matrix of Protected Investment Expenditures and Programs.** The [Matrix of Protected Investment Expenditures and Programs](#)³⁹ lists the programs and investment expenditures, agreed upon with the Bank, that the borrower undertakes to protect under the HDB in the event of an economic shock, such that those programs benefiting the poor and vulnerable population are duly financed during

³⁹ Responsibility of MINFIN.

the DSL drawdown period. Any change to the matrix will require the prior written consent of the borrower and the Bank.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	(i) Lending to small and vulnerable countries and (ii) Lending for poverty reduction and equity enhancement.		
Regional Development Goals	Share of youth ages 15 to19 who complete ninth grade.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Individuals receiving targeted anti-poverty programs.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2680	Promote opportunities for the poorest families through an integrated social protection system.	
Country Program Results Matrix	GN-2756-2	The intervention is not included in the 2014 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.0		10
3. Evidence-based Assessment & Solution	9.7	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	4.0		
3.3 Results Matrix Quality	2.7		
4. Ex ante Economic Analysis	8.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	2.0		
4.2 Identified and Quantified Benefits	2.0		
4.3 Identified and Quantified Costs	2.0		
4.4 Reasonable Assumptions	2.0		
4.5 Sensitivity Analysis	0.0		
5. Monitoring and Evaluation	6.3	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	3.8		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
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	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)	Yes	Financial management: (i) Budget, (ii) Treasury, and (iii) Accounting and reporting.	
Non-Fiduciary	Yes	Strategic Planning National System.	
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	Women account for 70.3% of beneficiaries for the three programs.	
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The Bank has provided support to the Country trough Technical Cooperation EC-T1253, "Apoyo al diagnostico y evaluacion de la politicas sociales"	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The possibility of exogenous crisis to Ecuador, in a context of macroeconomic vulnerability marked by the dollarization of the economy and its dependence on flows associated with the oil markets, could impact tax revenues and public finances. This in turn could force the government to reduce social spending, including programs such as the Human Development Bond (BDH) and pension programs. Consequently, Ecuador may require resources whose availability is contingent on the eventual occurrence of a crisis.

The proposed project aims to help minimize the effects on the sustainability of social programs targeted for the poor and vulnerable populations, derived from exogenous economic events which might affect the country. This objective is achieved by granting a contingent Development Sustainability Credit Line in order to protect the sustainability of programs for the poor and vulnerable. The programs for which protection and sustainability will be provided are the BDH and the pension programs targeted at the elderly and the disabled.

The program's logic is clear: Value of the transfers maintained (Product) → Number of families protected (Result) → Expected rate of schooling (Impact). An economic analysis based on avoided economic impacts to BDH beneficiaries was undertaken given that under the program their incomes are protected. The Monitoring and Evaluation Plan proposes an ex post cost-effectiveness analysis.

Results Matrix

Program objective:	The program objective is to help minimize the effects of exogenous systemic economic shocks or events specifically impacting the country on the sustainability of investment expenditures in programs targeting the poor and vulnerable population.						
Indicator	Unit	Base	Year 1	Year 2	Year 3	Final/ target	Description/Source of verification
Outputs (sole component)							
Value of protected social transfers.	US\$ millions	0	300	300	300	300	Under this type of credit line, disbursements enabling transfers to be made can occur in any year. Another aim is to ensure that these social transfers are made, so there is an output even if the credit line is not disbursed, i.e., the transfers protected by the contingent contract. The calculation reflects the government's commitment to maintain a transfer floor from the time the contract is signed and for its duration. Source of verification: Ministry of Finance (MINFIN).
Outcomes (sole component)							
Number of persons benefitted per year.	000s	0	500	500	500	500	In line with the economic analysis, the assumption is that the program will protect the social transfers for the life of the contract (6 years) at a value of US\$600 equivalent per year per family. Source of verification: MINFIN.
Impact							
Average years of school enrollment for children aged 6 to 16.	Years of school enrollment	6.4 ¹				6.7	Source of verification: National Institute of Statistics and Censuses (INEC) and Ministry of Education of Ecuador.

¹ Ministry of Education of Ecuador (2013), Education indicators 2011-2012.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country and project number: Ecuador EC-L1145
Name: Development Sustainability Contingent Credit Line
Executing agency: Ministry of Finance (MINFIN)
Prepared by: Gumersindo Velázquez and Gustavo Palmerio
(FMP/CEC)

I. EXECUTIVE SUMMARY

- 1.1 These Fiduciary Agreements and Requirements were prepared on the basis of: (i) the fiduciary context of the country; (ii) the findings of the fiduciary risk evaluation; (iii) the analyses of the capacity of the Ministry of Finance (MINFIN); and (iv) the working meetings with the project team and MINFIN personnel and based on the financial management policy and procurement policies for IDB-financed projects.¹
- 1.2 MINFIN will use its existing management structure for the fiduciary management of the program, establishing the different roles, responsibilities, and procedures required for program execution. In the financial management area, the Bank's financial management policy and MINFIN's own policies will apply. The program funds will be disbursed to MINFIN, which will ensure that the social programs included in the Matrix of Protected Investment Expenditure and Programs are maintained, according to its authority.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 **Procurement system.** The National Public Contracting System (SNCP) was approved under the Act Establishing the SNCP in August 2008. Among the substantive changes introduced was the creation of the National Department of Public Contracting (SERCOP) as the lead agency for public procurement. SERCOP, with support from the Bank, conducted a diagnostic assessment of the SNCP using the OECD/DAC methodology and determined that the SNCP had an "advanced" level of development. On 25 February 2013, the Bank approved the use of the SNCP for procurement processes below the threshold for international competitive bidding (ICB). The Agreement for Use of the National Public Contracting System of the Republic of Ecuador in Projects Financed by the Inter-American Development Bank was signed on 13 May 2014, and amendatory contracts were signed in September 2014 for loans 2678/OC-EC, 2377/OC-EC, 2340/OC-EC, 2487/OC-EC, 3120/OC-EC, 3087/OC-EC, and 2950/OC-EC.

¹ Financial management policy and operational guidelines (documents OP-273-2 and OP-274-2); procurement policies and procurement function operational guidelines (documents GN- 2349-9, GN-2350-9, and OP-272-1).

- 2.2 **Financial management system.** Since January 2008, government institutions have been using the e-SIGEF Integrated Financial Management System, which effectively integrates the budgetary, accounting, cash management, and electronic payments processes with an information technology centralization architecture and the use of Web technology. Central government entities are also subject to control and oversight by the country's supreme audit institution, the Contraloría General del Estado [Office of the Comptroller General] (CGE). In general terms, the country's financial management systems have an adequate level of development. At present, they need to be supplemented, for the execution of Bank-financed projects, in the area of external audit by an independent audit firm, as indicated in paragraph 7.10.
- 2.3 The Republic of Ecuador is conducting a diagnostic assessment of public financial management performance using the Public Expenditure and Financial Accountability (PEFA) tool, an exercise financed by the European Union with active participation by the Bank as a member of the Oversight Committee. The preliminary report was delivered on 21 July 2014 and is under review by the parties involved. The period for comment on the report closes on 30 September 2014. Preliminary results suggest that substantial progress has been made in Ecuador in the area of public financial management.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 The Ministry of Finance (MINFIN) directs and manages the country's public finances, proposing financial and budgetary policies and ensuring public financial balance. For its operations, it uses the subsystems of the public financial management system.
- 3.2 MINFIN will execute the program under its organizational structure, establishing the necessary roles and responsibilities and determining the project-related financial and administrative procedures, such as budget, cash management, general accounting, and reporting. MINFIN is satisfactorily executing the Public Administration Institutional Reform Program (loan 2653/OC-EC) and the Program to Improve Public Service Quality (loan 3073/OC-EC). In activities under these programs it has demonstrated adequate institutional capacity for execution, and its staff have been gaining experience in the administration of financial management and procurement processes financed by the Bank.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 4.1 The fiduciary risk associated with the operation is regarded as low. Low fiduciary risk was identified based on the available program information and working meetings held (occurrence \times impact). Specifically, MINFIN may not request disbursement of the loan proceeds within the stipulated time following the triggers, and may not have made the budgetary allocation for the programs stipulated in the Matrix of Protected Investment Expenditures and Programs. This

risk is mitigated by the fact that MINFIN has an appropriate organizational structure and personnel, and is the government agency responsible for ensuring the availability of financial resources for fiscal planning and development.

V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 5.1 A suggested condition precedent to the first disbursement is that MINFIN continue to meet the conditions set in the Matrix of Protected Investment Expenditures and Programs, protecting the social programs and investment expenditures included in it, and that these programs are duly financed at the time of the corresponding disbursement request.

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 Given the nature of the program, no procurements of goods, works, or consulting services to be financed with the loan proceeds, subject to the Bank's policies, are envisaged.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 **Programming and budget.** The Code of Planning and Public Finance establishes the general rules governing the programming, formulation, approval, execution, control, evaluation, and liquidation of budgets. These rules are applicable to the execution of Bank-financed programs in the country. The e-SIGEF Integrated Financial Management System implements and standardizes the application of these rules throughout the national public management system. MINFIN will manage the disbursements and ensure that budgetary allocations are made for the program.
- 7.2 **Accounting and information systems.** Governmental accounting is performed using the e-SIGEF system, the parameters of which were determined according to the government chart of accounts issued by MINFIN. Official accounting for Bank-financed projects is performed using the e-SIGEF system, in accordance with the government chart of accounts and the budget classifier. MINFIN will be responsible for preparing financial reports and project status and progress reports.
- 7.3 **Disbursements and cash flow.** Program disbursements under the operation will be made by the Bank only in the event of an eligible event, according to the parameters (triggers) indicated in paragraph 3.5 of the proposal for operation development, during the life of the operation and the duration of general eligibility to request disbursements of the loan.
- 7.4 If a situation that could be considered eligible for actual disbursement of the loan proceeds occurs within the contractually agreed stipulated periods, MINFIN must send the Bank a request for verification of eligibility, together with a report explaining the situation. Once received, the Bank will determine whether the situation is eligible and immediately notify the borrower of its determination, requesting confirmation from the borrower of its disbursement intent.

- 7.5 Once the Bank has confirmed eligibility, MINFIN will prepare and process the disbursement request pursuant to the guidelines and time limits set in the “Proposal to establish a set of contingent lending instruments of the IDB” (document GN-2667-2) and the “Financial management policy for IDB financed projects” (document OP-273).
- 7.6 Beginning in 2008, the Government of Ecuador established a General Treasury Account mechanism, unifying cash management operations for all central government agencies. The implementation of this mechanism did not eliminate the system of special or specific-purpose accounts at the Central Bank of Ecuador (BCE) used exclusively to receive financing from multilateral loans, including from the IDB. Accordingly, MINFIN will open a registered account for the program’s exclusive use at the BCE, to receive loan proceeds.
- 7.7 MINFIN will provide supporting documentation of the use of loan proceeds in the form of a written statement of proper use, to be delivered to the Bank within 365 calendar days from the starting date of the eligible situation for which the Bank has made disbursements. That statement will include detailed information on the status of the situation with respect to the amounts effectively executed on the programs contained in the Matrix of Protected Investment Expenditures and Programs. The timing and frequency of the report may be modified by the Bank based the execution status and periodic risk updates.
- 7.8 **Internal control and internal audit.** With respect to internal control systems, the Constitution of the Republic of Ecuador stipulates that the CGE will be responsible for overseeing the control system, which is comprised of internal audit, external audit, and internal control of public sector entities, and as well as others using public resources.
- 7.9 MINFIN has its own Internal Audit Unit that reports directly to the CGE. However, the Bank will not use its services since its audit plans do not include a review of the program.
- 7.10 **External control and reports.** Due to the fact that the CGE currently has insufficient capacity to exercise external control over projects financed with external borrowing resources, external audit services, if required, will be performed by independent auditors acceptable to the Bank.
- 7.11 During execution, and for two years after the date of the last period for disbursement of the loan proceeds, the Bank may request audited project financial reports and eligible expenditure reports (ex post review of disbursements), in accordance with the Bank’s guidelines and based on terms of reference previously approved by the Bank. MINFIN will ensure the availability of the fiscal resources required to commission the audits, as well as timely delivery of the reports.
- 7.12 **Implementation mechanism.** The borrower will be the Republic of Ecuador. The executing agency will be the Ministry of Finance (MINFIN), which will be responsible for technical and financial management of the operation.

- 7.13 The ministries discharging the State's responsibility for the Human Development Bond (HDB) are the ministries of Health and Education, and the Ministry of Economic and Social Inclusion (MIES). MINFIN, as executing agency, will be responsible for ensuring allocation of the resources necessary for compliance with the guidelines stipulated in the Matrix of Protected Investment Expenditures and Programs, as well as for monitoring the status of their execution by the ministries involved.
- 7.14 To that end, MINFIN will channel the funds, provided that it considers that their proper management is consistent with this program's spirit of support for the social policies of the Republic of Ecuador. MINFIN will also assess whether, in its judgment, management of the HDB in terms of planning, structuring, coordination, operational supervision, legal supervision, and accounting and financial control is adequate for the funds to be channeled, and will provide the information necessary for adequate Bank monitoring, financial supervision, evaluation, and any other function necessary to achieve the program objective.
- 7.15 To facilitate timely loan verifications and audits by the Bank, MINFIN will be responsible for ensuring that the institutions responsible for the social programs eligible for the operation retain records and files available to the borrower, the Bank, or third parties designated by the Bank, containing the documentation for all eligible expenditures made with proceeds of the loan for a period of up to two years after the date of the last period for disbursement of the loan proceeds agreed upon between the borrower and the Bank.
- 7.16 Program financial monitoring will be based on financial reports (unaudited) produced by MINFIN's institutional information systems, and details of the necessary disaggregation will be provided in the notes to the reports and supplementary financial information prepared for such purpose.
- 7.17 In accordance with the monitoring plan, these reports will initially be required on a quarterly basis, and the frequency may be modified subsequently. These quarterly reports could be submitted no later than 45 days after the close of each calendar quarter. During the first six months of the project, the Bank will conduct onsite reviews of the financial information provided. The fiduciary risks will be reassessed, and a determination made as to whether changes are necessary in the timing and scope of the information provided and in the supervision plan.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/14

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Development Sustainability Contingent Credit Line

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 development sustainability contingent credit line. Such financing will be for the amount of up to US\$300,000,000 from the resources of the Bank's Ordinary Capital, that may be utilized for the approval and financing of individual operations, under the Development Sustainability Credit Line established by Resolution AG-9/12, 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 __ _____ 2014)

EC-L1145
LEG/SGO/IDBDOCS#3923918-14