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INTERNATIONAL FINANCE CORPORATION

AND

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF ECUADOR

FOR THE PERIOD FY19-FY23

June 11, 2019

**Bolivia, Chile, Ecuador and Peru Country Management Unit
Latin America and the Caribbean Region**

**The International Finance Corporation
Latin America and the Caribbean Region**

**The Multilateral Investment Guarantee Agency
Latin America and the Caribbean Region**

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The date of the last Country Engagement Note was March 15, 2016.

CURRENCY EQUIVALENTS

The US dollar is used as legal tender, effective January 2000

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
B40	Bottom 40 percent of the population
CAF	Development Bank of Latin America - <i>Banco de Desarrollo de América Latina</i>
CCT	Conditional Cash Transfer
CEN	Country Engagement Note
CPSD	Country Private Sector Diagnostic
CY	Calendar Year
EAP	East Asia and Pacific
ECA	Europe and Central Asia
EMBI	Emerging Market Bond Index
ESW	Economic and Sector Work
FDI	Foreign Direct Investment
FLAR	Latin American Reserve Fund
FM	Financial Management
FY	Fiscal Year
GDP	Gross Domestic Product
GoE	Government of Ecuador
HCI	Human Capital Index
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
INEC	National Institute of Statistics and Census
ISN	Interim Strategy Note
LAC	Latin America and the Caribbean
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Economy and Finance
MSME	Micro, Medium, and Small Enterprises
PPP	Public-Private Partnership
RAS	Reimbursable Advisory Services
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
WB	World Bank
WBG	World Bank Group

	IBRD	IFC	MIGA
Vice President:	Axel van Trotsenburg	Georgina Baker	Keiko Honda, EVP
Director:	Alberto Rodriguez	Gabriel Goldschmidt	Merli Margaret Baroudi
Task Team Leader:	Juan Carlos Alvarez Jimena Jesus	Ana Maria Torres	Bexi Jimenez Mota

**FY19-FY23 COUNTRY PARTNERSHIP FRAMEWORK
FOR
THE REPUBLIC OF ECUADOR**

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Executive Summary

- 1. The World Bank Group's Country Partnership Framework (CPF) for the Republic of Ecuador for the period FY19-FY23 is the first CPF prepared for the country in the last twelve years.** The CPF follows three distinct periods that have framed the World Bank Group's (WBG's) relationship with Ecuador. There was an extended period (FY07-FY14) in which the WBG had a limited dialogue with the Government of Ecuador (GoE, the Government), followed by a two-year period in which the policy dialogue, analytical work and lending operations were re-initiated in targeted areas of engagement, under the framework of the FY14-FY15 Interim Strategy Note (ISN). Finally, in early 2016 during a period of uncertainty amidst a rapidly changing context, the WBG Country Engagement Note for the period FY16-FY17 provided the structure for a continued reengagement in limited, focused areas, and helped develop deeper knowledge about Ecuador's broader development challenges through strategic analytical work that would help advance towards the preparation of a broader, medium-term engagement framework for the WBG.
- 2. This CPF has been prepared at a critical juncture for Ecuador marked by important economic and political shifts.** The consequences of the previous public sector-led growth economic model have become apparent. The Government is both embarking upon a fundamental redesign of that model towards one of private sector-led growth as a way to rebalance the economy, generate employment opportunities in a sustainable way, and protect service delivery. President Lenin Moreno was elected for a four-year term in April 2017 and has developed a political and governance reform agenda that represents a significant shift from that of the previous administration, demonstrating a renewed openness towards building a partnership with key private sector stakeholders and international financial institutions. With a strong private sector focus, the Government is leading important efforts to ensure the alignment and efficiency in the contributions of both national and international financial institutions in support of its *Plan de Prosperidad 2018-2021*.
- 3. Ecuador's previous public sector-led growth strategy produced significant social gains, but it unveiled deep-rooted macroeconomic imbalances; the country is struggling to adapt to the new reality of low oil prices and tightened external financing.** Poverty fell from 37 to 22 percent of the population between 2007 and 2017, and shared prosperity improved. GDP growth averaged 4.8 percent per annum as public expenditure doubled based on high oil revenues and external financing. However, Ecuador dismantled its sovereign oil funds and incurred a selective debt default. As a dollarized economy with limited fiscal buffers, Ecuador could neither depreciate its currency nor implement countercyclical fiscal policies in response to plummeting oil prices. Ecuador's economy fell into a recession in 2016, while the fiscal deficit rose to a peak of 7.2 percent of GDP. With fiscal and external assets depleted, the Government responded by increasing public debt, which more than doubled from 17 percent of GDP in 2012 to 27 percent of GDP in 2018. A non-conducive business environment, coupled with weak transparency and accountability in the country's institutions, have severely dampened private investment.
- 4. Ecuador is shifting towards a private sector-led economic model to reignite the economy and support fundamentals for inclusive and sustainable growth.** The Government is rebalancing its economy through a gradual fiscal consolidation and the promotion of private investment. As a fully dollarized economy, Ecuador relies on budgetary consolidation to rebalance its economy, and the Government has adopted measures to reduce expenditures and foster private investment, moving away from the state-led development strategy. For this, it needs to introduce predictability to the private sector's regulatory framework and address numerous price and labor policy distortions that constrain factor reallocation and investments, a situation further exacerbated by elevated tariffs and taxes on external flows. By addressing distortions in the financial sector, the Government aims to have more resources channeled to financing private investments.

5. **While it is critical for attaining macroeconomic stability, the fiscal consolidation will dampen economic growth in the short-term putting pressures on social outcomes and challenging the Government to protect the poor and vulnerable during this period.** Expenditure cuts will keep GDP growth below one percent up to 2020, but the economy is expected to start a recovery in 2021 on the back of non-oil exports and private investment. The dampening of economic growth will likely put pressure on social outcomes and jeopardize previous gains in reducing poverty and improving shared prosperity. With lowering labor earnings and declining public transfers, poverty reduction may stagnate, with increasing disparities between regions, income levels, and gender. Therefore, during the fiscal consolidation process, and until economic growth and subsequent employment generation is achieved, implementation of well-targeted social programs will be fundamental to protect the poor and vulnerable.

6. **The Government is seeking the support of the international financial institutions for its fiscal consolidation efforts that will set solid foundations for sustainable economic growth, while protecting the vulnerable.** Ecuador has reached an agreement with the International Monetary Fund (IMF) on a set of policies to be implemented over three years that provide the foundation for a US\$4.2 billion Extended Fund Facility (EFF)¹ and the CPF complements the IMF's program of reforms. The EFF is part of a broader effort by the international community that includes financial assistance of almost US\$6 billion over three years from the Development Bank of Latin America (CAF), the Inter-American Development Bank (IDB), the Latin American Reserve Fund (FLAR), and the World Bank (WB). This external financing will also help put in place and maintain a strong safety net to protect the poorest 40 percent (B40) of the population from the hardship of the economic restructuring.

7. **The CPF builds heavily upon the knowledge and experience acquired during the previous reengagement period, while at the same time addressing the Government's expressed interest in counting upon a strong program of WBG assistance to help tackle the country's key development issues over the next five years.** The challenges and opportunities identified in the Ecuador 2018 Systematic Country Diagnostic (SCD) converge with the Government's priorities outlined in the *Plan de Prosperidad* stressing the need to support macroeconomic stabilization, protect the vulnerable, and reignite a more sustainable growth. Based on this, the main outputs to be delivered during this CPF center around the following three Result Areas are:

- **Supporting Fundamentals for Inclusive Growth:** Addressing the current macroeconomic imbalances, removing the barriers to private economic activity, and enabling the financial sector to better intermediate the allocation of resources to the most productive uses are essential measures for achieving sustainable and inclusive growth. Moreover, the removal of distortions and the strengthening of state institutions' capacity should lead to a more balanced playing field between the public and private sectors. This, in turn, should drive productivity gains in most lagging sectors.
- **Boosting Human Capital and Protecting the Vulnerable:** Expanding access to income generating and economic opportunities will be critical to build human capital and to protect the vulnerable. Improving access to basic services and quality education, as well as addressing malnutrition and stunting are particularly crucial to build human capital. In this context, protecting the vulnerable through well-targeted social programs is a cornerstone of the ongoing efforts to increase the efficiency of public investment and enable a fiscal consolidation.

¹ Performance criteria for the EFF include a reduction in the non-oil primary deficit of the non-financial public sector (NFPS) (including fuel subsidies), an increase in net international reserves (excluding bank deposits held at the Central Bank), and floors to social assistance spending. Structural benchmarks focus on improving statistics and reporting, the public financial management (PFM) and fiscal frameworks, tax structure, autonomy of the Central Bank, as well as anti-corruption instruments.

- **Enhancing Institutional and Environmental Sustainability:** Strengthening the Government’s capacity to make timely and evidence-based decisions is fundamental. The focus on improving Government’s effectiveness and resilience will therefore center on bolstering the capacity to make decisions on a timely basis and to ground these on solid evidence to, inter alia, promote sustainability at the social, environmental and institutional levels.

8. **The CPF represents a significant scale up of the WBG’s ongoing engagement in Ecuador and requires the WBG—the World Bank (WB), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) to work in a closely coordinated and complementary fashion in support of the CPF objectives and program.** The WB, IFC, and MIGA will continue working together to deliver top quality support to Ecuador’s efforts at building a thriving private sector, and maximize finance for development, including in the design of Development Policy Financing (DPF) operations. In this new context, the WBG will be: (i) front-loading its financial support for the current efforts at macro-stabilization, revival of the private sector, and protection of the poor and vulnerable; (ii) continuing to produce quality and timely Advisory Services and Analytics (ASA); (iii) increasing its partnership with other International Financial Institutions (IFIs) and development partners; (iv) continuing to look for investment opportunities with companies in several sectors (e.g. agribusiness, manufacturing and financial institutions) and where enabling conditions are improved (e.g. mining), and (v) scaling its dialogue with multiple stakeholders in the country, including the private sector and civil society organizations, to assure complementarity and the mutual reinforcement of their agendas. The Performance and Learning Review (PLR), scheduled for FY21, will provide the opportunity to take stock of progress towards CPF objectives and determine how best to adjust, continue, and deepen the WBG’s engagement in Ecuador.

**FY19-FY23 COUNTRY PARTNERSHIP FRAMEWORK
FOR
THE REPUBLIC OF ECUADOR**

I. INTRODUCTION

1. **The World Bank Group’s Country Partnership Framework (CPF) for the Republic of Ecuador for FY19-FY23 is the first CPF prepared since 2007.** Following a decision by the Government of Ecuador (GoE, the Government), the relationship between the World Bank Group (WBG) and Ecuador was suspended in 2007² indefinitely until a strategy for gradual reengagement was initiated in FY14. World Bank (WB) expertise was mobilized to prepare specific analytical work and lending operations in targeted areas of engagement. A WBG Interim Strategy Note (ISN) was prepared for FY14-FY15, followed by the Country Engagement Note (CEN) for the period FY16-FY17. The latter allowed for further reengagement in key areas and helped develop deeper knowledge about Ecuador’s broader development challenges. Finally, discussions around technical notes³ (2016) and the Systematic Country Diagnostic (SCD)⁴ helped to build collaborative relationships with the current administration and advance towards the preparation of a broader, medium-term engagement framework for the WBG.

2. **The CPF responds to Ecuador’s development needs and present economic challenges, in line with the Government’s agenda and the knowledge acquired during the reengagement period.** The country has suffered periods of political and economic instability, with high inflation, financial crisis, and low growth, which finally led to the adoption of the US dollar in 2000. Dollarization stabilized the economy and provided opportunities for investment, employment, credit, and poverty reduction. The Government adopted an expansive procyclical fiscal policy during the last oil price boom. These conditions helped reach important economic and social outcomes but did not build the necessary buffers to face the drop in oil prices in 2014. Ecuador is now trying to rebalance its economy through a gradual fiscal adjustment, combined with increased private investments. To achieve this, the current administration is moving away from the state-led development strategy and welcoming the recommendations from national and international financial institutions. In fact, the WBG’s SCD and its complementary Country Private Sector Diagnostic (CPSD), as well as the International Monetary Fund (IMF) assessment from June 2018 coincide in the overarching importance of achieving macroeconomic stability and strengthening private sector participation, in order to restore current imbalances. These three assessments also stress that social gains achieved in Ecuador to date, are particularly vulnerable to fiscal adjustments and increasing natural hazard risks. Therefore, the CPF focuses on supporting both the fundamentals for sustainable and inclusive growth and protection of the vulnerable, including those living in socio-economically disadvantaged regions, female-headed households, children, those living with disabilities, or in human mobility and indigenous people.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

A. Political Context and Governance

3. **President Lenin Moreno Garcés took office on May 24, 2017, following the 2007-2017 administration of ex-President Rafael Correa.** President Lenin Moreno served as vice president for six years under ex-President Correa.

² Before the suspension in 2007, the WBG engagement was framed by the Country Assistance Strategy (CAS) prepared for 2003-07 (Report No. 100012-EC, dated April 29, 2003).

³ A set of technical notes was prepared during the presidential election period and discussed with the entering administration in 2016

⁴ The Systematic Country Diagnostic for Ecuador (P164098) was published in 2018 (Report No. 127987) <http://documents.worldbank.org/curated/en/835601530818848154/Ecuador-Systematic-Country-Diagnostic>.

Since elected, President Lenin Moreno distanced himself from the agenda and vision of the previous administration by, inter alia, seeking alliances with International Financial Institutions (IFIs), promoting private sector investment, and enforcing an anti-corruption and transparency agenda. Before completing his first two years in office, President Lenin Moreno has twice renewed the composition of his cabinet. On both occasions, he has brought in members from the private sector, while removing senior members of the previous administration.

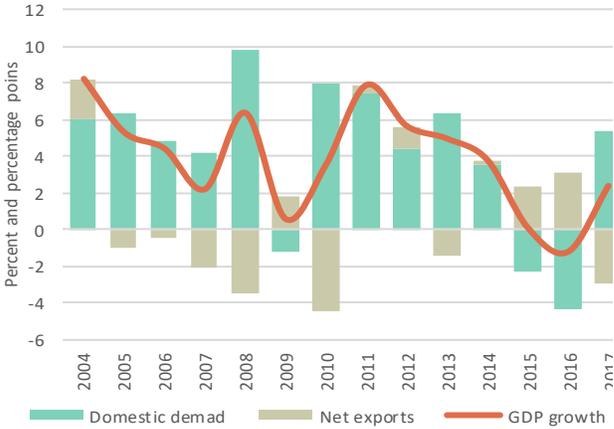
4. Key structural reforms have been announced as well as measures to minimize potential social impact.

President Lenin Moreno’s reforms continue to distance his administration from the previous political agenda. In that context, support from the National Assembly might become difficult to obtain and the implementation of structural reforms risks some delays. Nevertheless, national and international evidence have confirmed that a fiscal adjustment is imperative for reestablishing macroeconomic stability and a solid program to mitigate the impact on the less-privileged is critical.

5. The country is facing the consequences of having high levels of public spending in a context of volatile oil prices in the absence of fiscal buffers.

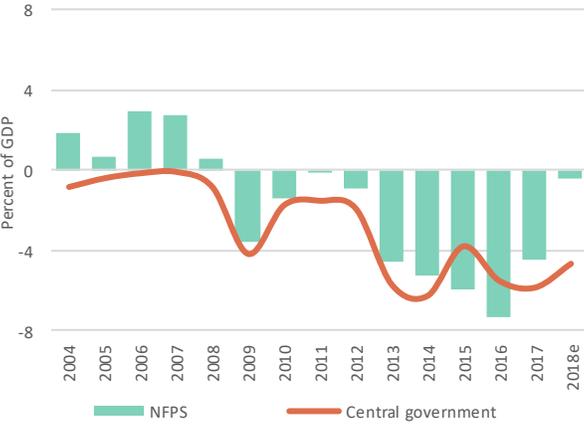
As oil prices boomed between 2001 and 2014, annual GDP growth averaged 4.5 percent per annum (above the regional average of 3.5 percent) and 1.4 million Ecuadorians escaped poverty.⁵ The still-high oil prices, allowed the GoE to pursue an ambitious program of public investment that fueled domestic demand but depleted fiscal savings. With a dollarized economy and limited fiscal buffers, Ecuador could neither depreciate its currency nor undertake countercyclical fiscal policy when oil prices fell in 2014. As revenues plummeted, spending declined sharply. Even so, fiscal deficits widened, arrears accumulated, and the public debt has more than doubled since then. The result was that economic growth declined sharply and poverty reduction stalled (Figure 1 and Figure 2).

Figure 1: GDP growth



Source: Central Bank of Ecuador and staff’s estimates

Figure 2: Fiscal Balance



Source: Central Bank of Ecuador and staff’s estimates

6. As volatile oil prices are likely to be the ‘new normal’ in the years to come, addressing macro-fiscal imbalances will be critical for stabilizing, reigniting, and sustaining economic growth and social progress.

Bringing the fiscal accounts to a sustainable position will help reduce uncertainties, relieve external pressures, and safeguard the dollarization regime, while creating conditions for growth to accelerate. A fiscal adjustment will inevitably entail rationalizing public investments, particularly current spending. This should be achieved through efficiency gains that preserve recent social achievements and protect the vulnerable.

⁵ Poverty measured by income levels as reported in the SCD (2018).

B. Recent Economic Development and Prospects

7. **After sustaining more than a decade of high growth on the back of high oil prices, Ecuador has seen a marked slowdown in GDP growth since oil prices plummeted in mid-2014.** GDP growth in the 2001-2014 period averaged 4.5 percent, well above the average growth for the Latin America and the Caribbean (LAC) region. This remarkable episode of stable growth marked a break with two decades of booms and busts. It was initially driven by stabilization reforms and the decision to adopt the US dollar as the national currency in the early 2000s but was then fueled by favorable external conditions. Ecuador, an oil exporting country, benefitted from a large increase in oil prices. As oil prices plunged from US\$106 per barrel in July 2014 to US\$30 per barrel in January 2016, GDP was stagnant in 2015 and contracted 1.2 percent in 2016. Growth resumed in 2017 on the back of external financing, recovering oil prices, and the recovery of domestic credit, but lost momentum again in 2018. The growth stands at 1.4 percent in 2018, as the ongoing fiscal consolidation, declining oil production, and declining private demand slowed economic activity.

8. **An integral part of the economic boom can be explained by the rising role of the public sector.** During the oil price boom, Ecuador reached high economic growth but did not build resilience to face a more challenging external context. The period of high growth has been associated with a sharp increase in the public sector footprint (Box 1). GDP growth was boosted by the expansion of public expenditure, financed by both high oil revenues and external funding. With a focus on improving infrastructure and service provision, public expenditure increased from 21 percent of GDP in 2006 to 44 percent in 2014. Current spending expanded by 11.5 percentage points of GDP between 2006 and 2014, driven by wages and salaries, social security contributions, and, most notably, other expenditures including items such as oil imports, fuel subsidies, and service fees to private oil operators⁶. The purchase of goods and services also expanded in the later part of this period. Capital spending expanded by about 9.5 percentage points of GDP in the same period, as a sizable share of the oil windfall was directed to investment projects in infrastructure and energy, and to social programs⁷. These items fueled domestic demand, intensifying the growth dividends from the commodity boom.

9. **The public-sector dynamics also explains the sharp slowdown since 2014.** The public expansion was financed by oil revenues, dissaving, and external funding. During this time, the Government dismantled sovereign oil funds and incurred in a selective debt default despite benign external conditions. Other measures, including changes to oil contracts, further eroded Ecuador's investment climate and stymied private investment. Regulatory changes, such as changes to the labor code, created rigidities in the labor supply and eroded the private sector's competitiveness. These policies, in turn, hampered the country's ability to respond to the negative external shock that hit in 2014. The selective default and the lack of macroeconomic buffers increased the country's risk ratings, limiting access to the external funding needed to smooth the fiscal and external adjustments facing Ecuador's dollarized economy. With limited options, the Government resorted to large cuts in investment spending and to costly or opaque methods of financing, which had a strong negative effect on activity. With its competitiveness eroded by the real exchange rate appreciation and labor market and price rigidities, Ecuador's stagnant and underinvested private sector was unable to offset the decline in public demand.

⁶ Interest payments decreased due to a selective default of international bonds worth US\$3.2 billion. In December 2008 the government stopped payments of Global 2012 and 2030 bonds even though they had the resources to do so. In 2009 it bought back US\$2.9 billion worth of defaulted bonds at US\$900 million, hence reducing interest payments by about US\$300 per year.

⁷ Many social programs are classified as investment spending in Ecuador

Box 1: Impacts of a public sector-driven growth on Ecuador's private sector activity

The oil boom of the early 2000s allowed the Government to embark on an ambitious agenda to improve roads, housing, schools, and hydroelectric generation. Ecuador's public investment was the highest among its structural peers, averaging 11 percent of GDP between 2007 and 2014. Many of these investments helped the country improve social outcomes and its infrastructure—access to education and health services increased and key transport infrastructure was built. Moreover, as the public sector injected resources from the oil boom into the economy, aggregate economic activity and household income increased.

Notwithstanding its benefits, the growth model of the boom years was unsustainable and constrained private sector development. Changes to the labor code to expand and improve benefits to workers also reduced flexibility to adjust to shocks. These changes significantly increased the minimum wage and costs associated with separation benefits for employees (which are the highest among peers). The Government also promoted an import substitution strategy whereby tariffs on imports were increased to protect domestic production. In addition, the Government introduced capital outflow taxes and tariff surcharges to limit balance of payments imbalances, especially in times of stress such as the global financial crisis and the oil price drop. While many of these policies tackled priorities in the Government's social and macro agenda at the time, they also introduced costs and rigidities to the private sector.

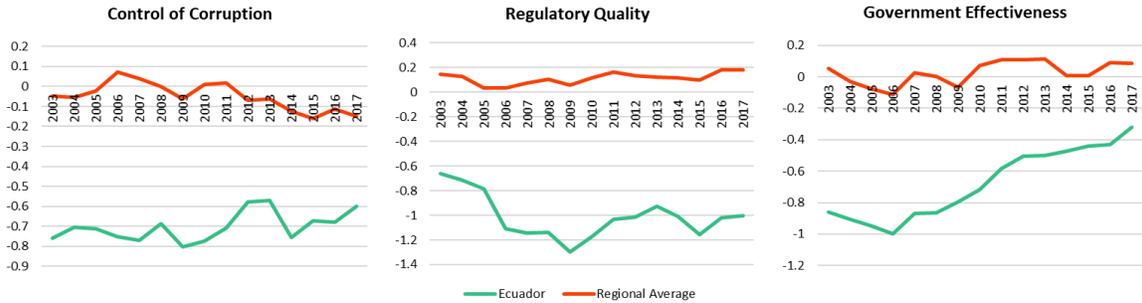
In addition, the public sector-driven growth model observed between 2007 and 2017 had a negative impact on the private sector through factor prices. The ambitious agenda to expand the footprint of the Government translated into an expansion of public employment. Indeed, between 2009 and 2016 public employment growth outpaced private employment growth by 15 percentage points. Moreover, employment growth was above average in non-tradeable activities like construction and public services, while it was below average in manufacturing and agriculture. At the same time, wages for public employees increased, putting upward pressures on private sector wages (World Bank 2018).

As a result, the competitiveness of Ecuador's tradeable sector was weakened during the oil price boom. The high growth of the 2007-2017 period was driven mainly by factor accumulation; total factor productivity stagnated. Labor productivity also grew at a slower rate than wages. The high costs of labor and non-tradeable services combined with weak productivity growth resulted in a noticeable erosion in Ecuador's competitiveness. The country's real exchange rate, a measure of competitiveness, appreciated more than that of other countries that benefitted from the commodity boom, and remained appreciated after oil prices dropped.

10. **Amid improvements in the business climate, increasing private sector investments has partially cushioned the effect of public investment cuts over the last two years.** Although capital expenditure by the Non-Financial Public Sector (NFPS) dropped by about eight percentage points of GDP (from 15 to below 7 percent) between 2014 and 2018, the overall gross capital formation remained at around 26 percent of the GDP over the same period. This is because policy reforms have helped improve the investment climate since 2017, resulting in an increase of private investment over the same period. The GoE seeks to enhance the space for private sector investment so it can contribute to economic growth and support the process of fiscal consolidation underway to set the base for future productivity gains. This will imply correcting a non-conducive business environment through stronger governance performance. As the World Governance Indicators illustrate, Ecuador has performed well below its regional peers with respect to regulatory quality and control of corruption (Figure 3). This is true for government effectiveness as well, although this indicator has seen a recovery recently. Furthermore, Ecuador has not achieved an investment grade; it is currently holding a B3- credit rating from Moody's. To regain investors' trust, the Government passed a Law on Productive Development, Investment Attraction, Job Creation, and Fiscal Stability which introduced a first round of reforms in the areas of fiscal responsibility, provision of investment incentives, and international settlements of disputes for investments are geared toward improving fiscal sustainability and promoting private investment. The Government also introduced flexible labor contracts for agribusiness and fisheries. In addition, it is exploring implementation of Public-Private-Partnerships (PPPs) in key sectors. In the oil sector, *PetroAmazonas* signed oil service contracts that replaced fixed payments for variable

fees based on international oil prices and the Government introduced an option for signing production sharing contracts. Similarly, the Government has accelerated the negotiation of trade and investment agreements with the United States, the Pacific Alliance (Chile, Peru, Colombia, and Mexico), Canada, and Japan, among other countries.

Figure 3: World Governance Indicators for Ecuador and Regional Peers



Source: World Governance Indicators, World Bank (2018)

11. **Despite initial efforts to curb public spending, the fiscal deficit widened, and the public debt soared.** Since 2014, capital spending of the NFPS has declined by 9 percentage points of GDP, reaching 6.6 percent in 2018, approaching the level of regional peers like Colombia and Peru. However, the rigid nature of current expenditure (for example, wage payments to public servants) limited the Government’s ability to adjust public expenditure to the new reality. The Government tried to prevent a sharper expenditure consolidation by tapping into diverse sources of financing (Table 1). These sources included standard international bond issuances and budget support from bilateral and multilateral creditors, and non-standard financing instruments such as advanced oil sales, Central Bank financing, and arrears. Despite these and other temporary revenue-raising measures, the fiscal deficit remained above 4.5 percent between 2014-2017 and NFPS debt increased from 27 percent of GDP in 2014 to 45 percent in 2017.⁸ Many of these policies hampered economic activity. For example, amid a deterioration of the Central Bank’s balance sheet due to lending to the public sector and arrears with the private sector, the country’s liquidity was reduced, and credit and domestic demand shrunk (Table 2).

% of GDP	2014	2015	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
Gross financing needs	9.4	11.5	12.8	9.5	9.9	4.5	2.5	-0.1	2.0	1.4
Fiscal deficit	-5.2	-6.0	-7.3	-4.5	-1.2	-0.4	2.2	2.6	2.5	2.4
External debt amortizations	1.7	2.1	1.8	2.8	2.9	2.6	4.0	1.8	3.9	3.2
Amortizations of other external liabilities	1.8	1.9	1.5	1.2	1.6	0.8	0.4	0.5	0.4	0.4
Assets purchases	0.0	0.1	0.9	0.1	0.6	0.0	0.0	0.0	0.0	0.0
Domestic debt amortization	0.7	1.3	1.2	1.0	3.9	0.7	0.2	0.2	0.2	0.2
Financing sources	9.4	11.5	12.8	9.5	9.9	4.5	2.5	-0.1	2.0	1.4
External debt disbursements	6.3	4.9	7.3	8.5	6.6	5.5	3.6	2.2	1.9	1.9
Disbursements of other external liabilities	1.5	2.4	2.2	0.4	1.3	0.4	0.4	0.4	0.4	0.4
Domestic debt disbursements	2.0	0.9	1.2	3.3	3.3	0.5	0.0	0.0	0.0	0.0
Treasury certificates, net	0.2	0.7	3.1	-2.6	-0.5	-0.5	0.0	-0.3	0.0	-0.5
Accumulation of other liabilities, net	0.5	2.6	-0.1	-0.2	0.3	-1.0	-0.3	-0.4	-0.4	-0.3
Depletion of public deposits, net	-0.1	1.0	-1.4	-0.5	-1.0	-0.4	-1.3	-2.0	0.0	0.0
Discrepancy and financing gap	-0.9	-1.1	0.5	0.6	-0.1	0.0	0.0	0.0	0.0	0.0

Source: Central Bank of Ecuador, Ministry of Economy and Finance, and staff’s estimates.

⁸ NFPS debt estimated by the WBG staff as official debt reports refer to the aggregate public debt. The NFPS debt is composed by the external debt and the domestic debt held by the private sector, the Central Bank and other public financial institutions. External debt includes the official external debt, advanced oil sales, and a financial operation with Schlumberger. The domestic debt includes the treasury certificates (CETES), letters of credit related to fuel imports, the arrears of PetroAmazonas and the Hydrocarbons Secretary with the private oil companies, and other payables

12. **The new economic team that took office in the Ministry of Economy and Finance (MoF) in May 2018 has pursued an orderly and gradual fiscal adjustment but has faced challenges.** The team established the goal of gradually reducing the overall fiscal deficit over a four-year period and of reducing debt to the 40 percent debt ceiling over the same period as part of the Law on Productive Development, Investment Attraction, Job Creation, and Fiscal Stability.⁹ The adjustment focuses on reducing current expenditure to levels that are consistent with non-oil revenues. The initial roll-out of the consolidation plan suffered some setbacks stemming from rigidities in current expenditures, higher interest payments, and weaknesses in the budgetary process. As a result, most of the adjustment for the year relied again on capital spending cuts.

Table 2: Key Fiscal Indicators

% of GDP	2014	2015	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
Overall balance of the NFPS	-5.2	-6.0	-7.3	-4.5	-1.2	-0.4	2.2	2.7	2.6	2.5
Primary balance	-4.2	-4.6	-5.8	-2.3	1.3	2.1	4.7	5.2	5.0	4.7
Revenue	38.4	33.6	30.3	32.0	35.9	35.3	36.9	36.3	36.1	35.7
Oil revenues	10.7	6.5	5.4	5.6	8.0	7.7	7.6	7.4	7.2	7.0
Tax revenues	18.9	20.8	18.8	18.7	19.3	18.2	19.7	20.1	20.1	20.1
Taxes on goods and services	7.1	7.2	6.2	6.6	6.8	6.2	7.4	7.9	7.9	7.8
Taxes on international trade	1.3	2.0	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Income tax	4.1	4.8	3.6	3.6	4.4	3.9	4.2	4.2	4.2	4.2
Social security	4.6	5.1	4.7	5.2	5.1	5.1	5.2	5.2	5.3	5.3
Other taxes	1.7	1.6	2.6	1.9	1.6	1.6	1.6	1.4	1.4	1.4
Operative balance of SOEs	4.1	1.1	0.6	2.0	2.4	2.3	2.4	2.3	2.3	2.2
Other	4.7	5.1	5.5	5.7	6.2	7.1	7.2	6.5	6.5	6.5
Expenditure	43.6	39.5	37.6	36.5	37.1	35.7	34.7	33.6	33.5	33.3
Expense	28.5	27.7	26.6	27.2	30.5	29.2	28.5	27.9	27.9	27.7
Compensation of employees	9.3	10.0	10.0	9.9	9.8	9.3	9.0	8.8	8.8	8.8
Purchases of goods and services	5.2	5.1	4.7	4.8	5.7	5.2	5.2	5.0	5.1	5.0
Interest	1.0	1.4	1.6	2.1	2.5	2.5	2.5	2.5	2.4	2.2
Domestic	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Foreign	0.8	1.1	1.3	1.8	2.1	2.2	2.2	2.2	2.2	2.0
Social security	3.6	4.3	4.7	4.8	5.0	5.2	5.3	5.5	5.6	5.7
Other expense	9.3	6.9	5.7	5.5	7.5	6.9	6.6	6.1	6.0	6.0
Capital expenditure	15.1	11.8	11.0	9.3	6.6	6.6	6.2	5.7	5.6	5.6
NFPS financing	5.2	6.0	7.3	4.5	1.2	0.4	-2.2	-2.7	-2.6	-2.5
External, net	4.3	3.1	5.2	4.9	2.7	2.4	-0.4	0.3	-2.0	-1.4
Domestic, net	0.9	2.9	2.1	-0.5	-1.5	-2.0	-1.8	-3.0	-0.6	-1.1
NFPS debt	26.7	33.4	42.3	45.0	46.0	47.1	45.0	43.7	39.7	35.8
External debt	18.7	22.3	28.1	32.0	34.0	36.1	35.0	34.5	31.3	28.9
Domestic debt	8.0	11.1	14.1	13.0	12.0	11.0	9.9	9.3	8.3	7.0

Source: Central Bank of Ecuador, Ministry of Economics and Finance, and staff's estimates.

13. **While the NFPS deficit has declined quickly in the past two years, adjustment in the central government deficit has been gradual.** The NFPS deficit fell from a peak of 7.3 percent of GDP in 2016 to an estimate of about 1.2 percent in 2018 on the back of improving oil prices and capital expenditures cuts (Table 2). However, the central government deficit has declined modestly, from 5.6 percent in 2016 to an estimated 3.8 percent in 2018, as higher oil prices benefited mostly public firms outside the central government and increased the cost of subsidies. In fact, higher oil exports allowed state oil enterprises to reach sizable surpluses and reduce their arrears with private agents.

14. **Limited access to global financial markets forced Ecuador to tap alternative sources of financing in 2018, but financing prospects improved with the signing of an agreement with the IMF early this year.** The Government financing needs for 2018 (7 percent of GDP - Table 2) were met mainly from sources, such as: (i) repurchase agreements with Goldman Sachs and Credit Suisse; (ii) advanced oil sales agreements signed by the previous administration; (iii) the Latin American Reserve Fund (FLAR); and (iv) short-term borrowing from state-owned enterprises with excess liquidity. The Government placed US\$ 3 billion in bonds in January 2018 but

⁹ This law also allows the Government to temporarily lift the debt ceiling to implement the ongoing fiscal consolidation process.

refrained from accessing markets during the rest of the year in view of high costs and volatility. On January 2019, Ecuador issued 10-year bonds for an amount of US\$1 billion in the international markets at a rate of 10.75 percent, the highest since it returned to markets in 2015. This rate reflected markets' perception of insufficient efforts to stabilize fiscal accounts, in a context of increasing interest rates and volatile oil prices. However, on March 11, 2019, the IMF's Board of Directors approved an Extended Financing Facility (EFF) for Ecuador amounting to US\$4.2 billion over three years that conveyed credibility to markets. Ecuador's sovereign spreads, which had increased from 600 basis points in mid-September 2018 to around 820 points basis point in late December 2018, returned to 600 basis points in March 2019.

15. On the fiscal front, the Government is aiming to reach primary balance through a gradual consolidation. The Government was able to reduce expenditure through a sizable reduction of central government capital expenditures and capital expenditures of SOEs. However, to reach its goal of achieving the central government primary balance by 2021, the Government is implementing additional reforms. These include a new tax amnesty, the reduction of ministries and other public institutions, the termination of temporary contracts, improvements in procurement processes, the optimization of operations of SOEs, and a selective reduction of fuel subsidies. The Government is also committed to protect and improve social expenditures. In this respect, it intends to better target social programs, including conditional cash transfers.

16. Ecuador's medium-term macroeconomic prospects depend on fiscal consolidation. The NFPS balance is expected to improve from a deficit of about 1.2 percent of GDP in 2018 to a surplus of about 2.7 percent by 2021. Consolidation efforts, including efforts to curb current spending and improve revenue collection will account for a large share of the adjustment and compensate for higher interest expenses. Plans to selectively reduce fuel subsidies, terminate temporary public employment contracts, improve procurement processes, reduce the number of public institutions, and optimize state-owned enterprise (SOE) operations will also contribute to improving the NFPS balance. This scenario assumes that oil production will remain flat between 2019 and 2023 because the Government's efforts to increase production will be offset by the maturing oil fields and Organization of the Petroleum Exporting Countries (OPEC) production quotas. In this context, the NFPS debt is expected to fall below 40 percent of GDP by 2023. A rebalancing of public debt, from domestic to external debt, is also expected. Increased external debt in the early years of the adjustment could help mitigate the economic impacts by boosting international reserves and helping the Government clear its arrears and other liabilities. Growth is expected to remain subdued during the upcoming years, but macroeconomic reforms will set the ground for growth to reignite by 2022-2023 (Table 3).

	2014	2015	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
Real sector, annual percentage change, unless otherwise indicated										
Nominal GDP (US\$ billion)	101.7	99.3	99.9	104.3	108.4	109.5	111.7	114.5	118.5	122.8
Population (million)	15.9	16.1	16.4	16.6	16.9	17.1	17.4	17.4	17.4	17.4
GDP per capita (US\$)	6397	6150	6099	6274	6414	6403	6419	6580	6810	7057
GDP growth	3.8	0.1	-1.2	2.4	1.4	0.0	0.4	0.8	2.1	2.1
Private Consumption (Contribution)	1.7	-0.1	-1.5	2.3	1.6	0.2	0.4	0.8	1.0	1.0
Government Consumption (Contribution)	1.0	0.3	0.0	0.5	0.4	-1.0	-0.3	-0.1	0.3	0.3
Gross fixed capital formation (Contribution)	0.6	-1.7	-2.2	1.2	0.5	0.4	0.1	0.1	0.7	0.8
Changes in inventories (Contribution)	0.3	-0.8	-0.6	1.4	0.2	0.0	0.0	0.0	0.0	0.0
Net exports (Contribution)	0.2	2.3	3.1	-3.0	-1.4	0.4	0.2	0.0	0.0	0.0
GDP deflator	3.0	-2.5	1.9	1.9	2.5	1.1	1.5	1.7	1.4	1.5
Consumer price index (p.a.)	3.6	4.0	1.7	0.4	-0.2	0.6	1.2	1.4	1.0	1.0
Fiscal accounts, percent of GDP										
Public revenues	38.4	33.6	30.3	32.0	35.9	35.3	36.9	36.3	36.1	35.7
Public expenditure	43.6	39.5	37.6	36.5	37.1	35.7	34.7	33.6	33.5	33.3
o.w. Capital expenditure	15.1	11.8	11.0	9.3	6.6	6.6	6.2	5.7	5.6	5.6
Overall fiscal balance	-5.2	-6.0	-7.3	-4.5	-1.2	-0.4	2.2	2.7	2.6	2.5
NFPS debt	26.7	33.4	42.3	45.0	46.0	47.1	45.0	43.7	39.7	35.8
Balance of payments, percent of GDP, unless otherwise indicated										
Current account balance	-0.7	-2.2	1.3	-0.5	-1.3	-0.9	-0.5	-0.2	0.2	0.7

Exports	26.1	19.2	17.4	18.8	20.4	21.0	21.3	21.5	21.6	21.7
o.w. oil export	12.8	6.4	5.1	5.9	7.2	6.9	6.8	6.6	6.4	6.2
Import	26.2	20.8	15.9	18.5	20.7	20.8	20.8	20.8	20.6	20.4
Foreign direct investment	0.8	1.3	0.8	0.6	1.3	1.6	1.7	1.8	1.9	1.9
International reserves (US\$ billion)	4.0	2.5	4.3	2.5	2.7	5.2	5.8	7.5	7.2	8.0
Months of imports	1.6	1.3	2.7	1.3	1.3	2.4	2.6	3.3	3.1	3.3
Percentage of GDP	3.9	2.5	4.3	2.4	2.5	4.7	5.2	6.5	6.1	6.5

Source: Central Bank of Ecuador, Ministry of Economics and Finance, and staff's estimates.

17. The Executive Board of the International Monetary Fund (IMF) approved on March 11, 2019, a US\$ 4.2 billion arrangement for Ecuador under the IMF's Extended Fund Facility (EFF). This EFF provides support for the Government's economic policies over the next three years. The EFF, the proposed World Bank (WB) Investment Project Financing (IPF) and Development Policy Financing (DPF) currently under preparation and parallel operations by the Inter-American Development Bank (IDB) and the Development Bank of Latin America (CAF) are all part of an effort by the international community to mobilize the financial support (estimated at about US\$10 billion over the next three years) and the technical assistance that Ecuador requires to set the foundations for sustainable growth in the medium term. Performance criteria for the EFF include a reduction in the non-oil primary deficit of the NFPS (including fuel subsidies), an increase in net international reserves (excluding bank deposits held at the Central Bank), and floors to social assistance spending. Structural benchmarks focus on improving statistics and reporting, the PFM and fiscal frameworks, tax structure, autonomy of the Central Bank, as well as anti-corruption instruments. The savings generated by these measures will allow for an increase in social assistance spending over the course of the CPF program. The IMF and WB have coordinated closely in the design of the EFF and of a proposed WB DPF to ensure consistency and complementarity of policy measures. Complementary technical assistance (TA) has been offered to the MoF on issues, such as wage bill management, subsidy reform, public financial management, debt management, and financial stability.

C. Poverty and Shared Prosperity

18. Ecuador has made notable achievements in reducing poverty over the last decade. Income poverty decreased from 36.7 percent in 2007 to 23.2 percent in 2018. In addition, the share of the population living in extreme poverty fell by almost half, from 16.5 percent in 2007 to 8.4 percent in 2018. Welfare gains were concentrated in the 2007 to 2014 period (the period of the oil price boom), when monetary poverty fell from 36.7 to 22 percent and the income of the bottom 40 grew almost twice as fast as the national average.

19. Higher labor incomes coupled with an increase in public transfers were the primary drivers of poverty reduction. This was particularly true for the years prior to 2014. During that time, labor income (i.e., growth in earnings rather than growth in employment) alone accounted for a decline of 10.7 percentage points in the national poverty headcount (out of a total 11 percentage points). This translated to a decline of 15.5 and 8.5 percentage points in rural and urban poverty, respectively. In rural areas, government transfers also played a key role, accounting for more than 3 percentage points in total poverty reduction. Nonetheless, after the plunge in oil prices in 2014, labor market conditions deteriorated, and social spending tightened. This stalled poverty reduction. Ecuadorians responded to lower labor incomes and reduced public transfers by increasing their participation in low quality jobs, which commanded lower average wages. This was particularly true for females, as well as for younger and older cohorts. Ecuadorians also responded by relying more heavily on private transfers, which partially counterbalanced the reduction in government support and contributed to milder poverty reduction after 2014.

20. Ecuador displays large regional disparities in well-being, with poorer regions having experienced large gains during the oil price boom years but being hit harder when the economy slowed. Between 2007 and 2014,

the magnitude of poverty reduction in rural areas was twice as large as the reduction in urban areas. However, poverty in Ecuador continues to be mostly a rural phenomenon, as the rural areas are home to 67 percent of those classified as extremely poor. Between 2014 and 2018, rural Ecuador recorded an increase in poverty rates of about five percentage points. Conversely, urban poverty continued to fall during this period, albeit at a slower pace. With respect to geographic regions, Amazonia (the poorest region in Ecuador) experienced a fast pace of poverty reduction during the boom years with poverty dropping from 54.6 percent in 2007 to 39 percent in 2014. By 2018, however, poverty had again increased to 45.5 percent. Despite high poverty rates, Amazonia accounts for the lowest ‘number’ of poor in Ecuador, as it hosts only 5.4 percent of the country’s population. Most of the poor are concentrated in the Coastal (50 percent) and Highlands (39 percent) regions.

21. Improvements in living standards over the last decade were reflected in multi-dimensional measures of welfare. Ecuador’s Multidimensional Poverty Index (MPI) declined from 27 percent in 2009 to almost 19 percent in 2018. The number of people in multi-dimensional poverty declined by 0.7 million during this period (from 7.2 million in 2009 to 6.5 million in 2018). The reduction in the MPI was primarily driven by improvements in publicly provided access to water, higher access to education, and better quality of public employment. Both urban and rural areas registered progress in the MPI. In rural areas, the MPI declined from 48 percent in 2009 to 36 percent in 2018. Similarly, the MPI in urban areas fell from 17 percent to about 10 percent over this period. Poverty reduction has lost momentum since oil prices plunged. This is largely because labor market conditions deteriorated, and social spending tightened. Between 2004 and 2014, growing labor earnings, coupled with high public transfers, reduced the poverty rate and the Gini coefficient from 45 to 22 percent and from 0.56 to 0.47 percent, respectively. However, between 2014 and 2017, poverty declined only one percentage point (from 22 to 21 percent) due to lower labor earnings and public transfers.

22. Ecuador continues to face critical challenges in poverty reduction and shared prosperity, especially in rural areas. Ecuador is still one of the poorest countries compared to its regional and structural peers. About 60 percent of the poor population continues living in rural areas, even though only one-third of the total population lives in these areas. Despite significant investments in infrastructure during the last decade, the rural population and producers still suffer from high travel times to cities and lack of access to roads, which result in low accessibility to markets and economic and social opportunities. Affordability of transport significantly penalizes the poorest: the lowest income quintile spends more than 20 percent of their household income on transport.

23. Emerging challenges and opportunities are resulting from an unprecedented influx of people in human mobility. The Venezuelan exodus is considered the greatest humanitarian challenge in LAC with an estimated 3.7 million people that have left Venezuela in recent years. Ecuador is the third main recipient of Venezuelan migrants. With at least 250,000 Venezuelans living in Ecuador,¹⁰ the Government is facing an additional challenge of financing public health and education services for this group during a fiscal consolidation process (Box 2). In fact, Ecuador has a Human Mobility Law and a constitutional mandate to provide basic services to all individuals in the country’s territory.¹¹ The GoE has committed to support people on the move by leading international meetings for a coordinated, regional response to the Venezuelan exodus (*Proceso de Quito*) and by chairing the Global Forum on Migration and Development in 2019. In February 2019, the GoE requested joining the Global

¹⁰ Based on data from the Ministry of Interior, a total of 1,354,649 Venezuelans entered Ecuador since 2016 and 1,114,369 have registered their departure. In 2018, 954,217 Venezuelans arrived in Ecuador and 799,838 registered their departure. Based on this data, the United Nations High Commission on Refugees (UNHCR) estimates that the migratory balance was 154,379 in 2018 and 240,280 as of January 9, 2019.

¹¹ Article 9 of the Ecuadorian Constitution stipulates that "Foreigners who are in Ecuadorian territory will have the same rights and duties as Ecuadorians ...". On August 3rd, 2017, President Lenin Moreno signed Presidential Decree No. 111 which includes the Regulation of the Human Mobility Act (*Ley Orgánica de Movilidad Humana*) to regularize the situation of people on the move (e.g., migrants, refugees, asylum seekers, stateless persons and victims of trafficking).

Concessional Financing Fund (GCFF) as a benefiting member. WB technical support has been mobilized to gather information and analyze the challenges and opportunities resulting from the Venezuelan exodus. Building on the WB's global knowledge, additional TA would help inform how the efficient allocation of resources and labor market-oriented investments could contribute to economic growth, poverty reduction and social inclusion.¹²

Box 2: Venezuelan Migration in Ecuador

Ecuador is facing a refugee-type of crisis, with an increased influx of migrants registered since 2016. It is estimated that at least 250,000 Venezuelans live in Ecuador. As of January 2019, the relative percentage of Venezuelans in Ecuador was comparable to that of Venezuelans in Peru but while more than 85 percent of them live in Lima, only 40 percent live in Quito. The distribution of people on the move is crucial to: (i) estimate fiscal pressure from an increased demand for public services, and (ii) anticipate labor market opportunities. While in the short-term health, education, employment and social integration are the most impacted sectors by migration, in the medium-term impacts should be anticipated in remittances, urban development, quality of basic services, and infrastructure, among others. Thus, in a context of fiscal consolidation and already strained labor markets, special attention is required to ensure that social gains and international agreements to protect the vulnerable, are maintained.

24. Across the country, social development challenges fall disproportionately on women and ethnic minorities. While other stakeholders (e.g. IDB, Deutsche Gesellschaft für Internationale Zusammenarbeit, and UN Women) are leading the assistance efforts to improve gender equality in Ecuador, the WB recognizes its relevance for reducing poverty and increasing shared prosperity. In 2018, a Country Gender Diagnostic¹³ was conducted and the results of several exchanges with key stakeholders were accounted in the SCD and CPSD. While Ecuador has made substantial strides towards gender equality over the last decade, particularly in education and health, several challenges persist. Domestic violence continues to be prevalent and support to victims is often lagging. In line with the results from a 2015 WB study on Teenage Pregnancy, this development challenge and child marriage remain widespread in the country. Gaps in access to economic opportunities are also notable – particularly with regard to the quality and remuneration of jobs. In addition, the share of women 15-24 years old that are neither studying nor working is much higher than that of men. Moreover, certain groups of women, especially indigenous and afro-descendants, and also the people with disability and migrants, face multiple and compounded disadvantages (Annex 10). As of 2016, the poverty rate among indigenous peoples stood at 53 percent, almost three-times as high as the poverty headcount rate for *Mestizos*, the least poor ethnic group in the country.¹⁴

D. Main Development Challenges

25. As part of the WBG's re-engagement with the GoE, a SCD was conducted in close consultation with Ecuador's key stakeholders in the country and was issued by the WBG's Board of Executive Directors in June 2018. The main goal of the SCD was to provide the GoE, the WBG and other development partners with an evidence-based reference point regarding the country's most pressing development challenges to focus, in turn, subsequent engagement around these areas. The main challenges identified by the SCD are detailed below, while further details on measures and opportunities are presented in Annex 8.

¹² According to *Moving for Prosperity: Global Migration and Labor Markets*, only about 3 percent of the world's population live in a country in which they were not born and the gains for immigrants do not come at the expense of host countries (World Bank, 2018).

¹³ World Bank, 2018, *Gender Gaps in Ecuador: An Overview*, Washington DC.

¹⁴ Systematic Country Diagnostic for Ecuador. Ibid.

26. The SCD found that addressing the large macroeconomic imbalances and distortions that currently restrict the possibility of reigniting growth, is the most pressing short-term challenge facing Ecuador. The Government has initiated efforts for fiscal consolidation, mostly centered on reducing the level of public investment, but still, public debt reached 45 percent of GDP in 2018. The public financing required in 2019 is estimated at US\$8.2 billion (8.0 percent of GDP). In addition to mobilizing the needed financing, Ecuador faces the challenge of removing accumulated distortions in the economy and in the management of public affairs that have led to substantial inefficiencies and which hinder the mobilization and optimal use of fiscal resources. For instance, exemptions and extensive subsidies are not adequately targeted, the wage bill is high by comparable standards, and public investment is not grounded on a substantive analysis of its economic and social returns. Continuing the process of fiscal consolidation is of the utmost importance to reach the needed fiscal adjustment (roughly 5 percentage points of GDP) rapidly. Moreover, it is critical to set in place a fiscal system that can withstand the substantial risk stemming from volatile oil prices, increasing international interest rates, and opposition to adjustment policies. Further, attention must be given to spending mechanisms so that scarce resources can be allocated efficiently to maximize impact and minimize waste.

27. Ecuador's non-conducive business environment is a challenge to private sector development. The SCD identifies contracting instability, poor integration to global value chains from costly and restrictive trade regulations and decreasing labor productivity in response to rigid labor-market regulation as factors that challenge the private sector. Private actors find little room to engage in productive sectors. Firms face challenges to compete in domestic markets. Ecuador compares poorly with its regional peers in terms of the extent of market dominance and the effectiveness of its anti-monopoly policy (120th and 99th of 137 countries, respectively) in the World Economic Forum Global Competitiveness Report (2017)¹⁵. Barriers to firm entry and competition are driven by complex regulatory procedures, including a system of licenses and permits for specific markets and rules in network sectors that favor incumbents. Business procedures remain costly and cumbersome. The 2018 Doing Business Report ranks Ecuador 118 out of 190 economies worldwide. According to the report, insolvency proceedings in Ecuador take over five years compared to an average for Latin America and the Caribbean (LAC) of just under three years and 1.7 years in the Organization for Economic Cooperation and Development (OECD).

28. The preliminary findings of the Country Private Sector Diagnostic (CPSD) being carried out by the WBG identify regulatory uncertainties as one of the top challenges to doing business in Ecuador. Frequent changes in tax rates, and cumbersome procedures for paying taxes affect investment decisions. In addition to competition issues and regulatory uncertainty, firms face severe labor market rigidities. Minimum and average wage increases have exceeded productivity gains. Significant barriers to part time and temporary employment persist and Ecuador has the highest costs of employee dismissal in LAC¹⁶. The average wage in the public sector is about 50 percent higher than that in the private sector; these high public sector wages pressure the private sector to raise wages. As a response to labor market rigidity, firms have adopted labor-saving technologies and have increased their reliance on informal labor. The share of informal workers who earn less than the minimum wage reached nearly three-fifths of the working population in 2017. Furthermore, by making entry and operating costs unaffordable for many formal firms, labor market policies are unintentionally encouraging firm informality. The GoE has taken initial steps to correct this. However, considering the amount of private investment needed to fill the void of falling public investment, substantial additional support is required. This support should be directed to modernizing labor regulations, creating an enabling environment for FDI (working on issues such as protection for minority investors and insolvency solutions), and streamlining processes for business operation.

¹⁵ Concept Note. Ecuador CPSD: Fostering a Dynamic and Resilient Private Sector. June 2018.

¹⁶ 2016-17 Global Competitiveness Report.

29. A large involvement of the state in the financial sector has resulted in poor financial intermediation. Currently, financial debt instruments are largely concentrated in public banks. Lending from the Central Bank to the Government has limited both the funds available to finance economic activity and the Central Bank's independence. Moreover, it has curtailed the Central Bank's ability to guide monetary policy and support the effective functioning of the dollarized economy. The private credit to GDP ratio is only 29 percent in Ecuador, compared to 47 percent in Colombia, 36 percent in Peru, and 49 percent on average in LAC. The use of banks by Ecuadorian firms to finance investments is lower than the average for the region, while access to long-term finance is low even among large companies. According to the 2017 World Bank Enterprise Surveys, while 23 percent of large firms finance their investments through banks, only 13 percent of Small and Medium Enterprises (SMEs) do so. The development of a private financial sector is vital for allowing access to finance required for investments at both the business and household levels. Creating a conducive business environment will allow private resources to be allocated most efficiently to ensure substantial productivity gains.

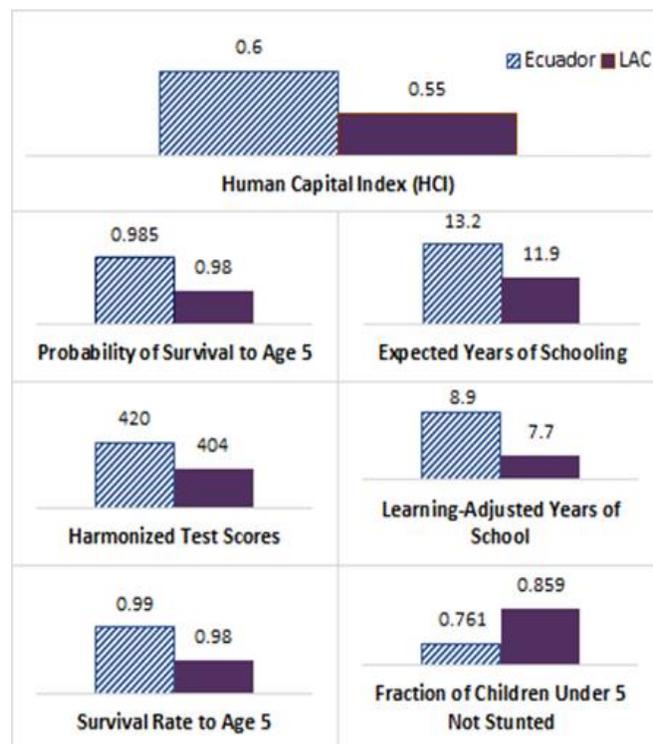
30. Ecuador has accumulated significant social gains in past years, however, important development challenges persist. Despite significant progress, the country faces important challenges to increase productivity and the well-being of its citizens. According to the Human Capital Index (HCI), an Ecuadorian born today is expected to reach about 60 percent of its productive potential by the age of 18, ranking higher than LAC's average and also above some of its richer peers, such as Colombia and Peru (Box 3). The reason for Ecuador's success is linked mainly to the investments in education and health. However, the country has not managed to reduce malnutrition where a relatively high level of children under five years old are stunted (23.9 percent) as compared to the regional average of 14.1 percent. Further, the social gains achieved to date are particularly vulnerable to the planned fiscal adjustments and to increasing natural hazard risks. While Ecuador and the rest of the region have achieved substantial coverage of education, including quality improvements at the primary and secondary levels, the country still lags in the quality of education as compared to other regions, such as Europe and Central Asia (ECA) and East Asia and the Pacific (EAP). Additionally, the SCD highlights that a significant share of those who entered the middle class during the oil price boom, are now at risk of falling back into poverty, calling, in response, for well-targeted social programs as a cornerstone of the ongoing fiscal consolidation. At the same time, pending health and education issues must be addressed through efficient and impact-maximizing interventions.

31. Finally, Ecuador is highly exposed to natural disaster risks and to the effects of climate change. The country has been historically affected by a range of natural disasters and climatic shocks, including earthquakes, flooding and landslides, plus the periodic occurrence of *El Niño* phenomenon. Ecuador ranked 87 out of 180 countries on the 2018 Environmental Performance Index (EPI) due to a rising per capita carbon footprint, which now constitutes about 40 percent of the total national footprint (Global Footprint Network, 2017). This is intensified by heavy reliance on oil production, an inefficient transport system, and deforestation driven by agriculture. In this context, the GoE is shifting from a policy of emergency response towards one of comprehensive disaster risk management (DRM). However, policies could be further strengthened to effectively address climate adaptation, gender-specific impacts and social protection of vulnerable groups affected by natural hazards. In the current social and economic context, the development and enforcement of DRM and climate change adaptation policies in Ecuador is particularly crucial to increase resilience and minimize the consequences of natural hazards that have already affected the economy negatively.

Box 3: Ecuador and the Human Development Index

As part of the WB’s Human Capital Project (launched in 2018), the Human Capital Index (HCI) seeks to measure the contribution of health and education to the productivity of the next generation of workers. The challenges that frame investment in human capital are similar for countries in LAC.

Ecuador, together with at least nine other countries in the region, present Survival Rates to the age of 5 over 0.99. Adult Survival Rate (age 15 – 60) and Fraction of Children Under 5 Not Stunted show that Ecuador has made progress on health outcomes as compared to 2012, when Adult Survival Rate 15-60 was 0.870. Children Under 5 Not Stunted was 0.748, while the regional average was 0.859. Ecuador performs relatively well in Expected Years of School: a child in Ecuador can expect to complete 13.2 years of pre-primary, primary and secondary school by age 18. However, when years of schooling are adjusted for quality of learning through Harmonized Test Scores, this is only equivalent to 8.9 years – a learning gap of 4.3 years.



32. To help address Ecuador’s development challenges, the CPF proposes a program that includes areas in which there is strong convergence between the SCD and the GoE’s priorities. Overall, the focus of the proposed CPF program is based on prioritizing: (i) short-term challenges and opportunities identified in the SCD; (ii) measures included in the *Plan de Prosperidad*¹⁷ for which WBG support has been requested and where the WBG has a comparative advantage; and (iii) measures for the social protection and socio-economic inclusion of the vulnerable. Further explanations on the CPF selectivity criteria and objectives are provided below.

III. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

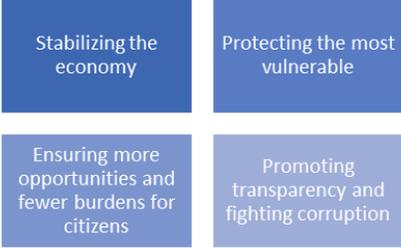
A. Government Program and Medium-term Strategy

33. The GoE has two main instruments to guide the country’s development which are in line with the findings of the SCD. The *Plan de Prosperidad 2018-2021* acknowledges that Ecuador’s economy requires strong adjustment through the responsible, transparent, and disciplined use of public resources to promote sustainable growth. This plan comprises four priorities to help stabilize and reactivate the economy and focuses on short-term specific measures to enable growth (Figure 6). Additionally, the GoE has developed a National Development Plan, *Toda*

¹⁷ Plan de Prosperidad 2018-2021 is available at <https://www.finanzas.gob.ec/wp-content/uploads/downloads/2018/08/Plan-prosperidad-2018-2021-VF.compressed.pdf>

una Vida 2017- 2021, which outlines development strategies and objectives for the medium and long term.¹⁸ The four pillars proposed by the SCD to address development challenges present a high degree of convergence with the following priorities identified in the *Plan de Prosperidad*:

Figure 4: Priority Areas as identified in the Plan de Prosperidad



- Priority 1: Stabilizing the economy.** The Government’s plan acknowledges the need for strong fiscal adjustment. It also recognizes that the economic growth needed to address poverty and offer opportunities for the next generations cannot rely solely upon the public sector. In addition, it needs to provide the conditions to attract private sector, including foreign investment;
- Priority 2: Protecting the most vulnerable.** The plan acknowledges that the necessary fiscal adjustment cannot be allowed to affect the most vulnerable population. It guarantees that resources for social protection will be increased to reduce the levels of poverty and extreme poverty by increasing the coverage of social protection programs;
- Priority 3: Ensuring more opportunities and fewer burdens for citizens.** The plan includes a proposal to provide productive credit to foster entrepreneurship and reactivate production to create quality jobs without generating fiscal pressures. This priority proposes providing credit through public banks to micro and small enterprises and artisans; and
- Priority 4: Promoting transparency and fighting corruption.** The plan also prioritizes the establishment of a legal framework to combat corruption, including the preparation and submission to the National Assembly of legislation that provides incentives to report corruption and protect whistleblowers.

B. Lessons learned

34. **During the reengagement years framed under the ISN and CEN, the WB approved eight lending operations, effectively engaged with other IFIs and responded to the Government’s requests for support in specific sectors.** The WB financed program remained flexible to reengage with sub-national governments (Manta, Guayaquil and Quito), as a financial partner to bridge the gap on infrastructure (i.e. transport, water and sanitation) and build knowledge in key areas (e.g. regulatory frameworks, nutrition, risk management, and climate change). Progressively, the WB became a strategic development partner for the Government helping bring global knowledge to inform policy-making decisions. IFC renewed its engagement in Ecuador with limited engagements in support of private sector development, during the ISN period. Through investments, it supported the financial and agribusiness sectors, and re-opened trade finance guarantee programs that had been put on hold since FY09. During the CEN period, IFC continued to play a role in these sectors and contributed to private sector initiatives and economic diversification by tripling its new commitments over a two-year period. An advisory program was also implemented, in corporate governance, agribusiness, and banking. A more vibrant private sector remains

¹⁸ The National Development Plan – *Toda una Vida 2017- 2021* focuses on the country’s development goals for the medium and longer term, with a view to reducing poverty and increasing shared prosperity.

key to attain sustainable growth, and in this context, IFC has become an increasingly important player in the WBG's engagement in the country. Box 3 and Annex 2 presents a summary of results achieved under the CEN.

35. The implementation of the WBG program during the ISN and CEN periods offers the following lessons, which guide the current CPF:

- **Advisory Services and Analytics (ASA) provide an important platform for understanding the underlying factors shaping results in a range of key areas and, thereby, for informing policy dialogue and identifying options for reform.** Analytical work has been instrumental in generating a deeper understanding of Ecuador's issues, increasing evidence for decision making, and facilitating collaborative interactions between key players in the development agenda. Engagement in knowledge has also set the basis for further engagements through Reimbursable Advisory Services (RAS) and a Development Policy Financing (DPF). As such, the CPF includes knowledge products to move in tandem to most of the activities it proposes;
- **Improved institutional capacity and better knowledge of WB's policies and procedures could lead to optimal implementation.** Ecuador has not had significant experience in the implementation of WB-financed operations, and consequently with WB operational procedures and policies. In the WB's ongoing engagement, the implementation of projects in an effective and timely manner has been challenged mostly by: (i) delayed budgetary allocations of counterpart financing; (ii) lack of experience working with international organizations and with WB policies and procedures (including legal, environmental and fiduciary); (iii) cumbersome procedures for validating agreed project activities, budget allocation, and contracting/procurement; (iv) weak institutional capacity within implementing agencies; and (v) high turnover among senior government authorities. Building on this, interventions under the CPF contain specific activities for strengthening institutional capacity to ensure effective and sustainable implementation, such as operational workshops with Project Implementation Units (PIUs) and staff from project implementing entities on: (i) procurement processing; (ii) financial management; (iii) environmental and social safeguards; and (iv) project monitoring and evaluation. Additionally, the WB will continue to work very closely with the support of the Government for it to be able to undertake a higher level of oversight on the quality and timeliness of implementation of the WB's investment portfolio.
- **Operating in a fragmented institutional environment increases challenges for the design and implementation of operations.** The participation of several counterparts and decision makers, as well as the constant revision of priorities, has resulted in a much longer process from project design to effectiveness. It has also led to challenges in ensuring sufficient ownership among the teams in charge of project implementation. Additionally, the lack of clarity regarding decision-making processes and the legal and normative requirements have further challenged the performance of PIUs and the capacity of line ministries to ensure the operationalization of projects. Responding to this, the WB has identified and engaged in strategic partnerships within the GoE. It has also fostered effective donor coordination, often bringing other bilateral and multilateral organizations to the table to avoid duplications and ensure that the country benefits from the comparative advantage of each institution. Furthermore, over the last year, the WB has deployed a larger staff presence on the ground, including technical specialists for the sectors in which activities are contemplated. This has allowed for direct and responsive action when required;
- **Project design should be further aligned with the country's institutional and economic constraints.** Based on the challenges encountered to date, operations will be restructured and designed taking into account challenges mentioned above and the country's specific constraints. Shortages of liquidity due to limited fiscal resources have delayed the processing of procurement and disbursements. Compliance with local administrative procedures (i.e., prioritization of project activities and revision of budget allocations) can

take several months, thus reducing the period for implementation to between six and nine months in each given year. Acknowledging these issues, the WB has proactively adopted ad hoc measures and current efforts by the GoE and the WB are already minimizing some of their impact on implementation. As the portfolio increases in size the periodicity of Portfolio Reviews organized jointly with the MoF will be increased during the CPF period, in particular, follow up reviews with the Government will focus on problem projects, project-at-risk, and projects that require restructuring. Additionally, and as stated above, increased implementation oversight by the Government will be a critical factor to improving quality and timeliness of the Bank's investments. The Government is fully aware of the social, economic and financial costs of implementation delays and is committed to minimize these with support from the Bank; and

- **To maximize results, WB and IFC teams are working jointly in support of economy-wide reforms and sector specific issues.** A first RAS was implemented in 2014-2016 to analyze industrial services¹⁹. This was complemented with WB-IFC technical assistance to promote competitiveness and strengthen industrial services and to identify opportunities to foster productivity and diversification of value chains²⁰. In addition to the CPSD now under preparation, an analytical piece will be prepared to provide recommendations to the Ministry of Foreign Trade on how best to improve the business environment and promote private sector development. Additionally, building on the recommendations from a WB-IFC deep dive, technical assistance is being provided to the Ministry of Agriculture to help comply with international standards for the trade of agricultural products.

C. Proposed WBG Country Partnership Framework

36. **The CPF is aligned with the GoE's development and economic plans, builds on the main recommendations of the SCD and focuses on those areas in which the WBG has a comparative advantage in Ecuador.** The four priority areas of *Plan de Prosperidad* coincide with three of the four pillars prioritized in the SCD. The CPF focuses on areas in which the WBG has a comparative advantage in Ecuador (e.g., bringing sectorial knowledge and global expertise) and where the SCD has identified the highest potential for development impact in the short term. In fact, under the CPF program the WB will address some of the measures included in the *Plan de Prosperidad* required to implement a comprehensive fiscal stabilization program, since IFIs will support the remaining measures. Furthermore, the focus of this CPF reflects the consultations held in-person (with government authorities, IFIs, civil society organizations) and via social media platforms (Box 4).
37. **After considering the Government's priorities and consulting with relevant stakeholders in Ecuador, the CPF has drawn on the findings from the SCD to establish development objectives on which there is a comparative advantage from the WBG's participation.** The *Plan de Prosperidad* constitutes the set of actions that the GoE considers as priorities. The actions proposed in this plan address a large portion of the development challenges identified by the SCD. This convergence is therefore the focus of the CPF. In addition, a wider range of challenges are identified by both the GoE and the SCD as important for maintaining a growth trajectory in the medium and long term. Given the large scope of Ecuador's needs in the medium and long term, the CPF focuses only on those needs where the SCD has identified the highest potential for development impact and where a comparative advantage exists from the WBG's involvement.

¹⁹ A Reimbursable Advisory Service (RAS) was requested by the Ministry of Industries and Productivity to develop a study on the supply and demand of industrial services in Ecuador.

²⁰ Improving firms to foster productivity and diversification (P156682) and Promoting Competitiveness of Ecuadorian Industries and Value Chains by Strengthening Supply and Demand of Industrial Services (P152807).

38. **Selectivity Filter 1: Alignment with GoE’s priorities and requests.** The broad government plan contemplated in *Plan Toda una Vida* lays out a comprehensive diagnosis of the challenges that Ecuador faces in the short, medium and long term. Then, in response to the pressing nature of Ecuador’s economic context, the GoE

Box 4: Results achieved during the CEN (FY16-17)

- The WBG delivered analytical work and lending operations that aimed at: (i) sustaining gains in basic service delivery and strengthening safety nets; (ii) promoting economic diversification in a constrained macroeconomic environment and (iii) mitigating risks from climate change and environmental threats;
- As of November 2017, more than 17,000 students have been enrolled in early education in targeted circuits, compared to 8,923 students enrolled in December 2014;
- In October 2017, a 10-year Strategic Alliance was developed between Manta’s Water Supply and Sanitation Public Enterprise (EPAM for its Spanish acronym) and a private sector provider, VEOLIA which allowed \$16m in revenue from services rendered during the first year (exceeding the \$13m target set by the Strategic Alliance);
- As of June 2018, a total of 4,900 household sewer connections were completed and 10 km of pipes were rehabilitated in Guayaquil;
- As of May 2018, 119 female clients adopted an improved agricultural technology promoted by a WB-funded Project and 467 water users accessed new/improved irrigation and drainage services;
- The WB joined inter-institutional policy-making discussions on poverty reduction led by the *Comité Interinstitucional para la Erradicación de la Pobreza* and informed the preparation of the *Reporte de Pobreza 2006 – 2014* and the *Mapa de Pobreza y Desigualdad por Consumo 2014*;
- The 2016 Water and Sanitation Poverty Diagnosis and the development of the National Strategy of Water and Sanitation were prepared with technical and financial support mobilized by the WBG;
- Evidence for a multi-sectoral national road safety strategy was provided to the *Agencia Nacional de Tránsito* and technical assistance on Transit Oriented Development commercial financing alternatives was provided to the *Municipio de Quito*;
- The National Risk Management Secretariat (SNGR) received WB support for the development of: (a) a national disaster response strategy, and (b) a methodology to build sectoral disaster risk management agendas addressing different hazards and risks;
- A series of ASA and trust-funded advisory services have focused on fighting malnutrition, promoting disability inclusion, teenage pregnancy, climate change and improving the efficiency of the social protection system;
- IFC reached nearly 7,500 farmers through investments in the agribusiness sector (PRONACA and Tonicorp Holding) and supported over 24,000 direct jobs, of which 4,500 were female jobs;
- IFC’s investments in SME finance provided access to financing to nearly 42,000 SMEs for a total of over US\$1.8 billion;
- In 2016 *Conjunto Clínico Nacional (Conclina)*, a private hospital that benefited from IFC’s investment, provided service to 56,000 patients;
- Through Advisory Services, IFC engaged *Banco Pichincha*, offering support to improve practices and provide access to finance to 58,000 SMEs, 20,000 of which are expected to be women-led SMEs by 2020; and
- IFC also has several Global Trade Finance Program lines, which support import-export activities through commercial Banks (*Banco Internacional, Banco de Guayaquil and Banco Bolivariano*) with average outstanding guarantees for US\$19.04 million in FY16 and US\$14.84 million in FY17.

developed a prioritized agenda of actions needed to reignite the economy in its *Plan de Prosperidad*. Within the context of this prioritization exercise, the Government has requested the WBG to mobilize its local and global experience especially in four areas: (i) stabilizing the economy; (ii) protecting the most vulnerable; (iii) ensuring more opportunities and fewer burdens for citizens; and (iv) promoting transparency and fighting corruption. Furthermore, along its medium-term priorities, the GoE considers it important to address regional and ethnic disparities, to mitigate risk from natural disaster, and to protect the natural resources endowment. The WBG program outlined in the CPF is responsive to such priorities.

39. Selectivity Filter 2: Addressing the main development challenges and actions identified in the SCD. The objectives and intervention logic included in the CPF relies on the analytical framework provided by the SCD. This analysis is conclusive in linking current macroeconomic instability in Ecuador to the procyclical fiscal policy and significant state intervention in economic activity between 2001 to 2017. The SCD finds that for accelerating growth, reducing poverty, and boosting shared prosperity, Ecuador needs to rebalance growth between public and private investments, with greater reliance on increased productivity gains in both sectors. The SCD also outlines opportunities for increased results in the short term, as well as comprehensive interventions for sustainable changes in the medium term. The SCD identifies four areas of action: (i) addressing macroeconomic imbalances; (ii) lifting barriers to private sector development; (iii) expanding economic opportunities; and (iv) improving the use of physical and natural capital.

40. Selectivity Filter 3: WBG comparative advantage in the context of Ecuador. The combination of global knowledge and operational capacity serve as a platform for the WBG to bring to bear its global expertise in supporting macro-systemic reforms in Ecuador, while protecting the vulnerable and providing evidence to inform policy dialogue. The WBG is actively working with the Government to build detailed diagnoses that will deepen the understanding of policies and reforms that might attract more private investments and boost productive opportunities and sustainable growth. Recently, the WBG has supported similar economic stabilization processes in Argentina and Mexico. The WBG has a large experience working with other IFIs, particularly the IMF and the IDB. Moreover, the WBG has already supported key development areas in Ecuador. These include access to sanitation and transport services, education and social protection, as well as support for building resilience to manage shocks and to address the challenges of climate change. Finally, the WBG has experience in the adoption of innovative and global initiatives (such as reducing emissions or improving sustainability of development infrastructure). The WBG's comparative advantage in these areas is of utmost importance for defining the content of the CPF.

41. Based on the application of these selectivity filters, the Ecuador CPF for FY19-FY23 identifies three main areas in which the WBG will support the GoE through a mix of financial and technical advisory instruments. In identifying such areas, the CPF acknowledges that Ecuador is a high middle-income country on a trajectory towards a goal for achieving developed country standards. As such, the CPF focuses on: *Results Area I, Supporting Fundamentals for Inclusive Growth; Results Area II, Boosting Human Capital and Protecting the Vulnerable, and Results Area III, Enhancing Institutional and Environmental Sustainability.* These three Result Areas are mutually interconnected and complementary. The specific objectives under each Result Area are detailed from paragraph 47 onwards and respond to specific measures identified in the *Plan de Prosperidad* and the SCD.

42. As a result of applying these selectivity filters, some priorities and challenges identified by either the GoE or the SCD have not been included in the CPF. Activities included in the CPF have been selected based on the areas prioritized by both the GoE (with 23 measures) and the SCD (with 16 measures) given their strong convergence and their focus on the short term. Based on the application of selectivity filters: (i) some priorities and challenges identified by either the *Plan de Prosperidad* or the SCD have not been included in the CPF (i.e. regional disparities and cultural valorization); and (ii) some areas that were not considered in either the *Plan de Prosperidad* or the SCD, will be supported in the CPF (i.e. public transport, resilience, climate change), given their relevance for development and the WBG's comparative advantage. Additionally, some challenges not prioritized by the SCD as a short-term measure but considered in the *Plan de Prosperidad* (i.e. transparency and fight against corruption, simplification/elimination of bureaucratic requirements) will be addressed under the proposed CPF given the Government's need to build an enabling environment for attracting private investments. Conversely, as indicated in Annex 8, some medium- to long-term measures considered in the SCD (e.g. strengthening gender-

based violence prevention efforts) but not considered in the *Plan de Prosperidad* will not be addressed during the first two years of the proposed CPF. As indicated in Figure 7, the CPF builds on some of the 23 measures included in the *Plan de Prosperidad* and some of the 16 measures included in the SCD.

Box 5: Consultations and Leveraging technologies

As the WBG’s first CPF for Ecuador since 2007, the preparation of the FY19-FY23 CPF counted upon exceptional engagement during its consultation process, with the participation of a wide range of stakeholders at the national and local levels. The consultations ran from the traditional face-to-face roundtable to the innovative use of interactive tablets and Facebook.

The process kicked off in November 2018 with a first round of consultations in Quito and Guayaquil. These meetings, which included representatives from the Government, private sector, academic institutions and civil society, focused on learning firsthand the main development challenges that Ecuador is facing and how the WBG can help address them. Most participants agreed on the following challenges: (i) provide a sound rule of law that provides legal certainty; (ii) ensure ethics and transparency in the public sector; (iii) ensure efficiency in public spending and a reduced and efficient state; (iv) rationalize subsidies; (v) promote Public-Private Partnerships; and (vi) promote agricultural development.

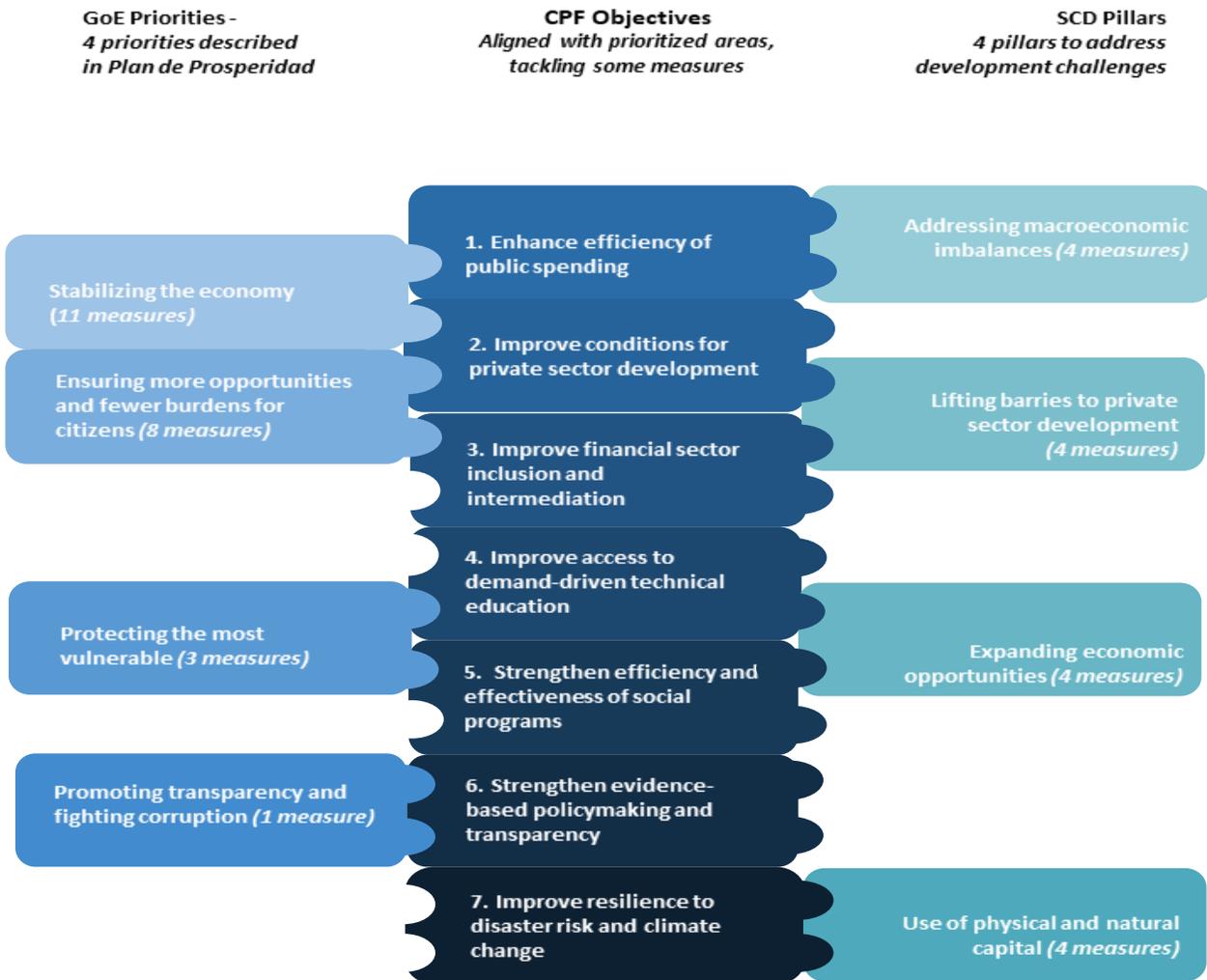
A second round of consultations were held in January 2019. A WB team visited four public and private universities in Quito, Guayaquil and Cuenca. More than 200 students responded to a survey on interactive tablets. The WB team also conducted surveys using disruptive technologies, such as Facebook and Twitter. The consultation reached almost 170,000 people, mostly youth, and received 1,530 reactions (in the form of either comments or shared posts). The focus of the #Ecuadorneceita campaign included three posts to ask Ecuadorians about their main concerns. Participants in this second round of consultations identified the following three key areas as very important to foster the country’s development: (i) education and culture; (ii) productivity and competitiveness; and (iii) fight against corruption (Figure A3.1).

Figure A3.1: Results of consultations

Government	Academia	Private Sector
Access to Basic Services		
Access to Finance for Private Sector	Access to Finance for Private Sector	Access to Finance for Private Sector
Agricultural Development	Agricultural Development	Agricultural Development
Capacity-Building for Government		
	Civil Society Participation	
	Cultural Valorization	
Disaster Risk Management		
Efficiency of Public Sector	Efficiency of Public Sector	Efficiency of Public Sector
Gender Issues	Gender Issues	
Government Ethics and Transparency	Government Ethics and Transparency	Government Ethics and Transparency
	Improve Tax Collection	
Inclusive Education	Inclusive Education	
Income from Non-Extractive Industries	Income from Non-Extractive Industries	Income from Non-Extractive Industries
Labor Market Efficiency	Labor Market Efficiency	
Optimization of Subsidies	Optimization of Subsidies	Optimization of Subsidies
	Private Sector Competitiveness	Private Sector Competitiveness
Private Sector Incentives	Private Sector Incentives	Private Sector Incentives
Productivity Reactivation	Productivity Reactivation	Productivity Reactivation
Protection of the Vulnerable	Protection of the Vulnerable	
Public Health System	Public Health System	
Public Private Partnerships	Public Private Partnerships	Public Private Partnerships
Public Transportation	Public Transportation	Public Transportation
	Regulatory Frameworks	Regulatory Frameworks
	Restructuring Public Debt	Restructuring Public Debt
Robust Information Systems		
Rule of Law	Rule of Law	Rule of Law
Size of Public Spending	Size of Public Spending	Size of Public Spending
Social Protection	Social Protection	
Social Security Reform		
Sustainability of Natural Resources	Sustainability of Natural Resources	
Territorial and Urban Planning	Territorial and Urban Planning	

Figure A3.1 illustrates the areas of convergence between all sectors consulted during the CPF preparation (in bold).

Figure 5: CPF Objective Alignment with GoE and SCD Priorities



43. **The CPF’s design aims to be sufficiently flexible to allow for the consideration of both different instruments and cross-cutting themes.** The CPF has clear areas of intervention for the short term (ensuring that concrete results and responses are linked to prioritized challenges) but remains flexible to emerging needs in the medium term (ensuring sustainability and flexibility in a changing environment). Additional instruments, operations, or advisory services could be deployed to attend the country’s emerging priorities and the Government’s requests. This assessment will take place in the context of preparing the CPF Performance and Learning Review (PLR) and the outcome of presidential elections which will take place in FY21. The impact of the unprecedented influx of migrants on the delivery of basic services, gender-equity, and climate change are in fact, some of the areas already identified in the SCD as requiring further attention in the medium term. The WBG will continue working to improve infrastructure resilience in different sectors, to strengthen the institutional capacity to respond to crises, and to monitor the impact of the social crisis on Ecuador’s vulnerable population.

44. **Attention to gender equality and environmental sustainability are treated as a cross-cutting issue in the CPF and are relevant for the achievement of shared prosperity and poverty reduction.** Overarching development objectives like reducing poverty and inequality, promoting growth and shared prosperity are closely linked to

gender equality. Informed by the WBG 2018 Country Gender Diagnostic²¹, the CPF will contemplate measures to address Ecuador's gender gaps and gender-based violence prevention throughout the portfolio and through specific targeted activities. Given the broad range of gender challenges in Ecuador, portfolio and sector-specific gender analysis will be conducted to identify opportunities to inform WBG-funded activities, to develop targeted actions to address identified gender gaps within the scope of each operation and to monitor progress in closing those gaps. Annex 10 provides a summary of gender issues in Ecuador. In line with the 2025 Climate Change Targets and the Adaptation and Resilience Action Plan,²² prioritized interventions under the CPF support Ecuador's commitments under the Paris Agreement, the Nationally Determined Contribution (NDC) announced in March 2019 (reduce greenhouse gas emissions by 20.9% by 2025) and efforts to implement measures for climate change adaptation. To this end, the CPF will support emission reductions through improvements in the transport sector, the elimination of subsidies and the adoption of improved agricultural technology. Finally, the CPF will contribute to achieving climate co-benefits in the pipeline through the systematic integration of mitigation and adaptation considerations across the three Results Areas.

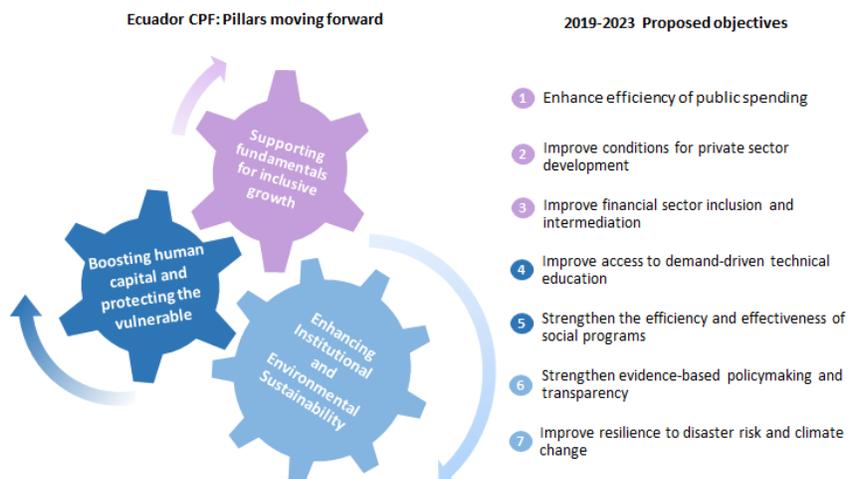
45. The CPF lays the ground for a strong program of Maximizing Finance for Development (MFD). In the short term, activities included in the CPF will be focused on redressing macroeconomic imbalances and removing barriers to mobilize private investments, including FDI. The program will support measures to enable the phasing out of market distortions, the reengagement of private financing for housing, and the rightsizing and efficiency of SOEs. The Government is currently discussing several options for PPPs in which new contracting methods account for operation and maintenance (O&M) costs. With support from the IDB, the monetization of assets is considered as a short-term solution to compensate for the lack of liquidity. The WBG is finalizing a CPSD that complements the findings of the SCD regarding the need to find new engines for growth by lifting barriers to private sector development. The CPSD identifies the main cross-cutting and industry-specific constraints to productive investments. It is designed to inform the MFD/Creating Markets agenda by identifying areas where solutions can be applied that combine policy and regulatory reforms for both lifting barriers to private sector development and stimulating investments in public goods. It also allows for advisory support to enable increased private investment. In this context, specific recommendations are being made. The expectation is that critical reforms that unlock private sector participation to address development needs will be implemented. These will allow the IFC to play a catalytic role, mainly in the financial, energy, mining, tourism, transport and logistics, and agribusiness sectors. In addition, several WB-financed projects in Ecuador are meant to increase private participation in sectors such as infrastructure and banking, while also increasing trade (Annex 9).

46. The CPF is structured along selected Results Areas and objectives that are mutually reinforcing and dependent on their role of improving institutional foundations for a sustainable and equitable growth. Results Area I focuses on the fundamentals for inclusive growth but will benefit largely from the increased availability of labor market skills and improved capacity for policymaking at the government level. At the same time, the process of improving fiscal and public sector efficiency and transparency will make available the resources required to guarantee the sustainability of social gains and strengthen human capital under Results Area II. Further, enhancing sustainability is critical not only for the strengthening institutions and addressing environmental challenges, but also for maintaining a stable growth path. The simultaneous motion of these gears will help improve Ecuador's access to financial markets and set the bases for stronger institutions to guide the country as it moves up its development path (Figure 8).

²¹ World Bank, 2018, Gender Gaps in Ecuador: An Overview, Washington DC.

²² On January 2019, the WBG launched its [Action Plan on Climate Change Adaptation and Resilience](#), which is part of the WBG's [2025 Targets to Step Up Climate Action](#) launched in December 2018, during the UN's COP24 in Poland.

Figure 6: CPF for Ecuador FY19-FY23



D. Results Areas

Results Area I. Supporting Fundamentals for Inclusive Growth

47. **The CPF's first Results Area supports fundamentals for inclusive growth.** The CPF supports setting the fundamentals for sustainable growth by addressing the current macroeconomic imbalances, removing the barriers to private economic activity, and enabling the financial sector to better intermediate the allocation of resources to the most productive uses, though *inter alia*, the implementation of structural reforms. The removal of distortions and the strengthening of state institutions' capacity should lead to a more balanced playing field between the public and private sectors. This, in turn, should drive productivity gains in most lagging sectors, as highlighted in the SCD. The three objectives of Results Area I are to: (i) enhance efficiency of public spending; (ii) improve conditions for private sector development; and (iii) improve financial sector inclusion and intermediation. In fact, building crisis-preparedness capabilities and strengthening the oversight of banks and cooperatives will help to strengthen financial sector resilience. Engagement under this Results Area will be provided through a DPF, coupled with a strong program of knowledge activities to inform structural reforms, IFC's ongoing and planned investments, and MIGA's efforts to support private cross-border investors through its political risk insurance instrument.

Objective 1: Enhance efficiency of public spending

48. **Ecuador faces substantial internal and external macroeconomic imbalances as a result of a long period of expansive fiscal expenditure that was maintained even after the decline in oil prices.** The accumulation of fiscal distortions has hindered the mobilization and optimal use of resources. Substantive tax exemptions and extensive subsidies, particularly for energy resources, were not adequately targeted. Furthermore, despite the large size of public expenditure, there are no clear mechanisms and criteria for justifying and prioritizing investments. The GoE acknowledges these unsustainable macroeconomic imbalances and singles out addressing them as its highest priority. While the 2019 public budget plan reduces capital expenditures and anticipates that the amount of public financing required is US\$8.2 billion (8.0 percent of GDP), positive results (in terms of optimization of fiscal expenditure and private investments) rely on the implementation of initial measures defined in the GoE's *Plan de Prosperidad*. Additionally, WB-led financing reviews in Ecuador have identified key sectors in which to improve

spending efficiency such as in education (public expenditure on education steadily increased from 1.5 percent in 2000 to 5.0 percent of GDP in 2015). Since the introduction of free education in higher education,²³ more than 50 percent of the education budget is allocated to higher education (compared to 20-25 percent in regional and structural peers). WBG expertise could be utilized to assess spending efficiency in higher education and to design mechanisms to make education financing more progressive and sustainable.

49. The CPF will accompany Ecuador’s macro-fiscal rebalancing and its efforts to increase fiscal efficiency. Under this objective, the CPF will support improving the efficiency of public spending and revenue mobilization. In particular, the WBG will inform policies to limit the expansion of the public wage bill, improve public procurement, rationalize energy subsidies, and increase the efficiency of social spending. The work on revenue mobilization includes informing reforms to expand the tax base, reduce tax distortion, and increase revenue collection. Finally, the WBG will provide just-in-time support for the strengthening of institutions’ capacity and national regulatory frameworks to increase public private investments in key development projects.

50. This objective will be supported by a DPF and ASA, including a Public Financing Review, just-in-time technical assistance, and knowledge sharing. First, through a DPF, the WBG will support a program of reforms aimed at improving public financial management (PFM), revising public wage policies, reducing tax expenditure, gradually reducing energy subsidies, and introducing new PPP-related laws. This program seeks to maximize its impact by complementing the agenda of other IFIs, including the IDB’s support to monetarize existing assets to address liquidity shortages on the short term. Furthermore, an ASA on Ecuador’s public wage bill will identify sustainable fiscal measures and potential efficiency gains through human resource management reforms. With the goal of identifying inefficiencies in the distribution of the workforce, this analysis will look into the salary structure of the Government, as well as skills, distribution of the workforce by types of employees, their skill levels, and seniority. In addition, analytical work will provide a detailed understanding of the fiscal system and will inform the development of a regulatory framework and standard contracts for PPPs. If the regulatory and institutional frameworks for PPPs are established, the WBG could explore providing support to upcoming PPP projects (not related to the monetization of assets that the IDB is supporting). The WBG would consider providing additional support to other policy reforms under a potential future DPF.

Objective 2: Improve conditions for private sector development

51. Ecuador’s state-led economic model stifled private activity, affecting its ability to accompany the ongoing adjustment process. There is little room for private actors to get involved in production sectors and business procedures remain costly and cumbersome. As the public sector adjusts to a constrained fiscal environment, the Government considers that an increased involvement of the private sector is critical, as identified in the SCD. Certain business policies and regulations related to investor protection need to be adjusted and implemented to reduce the overall perception of risk among investors. In addition, the country lacks a comprehensive regulatory framework and coherent institutional setting for PPPs. The *Plan de Prosperidad* acknowledges that economic growth cannot rely solely upon the public sector, but also upon the private sector, including FDI, in different productive sectors. In addition, the GoE is seeking to negotiate O&M costs of infrastructure assets with private investors to ensure an adequate and productive use of its assets. Furthermore, the GoE is actively exploring opportunities aimed at integrating its economy to regional markets. The GoE expects to attract foreign investments by reducing tariff and non-tariff barriers to trade, by fostering international competition, and by further strengthening competitiveness.

²³ According to data from UNESCO, since 2010 the current expenditure per student in basic education has oscillated around US\$600 (PPP). The levels of expenditure per student are lower than those registered by their structural and regional peers (ranging from 3,000 to 3,200 dollars). Meanwhile, Ecuador’s spending per student enrolled in higher education (averaging US\$7,200 per student) is above that recorded in its structural and regional peers (at approximately US\$4,600).

52. This CPF supports the GoE's efforts to create conditions for improved competitiveness and private sector development. These efforts include the removal of critical barriers for investments (both horizontal price distortions and barriers to factor allocation across activities), as well as a special attention to key value chains or sectors. Upon the removal of these barriers, it is expected that private sector will invest in activities where the largest productivity²⁴ gains could be achieved. The vision is that at the end of the CPF period, the private sector will face a more conducive environment for investments and that the Ecuadorian economy will be better connected with global and regional markets. Given that existing conditions are cumbersome, the transition to a more business-friendly and competitive environment for firms to operate requires considerable lead time. However, in light of the amount of private investment needed to fill the void of falling public investment, substantial additional support is required. This support should be directed towards modernizing labor regulations, creating an enabling environment for FDI, reducing trade barriers, streamlining processes for business entry and operation, improving access to information and transparency and improving the regulatory framework for PPPs.

53. Therefore, an initial emphasis will be given to improving the diagnostics of binding constraints for private sector competitiveness, identifying recommendations, and crafting action plans for their implementation. An initial screening of constraints has been conducted and the GoE has prioritized the following four areas: (i) trading across border; (ii) protecting minority investor; (iii) addressing insolvency resolution; and (iv) ensuring access to information and transparency. In addition, with the goal of improving the prospects for impact, the WBG's CPSPD will identify key barriers and opportunities for increased private investment in selected value chains and sectors. With this, specific recommendations will be formulated regarding adjustments to laws, policies, and regulations that have an effect on private sector development.

54. The WBG will support this objective through a mix of financing and knowledge products. First, the DPF will support putting in place the appropriate environment for investment by focusing on removing barriers to private sector development while remaining aligned with the fiscal adjustment program agreed with the IMF²⁵. As appropriate conditions are established, the IFC will explore investment opportunities that could bear fruit within a medium-term timeframe of three to five years, seeking to leverage the private sector's capital. It will also continue to explore the provision of advisory services to firms in energy efficiency and in corporate governance issues. Furthermore, the IFC will support strengthening the governance of key sectors, such as mining, for achieving substantial productivity gains. It is expected this will create the conditions to catalyze private investment to rebalance the distribution of public and private investment. MIGA will be seeking opportunities to de-risk FDI projects and PPPs by providing political risk insurance that covers the risk of transfer restrictions and currency inconvertibility, breach of contract, expropriation, and war and civil disturbance. In addition, the WB is supporting an IPF operation in the education sector, aimed at enhancing skills needed to access to the private sector labor market. Lastly, the CPF will include the following knowledge products: (i) a Trade, Investment and Competitiveness Diagnostic ASA, which will provide an analysis and recommendations on trade policies, regional integration, productivity and increased competitiveness; (ii) advisory services to improve the business environment, with an emphasis on protection of minority investors, cross-border trading, insolvency, resolution and transparency, and access to information for which action plans will be prepared; and (iii) the Country Private Sector Diagnostic. The ASA coupled with the measures supported by the DPF (including regulations fostering large

²⁴ According to WB analysis, transport availability, affordability, and safety remain a barrier for urban productivity, rural development, and territorial integration. The poorest face the biggest accessibility challenges (the lower quintile spend more than 20 percent of their household income in transport).

²⁵ Performance criteria for the EFF include a reduction in the non-oil primary deficit of the non-financial public sector (NFPS) (including fuel subsidies), an increase in net international reserves (excluding bank deposits held at the Central Bank), and floors to social assistance spending. Structural benchmarks focus on improving statistics and reporting, the public financial management (PFM) and fiscal frameworks, tax structure, autonomy of the Central Bank, as well as anti-corruption instruments

private investment and PPPs, lowering costs for opening businesses and importing goods, improving complementarity between public and private financing institutions) will contribute to reducing barriers to private sector development and promote private investment. Further analytical work might be deployed to pinpoint specific policy reforms, some of which might be supported through a second DPF and/or a more appropriate financial instrument.

55. **The CPSD comprises four deep dives that highlight cross-cutting barriers to private sector participation, identify constraints and opportunities for private investment, and provide recommendations.** To remove these cross-cutting barriers, the deep dives focused on the following sectors: fruits and vegetables, shrimp and fisheries, mining, tourism, and transport and logistics for perishable agriculture exports, and identified opportunities for private sector investment. The CPSD’s preliminary results are presented in Box 6. Results and related recommendations will be discussed with the Government to determine how these results could be implemented with support from the WBG so as to maximize their effect on private investment as a driver for job creation and inclusive growth. Additionally, WB and IFC teams will disseminate the findings among other relevant stakeholders in each sector.

Box 6: Sector Deep Dive Recommendations

1. Fruits and Vegetables and the Blue Economy

- The fruits and vegetables and the blue economy value chains are performing well in the coastal plain. In the highlands, new promising value chains are emerging in response to market demands for exotic fruits and there is an opportunity to expand exports by developing the organic niche market for tropical fruit value chains that are in decline. These products already have an export infrastructure and know-how in place;
- The network of associations of small farmers created with the 2008 Constitution needs to be strengthened to become an export platform for non-traditional products. This requires investments in cold chain infrastructure, construction of gathering centers (*Centros de Acopio*), capacity building for agencies providing services to exporters, and the promotion of PPPs (models for PPP are already in place and could be built upon);
- Investments at various stages of the value chains are needed to secure access to foreign markets, especially to the United States. The Food Safety Modernization Act (FSMA) in the United States establishes new requirements that are entering into force in the next couple of years to guarantee the safety of the food that is consumed in the country, particularly imported food. Among the new requirements are: (i) a risk analysis from the farm to the consumer table; (ii) the establishment of prevention strategies based on risk severity; and (iii) the verification of compliance. The Food and Drug Administration (or authorized third parties) will verify compliance with on-site inspections in exporting countries. To comply with the FSMA, the country will need:
 - A traceability system maintained from the perspective of stakeholders within the value chain, and
 - Stronger institutional capabilities of *Agrocalidad* for conducting inspections and providing guidance to producers, and
- Compliance with international sanitary and phytosanitary norms and standards is an area that requires attention. Of specific concern is the lack of compliance from small producers of primary products (e.g., fruit and vegetables, small fisherman), which constrains export.

2. Mining

The mining sector is affected by the following constraints: (i) legal uncertainty caused by frequent changes in regulations; (ii) lack of alignment with environmental management; (iii) issues around ‘*consulta previa*,’ (iv) current auction methodology that facilitates concessions for speculative purposes; (v) no stated policy for ‘artisanal’ and ‘illegal’ mining in the gold value chain, and (vi) lack of availability of systematized public information. Improvement could be achieved to:

- Develop a long-term, shared vision: this should integrate contributions from all stakeholders (public entities, private firms, communities and minority groups, and academia);

- Improve regulatory frameworks for the sector: priority should go to aligning mining and environmental regulations and to regulating the application of the collective rights recognized constitutionally to indigenous, Afro-Ecuadorian, and local peoples and communities;
- Strengthen mining and environmental institutions: this is key to attract private investment, which depends on the predictability, speed, and transparency of procedures. Recommendations include enhancing efficiency for granting mining titles and environmental licenses, leveraging geological data as a tool to promote investments, and restraining ENAMI's unfair competition by extinguishing its right of preference;
- Improve royalty collection and distribution: the allocation of mining royalties could be made more transparent and include more incentives for a sustainable development of the sector. Options here include institutional strengthening of the mining and environmental regulatory authorities, support for the formalization of artisanal miners, and financing the dissemination of standards to improve industrial practices in small-scale mining;
- Foster domestic spillovers and beneficiation policies: While the focus has traditionally been put on the exploration and production segments, attention should now shift towards using mining to promote cross-sector linkages and economic diversification; and
- Enhance citizen participation and consultation: the potential contribution to the development of affected communities of mining can be negatively influenced by lack of information at multiple levels on the scope of projects, as well as by precarious accountability systems. Among the ways to enhance participation are regulating prior consultation, selecting a neutral institution to champion the process, strictly enforcing access to information on valid legislation, and joining the Extractive Industries Transparency Initiative (EITI).

The GoE has requested technical assistance for the implementation of the EITI and to strengthen the institutional capacity of ARCOM, the Mining Regulation and Control Agency. The WB will provide technical assistance to improve the mining cadaster. This is expected to increase efficiency in the process of granting mining titles and to attract investors to large-scale mining projects.

3. Tourism and Transport and Logistics

Preliminary recommendations for the tourism sector include: (i) targeting country promotion on fast-growing or high-potential markets; (ii) giving priority to the development of tourism skills to raise the quality of tourism services; and (iii) developing a brand and a promotion strategy.

Preliminary recommendations for the transport and logistics sector are focused mostly on the transport and logistics of export-oriented perishable goods' value chains, and include: (i) improvements in driver professionalism and medium-level skills on cold chain management via a driver-education center; (ii) the facilitation of intra-*Comunidad Andina de Naciones* trade by reducing trade costs at border posts; and (iii) the use of a risk management system to select physical inspections of cargo by border agencies.

Objective 3. Improve financial sector inclusion and intermediation

56. Distortions in the financial sector have hindered intermediation of financial resources, effectively restricting firms and individuals from accessing them. The public sector has crowded out private actors from the financial industry, effectively leading to poor intermediation and low access among private firms and households. The current institutional set-up is relatively weak, resulting from the lack of strong foundations from an independent central bank, price-distorting regulations, and different frameworks that are applied for public and private banks. Private banks face more stringent regulations and oversight, but these are not aligned to international standards. Financial regulations result in distortions in the system that limit financial sector performance. Furthermore, the cooperative banking sector has played a predominant role, limiting financial inclusion and restricting financing from the Central Bank. The GoE is looking to leverage private banks to complement the public banks' role and to reduce lending to government by the Central Bank, thus improving liquidity for the financial system. In addition, the GoE plans to promote access to credit and to financial services as well as to foster financial inclusion through expanded coverage and use of new technologies.

57. The WBG aims to support financial sector reform, with a particular focus on efforts to promote the efficient allocation of resources towards productive activities that respond to the country's competitiveness challenges.

To improve intermediation, support will be provided to facilitate the availability of financial resources and improve their allocation across the economy, especially to the private sector. It is expected that the role of the public financial sector will shift to second-tier banking, allowing private banks to grow and provide the necessary financing for now liquidity-constrained businesses and households. Thus, the CPF will support policies aimed at: (i) strengthening the country's financial and monetary architecture; (ii) promoting a complementary role and leveling the playing field between public banks and private commercial banks; (iii) reducing distortions that do not allow the proper pricing of financial instruments, including interest rates; (iv) fostering financial inclusion through solvent financial intermediaries; and (v) strengthening the regulatory and supervisory framework of financial institutions. Addressing these challenges will generate benefits along the financial sector value chain, resulting in significant gains in financial inclusion and in increasing women's access to quality and affordable financial services. To this end, the WBG will help develop a better understanding of the female market segment, gender-specific barriers to financial inclusion, awareness of best practices and aligning of bank products and services to the needs of women, particularly those in female-headed households.

58. The CPF contemplates the DPF as an important instrument towards supporting this objective, while solid knowledge products will guide its implementation to best address the challenges identified.

The first DPF will provide the necessary financing to support transitioning in the roles of public and private banks with the aim of rebalancing their share in the financial sector. The WB's ASA would provide recommendations on opportunities for: (i) strengthening the architecture of the financial and monetary system; (ii) optimizing the role of public banks in achieving their policy mandates and complementing the role of privately-owned commercial banks; and (iii) further liberalizing the regulatory framework for banks and financial cooperatives, while preserving their stability. A proposed study on infrastructure financing will look at opportunities for the financial sector to finance government-sponsored PPP projects. Trust-funded activities will promote the elaboration of a national strategy on financial inclusion and the stability of the financial cooperatives. The IFC will continue its support to expand financing opportunities to SMEs.

Results Area II. Boosting Human Capital and Protecting the Vulnerable

59. The CPF's second Results Area seeks to boost human capital and protect the vulnerable population, especially in a context of fiscal adjustment.

With the technical and financial support from the international community, Ecuador is adopting a strong program to support the vulnerable population (e.g. those living in socio-economically disadvantaged regions, female-headed households, children, those living with disabilities or in human mobility and indigenous people) and boost human capital in a context of fiscal adjustments, so that the achievement towards improving human development indicators is not reversed. In line with the Human Capital Project²⁶ and early childhood development initiatives²⁷, the CPF will support cost-effective interventions, priority policy reforms and the gathering of key data to inform decisions for comprehensive interventions to boost human capital²⁸. Together with the IMF and other IFIs, the WB will monitor implementation of the fiscal adjustment

²⁶ The WBG's global Human Capital Project aims at combining income transfers with education, nutritional and health objectives, to promote human development.

²⁷ Evidence confirms that an additional dollar invested in quality early childhood programs yields a return of between US\$6 and US\$17.

²⁸ The WBG leverages experts from education, nutrition, health, and social protection to build an evidence base, so that countries can craft cost-effective programs that fit their needs.

program closely to ensure that the most vulnerable are protected from social risks²⁹ and external shocks and to facilitate their inclusion to private labor-markets. In addition, to support improved infrastructure, quality, and coverage of the education system, the WB will provide financial and technical assistance to help develop skilled human capital that is adequately equipped for the needs of the labor market and private sector. This Results Area will contribute to ensure not only equity and gender equality in the delivery of quality education services, but also to support the provision of the skills needed by the economy for sustainable growth over the longer term. It will be informed, inter alia, by analytical work on a Jobs Diagnostic and a Wedge Bill Analysis.

60. Additionally, the WB will support improvements in the targeting of existing social protection programs and thus, the optimization of social services and efficient investment of public resources. Since 2007, the GoE ramped up its commitment to developing human capital and reducing child malnutrition (Box 7). Food and nutrition programs shifted from delivering food or fortified food supplements to comprehensive and multi-sectoral strategies. Spending on health, nutrition and child development increased by nearly 250 percent from 2007 to 2013. However, the national stunting rate has only fallen by 8 percent over the past 8 years and the poor and indigenous populations remain most affected³⁰. Through just-in-time TA, the WB has contributed to further understand challenges around stunting and malnutrition in Ecuador and opportunities to turn the tide. Under the CPF, the WB will support the GoE's efforts to improve the efficient allocation of resources to early development, including nutrition, improving the social registry and setting up a child development monitoring program. Additional analytical work including expenditure reviews will be conducted for relevant sectors such as water, education, health and agriculture. Overall, this will set the ground for a possible future operation that tackles stunting and malnutrition directly. The two objectives of Results Area II are to: (i) improve access to demand-driven technical education, and (ii) strengthen the efficiency and effectiveness of social programs.

Objective 4: Improve access to demand-driven technical education

61. Enrollment in secondary education has increased from 51 percent in 2007 to 71 percent in 2017, but challenges persist in ensuring access among minority groups and women within these groups, and in ensuring a continuation towards higher education. Investments and improvements in the education sector are at the core of the GoE's development plan. The plan establishes the goals of increasing enrollment in universities from 27.8 percent in 2017 to 31.2 percent by 2021. Over this same period, it aims to increase enrollment in technical and technological education from 5.9 percent to 9.0 percent. In fact, while Ecuador has set the goal of achieving universal access to education, the country lags behind comparable economies in educational attainment.³¹ In addition, Ecuador will need to ensure that the market counts upon the stock of adequate skills, among the working-age population, that are needed to enhance national productivity³². To achieve this, the supply of educational infrastructure needs to be optimal. Additionally, the GoE plans to develop mechanisms to tailor the supply of tertiary, technical and technological education to labor demand. However, it must also be noted that disparities between men and women – to the detriment of women – still exist in rural areas, and among indigenous populations.³³

²⁹ One of the main social risks is that 43.5 percent of poor children under five suffered from chronic malnutrition in 2014, due to the limited success of the existing social policies for early childhood development which lacked precise information on nutrition, the optimal allocation of resources, and the right coordination efforts to facilitate families' access to complete health packages.

³⁰ Encuesta de Salud y Nutrición (ESANUT, 2012)

³¹ According to OECD's Programme for International Student Assessment (PISA) tests which are designed to gauge how well the students master key subjects in order to be prepared for real-life situations in the adult world. Results are available at www.oecd.org/pisa/.

³² Gaps identified in the [EC Labor Market Inclusion \(P157084\)](#), the SCD,

³³ For instance, 51 percent of indigenous girls are not enrolled in secondary education. See: UN Women, 2016. *Mujeres Ecuatorianas: Dos Décadas de Cambios (1995-2015)*.

Box 7: Malnutrition in Ecuador

Malnutrition is a social risk in Ecuador that requires a multisectoral approach: with the second highest rate in LAC, one in three children from poor households is stunted. Further:

- In 2014, almost one in four children were chronically malnourished in Ecuador (ECV 2014 INEC);
- Stunting rates in Ecuador's rural regions (31 percent) and mountainous areas (32 percent) are significantly higher than those reported in urban (17 percent) and coastal areas (16 percent);
- Prevalence of stunting among the poorest quintile (36.5 percent) is three times higher than in the richest quintile (13.8 percent) and almost half of indigenous children are stunted (47 percent);
- The systematic gathering of Information on nutrition started in 2010 (ENSANUT) and existing data is not disaggregated by provinces or families;
- Access to growth controls and vaccines among stunted children under five is found to be insufficient and/or late;
- Conditional cash transfers (CCT) have not helped effectively prevent malnutrition: 33 percent of children from the poorest households that receive transfers present chronic malnutrition compared to 32 percent of those who do not receive CCT; and
- The causes of malnutrition involve different sectors and require a coordinated response with nutrition, health, hygiene, sanitation, and social protection services (World Bank, 2007). In addition to basic services, access to lessons learned and information on the population is crucial (UNICEF 2011).

Since the 2016 Human Capital Summit, awareness has increased, and worldwide leaders are investing in the implementation of global lessons to tackle malnutrition from a multisectoral approach. Evidence shows that every dollar invested in nutrition during the first 1,000 days of life can have returns for up to US\$35 for every US\$ spent, and every additional US\$ invested in quality early childhood programs yields a return of between US\$6 and US\$17. Yet, in 2017, stunting affected an estimated 22.2 percent of children under 5 globally, of which 5.1 million of them live in LAC.

An optimal allocation of resources for proven and cost-effective interventions can turn the tide in areas with the highest prevalence of nutritional disorders, both on the supply (with nutritional packages, early childhood interventions, adequate hygiene and sanitation services) and the demand side (by accessing prevention, nutritional and parental counseling services). Moreover, the improved articulation and harmonization of stakeholders would maximize results of activities and strategies.

62. This CPF focuses on capitalizing upon Ecuador's significant achievements over the previous decade. First, the CPF aims to build upon reforms to technical and technological education that have been implemented by the GoE and to ensure adequate programs that will result in an increased stock of skills and knowledge. Additionally, the CPF will support investments that aim to increase enrollment rates in institutes offering relevant and quality programs and that recognize that the cultural adequacy of institutes is key to reduce disparities among minorities, bridge learning gaps, provide equality of opportunities, and achieve the goal of universal access. The CPF also contemplates investments to bridge learning gaps in secondary, tertiary, technical, and technological education and gives special attention to the quality of teaching and to the developmental use of learning evaluations to strengthen school management. The CPF program supports the provision of different training programs for teachers and management staff, and the development and implementation of a public teaching career path that links training and evaluation with related incentives and rewards. Furthermore, the CPF recognizes the importance of promoting efficient school management and administration through the monitoring of school performance and gender-disaggregated student learning based on relevant and holistic metrics. Lastly, the CPF will promote investments that involve the private sector in curricula optimization and the career orientation of educational institutes based on sought-after skills.

63. The WB is currently financing two projects that complement each other by transversally enhancing the quality of education while delivering required skills. The *Supporting Education Reform in Targeted Circuits* project is contributing to the expansion of teachers' and principals' training, the strengthening of school management, and the evaluation of the impacts of the reform focusing on five main outcomes: (i) coverage/graduation; (ii) inclusion of vulnerable school-age children; (iii) quality of learning; (iv) equity implications (including gender); and (v) efficiency in the allocation of resources. This project places special emphasis on improving the implementation capacity of the public education system at targeted subnational levels in an effort to address regional disparities in capacity. Additionally, the *Transformation of the Tertiary Technical and Technological Institutes* project aims to increase enrollment and persistence in public technical and technological programs that are designed and implemented in collaboration with employers. It also seeks to strengthen the institutional management of tertiary technical and technological education. The project fosters stronger linkages between institutes and the private sector by developing tools to better understand the skills gaps. It does so by using administrative records, labor demand surveys, and local interactions with employers. In this sense, this project is expected to contribute to an increase in access to productive opportunities, competitiveness, and local development. In terms of gender, the project will collect and monitor gender-disaggregated indicators about access, persistence, and graduation rates and prepare a diagnostic based on the collected data in order to propose gender-specific actions to guarantee equality of opportunities within the scope of project. Furthermore, it will contribute to understanding better and mitigating the gender gap in labor force participation (which stands at 55 percent for female participation versus 81 percent for male participation) from a skills perspective³⁴.

Objective 5: Strengthen the efficiency and effectiveness of social programs

64. Over the past decade, social spending increased significantly, and these high levels have been maintained despite a steep decline in public revenues. Cash transfers have been the most prominent form of social assistance and contributed 12 percent to the reduction of poverty (that had decreased to 21 percent by 2017). Cash transfer programs make up more than 50 percent of social assistance spending. Since the drop in oil prices, income growth for both the bottom and the top percentiles stagnated. Subsidy schemes, especially for fuel and electricity, have proven to be regressive and costly, and the bulk of gasoline and diesel subsidies benefit only households in the richest quintile. In this context, an optimal targeting system is required to ensure an efficient allocation of public resources³⁵. The *Plan de Prosperidad* contemplates the optimization of these subsidies and the reallocation of part of these resources to social protection programs that are considered more effective. The Government has requested the WB's technical assistance to improve the efficiency of the social protection system and to improve the targeting and coverage of its social assistance programs to cushion the impact of fiscal reforms on the most vulnerable groups (including low income female-headed households, people with disabilities, and families with children under 18). Additionally, the WBG's expertise has been requested to inform reforms in the energy sector and related subsidies. With these reforms, the Government would be able to reallocate savings from optimized subsidies to the financing of social services, while at the same time contributing positively to the reduction of emissions.

65. The CPF supports policies that aim to protect the poor and vulnerable from potential impacts of the GoE's measures to achieve macroeconomic sustainability and reduced fiscal imbalances. To this end, the Government needs to enhance the efficiency of limited resources in the short-run to assure and maintain adequate living standards among Ecuadorians. In this sense, the CPF identifies quick gains from fiscal savings by adjusting costly

³⁴ Gender Gaps in Ecuador, an Overview (June, 2018). Poverty Global Practice, World Bank Group.

³⁵ For example, an optimal allocation of resources for proven and cost-effective interventions can effectively turn the tide in areas with the highest prevalence of nutritional disorders, and both on the supply (with nutritional packages, early childhood interventions, adequate hygiene and sanitation services) and the demand side (by accessing prevention, nutritional and parental counseling services). Moreover, the improved articulation and harmonization of stakeholders would maximize results of activities and strategies.

inefficiencies, including underutilized infrastructure, staffing decisions, and expensive and poorly targeted social programs. Building on ongoing spending reviews in the social sectors (i.e. health and education), the CPF highlights the importance of improving the identification of beneficiaries and the consequent rigorous focalization of social spending in a context of macroeconomic uncertainty. Overall, the CPF proposes to provide international evidence to invest public savings towards the achievement of significantly higher impacts from targeted social development programs.

66. A proposed *Social Safety Net System* project, aims to improve the targeting of specific social programs, making them less regressive while extending coverage to eligible households that are currently outside of the system. The project will include a Core Diagnostic Instrument (CODI) on the current institutional framework and on the design of key social protection programs. This work will help bring efficiency into Ecuador’s social assistance programs by linking beneficiaries under various programs in a single dynamic registry. For this, it would provide technical and financial assistance to update Ecuador’s social registry to mitigate inclusion and exclusion errors, monitor leakages, and ensure a timely and smooth graduation of beneficiaries out of the system. In addition, an analysis of public investment in the health sector will be conducted to ensure that the allocation of resources targets disadvantaged areas and the most vulnerable population (e.g. those living in socio-economically disadvantaged regions, female-headed households, children, those living with disabilities or in human mobility and indigenous people). Taking into account the WBG 2018 Country Gender Diagnostic³⁶ which highlights that the level of contributory pensions for women is highly restricted by the low levels of female participation in the labor force (Annex 10)³⁷, the WB is currently providing technical assistance to the Ecuadorian Institute for Social Security (IESS) to: (i) evaluate the system for protecting the income of senior citizens, and (ii) identify short- and medium-term challenges for the pension system. This will generate the evidence and recommendations to improve equity and financial sustainability. Lastly, given the stress that the influx of Venezuelan migrants could cause on social safety nets and public services (Box 1), the WB will support the GoE’s efforts to cope with this extraordinary situation, including accessing the Global Concessional Financing Facility (GCF) window. The support proposed under the CPF will place special emphasis on reducing disparities and increasing access to safety-nets among the vulnerable. Overall, this objective aims at ensuring access to adequate social services and social inclusion opportunities, from an equity perspective.

Results Area III. Enhancing Institutional and Environmental Sustainability

67. The CPF’s third Results Area seeks to improve state capabilities and ensure social, environmental, and institutional sustainability. Strengthening the Government’s capacity to make timely and evidence-based decisions is fundamental to increasing effectiveness and resilience. The focus on improving state responses will therefore center on bolstering the GoE’s capacity to make decisions on a timely basis and to ground these on solid evidence. To this end, the CPF seeks to help Ecuador close substantive information gaps as well as enable it to take proper stock of the challenges and generate policy alternatives. Emphasis is also given to improving governance, closing opportunities for the misuse of resources, and enhancing the capacity of the state to enforce rules, including by addressing the consequences of past wrong-doings. In addition, the CPF will support Ecuador to improve infrastructure and bolster the capacity of the state to manage the impact of natural risks, including the rising challenges from climate change. The CPF will contribute to Ecuador’s compliance with international standards for improved infrastructure and commitments on controlling emissions. The two objectives of Results Area III are to: (i) strengthen evidence-based policy-making and transparency, and (ii) improve resilience to

³⁶ World Bank, 2018, Gender Gaps in Ecuador: An Overview, Washington DC.
³⁷ Gender Gaps in Ecuador, an Overview (June 2018). Poverty Global Practice, World Bank Group.

disaster risks and climate change. Indirectly, this Results Area will support the building of state capabilities to promote sustainability at the social, environmental, and institutional level.

Objective 6: Strengthen evidence-based policymaking and transparency

68. The Ecuadorian public sector is highly fractured and there is pervasive weak institutional and governance capacity across most government agencies. The distribution of power is unbalanced, allowing for discretionary policy-making that does not reflect sound or analytical founding. Information for evidence-based decision-making is not always available or updated. This is illustrated in Ecuador’s low rankings on several government indicators related to fiscal transparency—notably, budget preparation, monitoring, and oversight process. These conditions undermine the efficient allocation of resources and strategic prioritization of public expenditure. They also make it difficult to prevent or revert malfeasance and misuse of public resources. The Government has emphasized the importance of strengthening governance and transparency, notably by including the topic as a central element of its *Plan de Prosperidad*. The GoE is promoting an important set of reforms that include measures for strengthening public procurement processes, for disclosing financial information of public agencies, and for protecting and incentivizing witness collaboration in corruption cases.

69. The CPF will contribute to the process of strengthening governance in critical institutions that play a key role in ensuring transparency and accountability of the state. The focus will be on bolstering the capacity for evidence-based decision making and ensuring transparency and accountability. On the former, the CPF’s focus will be to support timely and informed policy discussions by bridging institutional knowledge gaps to facilitate decision-making processes based on evidence. This will include support for recurrent surveys, such as the National Survey on Employment-ENEMDU, the household budget survey (last conducted in 2012), the enterprise survey (last collected in 2010), and the national health and nutrition survey-ENSANUT (the last conducted in 2012). To improve transparency and accountability, the CPF will focus on increasing the capacity to carry out risk assessments in areas where the Government is vulnerable to malfeasance. In addition to strengthening the Government’s capacity to restore the rule of law, the CPF will also promote capacity building activities to identify and recover stolen assets.

70. The WBG will focus on enhancing data collection at the national level for informing the CPF program and enhancing the GoE’s capacity for designing and implementing evidence-based policies. Technical assistance will support the regular gathering of household data and strengthening capacity to analyze national statistics. Over time, the WBG would explore options to help develop capacity for evidence-based decision making, such as introducing practices for regulatory impact assessment (RIAs) and/or policy and programs evaluations of various types (e.g., impact evaluation of policy), and the introduction of behavioral experiments for policy design. This line of work is expected to provide knowledge and capacity building to ensure that the Government develops a National Risk Assessment (NRA). It also anticipates increased inter-institutional collaboration to fight corruption at the national and subnational levels of government. This will contribute to the GoE’s effort for recovering stolen assets. In addition, the CPF seeks to contribute to Ecuador’s productivity by achieving spillovers from standards of transparency in selected sectors. In this vein, the CPSD identified the need to enhance citizen participation and consultation processes for mining sector projects. A recommendation in this regard was discussed with the GoE and support will be provided through technical assistance for the implementation of the standards and reporting required by the Extractive Industries Transparency Initiative (EITI). Building upon the WB-IFC deep dive on the mining sector, technical assistance will also be provided to help strengthen the Mining Regulation and Control Agency’s (ARCOM’s) institutional capacity. Furthermore, the GoE has expressed its commitment to improve the management of the country’s natural resources and has requested technical assistance support to improve the mining cadaster.

Objective 7: Improve resilience to disaster risks and climate change

71. Ecuador is a country that is highly vulnerable to a range of natural disasters and climatic shocks, including earthquakes, flooding and landslides, plus the periodic occurrence of *El Niño* phenomenon. The reliance on productive sectors that have yet not adapted to environmental sustainability standards (such as oil production, transportation and farming) is high and is taking a toll on natural resource sustainability. Today, both the 2008 Constitution and the *Plan Toda Una Vida* include specific axes and objectives to improve environmental sustainability and resilience to disaster risks³⁸. The GoE has deployed resources to strengthen its capacity in this area. The *Estrategia Nacional de Cambio Climático 2012-2025* (National Climate Change Strategy) establishes mitigation and adaptation parameters for sector plans and for a better use of water sources. In addition, water demands from expanding cities have already brought attention to water scarcities, along with the extremely dismal situation of cities' waste water management. These factors are exacerbating problems of water pollution, water quality, and water availability. The Government has incorporated components on the use of technology for sustainable production and an integrated institutional framework for disaster risk mitigation into its *Plan Nacional de Desarrollo 2017-2021*. Moreover, in 2018 the GoE committed itself to reduce the subsidies linked to fossil fuels (estimated to have costed US\$187 per person in 2018) and in April 2019, Ecuador joined the Coalition of Finance Ministers for Climate Action (Helsinki Principles).

72. The CPF aims to enhance the country's resilience to shocks, including disaster risks and climate change. The CPF will first focus on disaster risk reduction, rehabilitation and improvement of basic infrastructure. The CPF will support creating the necessary understanding of risks to inform the improvement of existing assets and the construction of resilient infrastructure. In this sense, the development of disaster risk financial instruments and reduction plans will also be considered. Under the CEN period, the WB conducted a series of studies on disaster risk management and the impact of climate change³⁹. As a result, Climate-Smart Agriculture and Resilient Landscapes were proven to be potential solutions to enhance resilience to natural disasters, climatic shocks and changes, as well as to promote sustainable practices that contribute to conservation of natural resources. Building upon this knowledge, the CPF will help contribute to improving water security and reducing water pollution in urban centers. It will also support the NDC (para. 44) in reducing emissions of polluting gases, capturing of flare gas produced in the oil industry, and minimizing nitrogen oxides and carbon monoxide emissions in public transportation in large and medium-size cities. Finally, it will provide elements to support the dialogue about improvements in the legal and regulatory frameworks for the mining sector to increase the participation of private sector. It will also provide recommendations to strengthen the capacity of mining and environmental institutions. In terms of gender, the CPF will give special consideration to understanding and addressing the different needs of men and women in disaster risk and climate change investments. Understanding the different needs and capacities of women and men is critical to effective disaster risk management, as women typically outnumber men among those dying from natural disasters, often because of cultural and behavioral restrictions on women's mobility and socially ascribed roles and responsibilities (e.g. caring for young, elderly or sick household members). Women and girls are also subject to indirect impacts that arise in the aftermaths of disasters, such as sexual and gender-based violence (SGBV), early and forced marriages, loss of livelihood and access to education, deterioration in sexual and reproductive health, and increases in their workload, all of which compound the gender-specific impacts of disasters.

³⁸ Ecuador has adopted a variety of mitigation and adaptation policies to support a national development model based on Good Living (Buen Vivir) or "Sumak Kawsay". This model contextualizes climate change as a multi-dimensional problem and commits the country to defend the right of its population to live in a healthy environment, respecting the rights of nature.

³⁹ [Promoting Environmental Management in Ecuador Phase II \(P148898\)](#); Adaptation to the Impact of Rapid Glacier Retreat in the Tropical Andes (P098248) which objective was to contribute to strengthening the resilience of local ecosystems and economies to the impacts of glacier retreat in the Tropical Andes.

73. In this context, the range of investment projects considered in the CPF ensures complementarity among the three Results Areas. First, the ongoing *Risk Mitigation and Emergency Recovery Loan* features prevention efforts to minimize the impact of natural disasters and to support the reconstruction of critical infrastructure to “build back better” standards to restore productive activities and strengthen long-term resilience. Furthermore, it includes a technical component to assist the relevant public entities in implementing activities that strengthen resilience to macroeconomic shocks. In addition, the *Guayaquil Wastewater Management Project* and the *Manta Public Services Improvement Project* are supporting an increased access to sanitation services and improved roads infrastructure, while reducing municipal contamination of surface water and improving freshwater resource management. A range of projects contemplates the reduction of pollutant gases in selected regions of the country. These include: (i) the *Gas Flaring Reduction Program*⁴⁰, which will capture and monetize gas emissions from oil-based energy production in the Amazon; and (ii) the ongoing *Quito Metro Line One* and its additional financing, and the *Ibarra Transport Infrastructure Improvement* projects, which are designed to optimize urban transportation (thereby reducing transport time) and to reduce the emission of greenhouse gases. In addition, the ongoing *Sustainable Family Farming Modernization Project* is supporting the reduction of greenhouse gas emissions, the shift of small- and medium-sized agricultural households to the climate-smart use of land and water. Moreover, it will also contribute to accessing productive opportunities in targeted regions of the country and to reducing rural poverty, especially among indigenous communities and women.

E. Implementing the FY19-FY23 CPF

74. The CPF aims to frontload assistance in support of the GoE’s effort for establishing the necessary macroeconomic conditions for igniting growth while protecting social gains. To this end, the CPF program responds to specific requests for WBG support and is the result of fruitful discussions with the Government and IFIs active in Ecuador, which have led to an increase in the financing envelope and in the areas of intervention/scope of work. The WBG will ensure continuity in specific areas of comparative advantage. The knowledge program will remain a cornerstone for the WBG’s engagement in the policy dialogue, coupled with sustained efforts to improve the performance of the portfolio. However, to ensure responsiveness to the Government’s changing needs, PLR discussions planned for 2021 will be critical to adjust this program as necessary to ensure its continuing relevance and responsiveness.

75. The WBG will continue to work jointly with the GoE to optimize resources invested in the portfolio and ensure its effective implementation. Close oversight of project implementation will be provided to improve the quality of WB portfolio, through close supervision and the application of available monitoring instruments (e.g. portfolio quality and performance reviews, and improvements of proactivity indicators). It will also support the Government in jointly identifying opportunities to improve the efficient investment of public resources and to redeploy any cancelled funds in response to emerging government priorities and needs. (As an example, in FY19, at the Government’s request, the WB carried out a diagnostic aimed at optimizing the portfolio and issued recommendations to the Government, based upon which, the GoE proposed partial cancellations of low-performing operations). Specifically, during the CPF period the WB will commit to carry out the following quality assurance measures with the goal to improve the quality of the portfolio:

- two country portfolio performance reviews per year with the Government to support proactivity measures, as and when necessary
- one operations workshop per year with implementing entities and PIUs

⁴⁰ The WBG is conducting project prefeasibility studies for the virtual pipeline, which include measurement, commercial/economic model and basic engineering and follow up work could be done to enable commercial operations at the Government’s request.

- one fiduciary workshop per year with the implementing entities and PIUs
- one workshop on environmental and social safeguards during the first year of the CPF and another one by the PLR
- one country team meeting per year with task teams and operational and fiduciary teams to take stock and implement corrective actions to improve portfolio implementation.

F. Financial envelope

76. **The ongoing IBRD portfolio is historically the largest for Ecuador, totaling US\$1.4 billion⁴¹.** Today, the program consists of eight lending operations (Annexes 3 and 4). These focus on increasing access to better services and improving infrastructure in the transport, water, sanitation, agriculture and education sectors. This targeted and young portfolio will shift from bridging the infrastructure gap to a more selective and policy-oriented program. The WB will be phasing out of some areas (at least in the short term) and engaging in newly prioritized areas in which support has been requested, such as the adoption of international standards to improve the quality of education, financial management, transparency, and investment climate. From July 2014 to June 2018, the WB committed a total of US\$1.4 billion from the International Bank for Reconstruction and Development (IBRD). Successful implementation of the IMF EFF program will set the basis for an enhanced IBRD financing. The IBRD-financed portion of the CPF is based on an indicative annual lending volume of up to US\$800 million, including commitments of US\$850 million in the first year of the CPF. In FY19-20 a US\$500 million DPF will underpin support for fiscal consolidation (Objective 1), which would be critical to the objectives under Results Area I. This will be complemented by a US\$350 million IPF to cushion the burden of related reforms on Ecuador's vulnerable population and to ensure the efficient spending of public resources in the social protection sector (Objective 5). Beyond these initial operations, annual IBRD lending is envisioned to vary, on average, between US\$500 million and US\$800 million using a mix of different instruments facilitated by continuation of a stable macroeconomic framework. For example, an Additional Financing to maximize the results of the *Quito Metro Line One* and a potential second DPF would be considered, based on satisfactory performance of the first DPF. An extension of the *Quito Metro Line One* would serve an increased percentage of the population and allow for a recovery of investment costs and financing of the O&M (Objective 7). The actual volume of additional IBRD financing will depend, inter alia, on the type of financing instruments used, country performance, demand from other borrowers, and the IBRD's financial capacity. Based on the mid-term review of this CPF under the PLR and eventual requests by the Government, additional operations and financing instruments would be considered to ensure that the CPF program remains relevant to the country's emerging needs. This approach is expected to provide enough flexibility to remain responsive and relevant to our client.

77. **IFC's outstanding portfolio stood at US\$265 million as of December 2018 (own account and mobilization).** The portfolio includes US\$14.2 million in mobilization and US\$31.1 million in trade finance (Annex 6). Projects support 11 clients, mostly in Finance and Insurance (45 percent) and Food and Beverages (37 percent). The IFC also has exposures in telecoms, health and life sciences. IFC's engagement in the past five years was comprised of investments and advisory services mostly in the banking sector, and of support to import-export activities through commercial banks by the Global Trade Finance Program. Part of the portfolio were also a few agribusiness and health services projects that leveraged opportunities for entrepreneurship. From July 2014 to June 2018, IFC committed US\$478.6 million and mobilized US\$125 million from IFIs and institutional investors for a total of

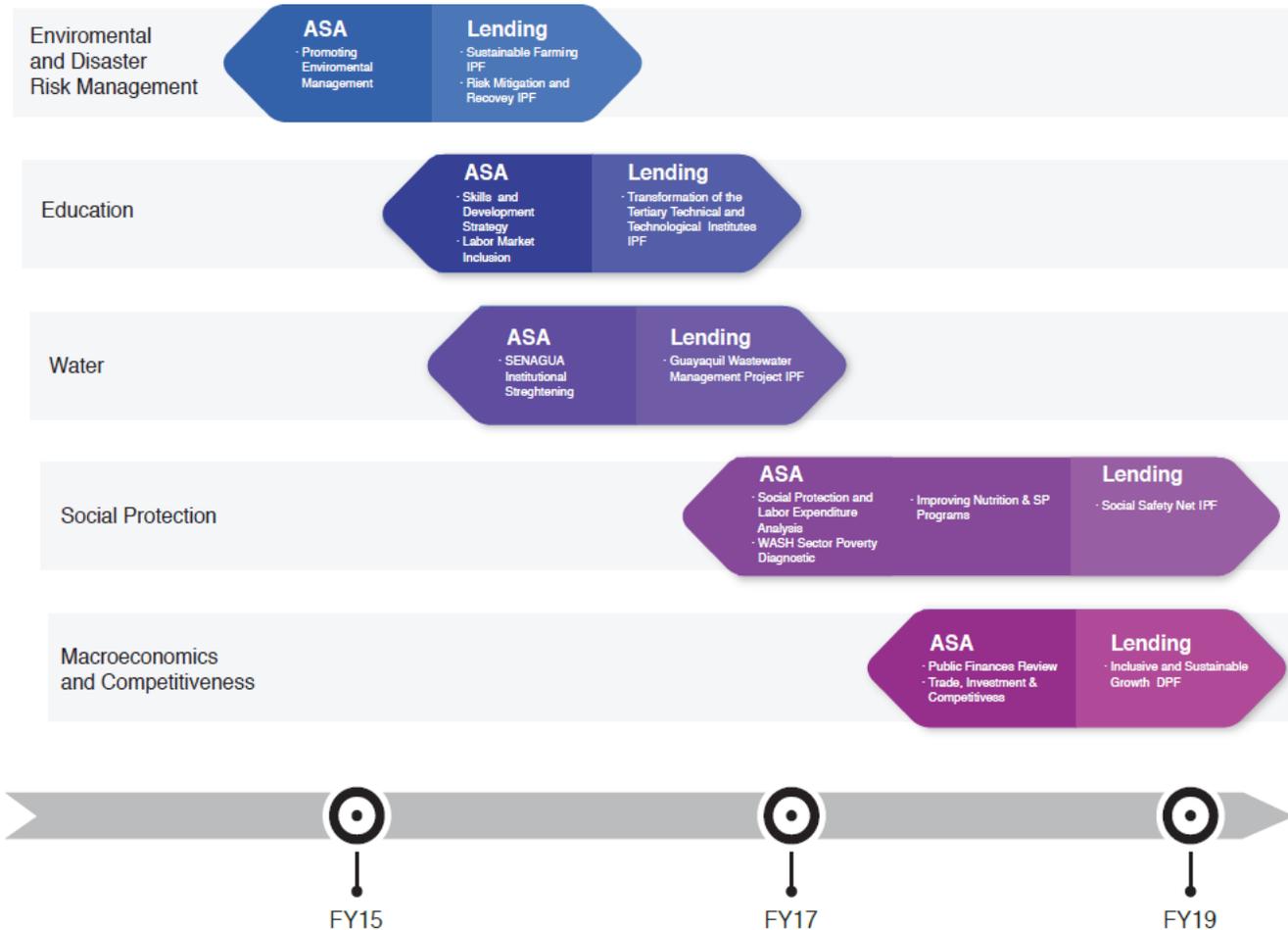
⁴¹ Once the Social Protection IPF (approved by the World Bank's Board of Executive Director's (Board) on April 3rd), is declared effective, this amount will be increased to \$1.6 billion.

US\$603.6 million in the absence of a business enabling environment that was conducive to private investment. Going forward, the intensity of the foreseen private sector-oriented reforms, and the extent to which they are implemented and affect the willingness of private actors to invest in Ecuador, will all determine the pace and volume of IFC investments during the CPF period. With a more solid basis for scaling up its engagement, future priorities would include: (i) expanding financing and advisory opportunities in climate finance, and (ii) in the real sector, pursuing investments and mobilizing foreign and local private resources to new sectors such as mining tourism, transport and logistics, and improving local industry linkages to global value chains. The IFC will continue to pursue investment opportunities in agribusiness companies, focusing on export-oriented firms in the dairy, seafood, and fruit and vegetables sectors. The realization of increased private sector investment would contribute to job creation, as a fundamental condition for inclusive growth

78. By supporting foreign private investors, political risk insurance from MIGA can help rebalance the economy in favor of greater private sector involvement, increase foreign direct investment, stimulate job creation, and build competitiveness. MIGA will look for opportunities to support private cross-border investment projects, especially those that are strongly aligned with the CPF's objectives (Annex 7).

79. The program of Advisory Services and Analytics (ASA) is an instrumental element of the WBG's re-engagement in Ecuador and of the program going forward. In the context of the re-engagement between Ecuador and the WBG following the suspension of official representation and lending operations in 2007, knowledge products were an ideal instrument for rebuilding the relationship with the GoE. and generate relevant evidence for future investments (Annex 5). In recent years, the WB has anticipated lending opportunities and mobilized technical and financial resources to ensure that analytical work and capacity building activities address the GoE's requests and needs. The timely delivery of ASA allowed the WB to engage in technical dialogues to inform sectoral policies (e.g. transport, education, social protection, water and sanitation) and helped expand the program. Technical and policy notes discussed in 2016-2017 with the current administration, served as a crucial instrument to consolidate the reengagement process. Analytical work and technical assistance in strategically selected sectors set the basis for a further WBG engagement in areas considered crucial for Ecuador's long-term development. Figure 7 shows some examples of how the WB knowledge program included a variety of activities that led to a client-oriented investment program. Additionally, the WB prepared a Country Gender Diagnostic, accompanied by a comprehensive portfolio review which informed strategic support to active and pipeline operational engagement on gender equality, and will prepare a diagnostic in the area of women in Science, Technology, Engineering and Mathematics as part of the Transformation of the Tertiary Technical and Technological Institutes Project. Going forward the ASA program will continue to be strategically focused on bridging knowledge gaps (e.g. gender-based violence, migration), responding to emerging challenges (e.g. labor market dynamics), and ensuring the regular monitoring of key poverty and macroeconomic aspects. Specifically, in the short-term (FY20), the WB will prepare a flagship ASA on jobs, as an essential area for poverty reduction and a driver for sustainable growth, particularly as the Government transitions from a public sector-led economic model to a private sector-led one. This could inform the design of a potential second DPF.

Figure 7: Examples of Strategic ASAs for Effective Reengagement



G. Fiduciary aspects: Financial Management, Procurement and Government Systems

80. **The fiduciary environment in Ecuador presents significant challenges, mainly due to cumbersome administrative procedures and liquidity constrains.** Country systems are used for project implementation, including the financial management system (e-Sigef), a single treasury account, and associated regulatory framework. Nevertheless, this requires intensive coordination, supervision and, in some cases, ad hoc additional arrangements. Ecuador’s public procurement framework has important challenges with respect to enhancing participation, equity, and efficiency. Several factors make the reality complex, including strict validation requirements, the incorporation of aspects aimed at protecting national industry, the lack of mechanisms to access international arbitration or dispute resolution, and the use of reference prices as award criteria. In addition, arbitrary interpretation of the scope of complementarity of local laws over WB fiduciary policies and procedures, coupled with the high turnover of project procurement staff, result in a more complex scenario. This impacts effective project implementation. As the local private sector is not strong enough to respond to a large-scale public investment program, there is a need to resort to the international market for procurement of many items.

81. **To address shortcomings in the fiduciary environment, the WB will remain actively involved with the GoE in identifying measures aimed at overcoming capacity constraints, including:**

- Project institutional arrangements should be kept simple, ensuring that project implementing unit staff are trained regularly and that excessive rotation of personnel is avoided. When feasible, the WB will support the Government in mitigating this risk by incorporating into the project design technical assistance activities aimed at improving the country systems. It will also provide routine training in procurement, financial management, and disbursement procedures;
- To remove bottlenecks for project implementation in a timely manner, it is important to maintain close involvement of central ministries, such as the MoF and the National Secretariat of Planning and Development (SENPLADES), as well as the implementing line ministries. The WB will maintain close coordination with these institutions, holding periodic portfolio reviews and addressing bottlenecks on a case-by-case basis; and
- The WB will also maintain close coordination with Ecuador's General Comptroller's Office and, when feasible, provide technical assistance by sharing good practices and promoting knowledge exchange, among other activities. In this way, it can leverage its capacity for the oversight of public funds. At the same time, it will ensure that the normative framework for projects financed by the WB is well understood, avoiding a possible overlap of procedures and potential misunderstandings.

H. Managing Program Implementation

82. As part of the ongoing efforts to improve responsiveness to our client's needs and implementation performance, the CPF contemplates the use of instruments that have not been used in the Ecuador program, such as result-based financing and RAS. In a context of limited resources, the design of the Social Protection IPF (FY19) includes the use of disbursement-linked indicators (DLI) to facilitate the financing of key reforms in the safety-net system, incentivizing improved targeting and service delivery of social protection programs. The Government has expressed interest in other instruments, such as DPF and WB guarantees to enhance the conditions for private investment. The availability and terms of these WB instruments will be subject to improved macroeconomic conditions and implementation performance. Additionally, the processing of ongoing RAS and WB-IFC Advisory Services have helped to identify requirements and better inform potential clients (in the public sector) on how to access these instruments. Furthermore, the WBG continues to show high responsiveness to the client's need in expanding its capacity on the ground through effective deployment of staff. The number of WB staff currently based in Ecuador has doubled in the past years and now includes technical specialists for the sectors where the program is most active.

I. Partnership and donor coordination

83. Partnership and donor coordination. The WB has a wealth of experience working in coordination with the IMF and other institutions to bring together a package of financial and technical assistance in support of the countries' short-term stabilization needs. In this regard, the WB has been working closely with the IMF, the IDB and the CAF, among other IFIs and United Nations Agencies, to support the Government's implementation of the *Plan de Prosperidad* and advise on the fiscal consolidation process. The IMF and World Bank have coordinated closely on the design of the EFF and the DPL series to ensure consistency and complementarity of policy measures each of them support (some examples are included in Table 4). The WB is also co-financing different projects with other IFIs (e.g. the Quito Metro Project is co-financed with the IDB, CAF and European Investment Bank; the Guayaquil Wastewater Treatment Project is co-financed with EIB; and the Sustainable Modernization of Family Farming project is co-financed with the Spanish Cooperation - AECID).

Table 4: Examples of complementarities between WB and IMF programs and areas not covered by any IFIs

Area	WB	IMF	IADB	Other
Fiscal Adjustment	*	*	*	
Fiscal policy framework				
Other PFM (budget processes, cash management, transparency)	*	*		
Quality of current spending	*	*		
Wage bill, HR	*	*		
Procurement	*			
Subsidies	*			
Debt management	*	*		
Tax policy	*	*		
Tax/custom administration		*	*	
Capital spending				
PIM	*		*	
Asset management			*	
Institutional strengthening of MEF			*	
Social Sectors and Safety Nets				
Efficiency of social spending	*			
Targeting and effectiveness of social programs	*			
Compensation Mechanisms	*			
Pension Reform				
SOE Reform (horizontal)			*	
Monetary/Dollarization		*		
Financial Sector	*	*	*	
Interest rate ceilings, liquidity requirements	*	*	*	
Commercial banks Regulations and supervision				
State-owned banks	*			
Cooperatives	*			
Capital Markets Development				
Private Sector/Private Investment	*		*	
Entry	*		*	
Operation	*		*	
Competition				
Insolvency/bankruptcy				
Arbitration	*			
PPPs	*		*	
Opening/Governance of energy sector ⁺	*		*	
International Trade	*		*	*
Facilitation			*	CAF
Non-tariff barriers	*			
Tariffs and quotas				
Agriculture price floors				
Labor Reform	*			
Anticorruption				
Overall strategy	*	*		UN
Integrity				

IV. MANAGING RISKS TO THE CPF PROGRAM

84. **The overall risk to the achievement of the CPF objectives is assessed as Substantial.** The main risk (rated as High) is related to the macroeconomic situation. Risks rated as Substantial include: (i) Political and Governance; (ii) Institutional Capacity for Implementation; (iii) Fiduciary, and (iv) Environmental and Social (Table 5).

Table 5: Risks to the CPF Program (2019-23) and CEN (2016-17)

Risk Categories	CPF Risk Rating
1. Political and Governance	S
2. Macroeconomic	H
3. Sector Strategies and Policies	M
4. Technical Design of Project or Program	M
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	S
7. Environmental and Social	S
8. Stakeholders	M
9. Other	
OVERALL	S

85. **Political and governance risks are assessed as Substantial.** The CPF will be implemented over two presidential periods. The PLR will be prepared around the time of presidential elections and will serve as an opportunity to reassess the program’s relevance and convergence with new administration’s priorities and emerging needs. While major changes in the WBG engagement are not envisaged as a result of the local elections which took place on March 24, 2019, the existing polarization is likely to intensify. This could challenge agreements on upcoming structural reforms in the National Assembly. To mitigate these risks, the WBG will continue to provide technically sound advice and investments, focused on ensuring that the impact on the vulnerable population is cushioned.

86. **Macroeconomic risks are assessed as High.** Risks related to the macroeconomic situation are mainly related to existent imbalances. The mobilization of resources is crucial. The Government is engaged in an active dialogue with the IFIs, including the WB, to mobilize such resources. However, this strategy could be affected by the progress in the policy agenda if it is not fully supported by the legislative power. This could affect the delivery of new operations, especially the DPF. To mitigate this risk, the WBG is working closely with the Government, providing just-in-time technical assistance to inform budget allocation, optimize public spending, and identify opportunities to create the conditions to reignite growth. The WBG is also ensuring regular coordination with other IFIs. Specifically, the IMF’s EFF will provide consistency and serve as an anchor for the potential expansion of the WBG program. Additionally, the WB is also supporting capacity building to improve the targeting and optimization of social safety nets. Another risk to the macroeconomic scenario could come from the impact of natural disasters, which, based on experience, increases fiscal pressures and places strains on the Government. This could affect project implementation by, for instance, limiting the availability of counterpart funding. To improve resilience, the WB is supporting the adoption of standards and strategies to effectively respond to natural and macroeconomic shocks. In fact, the overall CPF program provides finance for capacity building and resilient infrastructure. Finally, given the ongoing coordinated efforts of the GoE, the WBG and other IFIs, the knowledge and actions required to contain Ecuador’s high macroeconomic risk are being put in place.

87. Institutional capacity risks are assessed as *Substantial* as challenges to the implementation of WB-financed projects might take some time to be addressed. Implementation is hampered by several factors, including a high rotation of implementing unit staff and decisions makers, cumbersome administrative procedures, and limited counterpart funding, among others. As a result, the planning of activities, the efficient use of resources, and overall operational effectiveness are all further challenged. To mitigate these risks, the WB will continue to provide capacity building activities, trainings on policies and procedures, and close support for project implementation. Additionally, the WB is actively engaged with the MoF in ensuring regular follow up and promoting regular monitoring and implementation support. Country Portfolio Reviews will continue to be organized jointly with the MoF on a regular basis. Through this, the WB expects to remain responsive and to promptly identify bottlenecks before they become a problem. While the current program is relatively new, implementation experience has improved since the first loan was approved. The average time lapsed from approval of loans to their declaration of effectiveness has decreased significantly. The disbursement ratio has improved continuously. Additional improvements are expected as implementing units gain experience.

88. Fiduciary risks are assessed as *Substantial*. Ecuador's public procurement framework presents challenges for the implementation of WB-financed operations. Public Financial Management has systemic weaknesses in areas such as budget preparation and control, liquidity management, automation of financial reporting, internal audit and external audit, which overall, create implementation issues at the project level, reducing the possibility of completely relying on country systems. Similarly, the reticence to use WB policies instead of local regulations affects procurement processes significantly, which, in turn, creates delays in the implementation of activities. To mitigate these risks, the WB will continue to work closely with the Government, including the General Comptroller's Office, to identify measures to unblock bottlenecks and provide as much guidance to implementing units as needed. Additionally, the WB will continue to hold biannual, joint portfolio reviews with the MoF and SENPLADES. Ad hoc progress meetings on specific projects will be conducted, as well as regular operational workshops focused on procurement, financial management, disbursement procedures and social and environmental safeguards.

89. Environmental and social risks to the CPF are assessed as *Substantial*. Environmental risks relate to natural disasters, climate change, air and water pollution, forest degradation, and the unsustainable use of land. As outlined in the SCD, an estimated 96 percent of Ecuadorians live in regions exposed to seismic, volcanic, flood, landslide, or *El Niño*-related hazards. Models suggest these risks are likely to increase in the coming years. Over the past decade, the country has implemented many changes in its national policy framework to address environmental concerns, the conservation of environmental and biological resources, the restoration of degraded natural areas, and the mitigation of climate change by limiting greenhouse gas emissions, deforestation, and air pollution. The *Plan Nacional para el Buen Vivir 2013-2017* promoted environmental sustainability related to water, pollution, consumption patterns, and climate change mitigation and adaptation. Meanwhile, the *Estrategia Nacional de Cambio Climático 2012-2025* (National Climate Change Strategy) establishes parameters for sector plans for mitigation and adaptation. These documents are in the process of being appropriately regulated and plans are being developed at different levels of the state to design and implement concrete actions at the local level, with special consideration of the gender dimensions of these risks and in their design. The CPF will help strengthen the regulatory and institutional framework to manage environmental and social risks with the implementation of the WB Environmental and Social Framework for investment projects. This will also help to develop appropriate capacities and tools for the early assessment and management of potential environmental and social risks.

ANNEXES

Annex 1: Ecuador CPF FY2019-2023 Results Framework

Indicators

Results Area 1: Supporting Fundamentals for Inclusive Growth		
Objective 1: Enhance efficiency of public spending		
<p>Intervention Logic: Fiscal consolidation is critical to restoring the macroeconomic stability and set the basis for sustainable growth. As per the SCD and the GoE's development plans, there is an urgent need to address fiscal imbalances, improve the efficiency of public resources and strengthen the financial sector. To this end, the CPF supports the government's efforts to advance fiscal consolidation and improve the quality of public spending. Special attention will be paid to identified opportunities to rationalize the current tax system and reduce exemptions. CPF activities will support measures to reducing public-sector resources allocated to the non-vulnerable population and that no significant impacts at the bottom 40 are expected through the improved energy subsidies targeting. Support to increasing public sector efficiency and improving public sector management will be complemented with improving the alignment between budget planning and curtailing discretionary practices during implementation. A PEFA under preparation will be deepening the diagnosis on the public efficiency challenges and help identify priority areas for support.</p>		
CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>1.1. Tax expenditures and exceptions as a share of total revenue mobilization</p> <p><u>Baseline (2017):</u> 4.5% <u>Target (2023):</u> 3.5%</p>	<p>Assessment of tax expenditures and exemptions completed (2019)</p> <p><u>Baseline (2018):</u> No <u>Target (2020):</u> Yes</p>	<p>Previous:</p> <ul style="list-style-type: none"> • Analytics: Ecuador Fiscal Assessment (P162092) • Analytics: Financial Sector Condition, Stability and Regulatory/Mitigation measures (P161861) <p>Ongoing:</p> <ul style="list-style-type: none"> • Analytics and TA: Public Financing Review 1&2 (P164213) • Analytics and TA: Public Investment Management (P168639) • Analytics and TA: Sustainable and Equitable Energy Subsidy Reform in Ecuador (P169440)
<p>1.2 Percentage difference between approved and actual budget</p> <p><u>Baseline (2017):</u> 16.3% <u>Target (2020):</u> 12%</p>	<p>Review of the Public Management system undertaken</p> <p><u>Baseline (2019):</u> No <u>Target (2020):</u> Yes</p>	
<p>1.3 Energy subsidies as a share of oil revenues</p> <p><u>Baseline (2017 average):</u> 38.3% <u>Target: (2020 average):</u> 37.5%</p>		

		<ul style="list-style-type: none"> • Analytics: PEFA • Analytics: Fiscal Impact of Migration • Analytics: Health finance and service delivery (P167462) <p>In pipeline or planned:</p> <ul style="list-style-type: none"> • DPF 1 Inclusive Growth (P169822) • Analytics and TA: Public Financing Review 3 • Analytics and TA: Flagship on Jobs • Analytics: Efficiency in the Health Sector
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Objective 2: Improve conditions for private sector development

Intervention Logic: A greater involvement of the private sector is key to catalyze the economic growth in a constrained fiscal environment. Current business procedures are cumbersome and costly, limiting/discouraging the participation of private actors in key productive sectors. An improved business environment will lead to a more balanced private-public investment scheme. As per the SCD and GoE's *Plan de Prosperidad*, certain policies and regulations related to investor protection need to be adjusted and implemented to reduce the overall perception of risk among investor and integrate regional markets. In this context, the CPF will support efforts to attract foreign investments by reducing tariff and non-tariff barriers to trade, foster international competition, and further strengthen competitiveness. An initial emphasis will be given to improving the diagnostics of key bidding constraints for private sector competitiveness, identifying recommendations, and crafting action plans for their implementation. The WBG is conducting an initial screening of constraints on the following areas, prioritized by the GoE: trading across borders, protecting minority investors, insolvency resolution and access to information and transparency, to provide recommendations. In addition, with the goal of improving the prospects for impact, the WBG CPSD will identify key barriers and opportunities for increased private investment in selected value chains and sectors such as agribusiness (vegetables and fruits, fisheries and shrimp), mining, transport and logistics. As appropriate conditions are established, the IFC will explore investment opportunities, continue to explore advisory services to firms in energy efficiency and in corporate governance issues.

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>2.1 Number of new commercial companies registered under the Productive Law (at least)</p> <p><u>Baseline (2017)</u>: 8,210 <u>Target (2023)</u>: 10,300</p>	<p>PPP legal and regulatory framework in place</p> <p><u>Baseline (2019)</u>: No <u>Target (2020)</u>: Yes</p>	<p>Ongoing:</p> <ul style="list-style-type: none"> • IFC advisory service to Update recommendations on Doing Business report • Analytics: WBG Country Private Sector Diagnostics • Analytics: Trade, Investment and Competitiveness (P168864) <p>In pipeline or planned:</p> <ul style="list-style-type: none"> • DPF 1 Inclusive Growth (P169822) • IFC investment and advisory pipeline in manufacturing, agribusiness, tourism, transport and logistics sectors. • Analytics and TA: Public Financing Review 3 • Analytics and TA: Flagship on Jobs
<p>2.2 Starting a Business as an improvement of the Ease of DB score</p> <p><u>Baseline (2018)</u>: 57.94* <u>Target (2023)</u>: 60.94</p> <p>*As per the DB2019</p>		
<p>2.3 Protecting Minority Investors as an improvement of the Ease of Doing Business score</p> <p><u>Baseline (2018)</u>: 46.67* <u>Target (2023)</u>: 48.67</p> <p>*As per the DB2019</p>		
<p>2.4 Management of mineral rights to attract local and foreign investment conducted as per international standards</p> <p><u>Baseline (2019)</u>: No modern computer based cadastral system in place, and no administrative structure for transparent management of mining rights <u>Target (2020)</u>: Modern computer-based cadastral system and a supporting administrative structure in place</p>	<p>Gas Flaring Project origination</p> <p><u>Baseline (2019)</u>: No private sector participation framework in place <u>Target (2023)</u>: Developed private sector participation framework as basis for bid process</p>	

Objective 3: Improve financial sector inclusion and intermediation

Intervention Logic: The public sector has crowded out private actors from the financial industry, significantly limiting intermediation and access among private firms and households. The overall vision is to allocate resources efficiently towards the most productive activities considering the competitive challenges of the country and to facilitate broad access to financial services. The absence of an independent central bank, price-distorting regulations, and different frameworks applied for public and private banks, have contributed to a limited financial inclusion and restricted financing from the Central Bank. The DPF will provide the necessary financing to support transitioning in the roles of public and private banks. The WB’s ASA will provide recommendations on opportunities for: (i) strengthening the architecture of the financial and monetary system; (ii) optimizing the role of public banks in achieving their policy mandates and complementing the role of privately-owned commercial banks; and (iii) further liberalizing the regulatory framework for banks and financial cooperatives, while preserving their stability. Trust-funded activities will promote the elaboration of a national strategy on financial inclusion and the stability of the financial cooperatives. The IFC will continue its support to expand financing opportunities to SMEs.

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>3.1 Number of outstanding loans to SMEs (#)</p> <p><u>Baseline (2017):</u> 7,667 loans <u>Target (2021):</u> 10,005 loans</p> <p>Source: IFC</p>	<p>Strengthened central bank independence by reforming the monetary code and/or eliminating financing to the public sector</p> <p><u>Baseline (2019):</u> no reform <u>Target (2021):</u> reformed implemented</p>	<p>Previous:</p> <ul style="list-style-type: none"> • Analytics: Financial Sector Condition, Stability and Regulatory/Mitigation measures (P161861) <p>Ongoing:</p> <ul style="list-style-type: none"> • Analytics: Financial Inclusion and Stability (P168778 P168780) • Banco Internacional (IS 564362) • Produbanco (IS- 564365) • Analytics: PEFA <p>In pipeline or planned:</p> <ul style="list-style-type: none"> • DPF 1 Inclusive Growth (P169822) • Analytics and TA: Public Financing Review 3
<p>3.2 Volume of outstanding loans to SMEs (US\$)</p> <p><u>Baseline (2017):</u> US\$1,046 million <u>Target (2021):</u> US\$1,378 million</p> <p>Source: IFC</p>		
<p>3.3 Second-tier financing as a share of total financing from public bank</p> <p><u>Baseline (2018):</u> 0%</p>		

<u>Target (2023): 25%</u>		
3.3 Percentage of adults with a bank account percentage of which are women <u>Baseline (2017): 51 percent</u> <u>Target (2023): 55 percent</u>		
Results Area 2: Boosting Human Capital and Protecting the Vulnerable		
Objective 4: improve access to demand-driven technical education		
<p>In a context of fiscal consolidation, smart investments and critical interventions should be prioritized to ensure efficiency of public spending, secure social gains, and enable that skilled labor force catalyze growth and productivity. According to the Human Capital Index, an Ecuadorian born today is only expected to reach about 60% of its productive potential by the age of 18. Investment in human capital, in line with market-based needs and local productive opportunities is key to dynamize the labor market as the economy shifts towards a private-led growth. In this context, the CPF acknowledges the importance of involving the private sector in curricula design and career orientation based on sought-after skills. The CPF will support both, the quality of basic education and the relevance of market-driven technical and technological programs. Special attention to the quality of teaching and learning evaluations will be given in order to strengthen education management. When possible, project indicators will be disaggregated by sex. Building on the analysis of wedge bills and a jobs diagnosis, this CPF will also support the monitoring of learning results and labor market needs.</p>		
CPF Indicators	Supplementary Progress Indicators	WBG Program
4.1 Number of students enrolled in public technical and technological programs designed and implemented in collaboration with employers (relevance)* <u>Baseline (2019): 10,629</u> <u>Target (2023): 25,376</u> <i>* will be disaggregated by sex</i>		Previous: <ul style="list-style-type: none"> Analytics: Skills Development Strategy for Effective Social Inclusion (P152751) Ongoing:

<p>4.2 Number of teachers and management staff trained (quality)</p> <p><u>Baseline (end of 2018)</u>: 3,168</p> <p><u>Target (2023)</u>: 4,068</p>		<ul style="list-style-type: none"> Supporting Education Reform in Targeted Circuits (P152096) Transformation of the Tertiary Technical and Technological Institutes Project (P157425)
<p>4.3 Number of school-aged children with disabilities enrolled in the targeted districts (recognized in administrative records from MINEDUC and CONADIS) (equity)</p> <p><u>Baseline (2018)</u>: 803</p> <p><u>Target (2023)</u>: 1018</p>	<p>Implementation of Gender Plan (enabling Monitoring access, persistence, and graduation by gender and program through the administrative and academic management system)</p> <p><u>Baseline (2018)</u>: No</p> <p><u>Target (2020)</u>: Yes</p>	<ul style="list-style-type: none"> Analytics and TA (TF): Virtual Reality Training (P167854) <p>Pipeline or Planned</p> <ul style="list-style-type: none"> Analytics and TA: Flagship on Jobs Analytics: Higher Education
<p>Objective 5: Strengthen the efficiency and effectiveness of social programs</p>		
<p>Intervention Logic: Macroeconomic vulnerabilities came to the fore in 2014, affecting the country’s fiscal capacity to protect the poor against social risks⁴² and natural disasters. The GoE is committed to reforms that can provide enough fiscal space to increase protection of the poor and vulnerable. Addressing the equity, integration and sustainability of its social safety net (SSN) is key to improve the effectiveness of public spending and mitigate the impact of subsidy reforms. The CPF will support the enhancement of the Ecuadorean social protection system, with a focus in improving the targeting of programs and access to services among the vulnerable, as this is relevant in a context of fiscal consolidation and increased influx of migrants. The CPF will contribute to ensure that subsidies benefit the Bottom 40 percent of the income distribution. This will add to efforts to improve an efficient allocation of public budget and the financial sustainability of basic services for human capital (e.g. social, health, education, and nutrition services). The CPF gives a special attention to the development of adequate information systems and to the update the Social Registry, which would be used as a strategic tool for policy making and budget planning. Overall, access and sustainability will be improved. When the data is made available, indicators will be disaggregated to reflect impact on female children and female-headed households.</p>		
<p>CPF Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<p>5.1 Percentage children under 3 years old from extreme poor households that have access to conditional cash transfers (CCTs) and early childhood services</p>		<p>Previous</p>

<p><u>Baseline (end of 2018): 5.40 %</u> <u>Target (2023): 77.60 %</u></p>		<ul style="list-style-type: none"> • Analytics: Social Protection and Labor Expenditure Analysis (P152751)
<p>5.2 Households classified d1 to d3* by the 2018 Social Registry Index, included in a validated database</p> <p><u>Baseline (end of 2018): 0</u> <u>Target (2023): 720,000</u></p> <p>* Classified decil1 to decil3 households as defined through the application of the new Social Registry Index 2018 (SRI2018) and in the ENEMDU INEC survey</p>	<p>Social Registry revised and updated</p> <p><u>Baseline (2019): No</u> <u>Target (2020): Yes</u></p>	<ul style="list-style-type: none"> • Analytics and TA: Poverty diagnostic for Water Supply, Sanitation and Hygiene (WASH) (P150432) <p>Ongoing:</p> <ul style="list-style-type: none"> • Social Safety Net Project (P167416) • Analytics: Health finance and service delivery (P167462)
<p>5.3 Percentage of non-poor households receiving conditional cash transfers (CCTs) as a share of the total of CCT beneficiaries</p> <p><u>Baseline (end of 2018): 18.30%</u> <u>Target (2023): 5 %</u></p>	<p>Percentage of extreme poor households covered by targeted social assistance programs *</p> <p><u>Baseline (end of 2018): 30.9%</u> <u>Target (2023): 80%</u></p> <p>*BDH + BDH V + Mis Mejores Años</p>	<ul style="list-style-type: none"> • Analytics: Pensions system performance (IO) • Analytics and TA: Public Financing Review 1&2 (P164213) • Analytics: Fiscal Impact of Migration <p>In pipeline or planned:</p> <ul style="list-style-type: none"> • Analytics: Efficiency in the Health Sector • Analytics: Nutrition • Analytics and TA: Adaptive SP Program for Disaster Response • Analytics and TA: Flagship on Jobs • DPF 1 Inclusive Growth (P169822)

Results Area 3: Enhancing institutional and environmental sustainability

Objective 6: Strengthen evidence-based policy making and transparency

Intervention Logic: The lack of timely and accurate information impairs the quality of policy-making and optimal allocation of resources. The fragmentation of state institutions and the concentration of power at the top, has contributed to weakening the checks and balances system. In a context of perceived lack of transparency and accountability, opportunities for wrong-doing and misuse of public resources exist. The WBG will support the GoE's efforts to increase transparency through access to relevant and updated information (e.g. systematic gathering of surveys) that can effectively inform decision making processes. The CPF will contribute to the process of strengthening governance in critical institutions that play a key role in ensuring transparency and accountability of the state. In the short term, technical assistance will support systematic data gathering and analysis of money laundering threats and vulnerabilities. As per the GoE's request, the WBG will provide recommendations to increase transparency and institutional capacity in key productive sectors. Over time, the WBG will explore options to further support the capacity for evidence-based decision making, such as introducing practices for regulatory impact assessment (RIAs), policy and programs evaluations of various types (e.g., impact evaluation of policy) and behavioral experiments for policy design.

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>6.1 At least one key national survey available for improved decision-making policies (i.e. National Survey on Employment-ENEMDU, Household Budget Survey, National Health and Nutrition Survey)</p> <p><u>Baseline (2019):</u> No <u>Target (2023):</u> Yes</p>		<p>Ongoing:</p> <ul style="list-style-type: none"> • Social Safety Net Project (P167416) • RAS: Anti-money laundering, anti-terrorism, and anti-corruption (P166357) • Analytics: PEFA
<p>6.2 Effective confiscation regime in place (as validated by a third-party assessment)</p> <p><u>Baseline (2019):</u> No <u>Target (2023):</u> Yes</p>	<p>Money Laundry/Financing Terrorism National Risk Assessment (completed as per international standards)</p> <p><u>Baseline (2019):</u> No <u>Target (2021):</u> Yes</p>	<p>In pipeline or planned:</p> <ul style="list-style-type: none"> • StAR • Analytics and TA: EITI implementation • Analytics and TA: Gas Flaring

<p>6.3 Annual and regular EITI reporting by GoE in place, in the International Secretariat website, EITI Board</p> <p><u>Baseline (2019):</u> No <u>Target (2023):</u> Yes</p>	<p>Multi-stakeholder transparency and accountability platform for improved governance in the extractive sector, measured by adherence to EITI standard</p> <p>EITI Membership</p> <p>Baseline (2019): No Target (2020): Yes</p>	
<p>Objective 7: Improve resilience to disaster risks and climate change</p>		
<p>Intervention Logic: Ecuador is a country that is highly vulnerable to a range of natural disasters and climatic shocks. Ecuador ranked 87 out of 180 countries on the 2018 Environmental Performance Index (EPI) due to a rising per capita carbon footprint, which now constitutes about 40 percent of the total national footprint (Global Footprint Network, 2017). The CPF aims to enhance the government’s resilience to shocks and climate change, with a focus on improving existing and new infrastructure. Towards this end, the CPF will first focus on disaster risk reduction and the improvement of basic infrastructure. The CPF will help contribute to improving water security and reducing water pollution in urban centers. It will also support the reduction of emissions of polluting gases, the capturing of flare gas produced in the oil industry, and the minimization of nitrogen oxides and carbon monoxide emissions in public transportation in large and medium-size cities. Additionally, the CPF will support technical assistance to targeted public entities to strengthen resilience to macroeconomic shocks and social risks.</p>		
<p>CPF Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<p>7.1 Number of people who access improved infrastructure*</p> <p><u>Baseline:</u> 0 <u>Target:</u> 3,059,669</p> <p>*infrastructure built or rehabilitated as per the WB social and environmental standards, including schools, roads, ports, water and sanitation, and other critical infrastructure)</p>	<p>% monthly average municipal wastewater effluent discharged into environment that is compliant with regulatory quality standard for BDO, TSS and total coliforms in the city of Guayaquil*</p> <p><u>Baseline (end of 2018):</u> 0% <u>Target (2023):</u> 100%</p> <p>* two large capacity treatment plants Las Esclusas and Los Merinos</p>	<p>Ongoing:</p> <ul style="list-style-type: none"> • Quito Metro Line One IPF (P144489) • Ibarra Transport Infrastructure (P147280) • Manta Public Services IPF (P143996) • Guayaquil Wastewater Mgt (P151439) • Risk Mitigation and Emergency Recovery (P157324)

	WWTP that will discharge into the Daule River	<ul style="list-style-type: none"> Sustainable Family Farming Modernization Project (P151963)
	<p>National Disaster Risk management plan revised with inclusion of gender considerations.</p> <p><u>Baseline (2019)</u>: No <u>Target (2021)</u>: Yes</p>	
<p>7.2 Greenhouse gas emissions (from transport energy and agriculture)</p> <p><u>Baseline (2019)</u>: - 200,000tCO2 -eq <u>Target (2023)</u>: - 2,558,170 tCO2 -eq</p>	<p>Project pre-feasibility studies for private investment in reduction of gas flaring</p> <p><u>Baseline (2019)</u>: No business and commercial studies conducted for virtual pipeline as per international standards <u>Target (2021)</u>: At least one study conducted as per international standards</p>	<p>Pipeline or Planned</p> <ul style="list-style-type: none"> Analytics and TA: EITI implementation Analytics and TA: Gas Flaring Analytics and TA: Adaptive SP Program for Disaster Response
<p>7.3 Number of people who have adopted climate-smart and/or improved agriculture technology</p> <p><u>Baseline (2018)</u>: 467 <u>Target (2021)</u>: 2,700</p>		<ul style="list-style-type: none"> Sustainable Family Farming (P151963)
<p>7.4 Water users provided with new/improved irrigation and drainage services (number)</p> <p><u>Baseline (2018)</u>: 467 water users <u>Target (2021)</u>: 9,000 water users</p>	<p>Water users provided with irrigation and drainage services in project areas - female (number)</p> <p><u>Baseline (2018)</u>: female 119 water users <u>Target (2021)</u>: female 1,800 water users</p>	<ul style="list-style-type: none"> Guayaquil Wastewater Mgt (P151439)

Annex 2: Results achieved under the CEN

Restoring Growth and Reinforcing Shared Prosperity

1. After 2007, the public sector was considerably expanded, important reforms impacted Ecuadorian's welfare, and significant investments resulted in an increased access to and delivery of services in the health, education, and energy sectors. Since its reengagement in the country, the World Bank supported the Government's efforts to bridge the infrastructure gap in key development sectors (education, transport, water and sanitation).

Despite the commodity boom, favorable external conditions, and a marked pro-poor growth, structural vulnerabilities emerged in recent years.

2. Ecuador is an upper middle-income country with an oil-producing, dollarized economy and a diverse geography, prone to natural disasters. Over the past decade, economic growth was largely driven by favorable external conditions (i.e. commodity boom) and the expansion of the public sector. Since 2014, the WB Group re-initiated the dialogue in the country and prepared analytical work and lending operations in support to the Government of Ecuador's plan to improve access to: (i) sustaining gains in basic service delivery and strengthening safety nets; (ii) promoting economic diversification in a constrained macroeconomic environment; and (iii) mitigating risks from climate change and environmental threats. To this end, the WB prioritized investments in key development sectors (education, transport, water and sanitation) and the analytical work to inform the improvement of social services, legal frameworks, and others.

Increased access to services of better quality in Education and Social Protection

3. As of November 2017, more than 17,000 students have been enrolled in early Education in targeted circuits⁴³, compared to 8,923 students enrolled in December 2014. Additionally, the persistence rate from lower through upper secondary education reached 73 percent at the same time. While important efforts to increase inclusive schools and to improve the quality and cultural adequacy of teaching are still ongoing, these will prioritize the reduction of differences in the educational attainment across geographic regions.

4. A series of ASA and trust-funded advisory services, have focused on fighting malnutrition, promoting disability inclusion, and improving the efficiency of the social protection system. In support of the objectives set in the National Development Plan (*Plan Nacional Para el Buen Vivir 2013-2017*), the WB provided just in time advisory services and analytical work to inform key decisions made by the inter-institutional committee on poverty reduction (*Comité Interinstitucional para la Erradicación de la Pobreza*). Since then, the WB has informed the Government on graduation strategies for the flagship conditional cash transfer program, Bono de Desarrollo Humano, on jobs skills for employability, and on childhood malnutrition. Additionally, in an effort to strengthen the country's capacity to produce timely and relevant data for decision-making, the WB prepared "El Reporte de Pobreza 2006 – 2014" and the "Mapa de Pobreza y Desigualdad por Consumo 2014", jointly with the INEC and SENPLADES.

Increased access to water and sanitation services in Guayaquil and Manta

5. Urban areas of Guayaquil have already benefited from the Wastewater Management Project: (i) a total of

⁴³ Targeted circuits are the smallest administrative unit where public services are provided, that is a parish or a group of parishes. Source: Qué son las zonas, distritos y circuitos? SENPLADES http://www.planificacion.gob.ec/wp-content/uploads/downloads/2012/10/Folleto_Popular_DyC_24-10-2012.pdf

4,900 household sewer connections were completed, representing approximately 18.14 percent of the project's end target, and (ii) 10 km of pipes were rehabilitated as of June 2018. Investments from this Project will serve to achieve universal access to piped sanitation services in the southern wastewater catch basin of the city - where approximately 1.0 million people live - and ensure that 100 percent of the wastewaters generated in this basin are treated to meet applicable environmental standards.

6. Manta Public Services Improvement Project: The World Bank is supporting the Municipality of Manta to increase the quality and sustainability of public services for water, sanitation, and urban mobility. The 2016 earthquake negatively impacted the financial, commercial and operational performance ratios of Manta's Water Supply and Sanitation Public Enterprise (EPAM for its Spanish acronym - *Empresa Pública Aguas de Manta*). In the wake of the earthquake, roughly 10,000 people abandoned their houses, translating from one day to the next, into a loss of 1,800 active customers for EPAM water and sanitation (WSS) services. This project allowed for the financing of earthquake-related emergency response and reconstruction activities, as well as the financing of critical activities for the restoration of water supply services: (i) temporary bridge-financing of EPAM's operational expenses whose revenues were severely diminished in the aftermath of the earthquake; (ii) the rehabilitation of the main raw water pumping stations feeding Manta's distribution system that were damaged during the earthquake; (iii) critical repairs and isolation of the water distribution system in "ground zero;" and (iv) studies and technical assistance to EPAM to recuperate normal operations.

Catalyzing private investments for Manta

7. In October 2017, a 10-year Strategic Alliance was developed between the EPAM and a private sector provider. Through this Strategic Alliance, investments are being made in infrastructure and equipment as well as in training of EPAM staff by Veolia to strengthen the technical, commercial, administrative, and financial management of the utility with the goal of improving service delivery. Investments in new administrative and commercial systems are already having a direct positive impact on the culture of the EPAM. Through a temporary control center, EPAM staff are now able to monitor in real-time system operations, consumer complaints, and communication with operational staff in the field. In-situ billing has also had a direct impact on the EPAM's revenues. In the first year, the Strategic Alliance set a target of approximately US\$13 million in revenue from services rendered but exceeded it by reaching over US\$16 million. Additionally, the Strategic Alliance discovered 5,600 clandestine connections during its efforts to update EPAM's cadaster of consumers. By January 2019, the continuity of services showed a substantial increase from 36.6 percent to 63.7 percent. These incremental changes are shifting EPAM's culture to focus on results and improved service delivery. While there is much more to be done, such as reducing non-revenue water, strengthening of systems and capacity, the alliance in putting EPAM on solid footing to provide better services into the future.

Mainstreaming reforms in the Water, Sanitation, Transport and Risk Management sectors

8. Just in time advisory support has been provided on the process of building the National Strategy of Water and Sanitation. A Water- and Sanitation-related Poverty Diagnosis was conducted and published in 2016. Technical assistance was provided to the statistics national institute (INEC) to publish Indicators of Water, Sanitation and Hygiene for the first time in Ecuador. Finally, resources were mobilized to strengthen the institutional capacity at the national and subnational level in the collection and production of traffic crash statistics, in order to enable the development of an evidence-based multi-sectoral national road safety strategy (Agencia Nacional de Tránsito) and to advise the National Risk Management Secretariat (SNGR) on the development of: (a) a national disaster response strategy, and (b) a methodology to build sectoral disaster risk management agendas addressing different hazards and risks.

Improving equity through increasing sustainable infrastructure and adoption of improved agricultural technology

9. From July 2013 to June 2015, the WB portfolio included three operations (US\$407.5 million) requested by the sub-national governments of Manta, Quito and Guayaquil. In 2016, another operation for a sub-national government (Ibarra⁴⁴) was approved (US\$52.5 million). The sectors addressed by these operations are transport, water and sanitation. The WB expanded its engagement to the agricultural⁴⁵ sector to enhance incomes of small and medium sized farm households by supporting more productive and climate-smart use of land and water. Additionally, an investment operation was approved in 2016 to increase enrollment and persistence in public technical and technological programs designed and implemented in collaboration with Employers, and to strengthen the institutional management of Tertiary Technical and Technological Education (US\$90.5 million). Additionally, the WB mobilized an Emergency Response Loan (US\$150 million) to provide immediate support after the earthquake that hit Ecuador in April 2016. The WB's support focused on reconstruction, while other MDBs such as IDB and CAF provided early recovery and immediate response along with UN agencies.

Developing collaborative partnerships to maximize results in the ground

10. Support to the first Quito Metro Line (P144489) aims to improve urban mobility in the city of Quito serving the growing demand for public transport. The project will reduce travel times, decrease operational costs of the transport service, improve connectivity, security and comfort of the current system and reduce emissions of pollutants and greenhouse gases. The project has a strong gender-specific design components relative to women's preferences and security. Each station funded through the project will include well-lit platforms, stations and surrounding areas to increase women's security as they travel to and from the metro. In the case that passengers feel unsafe once onboard, enclosed gangway links between train cars will enable passengers to change cars while the train is moving. Additionally, to minimize sexual harassment risks during the construction phase, the project sensitized 1500 construction workers on violence prevention in public spaces. After construction of the metro line is complete, the project will implement a communications campaign to promote non-violent behavior; and institute a mechanism to prevent and facilitate ease of reporting of harassment, which builds on an ongoing campaign "*Bajale el Acoso*" in Quito's Integrated Transport system. This includes a mobile application for reporting cases of sexual harassment in a timely and easy way. Transport operators will receive training in appropriate response to sexual harassment. Further, the project has funded an analysis of the Integrated Transport System (SITQ) to understand the number of men and women in operative, administrative and technical positions; and, through a complimentary qualitative study, explored barriers that women face in recruitment, retention and promotion within the system. Based on these studies, the project will create a gender-sensitive recruitment and retention plan to incorporate women in both operative and technical positions, which have historically been roles held by men, and to recommend gender-specific policies to improve women's retention and promotion within the implementing agency.

Developing Capacities among counterparts

11. Since the WB's engagement with the GoE was almost non-existent for several years, the implementation of projects under the WB's policies and procedures has been difficult due to the lack of personnel properly trained and aware of the processes, especially related to fiduciary issues. Therefore, in order to support the newly formed Project Implementation Units (PIUs), the WB has provided yearly fiduciary trainings as well as permanent help and

⁴⁴ Ibarra Transport Infrastructure Improvement Project (P147280) to improve mobility of Ibarra and the use of recreational spaces in the Yahuarcocha lagoon area.

⁴⁵ Ecuador - Sustainable Family Farming Modernization Project (P151963)

supervision from the WB's specialists. Additionally, since a new Environmental and Social Framework (ESF) was adopted in July 2018, an ESF training for all the PIUs was held in early September 2018. Other capacity building workshops have been held such as Financing Universal Access to Water and Sewerage, where officers from water and sewerage companies within Ecuador were trained on best global knowledge, expertise and partnerships for investment in the sector.

Promoting economic diversification through the private sector

12. During the CEN period (FY16-FY17), IFC supported private sector growth through investment and advisory services in key areas such as agribusiness, health services and access to finance for MSMEs, leveraging opportunities for entrepreneurship. In the agriculture sector, IFC reached nearly 7,500 farmers through investments in the agribusiness sector (PRONACA and Tonicorp Holding) and supported over 24,000 direct jobs and over 4,500 of which were female jobs. IFC's investment in *Conjunto Clínico Nacional* (Conclina), a private hospital, provided service to 56,000 patients in 2016.

13. IFC's investments in SME finance provided access to financing to nearly 42,000 SMEs for a total of over US\$1.8 billion. The outstanding portfolio included financing to over 12,000 women-led SMEs for nearly US\$290 million. These results were achieved after a very challenging economic environment during 2015. During 2016, confidence in the banking sector increased, which allowed client banks to make up for the low achievements earlier. Through Advisory Services IFC engaged *Banco Pichincha*, providing support to improve practices and provide access to finance to 58,000 SMEs, 20,000 of which are expected to be women-led SMEs by 2020.

14. IFC also has several Global Trade Finance Program lines, which support import-export activities through commercial Banks (*Banco Internacional*, *Banco de Guayaquil* and *Banco Bolivariano*) with average outstanding guarantees for US\$19.04 million in FY16 and US\$14.84 million in FY17.

Moving Forward

15. Building on the lessons learned from the operations developed during the CEN period, greater results are expected in the next two years. However, the preparation of a sustainable medium-term macroeconomic framework, in addition to securing fiscal sustainability and social gains, constitute pressing challenges. Protecting the poor through well-targeted programs is also considered as a cornerstone of a quality fiscal consolidation process. In this context, the World Bank is supporting the GoE to identify opportunities to increase the efficiency of public investments and the effectiveness of social programs.

Annex 3: Selected Indicators of Bank Portfolio Performance and Management
(from BI system and portfolio monitoring as of April 2, 2019)

Indicator	FY16	FY17	FY18	FY19*
Portfolio Assessment				
Number of Projects Under Implementation	7	8	8	8
Percent of Problem Projects, by Number	14.3	12.5	37.5	37.5
Percent of Projects at Risk, by Number	42.9	75.0	75.0	75.0
Percent of Commitments at Risk, by Amount	52.42	80.96	45.78	72
Disbursement Ratio for IPF (%)	29.7	12.5	18.0	20.5

*portfolio monitoring as of April 2, 2019

Annex 4: Operations Portfolio (IBRD/IDA and Grants)

Project ID	Project Name	DO	IP	Appr. FY	IBRD (US\$M)
P143996	EC Manta Public Services Improvement Project	MS	MS	2014	US\$ 100.00
P144489	Quito Metro Line One	S	S	2014	US\$ 435.00
P147280	EC Ibarra Transport Infrastructure Improvement Project	MS	MS	2016	US\$ 52.50
P151439	EC Guayaquil Wastewater Management Project	S	S	2015	US\$ 336.10
P151963	Ecuador - Sustainable Family Farming Modernization Project	MU	MS	2016	US\$ 65.00
P152096	Supporting Education Reform in Targeted Circuits	MS	MS	2016	US\$ 178.00
P157324	Ecuador Risk Mitigation and Emergency Recovery Project	MU	MU	2016	US\$ 150.00
P157425	Transformation of the Tertiary Technical and Technological Institutes Project	MU	MU	2017	US\$ 90.50
					US\$ 1,407.10

ID	Project Name	Fund	Fund Name	Lead GP/CCSA	TTL	TF Closing Date	End Disb Date
Ecuador							
P147280	EC Transport Infrastructure Improvement	TFOA5200	QUALITY INFRASTRUCTURE INVESTMENT	Transport & Digital De	Mauricio Cuellar	1/15/19	9/15/18
P143996	EC Manta Public Services Improvem Proj.	TFOA5199	Quality Infrastructure Investment Partner	Water	Zael Sanz Uriarte	1/15/19	9/15/18
P167854	Pilot Testing of Virtual Reality for HE	TFOA8313	Pilot Program to Test Virtual Reality Train	Education	Diego Angel-Urdinola	10/31/21	6/30/21
P144489	EC Quito Metro Line One	TFOA6309	Vision and Implementation Strategy for	Transport & Digital De	Arturo Ardila Gomez	3/31/19	11/30/18
P158756	AF Quito Metro Line One Project	TFOA5496	GIF PDA- Municipality of Quito Commerci	Transport & Digital De	Bianca Bianchi Alves	4/30/19	12/31/18
P167752	FIP Ecuador	TFOA7968	Ecuador FIP MDB Project Fees	Environment & Natur	Klas Sander	4/30/25	12/31/24

Annex 5: WB Program of Knowledge Services

Sector	ID	Name	Product Line	Status	Closing FY
Country Engagement	P155344	EC Country Strategy	Country Assistance Strategy	Active	2016
	P164098	EC-Systematic Country Diagnostic	Country Assistance Strategy	Active	2018
	P168810	Ecuador CPF	Country Assistance Strategy	Active	2019
Education	P167854	Pilot Testing of Virtual Reality for HE	Advisory Services & Analytics	Active	2021
Energy & Extractives	P147898	Field Measurement of Flare Black Carbon	Technical Assistance (Non-lending)	Closed	2015
Environment & Natural Resources	P149172	EC - Promoting Env Management II	Technical Assistance (Non-lending)	Closed	2015
Finance, Competitiveness and Innovation	P166357	Ecuador AMU/CFT National Risk Assessment	Advisory Services & Analytics	Active	2020
Health, Nutrition & Population	P167462	EC - Health Finance and Service Delivery	Advisory Services & Analytics	Active	2019
Macroeconomics, Trade and Investment	P154130	Ecuador CEM	Economic and Sector Work	Closed	2016
	P162092	Ecuador Fiscal Assessment / Policy Notes	Advisory Services & Analytics	Closed	2017
	P164213	Ecuador PFR	Advisory Services & Analytics	Active	2019
	P168864	Trade and Investment	Advisory Services & Analytics	Active	2019
Poverty and Equity	P132329	EC Poverty II	Technical Assistance (Non-lending)	Closed	2014
	P132328	EC Gender - Teenage Pregnancy	Technical Assistance (Non-lending)	Closed	2016
	P151521	EC Poverty Assessment	Economic and Sector Work	Closed	2016
	P157084	EC Labor Market Inclusion	Technical Assistance (Non-lending)	Closed	2017
Social Protection & Labor	P127574	EC Skills & Employability	Technical Assistance (Non-lending)	Closed	2014
	P127922	EC Safety Nets III	Technical Assistance (Non-lending)	Closed	2014
	P132183	EC Safety Nets IV	Technical Assistance (Non-lending)	Closed	2015
	P132185	EC Social Security Phase II/ Soc sector	Technical Assistance (Non-lending)	Closed	2015
	P132940	Effective and Inclusive SPP	Programmatic Approach	Closed	2015
	P144641	EC Disability	Technical Assistance (Non-lending)	Closed	2015
	P144793	EC Skills and Employability II	Technical Assistance (Non-lending)	Closed	2015
	P149203	IC-TEXT 4 NUTRITION	Knowledge Management Product	Closed	2015
	P152751	Skills Development Strategy	Technical Assistance (Non-lending)	Closed	2016
	P161328	SP & Labor Expenditure Analysis	Advisory Services & Analytics	Closed	2017
	P158943	Improving Nutrition & SP Programs	Advisory Services & Analytics	Closed	2018
P125602	EC Growing with our GUAGUAS (JSDF)	Recipient Executed Activities	Closed	2015	
Social, Urban, Rural and Resilience Global Practice	P146011	EC Mainstreaming Disaster Risk Mgmt	Technical Assistance (Non-lending)	Closed	2016
Trade & Competitiveness	P147359	Ecuador: Services for Competitiveness	Technical Assistance (Non-lending)	Closed	2015
	P152807	Ecuador Competitiveness RAS	Technical Assistance (Non-lending)	Closed	2016
	P158277	Ecuador Productivity TA	Technical Assistance (Non-lending)	Closed	2016
Transport & Digital Development	P144798	EC Strengthening Capacity for Monitoring	Institutional Development Fund	Closed	2018
Water	P150432	Ecuador WASH Sector Poverty Diagnostic	Economic and Sector Work	Closed	2017
	P152397	SENAGUA Institutional Strengthening	Technical Assistance (Non-lending)	Closed	2017

**Ecuador active ASAs by GPs
(As of February 2019)**



Annex 6: Statement of IFC's Held and Disbursed Portfolio

IFC Active Portfolio (as of December 31, 2018)

 International Finance Corporation <small>WORLD BANK GROUP</small>		Statement of IFC's Committed and Outstanding Portfolio										Run Date : Feb 1, 2019							
		(Amounts in USD Millions)														Run Time: 2:55:00 PM			
		Page : 1 of 1																	
Commitment Fiscal Year	Institution Short Name	LN Cmt'd - IFC	LN Repayment - IFC	ET Cmt'd - IFC	QL + QE Cmt'd - IFC	GT Cmt'd - IFC	RM Cmt'd - IFC	ALL Cmt'd - IFC	ALL Cmt'd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part			
2005/2009/2013/2016	PRONACA	9.38	35.62	0	0	0	0	9.38	0	9.38	0	0	0	0	9.38	0			
2009/2018/2014/2017/2019/2015/2016/2008	Banco Intermac	11.00	59.00	0	0	3.21	0	14.21	14.20	11.00	0	0	3.21	0	14.21	14.20			
2009/2018/2017/2014/2019/2007/2015/2016/2008	Banco Guayaquil	0	0	0	0	8.75	0	8.75	0	0	0	0	8.75	0	8.75	0			
2009/2018/2017/2019/2007/2015/2016/2008	Produbanco	80.00	0	0	0	0.25	0	80.25	0	50.00	0	0	0.25	0	50.25	0			
2016	Conclina	13.64	1.36	0	0	0	0	13.64	0	13.64	0	0	0	0	13.64	0			
2016	Grupo Fybeca	17.08	1.42	0	0	0	0	17.08	0	17.08	0	0	0	0	17.08	0			
2016	Otecel	12.50	62.50	0	0	0	0	12.50	0	12.50	0	0	0	0	12.50	0			
2016/2012	Tonicorp Holding	61.08	8.92	0	0	0	0	61.08	0	61.08	0	0	0	0	61.08	0			
2018/2016	Omarsa	15.69	2.31	0	0	0	0	15.69	0	15.69	0	0	0	0	15.69	0			
2018/2017/2019/2007/2015/2016/2008	Bolivariano	0	30.00	0	0	5.78	0	5.78	0	0	0	0	5.78	0	5.78	0			
2018/2017/2019/2015/2016	Banco Pichincha	0	50.00	0	0	13.09	0	13.09	0	0	0	0	13.09	0	13.09	0			
Grand Total:		220.36	251.14	0	0	31.08	0	251.43	14.20	190.36	0	0	31.08	0	221.43	14.20			

Annex 7: MIGA's Guarantee Portfolio

At present, MIGA has no outstanding exposure in Ecuador. MIGA will look for opportunities to support private cross-border investment projects, especially those that are strongly aligned with the CPF's objectives.

Annex 8: Challenges and Opportunities identified in the Systematic Country Diagnosis

TABLE ERROR! NO TEXT OF SPECIFIED STYLE IN DOCUMENT.-1 PRIORITIZATION OF KEY CHALLENGES OR OPPORTUNITIES				
Key challenges or opportunities	Prioritization criteria			Timing
	Macroeconomic sustainability	Efficiency gains	Poor and vulnerable	
<i>Pillar 1: Addressing macroeconomic imbalances</i>				
Bring fiscal accounts to a sustainable position, re-build fiscal buffers, and put in place fiscal institutions to adequately manage oil windfall	X	X	X	ST
Improve the efficiency of public spending at different government levels, shifting resources towards priority social spending	X	X	X	ST
Increase efficiency and neutrality of the tax system; broadening bases, phasing out distortive taxes and rationalizing tax benefits		X		ST
Address external imbalances and rebuild international reserves to safeguard the dollarization regime	X			ST
<i>Pillar 2: Lifting barriers to private sector development</i>				
Align labor cost to productivity, modernize labor regulations, and increase effectiveness of safety nets	X	X	X	ST
Integrate the economy to the rest of the world by revamping policies to attract foreign investments and reducing barriers to trade	X	X		ST
Reduce costs and uncertainties associated with business regulations and its enforcement		X		ST
Reduce distortions associated with financial regulation and strengthen regulatory institutions	X	X		ST to MT
<i>Pillar 3: Expanding economic opportunities</i>				
Improve quality of education, and address skill gaps in the labor market		X	X	ST to MT
Strengthen coordinated efforts to address high levels of malnutrition and stunting, and strengthen preventive and primary health care		X	X	ST to MT
Strengthen gender-based violence prevention efforts			X	MT
Enhance integration of vulnerable groups and ethnic minorities			X	MT
<i>Pillar 4: Improving the use of physical and natural capital</i>				
Rethink strategically the use and the sustainability of recently built infrastructure, and resolve how to deal with unfinished projects	X	X		MT
Improve quality of water, sanitation, and irrigation services		X	X	MT
Invest in long term resilience and adaptation mechanisms to address high exposure to exogenous natural hazards and climate risks	X	X	X	MT to LT
Improve investments in natural capital stocks and environmental services to address traditional and emerging challenges under (current) fiscal constraints.		X	X	MT to LT

Note: ST- short-term, MT – medium-term, LT – long-term

Process and structure of the SCD

- The SCD seeks to identify the most critical constraints and opportunities facing countries as they work to end extreme poverty and promote shared prosperity in a sustainable manner.** The study steps back from the WB's existing portfolio, and even the GoE's strategy, to conduct a broad overview of socio-economic developments in the country and map challenges going forward. It is designed to inform the preparation of the CPF, as well as, to serve as an analytical input on the debate about strategic development priorities for the country.
- In the preparation of this report, consultations were held with various stakeholders.** Several rounds of bilateral consultations were undertaken with members of the Global Practice Team and the Country Team prior to the elaboration of the overall storyline. The Global Practice team participated in two rounds of discussions

(October 10 and December 12, 2017) and held a full-day workshop on March 8, 2018, to discuss the storyline. In addition, a consultation process was conducted in Quito and Guayaquil with the participation of a number of representatives of Ecuadorian civil society. The consultation sought to ensure that inputs from stakeholders were taken into account when preparing the report. A WB visit took place from April 10 until April 12, 2018, during which several discussion sessions were held with representatives of the public sector, the private business sector, civil society, Indigenous and Afro-descendant organizations, and academia. The aim of the consultations was to provide an essential qualitative assessment to validate and complement the SCD technical diagnostic.

3. **The SCD will be followed by the preparation of WBG's CPSD.** The CPSD is expected to complement the SCD by taking a closer look at the key horizontal and sectoral constraints to private investment. Together with the SCD, the CPSD will inform the WBG's Country Partnership Framework in Ecuador. The CPSD's recommendations and findings will, in a second phase, be translated into a joint WB-IFC implementation plan.

4. **The SCD is organized around the following set of questions:**

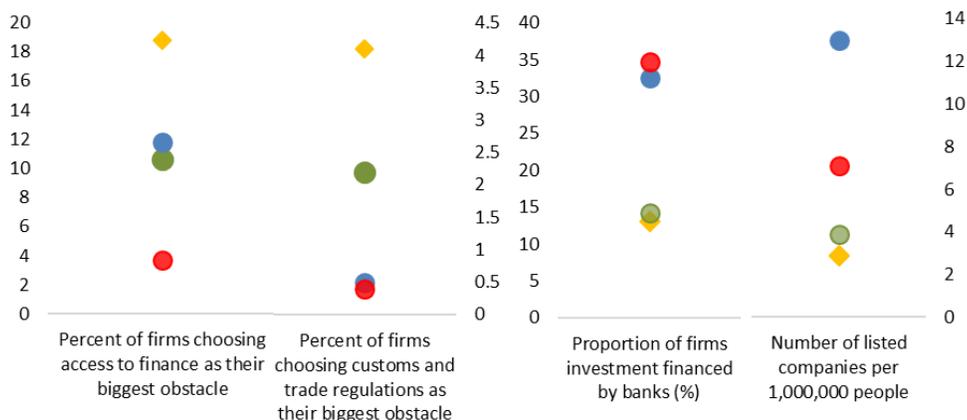
- a. What are the factors that have contributed to growth? – Chapter 1
- b. What are the factors that have contributed to poverty reduction and inclusion? – Chapter 2
- c. What are the factors that have contributed to social, fiscal, and environmental sustainability? – Chapter 3

Annex 9: WB Activities for Mobilizing Private Investment

1. This CPF acknowledges that it belongs to a period in which there is a higher development potential from incorporating private investment to existing state or multilateral financing of development projects. As such, it incorporates the World Bank Group’s focus on Maximizing Finance for Development to the program for Ecuador. Yet, in the effort to attract finance for development from non-traditional sources (e.g. the private sector), Ecuador finds itself in a disadvantaged position relative to its peers. For close to a decade, public investment has expanded over different sectors of the economy, crowding out private markets in place. Furthermore, the regulatory and institutional management of the Ecuadorian economy shifted away from a business conducive environment, discouraging private investment or effectively restricting it.

2. Evidence of crowding out and poor regulation is visible across various sectors and levels of the economy as is illustrated in Figure A9.1. The WBG Enterprise Survey⁴⁶ provides valuable insights. Among Andean countries (Bolivia, Chile, Ecuador and Peru), for example, Ecuador has the highest proportion of firms reporting customs and trade regulation as their largest obstacle. It also has the highest share reporting access to finance as their largest obstacle. The consequences are visible in the same survey. Ecuadorian firms report the lowest proportion of bank-financed investment — 13.1 percent compared to the regional average of 23.6 percent. Similarly, the latest country ranking from the Global Financial Development⁴⁷ for the number of listed companies per 1,000,000 people puts Ecuador at the bottom.

Figure A.9.1: Private Sector Regulation and Dynamism in: ♦ Ecuador ● Bolivia ● Chile ● Peru



3. Following the MFD strategy and the GoE’s request, the WBG has identified high potential private investment gains from removing current market distortions (such as price controls or price subsidies) and from strengthening regulatory frameworks and enforcement capacity in competent agencies. As such, the WBG program includes ongoing and future work to capitalize on the gains from removing such constraints. These are listed below:

- **Assessment and diagnoses of business costs:** At the government’s request, the WBG is assessing opportunities to simplify the overall trade and investment regime and to reduce compliance costs. In parallel, a WBG Country Private Sector Diagnostic is being finalized.

⁴⁶ World Bank Enterprise Survey (2010), Global Indicators Group, World Bank Group.

⁴⁷ Global Financial Development Database (2012), World Bank Group.

- **Introducing new contracting methods for infrastructure:** The Government is working with multilateral agencies to improve its legal framework and institutional capacity for attracting private investments and for handling a pipeline of brown (Operations & Maintenance only) and green (CAPEX and O&M) field projects.
- **Phasing out of State-Owned Social Insurance Bank (BIES):** Currently BIES is charged with administering the country's pension system by heavily investing in mortgages and state bills. The WB is supporting a program to develop a proper debt market that will allow the transfer of these financial assets from public to private banks.
- **Manta Public Services Improvement Project (FY14):** The WB is helping design and strengthen capacity to contract a private operator to run the Manta's public water management company. The goal is to mobilize private resources to implement a US\$4.4 million investment plan.
- **Quito Metro Project (FY14):** The WB is supporting the Municipality of Quito in raising additional private financing for its Metro Project through alternative instruments, such as a bond-issuance backed by an IBRD partial risk guarantee.

Annex 10: Gender Gaps in Ecuador – An Overview⁴⁸

1. The Review of Gender Gaps in Ecuador (2018) by the WB's Poverty Global Practice identifies the most pressing gender disparities and assesses potential policies for addressing them. A valuable tool for guiding the CPF implementation, it provides a thorough review of gender gaps across: (i) legal framework and the agency of women; (ii) endowments (health and education); and (iii) economic opportunities. The paragraphs below summarize the most relevant findings for the CPF in each of these dimensions of gender equality, while Figure A 10.1 presents key takeaways and findings, as diagramed in the report.

2. **Ecuador has made substantial strides towards gender equality over the last decade.** As a result, the legal framework in this area is relatively developed. No substantial gender gaps exist in education, with the exception of a reverse gender gap in attainment, and the political representation of women is comparatively high, especially since the introduction of parity (50 percent quota) in all candidate lists. The country has made much progress too in the area of health; maternal mortality rates, for instance, have decreased substantially, partly due to the expansion of coverage of maternal services in the country. In addition, a large share of women is engaged in entrepreneurial activities, while their access to financial products (e.g., bank accounts) is comparatively high.

3. **Despite the positive developments registered in recent years, some important challenges remain.** According to the latest available data, domestic violence continues to be prevalent and teenage pregnancy and child marriage are also widespread in the country. Patriarchal norms that reproduce gender stereotypes and relegate women to a submissive position with respect to men are widespread. Gaps in access to economic opportunities are also notable – particularly with regards to the quality of jobs. Moreover, certain groups of women, especially indigenous and afro-descendants, women with disabilities, and female migrants and refugees face multiple and compounded disadvantages.

Figure A10.1: Key Findings and Gender Priorities identified in the Gender Diagnostic 2018

- Maternal mortality rates are comparably high among indigenous and Afro descendant women.
- Teenage pregnancy is a major issue in the country – much above the regional average; over 1 in 5 girls in Ecuador are married at the age of 18.
- Educational disparities persist in rural areas and among indigenous populations to the detriment of women.
- Women are over-represented among the ni-nis (more than 1 in 4 women are in this situation) and informal workers (more than 2 in 5 female workers have an informal job).
- Violence against women appears to be a major issue although up-to-date data are not available, and access to justice remains a challenge (only 1 in 5 women victims reached out for institutional support).
- Patriarchal norms are still prevalent - regarding women's role as care givers instead of income earners and the lack of acceptance for divorce, for instance

4. **Ecuador's current legal framework builds on international experiences and takes into account persistent challenges.** According to the last National Survey on Gender-Based Violence (INEC 2011), 35 percent of women reported that they had been victims of physical violence by a partner. Meanwhile, 43 percent of women have been exposed to psychological violence and 14.5 percent have experienced sexual violence by a partner. Indigenous and Afro-descendant women are at a higher risk of intimate-partner violence, with 59.3 percent of indigenous women and 55.3 percent of Afro-descendant women reporting some form of intimate-partner violence (Camacho 2014). Exposure to abuse in childhood is an important driver, both on the side of the abuser and the victim: over 79 percent of the perpetrators experienced frequent physical maltreatment during childhood, while 75 percent of the victims did. Worryingly, only 20 percent of victims sought institutional support and only

⁴⁸ Gender Gaps in Ecuador: An Overview (June, 2018). Poverty Global Practice, World Bank Group.

half of these women initiated a legal procedure (Camacho 2014). Challenges to law enforcement/access to justice persists, particularly in remote areas and for indigenous women. Female refugees from Colombia and Venezuela are particularly vulnerable to violence, sexual exploitation and human trafficking (World Bank 2011, UNHCR 2017). It is estimated that 22 percent of girls under 18 are married (or living in a union). This is a relevant issue as child marriage is associated with poor development outcomes: married children are more prone to poor health outcomes, high drop-out rates, lower earnings, and high exposure to partner violence. Altogether, these factors result in a higher probability of living in poverty (Wodon et al., 2017).

5. Opportunities to decrease gender inequalities are related to reproductive health. Despite increased access to maternal and child services in the country, maternal mortality rates remain comparably high among indigenous and Afro descendent women who have not benefitted from the overall increased access to health services to the same extent (CEDAW 2015). Despite the growing use of contraception, teenage pregnancy remains a major issue in the country. Not only is the adolescent fertility rate high compared to regional levels (76 births per 1,000 women aged 15-19, compared to 64 for LAC, 2015), but it also declines at much slower pace compared to the regional average. A study developed by the World Bank revealed that teenage pregnancy was positively related to living with one parent, to having friends who are also teenage mothers, and to having a stereotyped view on gender roles – i.e. associating women predominantly with motherhood (Azevedo et al. 2012). Teenage pregnancy operates as a mechanism for the inter-generational transmission of poverty and vulnerability, as it can have direct impacts on the education and employment opportunities available to women. A study in Ecuador found that teenage pregnancy is often the result of the lack of opportunities young women face and relates closely to aspirations and agency that are influenced by social norms defining the role of girls as mothers (Azevedo et al. 2012).

6. Education and labor reforms are key to increase economic opportunities. Reverse gender gaps favoring girls exist in primary and secondary enrolment, while a slightly higher proportion of men than women are enrolled in tertiary education. Disparities in school enrollment still exist between girls and boys among the rural and the indigenous populations. In Ecuador, 51 percent of indigenous girls are not enrolled in secondary education (UN 2016). Poverty also impacts boys' and girls' access to secondary education: in Ecuador, 91.2 percent of girls in the richest quintile were enrolled in secondary in 2015, while only 72.6 percent of girls in the poorest quintile enrolled (INEI 2016). Women have been consistently disadvantaged in terms of their labor market outcomes. Women's participation in the labor market is substantially below men's participation and this gap is comparatively large among LAC countries, although it has been narrowing since the plummet of oil prices in 2014. Worryingly, young women are excessively present among those who are not in education, employment or training. More than 25 percent of women are in this situation, compared to just 10 percent of men. Moreover, those women who are active in the labor market are commonly found in lower quality jobs. Women feature more prominently than men in the informal sector. The majority of unpaid work is carried out by women (40 hours weekly compared to 10 hours for men). The gap is wider in rural areas. Half of working men are engaged in informal jobs compared to 62 percent of working women. The increased female participation in the labor force since 2014 not only introduced higher informality, but also usher in higher underemployment rates, especially in rural areas. In addition, there is a marked gender segregation regarding sectors of employment. Women dominate in low-skilled services and their participation is the lowest in the construction, mining and transport sectors which are traditionally dominated by men. Relatedly, women still have lower earnings than men in Ecuador.

7. Female entrepreneurship in Ecuador is among the highest in the world even though access to financial services seems to be more constrained for women. According to the Global Entrepreneurship Monitor data, 31.9 percent of women were entrepreneurs in 2014 and the gap with men was relatively small. However, women's access to financial products is seemingly more constrained than that of men. In 2017, only 42.6 percent of women had an account at a financial institution compared to 60.2 percent among men (World Development Indicators).

8. **Female-headed households are more likely to be in poverty** and to lack access to basic services. For instance, 39.1 percent of rural female-headed households were poor in 2016, above the share of 37.3 percent for rural male-headed households. Even after considering important variables such as region, household size, education, and labor market characteristics, female-headed households still show a persistent higher probability of being in poverty relative to male-headed households. However, this gap almost halved between 2007 and 2017, going down from 6.5 to 3.5 percentage points. Similarly, access to basic services is lower for female-headed households, especially basic water and sanitation services (World Bank 2018).