



The World Bank Group in Ecuador

Country Program Evaluation,
Fiscal Years 2008–22



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Abbreviations

ASA	advisory services and analytics
BDH	Bono de Desarrollo Humano
CAF	Banco de Desarrollo de América Latina y el Caribe
CEN	Country Engagement Note
CFN	Corporación Financiera Nacional
CPE	Country Program Evaluation
CPF	Country Partnership Framework
DPO	development policy operation
DRM	disaster risk management
ECD	early childhood development
FDI	foreign direct investment
FY	fiscal year
GTFP	Global Trade Finance Program
ICSID	International Centre for Settlement of Investment Disputes
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	investment project financing
ISN	Interim Strategy Note
MCDS	Coordinating Ministry for Social Development
MCPEC	Coordinating Ministry for Production, Employment, and Competitiveness
MIES	Ministry of Economic and Social Inclusion
MSME	micro, small, and medium enterprise
NLTA	nonlending technical assistance
PIU	project implementation unit
RUAD	Single Registry of Victims
SCD	Systematic Country Diagnostic
SME	small and medium enterprise

URS	Social Registry Unit
XPSR	Expanded Project Supervision Report

All dollar amounts are US dollars unless otherwise indicated.

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Overview

This Country Program Evaluation assesses the relevance and effectiveness of the World Bank Group's support to Ecuador from fiscal year (FY)08 to FY22. The evolution of the Bank Group's support is set within the context of a gradual and deliberate restoration of a partnership after a near-total break in relations between the World Bank and the government of Ecuador at the start of the evaluation period. The evaluation covers the Bank Group's support over three strategy periods—the Interim Strategy Note for FY14–15, the Country Engagement Note for FY16–17, and the Country Partnership Framework for FY19–23—and the period of six years (FY08–13) during which the Bank Group had no formal strategy. The evaluation examines the Bank Group's strategy along two interconnected fronts: (i) gradually reestablishing a constructive partnership with the government after a break in relations and (ii) supporting the country's rebalancing to a fiscally sustainable, private sector-led growth model—one that could ensure protection of the vulnerable over the transition.

Economic Context

Ecuador is rich in natural resources, but its economy is highly vulnerable to shocks. An oil producer, Ecuador's economic performance and public finances have been driven by oil price developments. The abundance of oil has discouraged investment in economic diversification (Orozco Espinel 2019), intensifying the country's vulnerability to oil price shocks. Government spending has largely been procyclical, reducing the space to counter the impacts when oil prices have fallen. Ecuador is also particularly vulnerable to severe natural disasters, including floods, landslides, droughts, volcanic eruptions, and earthquakes. A majority of the population lives in the mountainous and coastal areas most vulnerable to recurring disasters. Creating greater resilience to its ongoing natural disaster risks is thus a continuing priority to safeguard Ecuador's development.

Ecuador's development agenda over the evaluation period is characterized by two distinct phases. Between 2007 and mid-2017, the country followed

a development model that enhanced the role of the state in the economy and promoted greater equity through social spending. Under Ecuador's Plan Nacional para el Buen Vivir (National Plan for Good Living), the government of Ecuador undertook large infrastructure projects targeting traditionally underresourced populations and more than doubled social spending. Poverty and equity indicators improved markedly over the early years of the Plan Nacional para el Buen Vivir, and Ecuador's progress in poverty reduction put it among the best performers in the region. Beginning in mid-2017, with sharply lower oil prices contributing to growth stagnation in addition to fiscal and balance of payments pressures, a new government shifted its policy agenda to a different development model—one that sought to reduce the state's role in the economy, put the country on a more sustainable fiscal path, and enhance private sector-led growth, while also ensuring better protection of the vulnerable.

External conditions changed markedly over the two development periods. From 2007 to 2014, Ecuador's economy benefited from record high oil prices, boosting economic growth and public revenues and enabling a rapid expansion of social programs and public investment. After 2014, oil prices fell sharply, putting fiscal sustainability and the social and economic gains in jeopardy. COVID-19 brought a collapse of global demand, reducing oil prices further and severely affecting Ecuador's economic performance and macro-economic conditions.

Socioeconomic fragmentation has made it hard for Ecuador to implement difficult fiscal reforms. Because of the economic and fiscal cycles created by the management of oil resources, Ecuador has confronted numerous episodes of fiscal crisis. Attempts to deal with these crises through reforms to restore fiscal sustainability have often been met by widespread social opposition and in several cases a change in government. Over the decade before the start of the evaluation period, Ecuador had eight presidents, none of whom remained in office for a full term. Intense socioeconomic fragmentation is reflected by distinct and often opposing views about the route of development that Ecuador should follow (Jácome 2004), resulting in political instability.

Ecuador has recently been characterized by political and economic uncertainty. The prior president, Guillermo Lasso, left office early in 2023 in the face of political paralysis and on the verge of impeachment. The new president, Daniel Noboa, who will serve the remainder of Lasso's term to 2025, is confronting both a slowing economy and rising insecurity from criminal violence.

World Bank Group Strategy Adapted to Reestablish Engagement

Several actions early in Rafael Correa's presidency disrupted the partnership between the World Bank and the government of Ecuador. At the start of the Correa administration, the government closed or canceled ongoing Bank Group lending operations (save one) and expelled the World Bank's country representative. The expulsion was the culmination of an earlier confrontation with the World Bank in 2005 over the cancellation of a structural adjustment loan, when Correa was the minister of finance.

The World Bank's reengagement strategy evolved to reflect expanding objectives. The World Bank's main objective from 2007 to mid-2011 was to preserve its presence in Ecuador and prevent a more permanent disengagement, under the premise that the World Bank could eventually find opportunities to support areas of the government development plan on which there was shared vision. Between FY12 and FY13, the World Bank took proactive steps to rebuild dialogue with the government of Ecuador and scope partnerships, using nonlending technical assistance to respond to requests across different sectors and levels of government. Beginning in FY14, the World Bank demonstrated value by reestablishing operations in Ecuador, lending directly to subnational governments, with a central government guarantee, for infrastructure improvements (transport and water). The World Bank approved the Interim Strategy Note for FY14–15, which aimed to “consolidate progress in the dialogue in a few key areas and have flexibility to respond to evolving requests for support” (World Bank 2013). In addition, starting in FY16, and with a deterioration in Ecuador's macroeconomic environment and a renewed openness of the government of Ecuador to World Bank borrowing, the World Bank reestablished lending operations to the central government. The World Bank also prepared for

its own medium-term engagement under a new policy environment with a ramp-up in analytic work.¹

A new government taking office in 2017 sought comprehensive support from the World Bank to navigate a new development model. Seeking to reduce the state's footprint on the economy to restore fiscal sustainability and create space for the private sector to expand, the government of Ecuador reached out to the World Bank and the International Monetary Fund for both financing and guidance on fiscal consolidation. Bank Group support toward the government's reform agenda was developed under a Country Partnership Framework for FY19–23, which provided assistance along three main fronts: (i) supporting growth by addressing macroeconomic imbalances, removing barriers to private sector activity, and enabling the financial sector to better intermediate the allocation of resources to productive use; (ii) boosting human capital and social protection; and (iii) enhancing institutional and environmental sustainability by bolstering the ability for the public sector to make effective decisions based on solid evidence (World Bank 2019a). In 2019, the World Bank resumed policy-based lending in Ecuador for the first time since 2006, representing the culmination of the World Bank's restored relationship with the government of Ecuador and based on the analytic foundations that had been developed previously.

Rebuilding Partnerships with the Government of Ecuador as a Priority

The World Bank was effective in partnership rebuilding in an environment of circumscribed dialogue. It was effective in rebuilding its partnership with the government of Ecuador by creating greater opportunities for dialogue, building goodwill, and demonstrating the World Bank's value in politically acceptable ways. The World Bank drew on formal and informal channels to restart a productive dialogue with government ministries, including by disseminating existing World Bank global or regional reports in the country. The World Bank significantly increased its finance to support extensive nonlending technical assistance to line ministries and subnational authorities as a way to build dialogue and provide technical support to the administration's development programs. Operationally, the World Bank's reengagement at the municipal level allowed the World Bank to demonstrate

comparative advantage as a strategic partner in terms of technical rigor, operational effectiveness, and financial benefits, and it also allowed the World Bank to overcome the impasse in dialogue at the national level.

However, the World Bank's reengagement strategy prioritized partnership rebuilding over project design. The World Bank's rapid project preparation came at the expense of project readiness. Municipal infrastructure projects were prepared rapidly to meet government requests, including the Quito Metro project, prepared in five months, and the Manta Public Services Improvement Project, approved in less than six months from the Concept Note review. In some cases, rapid preparation came at the expense of quality engineering designs, which resulted in substantial revisions to the projects during implementation.

The World Bank's partnership rebuilding was slowed by the lack of a clear and consistent approach to working with the government of Ecuador. The World Bank was slow to define a strategy for working with the government, and it took six years to approve the strategy. Interviews with World Bank country management suggest that there was an internal disagreement about the reengagement over the first several years. It would be only after 2012, coinciding with a change in World Bank senior management (at the regional and top leadership levels), that the World Bank would formally support renewed lending to Ecuador and a deepened partnership with the national government.

The Bank Group's reengagement strategy limited accountability for development outcomes. Neither of the World Bank's approved strategies over the period (for FY14–15 and FY16–17) included a results framework articulating higher-level development outcomes by which to measure progress. Although Bank Group short-term strategies do not require results frameworks, there are examples of Interim Strategy Notes and Country Engagement Notes elsewhere that have included both expected outcomes and results matrices, helping establish a clear line of sight between the Bank Group's support and higher-level goals. The inclusion of results indicators would have also better allowed the Bank Group to take midcourse corrective actions where results lagged.

The World Bank's support over the reengagement was developmentally relevant. The World Bank gradually defined an agenda that supported the national development plan in politically less sensitive sectors and that fit within established priorities for public service delivery and improved access to resources. Early support toward social protection and nutrition was relevant to the national development agenda. The World Bank's support to municipal infrastructure was relevant to improved public service delivery in the context of evolving responsibilities at the local level.

World Bank projects implemented over the reengagement period were generally effective. Most closed projects have been rated moderately satisfactory for project outcomes, and projects near closure are also expected to achieve their objectives. The Quito Metro project, for example, resulted in the construction and eventual operation of a universally accessible underground line, and several project development objectives related to capacity, reduced transport times, and accessibility have been achieved. Implementation Status and Results Reports for other open municipal infrastructure projects also suggest substantial progress toward outcome indicators.

However, the World Bank did not adequately account for low institutional capacity, resulting in project implementation delays of 50 percent. Municipal infrastructure projects experienced implementation delays, on average 50 percent over the original time frame. Most delays were linked to capacity issues stemming from the lack of experience among subnational governments in implementing World Bank operations. Projects were also affected by a high degree of subnational government turnover, which had an impact on project priorities.

The World Bank missed opportunities to mitigate known institutional capacity risks. At the strategy phase, the World Bank excluded specific mitigation measures for known implementation capacity constraints. Over the implementation phase, the World Bank failed to use additional financing requests to address emerging implementation issues. For example, when the World Bank approved additional financing for the Quito Metro project, it might have included stipulations to ensure that the metro authority approved a private operator promptly, but it did not—stalling the metro's operation for years. Furthermore, the Bank Group did not adequately leverage the

expertise of the International Finance Corporation (IFC) to guide the Quito Metro authority. The risks involved in a delayed metro operation were high, with all of the intended benefits dependent on the metro being fully operational. Even without IFC's direct investment in the eventual operator or a formal advisory transaction, a limited informal engagement by IFC to advise and share knowledge and experience might have helped move the process forward.

Support for the Transition to a Private Sector–Led Growth Model

The Bank Group supported Ecuador's transition to a private sector–led growth model on two fronts: improving market competitiveness and increasing private investment in high-potential growth sectors. The World Bank provided early technical assistance over the FY07–17 period to identify core constraints to private sector competitiveness and growth. With a change in administration in 2017, the World Bank shifted its support from purely technical knowledge to policy-based finance targeting public sector efficiency and fiscal sustainability and the removal of key regulatory and financial sector barriers to private sector development. IFC's support included both early advisory work at the municipal level to assist with regulatory simplification and advisory support and investment finance to banks and agribusiness firms. IFC's support to banks aimed to expand access to credit to small and medium enterprises and enable exporter access to international markets, and its investments in the agribusiness sector sought to expand market position and access to global markets.

The Bank Group's support was relevant to development needs and to the partnership with the government of Ecuador. Over the 2007–17 period, the World Bank's focus on advisory services and analytics helped it fill important information gaps that could inform the World Bank's future engagement and built relationships with different stakeholders. A further ramp-up in analytic work starting in 2017 informed the government's comprehensive reform agenda, including fiscal reforms, trade and regulatory reforms, and financial sector reforms, supported by World Bank policy-based lending programs. For its part, IFC's support to financial institutions provided finance to underserved small and medium enterprises, whereas its support

to agribusiness firms addressed a deficit in loan tenors unavailable on the domestic market.

The Bank Group's support for Ecuador's economic transition yielded important achievements. Following a change in government in 2017, the World Bank provided substantial support to the new government of Ecuador through analytic work, which would inform a comprehensive reform agenda. The World Bank-supported government actions to increase interest rate flexibility, reduce barriers to digital financial services, and increase bank liquidity through the Inclusive and Sustainable Growth development policy operation series contributed to an expansion of credit to the private sector. World Bank support to facilitate enterprise creation contributed to an increase in business registration and increased tax revenues. The World Bank-supported tariff reforms reduced tariffs on capital and intermediate inputs in agriculture and technology, representing a notable step toward the longer-term outcome of improved international competitiveness of domestic exporters. World Bank support for budgetary reforms improved budget processes, reduced fiscal risks, and contributed to improved fiscal sustainability.

However, World Bank-supported energy and minimum wage reforms were reversed by the government. In the case of the energy subsidy reform, the government undertook reforms contrary to the World Bank's recommendations for incremental adjustments, leading to large oil price increases, which triggered violent protests and a subsequent reversal. In the case of the minimum wage reform, the World Bank had supported a revision to the formal minimum wage setting process, providing an objective, productivity-based formula for setting minimum wages when tripartite negotiations (among unions, employers, and the government) failed. However, the reform was reversed by executive action in 2021, and the use of the minimum wage formula resumed only recently with a new administration.

In both cases, the World Bank failed to communicate effectively across stakeholders to ensure sufficient buy-in for reforms. The World Bank had recommended a more gradual process for the fuel subsidy reform based on prior incidence analysis,² recommending an initial removal of subsidies only on premium gasoline (not on industrial diesel or cooking gas). However,

the World Bank failed to communicate and convince the government of Ecuador regarding the recommendation for incremental reforms, and in a reported desire to use a narrow political window of opportunity, the government implemented a more ambitious program that resulted in widespread social protest (and ultimately reform reversal).³ The World Bank also did not build sufficient consensus internally for the use of the proposed minimum wage formula, by championing its importance and providing adequate technical assistance and communication with the three agencies tasked with its implementation—the Ministry of Labor, the Chamber of Industries and Production, and labor unions. The lack of internal consensus hindered the reform’s uptake, though the agenda was resumed starting in 2023. Both agendas required a significantly enhanced communication strategy across stakeholders to build public support and acceptance for reforms.

The World Bank's Contribution to Social Protection Built on Substantial Analytics

From 2008 to 2018, World Bank support to social protection consisted exclusively of advisory services and analytics and nonlending technical assistance to improve the design and implementation of Ecuador’s safety net system. The World Bank generated over 20 diagnostic knowledge products to address the main challenges facing Ecuador’s social safety net—namely, errors of inclusion, exclusion, and duplication in targeting—and weak compliance with the program’s health and education conditionalities. The latter was of particular concern, given persistently high rates of malnutrition and other risk factors among vulnerable groups. These shortfalls were traceable in large part to a service delivery system that was poorly aligned with transfers and a data collection strategy that lacked cohesion and accountability.

Operational support conducted after 2018 was grounded in the substantial analytic work conducted previously. From 2019 onward, the World Bank resumed lending support through (i) the Social Safety Net Project, which provided direct support on targeting and service delivery, and (ii) two development policy operation series, both of which supported regulatory reforms that underpinned the implementation goals of the Social Safety Net Project. In line with the World Bank’s work on private sector development, the analytic work for social protection conducted before 2018 provided

a robust, evidence-based foundation for the design of these operations, building credibility with government of Ecuador counterparts and ensuring a high level of relevance with respect to country needs. Notably, despite their impact, many of these diagnostics were low profile and focused exclusively on data generation and bilateral knowledge exchange with technical counterparts. They were disseminated with minimal publicity in an effort to reduce World Bank visibility.

World Bank support can be linked to documented improvements in targeting and service delivery. Between 2019 and 2023, there were several measurable improvements in the targeting accuracy of Ecuador's primary cash transfers and improvements in data harmonization and coordination of service delivery with receipt of transfers. This progress can be largely attributed to strengthened performance of the Social Registry, which can, in turn, be partially attributed to World Bank support. The support can also be linked to enactment and implementation of Ecuador's current National Nutrition Strategy, including improvements in the government of Ecuador's approach to nutrition surveillance and early childhood development.

The World Bank did not adequately scope its operational support to capacity issues. Although the Social Safety Net Project identified low institutional capacity as a substantial risk and included credible mitigating measures, selected components of this operation have faced multiple implementation delays. These delays have been related to weak understanding of World Bank protocol, attributable to high staff turnover and low experience and indicative of insufficient training on procurement and financial management on the part of the World Bank, including for disbursement-linked indicators.

Lessons

The findings draw forth the following lessons, which may be of relevance to future Bank Group engagements in Ecuador and future Bank Group engagements after a hiatus in dialogue.

- » First, rebuilding a constructive partnership after a break in dialogue may require the World Bank to take a significant step back in terms of its own visibility. The World Bank provided effective support tailored to the needs of the government without lending and without traditional dissemination activities

of analytic work. In cases where the dialogue is severely circumscribed, providing low-profile technical assistance may deliver a means to build goodwill and demonstrate value.

- » Second, even over periods where dialogue is limited, the World Bank can use the space it is given to build analytic work that can help the Bank Group respond faster and more effectively when conditions for a fuller engagement materialize. That also means that the World Bank should be proactive in planning financing for such potential activities, including devoting sufficient World Bank finance to analytic work.
- » Although reengagement incentivizes the World Bank to be especially responsive to government requests for support, the World Bank needs to balance responsiveness with due diligence in project preparation, including potential implementation challenges. Projects that are prepared quickly but are not underpinned by quality design studies may need to be redesigned or restructured, ultimately delaying social benefits.
- » After a significant lapse in World Bank operations, in situations where government authorities have limited project implementation experience or in cases where turnover in implementing authorities results in lost institutional capital, the World Bank needs to ensure that sufficient institutional capacity building is planned to mitigate risks. The World Bank should also use milestones in the project process (such as additional financing requests) to ensure that key processes in implementation take place and that projects can adapt accordingly.
- » The prolonged use of Bank Group strategies without results frameworks limits both internal accountability and information that can be used to help adapt strategies to promote performance. Even in circumstances where the World Bank cannot adequately predict a five-year agenda of support, the World Bank should stipulate higher-level outcomes achievable over the course of the short-term strategy and promote an adequate line of sight between Bank Group support and higher-level achievements.
- » Particularly in the context of a lack of social cohesion about economic reforms, the World Bank needs to make explicit preparations that can ensure broad-based ownership and understanding of the reform

agenda—considering not only those tasked with adopting the reforms and those involved in the reform implementation but also those most affected by the reforms. Better and continuous communication across government, implementing agencies, and stakeholders around the rationale for and processes of significant reforms can provide strengthened guardrails against reversal.

¹ By 2016, it was known that there would be a new presidential administration, although the priorities of that new administration were unknown.

² For example, the first development policy operation supported the elimination of subsidies on premium gasoline, industrial diesel, and natural gas for commercial and industrial use—all of which were regressive, with most consumption by higher-income quintiles.

³ On the basis of interviews with the World Bank development policy operation team, with little notice, the president announced broader energy subsidy reforms in place of the original plans to implement a value-added tax.

1 | Background and Context

Introduction

This Country Program Evaluation (CPE) assesses the relevance and effectiveness of the World Bank Group's support to Ecuador from fiscal year (FY)08 to FY22. Specifically, it examines the evolution of the Bank Group's support to Ecuador after a structural break in the World Bank's partnership with the government of Ecuador in 2007—one in which dialogue was severely circumscribed and World Bank lending ceased. The evaluation examines Bank Group's support along two fronts. First, it examines the process by which the World Bank restored a productive partnership with the government of Ecuador after 2007 and assesses that approach in terms of relationship strengthening and development effectiveness. Second, it examines Bank Group's support for the government of Ecuador's rebalancing after 2017 from a state-led development model to an economic growth model that could support an expanded, dynamic, diversified, and resilient private sector while protecting the vulnerable over the transition.

Overall, the report finds that the Bank Group's support to Ecuador was relevant and generally effective despite a difficult relationship with the government. The evaluation period was defined by two major stages. During the first stage, from 2007 to 2017, the World Bank provided low-visibility support to gradually reestablish a constructive partnership with the government after a near-total break in relations in 2007. During the second stage, after 2017, the World Bank worked with a new government to help rebalance the government's development model toward more sustainable state spending and private sector-led growth. Over the evaluation period, the Bank Group's support to Ecuador was both relevant to the country's development priorities and appropriate to the constraints of the evolving partnership with the government. However, the World Bank underestimated institutional capacity constraints and political economy challenges, leading to project implementation delays and policy reversals.

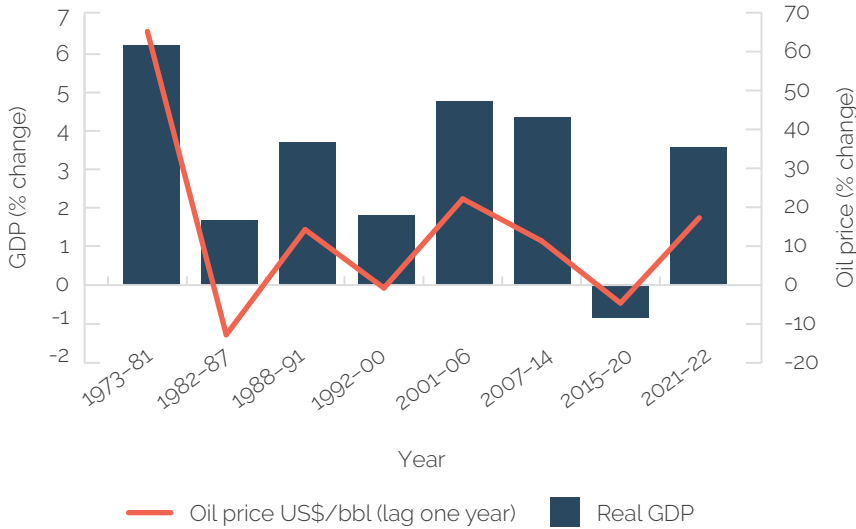
The report is organized into five chapters. The remainder of chapter 1 introduces Ecuador's development context and highlights the government of Ecuador's shifting development policy agenda over the period. The chapter then introduces the evaluation design and methodology. Chapter 2 investigates and evaluates the process by which the World Bank normalized its relationship with the government after the structural break in relations beginning in 2007. Chapter 3 assesses the relevance and effectiveness of the Bank Group's support for Ecuador's rebalancing to a sustainable, private sector-led growth model. Chapter 4 assesses the relevance and effectiveness of the World Bank's complementary support toward improved protection of poor and vulnerable people over the government of Ecuador's transition to a private sector-led growth model. Chapter 5 presents the conclusions emerging from the evaluation's evidence and lessons to help inform future Bank Group support to Ecuador.

Economic Context

Ecuador is a small, middle-income country straddling the equator, with an ethnically diverse population of 18 million people. The country encompasses a wide range of landscapes and climates, including coastal deserts, mountains, and rain forests. Ecuador's income per capita in 2022, at \$6,400, puts it at about 75 percent of the average for Latin America and the Caribbean countries (up from about 50 percent of the average in 2007)¹ and about on par with all middle-income countries.

Ecuador's oil exports have driven its economic performance and public finance outcomes. Ecuador became an oil exporter in 1972. Since then, oil market developments have driven economic growth (figure 1.1). In 2006, petroleum sales represented about 60 percent of goods exports and 27 percent of fiscal revenues (IDB 2008), leaving Ecuador highly vulnerable to commodity price shocks. The abundance of oil has discouraged investment in economic diversification (Orozco Espinel 2019), intensifying the vulnerability to oil price changes.

Figure 1.1. Average Annual Changes in Real GDP and Oil Prices



Source: World Development Indicators data (real GDP) and World Bank commodity price data (annual average, Dubai, Brent, and West Texas Intermediate).

Note: bbl = barrel.

Ecuador is at high risk of natural hazards. More than two-thirds of the population live in areas subject to natural hazards, including floods, landslides, droughts, volcanic eruptions, and earthquakes (GFDRR 2010). The majority of the population live in the mountainous and coastal areas most vulnerable to natural disaster. In 2016, in the midst of dealing with impacts from the El Niño phenomenon, Ecuador was struck by a 7.8 magnitude earthquake, resulting in 676 deaths, 6,274 injuries, and 80,000 displacements, as well as \$3.3 billion in reconstruction costs, \$515 million in losses in the productive sector, and 21,823 job losses (World Bank 2022d). Creating greater resilience to its ongoing natural disaster risks is thus a continuing priority to safeguard Ecuador’s development.

In the early 2000s, Ecuador was emerging from an economic and financial crisis. Fueled by a string of domestic economic factors (including fiscal rigidities, the accumulation of high levels of dollarized debt in a weakly regulated financial sector, and institutional weaknesses)² and external shocks (including depressed oil prices, widespread crop failures stemming from El Niño, and a worldwide shrinking of external credit), Ecuador experienced a sharp reversal of capital inflows over the late 1990s, which

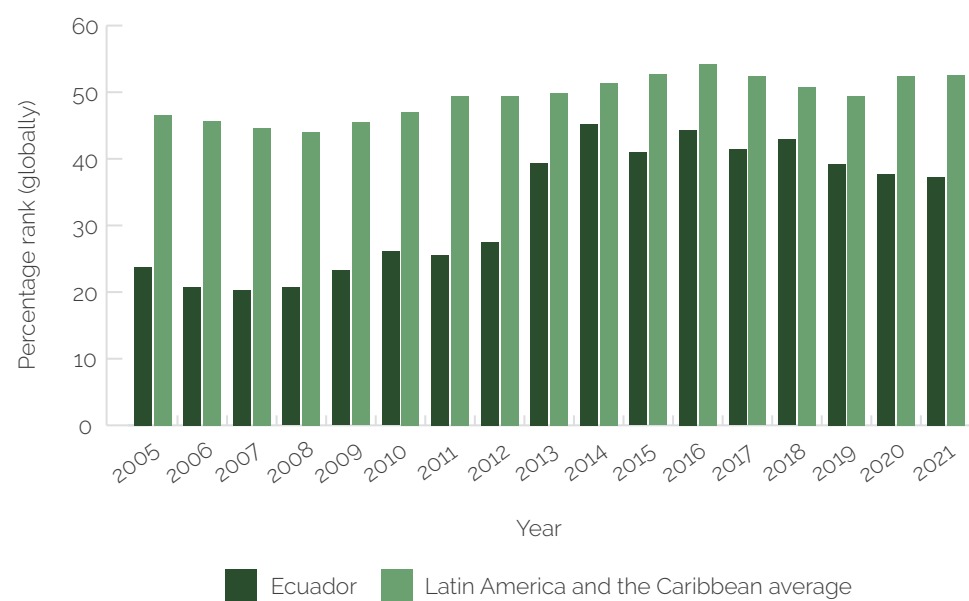
triggered financial instability and economic stagflation. As oil prices bottomed out to below \$20 per barrel, the government deficit ballooned to 6.2 percent of GDP, output contracted by 7 percent, and Ecuador defaulted on its Brady bonds. A number of leading financial institutions were shut down between 1998 and 2000, and in March 1999, the government ordered bank deposits frozen. Annual inflation reached 52 percent, causing Ecuador's national currency to depreciate rapidly. The social impacts of the crisis were significant. Between 1998 and 1999, unemployment doubled from 8.5 percent in May 1998 to 16.9 percent in June 1999 (IDB 2008), real wages declined by about 25 percent, and the poverty head count ratio at \$3.65 per day rose from 40.5 percent to 50.3 percent. The crisis also caused massive migrations, with approximately 400,000 Ecuadorans migrating to the United States between 1999 and 2000.

There were deep social divisions around the country's fiscal reforms to address the crisis. The 1999 crisis was addressed by a significant fiscal contraction exercise through a series of fiscal austerity and revenue-raising measures—accompanied by a \$300 million Stand-By Arrangement with the International Monetary Fund (IMF) in 2000. Most important among the actions taken to deal with the crisis was the government of Ecuador's decision to dollarize in January 2000. Taken together, the measures lowered inflation and improved fiscal and debt balances. The reform agenda—most importantly, the dollarization decision—was initially met by widespread social opposition, ultimately leading to the removal of then-president Jamil Mahuad from office. Over time, dollarization gained broader support, but the crisis exposed a profound lack of consensus internally about Ecuador's policy reform agenda.

Ecuador's socioeconomic fragmentation has led to inconsistent economic policies and political instability. In the decade before 2007, Ecuador had eight presidents, none of whom remained in office for a full term. Although constitutional processes of succession were observed throughout the political turmoil, each would be removed from office and replaced by a vice president for the remainder of the term. Intense socioeconomic fragmentation between the Coast region (including Guayaquil, the largest city and economic core) and the Sierra region (including Quito, the capital and center of political administration) is reflected by distinct and often opposed views

about the route of development that Ecuador must follow (Jácome 2004), resulting in political instability. According to the World Bank’s Worldwide Governance Indicators, Ecuador had one of the lowest levels of political stability in the region during the 2000s (figure 1.2), which has made it difficult to pursue a coherent economic policy. Divided and powerful groups within civil society (including Indigenous groups) create challenges for implementing and sustaining policy reforms.

Figure 1.2. Political Stability in Ecuador versus Latin America and the Caribbean



Source: Worldwide Governance Indicators (database), World Bank.

Note: The Worldwide Governance Indicators database is a research data set summarizing the views on the quality of governance provided by a large number of enterprise, citizen, and expert survey respondents in industrial and developing countries. These are gathered from survey institutes, think tanks, nongovernmental organizations, international organizations, and private sector firms. They do not reflect the official views of the World Bank, its executive directors, or the countries they represent and are not used by the World Bank to allocate resources.

Ecuador’s Development Policy and Economic Performance, 2007–22

Ecuador’s development agenda from 2007 to 2022 is characterized by two distinct phases. Between 2007 and mid-2017, the country’s development model pivoted away from an open-market approach to one that enhanced state participation in the economy—increasing its regulatory and planning

power—and promoted greater equity through greatly enhanced social spending. Beginning in mid-2017, with deteriorating economic conditions and a new government, revisions to that model reduced the state’s role in the economy, sought to put the country on a more sustainable fiscal path, and undertook reforms to enhance private sector–led growth. External conditions also changed markedly over the two phases of the development agenda. Over the 2007–14 period, Ecuador’s economy benefited from record high oil prices, boosting economic growth and public revenues. After 2014, oil prices fell sharply (dropping 50 percent between mid-2014 and end of 2019), and COVID-19 brought a collapse of global demand and oil prices, severely affecting Ecuador’s economic performance and macroeconomic outcomes.

Buen Vivir, 2007–17

The government of Ecuador’s Buen Vivir development model from 2007 to 2017 emphasized human development, national sovereignty, and citizen participation in the public sphere. The new government administration that took office in 2007 viewed many of the stabilization and structural adjustment policies promoted by multilateral financial institutions as contributing to the economic crises experienced by the country over the earlier two decades. Under President Rafael Correa, the government of Ecuador launched the Plan Nacional para el Buen Vivir (National Plan for Good Living), which articulated a strong focus on poverty reduction, health, national sovereignty, and citizen participation in the public sphere (box 1.1).

Box 1.1. Core Objectives of the Plan Nacional para el Buen Vivir

- » Foster social and territorial equality, cohesion, and integration, while respecting diversity.
- » Improve citizens’ capacity and potential.
- » Improve quality of life for the population.
- » Guarantee the rights of nature and promote a healthy and sustainable environment.

(continued)

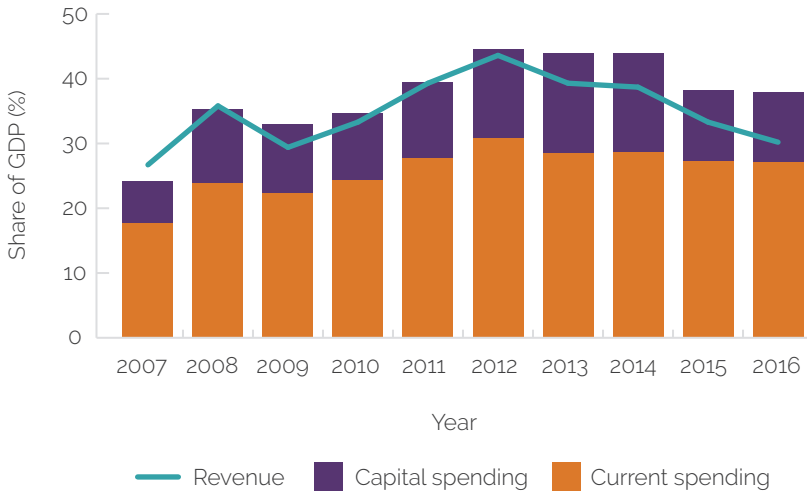
Box 1.1. Core Objectives of the Plan Nacional para el Buen Vivir (cont.)

- » Guarantee sovereignty and peace and promote strategic insertion in the world and in Latin America.
- » Guarantee stable, fair, and dignified work in its diverse forms.
- » Build and strengthen public and intercultural places.
- » Affirm and strengthen national identity, diverse identities, and a plurinational and intercultural state.
- » Guarantee human rights and social justice.
- » Guarantee access to public and political participation.
- » Establish a social, inclusive, and sustainable economic system.
- » Build a democratic state to promote "el buen vivir."

Source: World Bank 2013.

The Buen Vivir plan nearly doubled public spending, with particularly large increases in social spending. Public spending increased from nearly 24 percent of GDP in 2006 to about 46 percent of GDP in 2018, putting Ecuador at a level above that of comparator countries in the region such as Argentina at 40 percent, Bolivia at 35 percent, Colombia at 29 percent, and Peru at 19 percent (World Bank 2013). Between 2007 and 2016, spending on health doubled, whereas spending on higher education tripled from 0.7 percent of GDP to 2.1 percent, putting Ecuador at the top of Latin American countries in public spending on higher education. Spending on the government conditional cash transfer program—Bono de Desarrollo Humano (BDH)—also increased sharply from 0.49 percent of GDP in 2003 to 0.67 percent by 2013 (figure 1.3), and by 2010, 30 percent of households benefited from the program (IDB 2012).

Figure 1.3. Government Finance in Ecuador, 2007–16



Source: World Development Indicators (database), World Bank.

The Buen Vivir plan also increased infrastructure investment, targeting traditionally underresourced populations (World Bank 2018b). Public investment more than doubled from 7 percent of GDP in 2007 to 15.4 percent in 2013. The government undertook a number of large investment projects in housing, transport, energy, and water, intending to address bottlenecks and support greater inclusion in public infrastructure access. Between 2007 and 2017, the share of the population with access to safe drinking water increased from 62 percent to 66 percent, with rural households experiencing the largest gains (with the share rising from 46 percent to 51 percent). Over the same period, access to electricity became universal (rising from 97 percent to 99 percent), with electrification to rural households driving the change.³

Over the early years of Buen Vivir, Ecuador realized significant public spending increases, made possible by high oil prices and borrowing from the central bank and external sources. The government agenda was supported by significantly higher oil revenues on the back of oil prices doubling between 2005 and 2011 (from \$53 per barrel to \$104 per barrel; they remained above \$100 per barrel until mid-2014)⁴ and the operationalization of a new heavy crude pipeline. In addition, the government of Ecuador reduced foreign debt through a default and repurchase of sovereign bonds.⁵ Although dollarization reduced the ability to use monetary policy as a tool for macroeconomic

management, a series of accounting practices and subsequent changes in legislation approved over the period 2009–14 allowed an expansion of the Central Bank of Ecuador’s balance sheet to finance the central government (Erraez and Reynaud 2022). Central bank borrowing to the public sector increased from 0 in 2011 to a peak of 4.4 percent of GDP in 2016 (World Bank 2019b). Over the same period, Ecuador increased its external borrowing, drawing increasingly on bilateral lenders (most importantly, China, through oil-backed loans) instead of multilateral development partners (figure 1.4). The central government also drew on nontraditional sources of finance, including short-term bonds and arrears accumulation.

Figure 1.4. Bilateral and Multilateral Debt, 2007–16



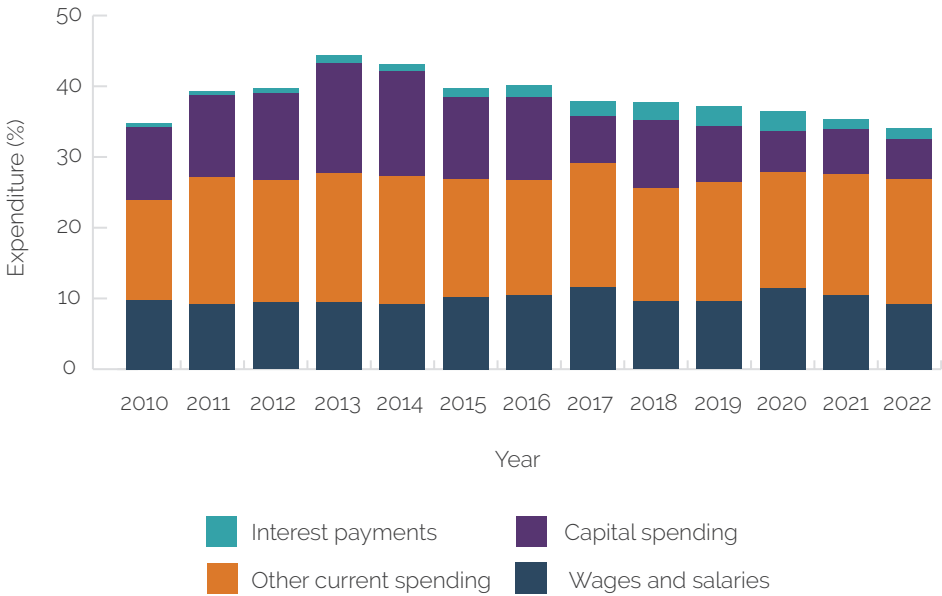
Source: Saà 2018.

Poverty and equity indicators improved markedly over the Buen Vivir plan. Aided by high oil prices, real GDP growth averaged 4.6 percent between 2007 and 2014, well above the 2.6 percent average for the Latin America and the Caribbean Region.⁶ With the significant boost to subsidies and government spending on social sectors, poverty and inequality declined sharply. Poverty fell from 38.3 percent to 25.8 percent between 2006 and 2014 (World Bank 2016), whereas extreme poverty was more than halved, falling from 30.9 percent in 2001 to 11.2 percent in 2012 (World Bank 2013)—the result of both stronger economic growth and government programs that targeted poor people (including the BDH cash transfer program, which doubled in size in

terms of share of GDP). Ecuador’s progress on the social front put it among the best performers in the region in terms of reducing poverty (World Bank 2016).

A sharp decline in oil prices starting in 2012 led to growth stagnation and growing fiscal and balance of payments pressures. Central bank financing of government spending steadily undermined the viability of the dollarization framework. This, in turn, resulted in an increase in balance of payments vulnerabilities, a high public debt-to-GDP ratio, inadequate reserve coverage, and an overvalued real exchange rate. Between 2012 and 2016, crude oil prices dropped by more than 75 percent, from an average of \$113 per barrel to less than \$27 per barrel (EIA 2024), resulting in a decline in oil revenues from 16.3 percent of GDP to 5.5 percent (World Bank 2019b). GDP growth stagnated in 2015 and turned negative in 2016 (contracting by 1.2 percent), and the government deficit grew, reaching 10 percent of GDP by 2016. The government of Ecuador responded by implementing tax measures and expenditure cuts, including a 25 percent reduction in public investment (figure 1.5), a temporary freeze on public sector wages, and a revision of the electricity subsidy and fuel subsidies for specific sectors.

Figure 1.5. Evolution of Public Expenditure, 2010–22



Source: Independent Evaluation Group staff estimates from World Bank and International Monetary Fund data.

Development Agenda, 2017–24

Ecuador's new government shifted its economic policies to support macro-economic stabilization and private sector development. Although President Lenín Moreno was elected under the auspices of his predecessor's political movement, the new government pivoted its policy stance to stem the deteriorating fiscal and external positions and to reverse several legislative actions undertaken in the prior administration. The National Assembly passed the Productive Development Law, which reestablished the independence of the Central Bank of Ecuador, created a fiscal framework that capped the growth of public spending, set a debt anchor, and reestablished the oil stabilization fund meant to smooth spending over the commodity cycle. The government of Ecuador also adopted measures to improve public spending and tax efficiency, build fiscal buffers, and realign domestic prices and costs to address external imbalances.

The COVID-19 pandemic derailed Ecuador's economic recovery. Oil prices dropped from almost \$70 per barrel in early January 2020 to less than \$30 per barrel by early April 2020. As a result, economic activity had contracted by 10 percent year on year by the second quarter of 2020, driven by large contractions in investment (–19 percent) and private consumption (–12 percent). With oil accounting for 39 percent of exports and 21 percent of fiscal revenues, Ecuador's fiscal situation deteriorated dramatically, with the deficit for 2020 reaching 7 percent of GDP (from a 3 percent deficit in 2019). On a human scale, Ecuador was heavily hit, with over 200,000 cases and 14,000 deaths by the end of 2020. Ecuador was one of the first countries in the world to receive World Bank funds to respond to the crisis.

Reform efforts since 2021 have faced widespread social opposition. In 2021, Ecuador elected Guillermo Lasso, the first center-right president since 1996. Although President Lasso was initially praised for his handling of the COVID-19 vaccination rollout (vaccinating 9 million people within his first 100 days), there was widespread opposition to his reform agenda, which included increased taxes and changes to the calculation of the minimum wage increase. Rising food and fuel prices over 2022 led to protests in June 2022, prompting the declaration of a state of emergency in three provinces and triggering suspension of the gasoline and diesel price band system

introduced in 2020. At the same time, a minimum wage increase above inflation was applied over 2022 to improve the dialogue on labor reforms.

In the context of a fragile political environment, Ecuador is mired in spiraling criminal violence. Facing an unsupportive National Assembly, President Lasso lost the constitutional referendum needed to pass legislative reforms and dissolved the legislature, which triggered early presidential and National Assembly elections in August 2023. The new president, Daniel Noboa, who will serve the remainder of Lasso's term to 2025, confronts a rapidly deteriorating security situation in Ecuador. The highest level of violent crime in the country's modern history was seen in 2023. Poverty (the national poverty rate stands at approximately 25 percent) and lack of job opportunities likely contribute to the recruitment of youth for criminal gangs. In the midst of a deteriorating security situation, the new government has prioritized stopping the criminal violence surge and restoring peace.

Evaluation Questions, Scope, and Methods

Background on Evaluation Questions

The evaluation period was a tumultuous time in which the World Bank's engagement in Ecuador was redefined. At the start of the period, the government of Ecuador expelled the World Bank's representative from the country and canceled all World Bank operations. The Bank Group's support over the next 15 years can be characterized by two approaches to engagement: (i) from 2007 to 2017, the Bank Group worked to gradually reestablish a constructive partnership with the government, and (ii) from 2017 onward, the Bank Group transitioned to supporting an economic growth model that could support an expanded, dynamic, diversified, and resilient private sector. The period spans three presidential administrations (Rafael Correa 2007–17, Lenín Moreno 2017–21, and Guillermo Lasso 2021–23), three formal Bank Group strategies, and a six-year period from 2008 to 2013 without a formal strategy.

The Bank Group's engagement from FY08 to FY22 can be broadly classified into three distinct periods:

- » **Limited activity (FY08–12):** After a structural break between the government of Ecuador and the World Bank, the World Bank paused new activities in Ecuador for several years, only undertaking nonlending technical activities.
- » **Operational normalization (FY13–17):** The World Bank reestablished lending operations in Ecuador by lending directly to municipalities with a guarantee from the national government. As the relationship with the government of Ecuador improved and economic conditions in Ecuador deteriorated, the World Bank broadened its lending to the national government in politically nonsensitive sectors.
- » **Full engagement (FY18–22):** The World Bank reestablished a deep and broad dialogue and operational engagement in Ecuador, including through policy-based operations. The support is guided by a significant ramp-up in analytic work at the start of the new administration.

Evaluation Questions and Methodology

This CPE focuses on three key questions pertinent to the Bank Group’s engagement:

- » **Evaluation question 1** (in the context of the ruptured relationship): How effectively did the Bank Group prepare for and respond to opportunities to restore productive and broad-based engagement with the government of Ecuador?
- » **Evaluation question 2:** How effective were the Bank Group’s preparation and support for Ecuador’s rebalancing toward a private sector–led growth model?
- » **Evaluation question 3:** To what extent has the Bank Group contributed to ensuring that gains in social protection and inclusion were maintained and expanded, particularly in disadvantaged groups?

Evaluation question 1 examines the steps taken to strengthen the World Bank’s partnership with the government of Ecuador and assesses their relevance and effectiveness. The time frame in which this question is examined is the period 2007–17, after which (and in conjunction with a change in government administration) the World Bank resumed policy-based lending in Ecuador (representing the culmination of the rebuilding of the World Bank’s

relationship with the government of Ecuador). Relevance is assessed both in terms of how the World Bank's strategy of support to Ecuador aligned with key development priorities (as articulated in evidence-based analysis) and in terms of whether the World Bank's strategy was pertinent to the specific objective of restoring a productive partnership with the government after the structural break. Understanding that there may be trade-offs between these distinct notions of relevance, this evaluation examines those trade-offs. The effectiveness of the Bank Group's support is similarly examined, considering not only the Bank Group's contributions to specific development outcomes but also whether the interventions supported the objective of restoring a productive partnership (explained further in chapter 2).

The scope of the first evaluation question covers the Bank Group's de facto or formal country strategies and analytic and operational support over 2007–17. The Bank Group approved two formal strategies during the period: the Interim Strategy Note (ISN) for FY14–15 and the Country Engagement Note (CEN) for FY16–17. Before FY14, the World Bank had no formal strategy document for reengagement. However, major elements of the de facto strategy have been reconstructed based on information attained through document review and semistructured interviews (described in appendix A). The scope of the World Bank activities examined consists of 31 separate advisory services and analytics (ASA) initiated by the World Bank over the period (2 over the limited activity period and 29 over the operational normalization period) and 9 operations approved over the period (3 over the limited activity period and 6 over the operational normalization period). The International Finance Corporation (IFC) is not considered in the reengagement because IFC's activities were unaffected by the World Bank's structural break with the government of Ecuador.

Evaluation question 2 examines the Bank Group's support for Ecuador's transition toward a more fiscally sustainable, private sector-led growth model. The CPE assesses the Bank Group's preparation for and implementation of support toward Ecuador's rebalancing of its sources of economic growth. The Bank Group support is evaluated according to (i) its relevance to recognized development priorities in the context of the evolving partnership and (ii) the effectiveness of the support (examining the Bank Group's contributions to key objectives for the transition). The key development priorities

for the transition to a fiscally sustainable and private sector–led growth model correspond to the main constraints to private sector competitiveness and growth outlined in the World Bank’s Systematic Country Diagnostic (SCD) for Ecuador (FY18) and include the key conditions to address macro-economic imbalances (primarily through fiscal and public finance reforms) and to lift the barriers to private sector development (primarily through trade, investment, and financial sector reforms and strengthening).

The scope of the second evaluation question encompasses the support of the World Bank and IFC over the full evaluation period. First, the evaluation covers World Bank analytic and operational support that focused on macro-economic management or on the enabling conditions for the private sector. With regard to the enabling environment for the private sector, the evaluation limits its coverage to support toward the policy environment (through trade and business regulatory and labor market reforms) but not activities addressing the physical conditions of the enabling environment (such as infrastructure, information and communication technology, and transport). Second, the evaluation covers IFC advisory services toward business regulatory reform. Third, the evaluation covers both World Bank and IFC support toward improving firms’ access to finance (with World Bank support primarily toward financial sector reforms and with IFC support primarily toward investments in the banking sector). Finally, the evaluation covers IFC investments in the agribusiness sector. The list of examined World Bank support activities includes (i) 5 World Bank–financed operations (the First, Second, and Third Inclusive and Sustainable Growth development policy operations [DPOs], FY19, FY20, and FY21, respectively; Promoting Access to Finance for Productive Purposes for Micro, Small, and Medium Enterprises [MSMEs] investment project financing [IPF], FY21; and the First Green and Resilient Recovery DPO, FY22, with a follow-up operation not included in the evaluation period); (ii) 25 World Bank analytic and advisory activities; (iii) 7 advisory services undertaken by IFC in Ecuador and 6 regional Latin America and the Caribbean advisory services that benefited clients in Ecuador; (iv) 18 IFC investments in the banking sector; and (v) 16 IFC investments in the agribusiness sector.

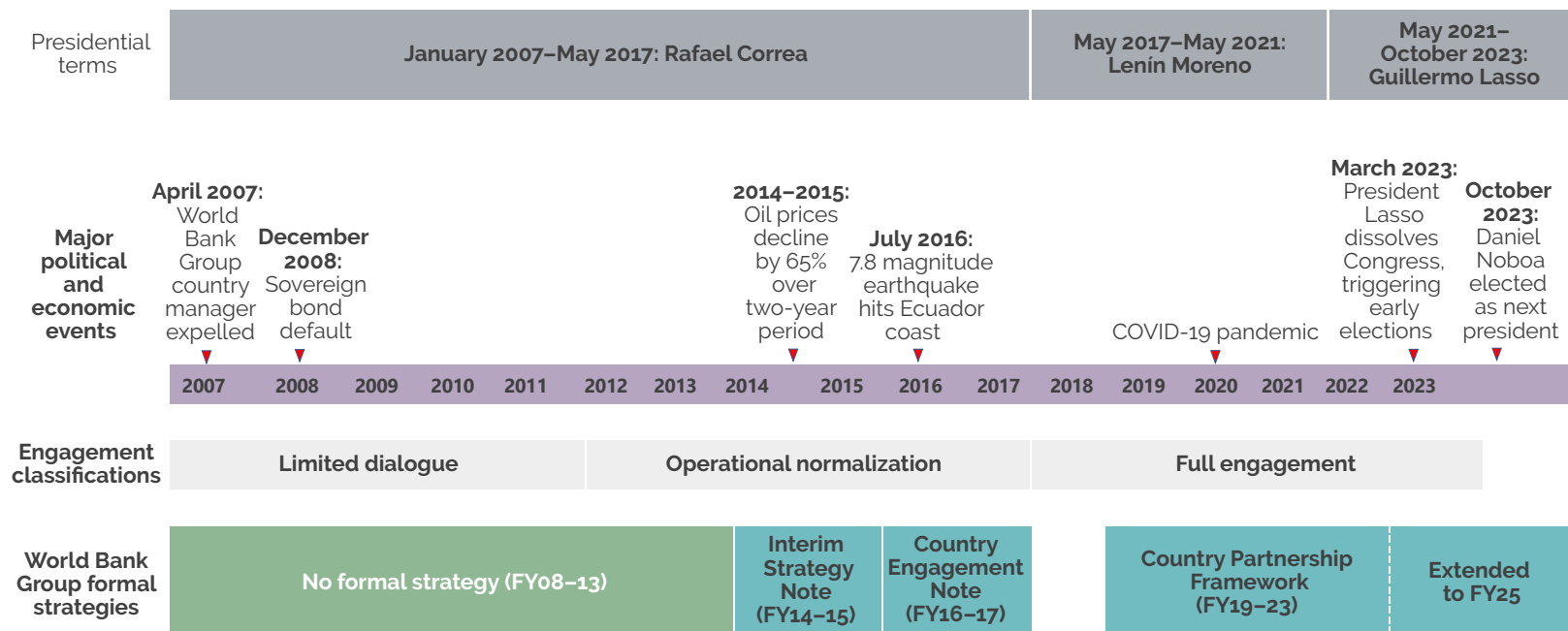
Evaluation question 3 assesses the World Bank’s support for social protection and inclusion. The World Bank’s support is evaluated based on (i) its

relevance to the recognized development priorities of maintenance and expansion of social protection and inclusion, in the context of the evolving relationship, and (ii) its effectiveness in maintaining and expanding achievements in social protection and inclusion.

The scope of the third evaluation question covers the Bank Group's social protection support over the full evaluation period. In total, the support included 25 pieces of analytic work and 2 operations (1 with additional financing).

The CPE draws on several information sources. The main documentation drawn on is as follows: (i) World Bank portfolio documentation over the period, including outputs of ASA, Project Appraisal Documents, Implementation Completion and Results Reports, Implementation Completion and Results Report Reviews, Implementation Status and Results Reports, Restructuring Documents, Project Completion Reports, aide-mémoire, review of meeting minutes, and project-related communication; (ii) IFC portfolio documentation, including Board approval documents, supervision reports, Expanded Project Supervision Report (XPSR) Evaluative Notes, and Evaluative Notes of IFC advisory services; (iii) internal and external diagnostic analytic work; (iv) formal Bank Group strategies (figure 1.6), including the ISN for FY14–15, the CEN for FY16–17, the Country Partnership Framework (CPF) for FY19–23, and the Performance and Learning Review for FY19–23, as well as the strategies of external development partners, including the Inter-American Development Bank (IDB) and Banco de Desarrollo de América Latina y el Caribe (CAF; formerly Corporación Andina de Fomento); and (v) media content. Independent Evaluation Group (IEG) staff supplemented these sources with information from interviews conducted during the CPE preparation. IEG undertook structured interviews with more than 100 Bank Group staff who worked on the Ecuador country program over the evaluation period, including three vice presidents, four country directors, and five country managers. In addition, IEG undertook a mission to Ecuador in February 2023, during which it interviewed more than 75 government counterparts involved with World Bank–supported projects or IFC investments. IEG also interviewed development partners heavily involved in supporting the government of Ecuador over the period.

The evaluation draws primarily on qualitative data and validates findings through data triangulation. Data analysis methods included portfolio review and analysis, content analysis of existing evaluations, review of internal and external analytic work, analysis of structured interview responses, media analysis, and theory-based evaluation techniques. Drawing on a range of deliberative evidence, including minutes from review meetings, project documentation, and structured interview responses, the team reconstructed the theories of change that guided the World Bank's decisions over the reengagement period, supplemented with contribution analysis to confirm and revise these theories. Appendix A describes the specific methods and information sources used for each evaluation question.

Figure 1.6. Timeline of Major Political and Economic Events in Ecuador, 2007–23

Source: Independent Evaluation Group.

Note: FY = fiscal year.

¹ Excluding high-income countries.

² According to an International Monetary Fund working paper that analyzed the causes of the crisis (Jácome 2004), institutional weaknesses restricted the government's ability to respond to the crisis in a timely manner, public finance rigidities limited the government's capacity to correct emerging imbalances, and financial dollarization fostered foreign currency demand and accelerated a currency crisis, thereby further worsening the solvency of banks.

³ World Development Indicators (database), World Bank; between 2007 and 2017, rural electrification rose from 92 percent to 98 percent.

⁴ Average crude oil price per barrel (Brent, Dubai, and West Texas Intermediate average; World Bank Commodity Price Data, World Bank Prospects Group).

⁵ The government of Ecuador defaulted on two sovereign global bond issues totaling \$3.2 billion in December 2008 (about one-third of Ecuador's external debt), which were subsequently repurchased by the government at a discount.

⁶ World Development Indicators (database), World Bank.

2 | Rebuilding a Productive Partnership with the Government of Ecuador

Highlights

The World Bank's relationship with the government of Ecuador was severely affected by a series of events early in Rafael Correa's presidency, including the cancellation of World Bank loans, the expulsion of the World Bank's country representative, and a selective debt default by the government of Ecuador.

The World Bank gradually rebuilt its dialogue with the government by delivering low-visibility analytic work and technical assistance in politically nonsensitive sectors. The World Bank increased its finance for analytic activities sixfold to increase its nonlending technical assistance.

The World Bank's dialogue with municipal authorities paved the way for the World Bank's operational reengagement in Ecuador.

The World Bank's reengagement approach was relevant for partnership rebuilding but occasionally came at the expense of project quality. The speed of infrastructure project preparation to meet government demands came at the expense of quality engineering designs, which resulted in significant implementation delays across projects.

World Bank strategies from 2007 to 2017 neglected to include results frameworks with higher-level outcome objectives, reducing accountability and blurring the line of sight between World Bank Group support and higher-level achievements.

Partnership rebuilding was slowed by lack of a clear approach to working with the government of Ecuador. The World Bank would take six years to approve a formal strategy for working with the government, and lack of internal guidance on the strategy hampered the World Bank from taking consistent actions.

The World Bank's eventual strategy was aligned with the government's national plan and priorities identified in earlier diagnostic work. Operational support to municipal capacity building was relevant both to improved public service delivery and to the context of evolving responsibilities at the local level.

The World Bank underestimated the government's institutional capacity weaknesses, leading to project implementation delays.

The Bank Group failed to mitigate implementation risks at the strategy phase and over the project cycle by including covenants in additional financing approvals or leveraging the International Finance Corporation to play a larger role in guiding municipal authorities on public-private partnerships.

Introduction

This chapter examines the steps taken by the World Bank to restore a productive engagement with the government of Ecuador after a structural break in 2007. After discussing the early events that defined the structural break, the chapter reconstructs the evolving theories of change that guided the World Bank's major decisions toward reengagement through the end of the operational normalization period. The chapter then assesses the relevance and effectiveness of the World Bank's reengagement strategy and demonstrates that the World Bank was largely effective in rebuilding a partnership with the government through low-visibility technical assistance that opened spaces for dialogue. However, the World Bank's desire to respond quickly to government needs came at the expense of project design and monitoring quality, which undermined the World Bank's development impact and accountability for achieving development outcomes.

The relevance and effectiveness of the World Bank's reengagement strategy are based on two distinct (but related) objectives. The first objective relates to achieving specific development outcomes within the country, attributable to the partnership activities. In general, the Bank Group articulates the development outcome objectives it aims to support within the pertinent CPFs governing the engagement cycles, with the plans for achieving these objectives outlined through a planned portfolio of activities. The second objective concerns the partnership status. This objective encompasses the set of conditions necessary for an effective country partnership to be established—one in which the resources of both the World Bank and the government are optimized to deliver development solutions. A minimum level of partnership is necessary to provide any support for the country's development objectives. In this sense, the partnership-rebuilding aspect of the reengagement is a necessary (but insufficient) condition for the attainment of development outcomes.

The chapter considers both aspects of the World Bank's reengagement strategy. Relevance to partnership building considers the degree to which the strategy and its associated activities would be expected to contribute to the restoration of a productive partnership with the government of Ecuador, and relevance to development challenges considers the degree to which the

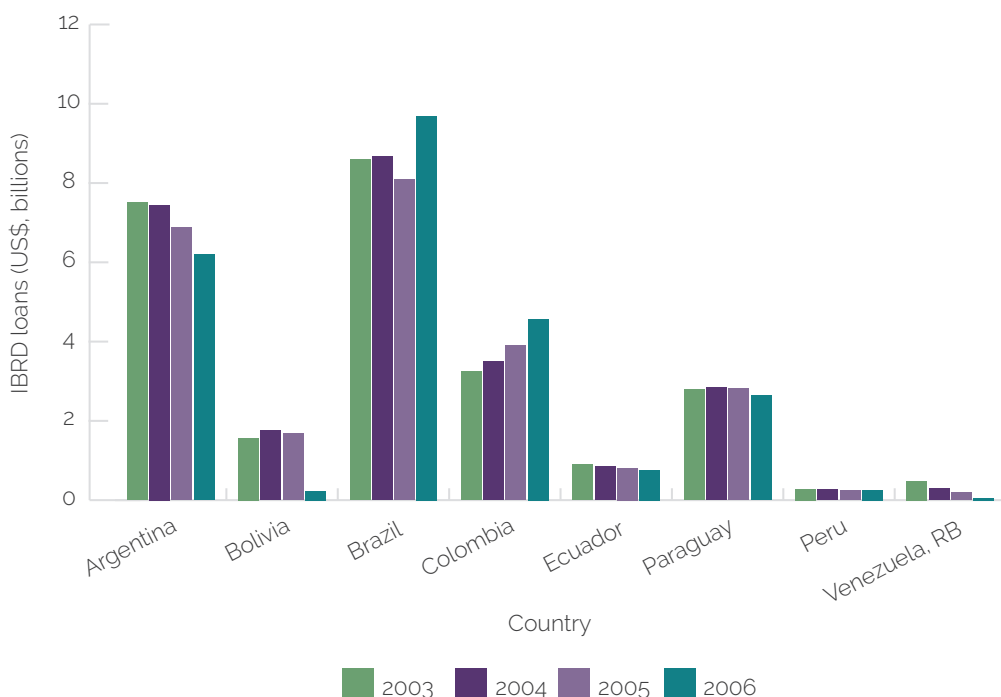
support delivered under the engagement aligned with key national development priorities and was sensitive to the political economy and capacity conditions of the government. Effectiveness of partnership rebuilding takes into consideration the degree to which the reengagement strategy and its associated activities resulted in a more productive partnership with the government, and effectiveness of development solutions considers the development outcomes achieved that are attributable to the Bank Group's support. In evaluating the effectiveness of the reengagement with respect to partnership building, the team considered the extent to which the actions created opportunities for dialogue, built trust with the government, and demonstrated mutual benefit.

The chapter focuses on the World Bank's strategies over the limited activity and the operational normalization periods from 2007 to 2017. The time frame reflects the period over which the World Bank's relationship was fundamentally altered and when relationship rebuilding occurred. The chapter focuses on World Bank because IFC's investment program was largely unaffected by the events of 2007.

Background on the Break in the World Bank's Engagement in Ecuador

The Bank Group had an established program of World Bank and IFC activities in Ecuador in the early 2000s. Between 2003 and 2006, the World Bank's lending portfolio in Ecuador amounted to about \$800 million, small relative to Latin American comparators but relatively large in per capita terms (figure 2.1).¹ Development policy financing accounted for a little more than one-third of all World Bank financing over the period. The World Bank's support over the Country Assistance Strategy 2003–07 cycle focused on helping the government of Ecuador weather the economic fallout from the 1999 fiscal crisis, including support for macroeconomic stabilization through building fiscal buffers, complemented by improving inclusive access to economic resources and strengthened governance and public service delivery. For its part, IFC had established trade finance with three banks, supporting export-oriented businesses to expand. IFC was also supporting two agribusiness companies to expand their operations and advising on simplification of regulatory requirements in two municipalities.

Figure 2.1. Size of the Ecuador International Bank for Reconstruction and Development Loan Portfolio, Early 2000s



Source: International Debt Statistics, World Bank.

Note: IBRD = International Bank for Reconstruction and Development; RB = República Bolivariana.

The World Bank's cancellation of a 2005 loan contributed to a fracturing of the relationship between the World Bank and the government of Ecuador. The World Bank had approved a \$100 million Second Fiscal Consolidation and Competitive Growth structural adjustment loan to Ecuador in March 2005, after the government of Ecuador had met all the effectiveness conditions, including a condition to legislate that 70 percent of windfall oil revenues would be used to pay off external public debt. When significant antigovernment protests began in reaction to the austerity measures in connection with that loan and conditions of an IMF program, President Lucio Gutiérrez was removed by Congress in April 2005. Rafael Correa, the new minister of finance, successfully lobbied Congress to reduce the required allocation from the oil stabilization fund for external debt repayment and increase spending on health and education. The World Bank responded by canceling the Second Fiscal Consolidation and Competitive Growth loan to Ecuador, leading to Correa's resignation in August 2005. He would

subsequently launch a successful run for president in 2006 and assume office in January 2007.

Three actions early in the Correa presidency disrupted the partnership between the World Bank and the government of Ecuador. These events would set the stage for a heavily circumscribed dialogue between the World Bank and the government of Ecuador from 2007 to about 2013. The events were as follows: (i) the dismantling of ongoing Bank Group operations, (ii) the expulsion of the World Bank's country representative, and (iii) a selective debt default exercise.

- » First, the government of Ecuador withdrew from World Bank borrowing. Starting in 2007, the government discontinued further borrowing from the World Bank. Projects under preparation were canceled, and active projects were closed before full disbursement, with the government failing to meet subsequent effectiveness conditions. For example, the implementation partner for a \$45 million World Bank-supported project on rural development for Indigenous and Afro-Ecuadoran peoples halted steps to advance the project shortly after the change in administration (World Bank 2006b).² The \$76 million National Rural Water Supply and Sanitation Project (of which the World Bank was to finance \$48 million) that was declared effective in December 2006 was closed with only \$7.5 million of World Bank financing disbursed. The \$32 million Rural Roads Project (of which the World Bank was to finance \$20 million) was approved in July 2006 but never became effective. In total, 15 operations underway (either active or under preparation) were subsequently canceled or closed early.³
- » Second, the government of Ecuador expelled the World Bank's country representative in Ecuador. Shortly after taking office, the president declared the World Bank's country representative persona non grata and requested the representative leave the country (Weitzman 2007). The expulsion was one of only two dismissals of World Bank representatives by country authorities.⁴
- » Third, the government of Ecuador defaulted on a large portion of its foreign debt. In July 2007, the government formed the Comisión para la Auditoría Integral del Crédito Público (Comprehensive Public Credit Audit Commission) to evaluate the legality of national debt incurred by the country over the prior three decades, including loans from multilateral development

banks. The result of that inquiry was the default on two corporate bond issues totaling \$3.2 billion in December 2008 (about one-third of Ecuador's external debt), subsequently repurchased by the government at a discount at the end of 2009.⁵

The combined effect of these developments was a steep decline in interaction between the government of Ecuador and the World Bank. The dialogue between the World Bank and the government was circumscribed for several years, and the World Bank would not initiate new lending in Ecuador until 2013.

World Bank Actions toward Reengagement over 2007–17

The World Bank's actions from 2007 to 2017 reflected expanding engagement objectives as the partnership with the government of Ecuador strengthened. Although the World Bank did not articulate a formal strategy for reengagement until the spring of 2013, it is possible to reconstruct the evolving theories of change that guided World Bank decisions over the 2007–17 period.⁶ The objectives can be broadly described as follows: stage 1—maintaining a presence; stage 2—rebuilding dialogue and scoping opportunities; stage 3—demonstrating value, through subnational operations; and stage 4—adapting and expanding (figure 2.2).

Figure 2.2. Key Stages in World Bank Reengagement Decisions

Limited Activity (from 2007 to mid-2011)	Operational Normalization (from mid-2011 to 2017)		
Maintain presence	Rebuild dialogue and scope opportunities	Demonstrate value	Adapt and expand
<ul style="list-style-type: none">• Retain country office and staff• Service existing operation• Experiment with modes of dialogue with the government of Ecuador	<ul style="list-style-type: none">• Build dialogue with the government of Ecuador through informal channels• Develop new networks through regional dissemination events• Provide NLTA across themes to interested counterparts• Identify potential areas and modes of support based on mutual interests	<ul style="list-style-type: none">• Prepare and implement subnational infrastructure projects	<ul style="list-style-type: none">• Monitor project effectiveness• Adapt support to lessons and evolving context• Expand support to the national level

Source: Independent Evaluation Group classification based on World Bank country program review.

Note: NLTA = nonlending technical assistance.

Stage 1: Maintaining Country Presence as a Window for Dialogue

The World Bank’s main objectives from 2007 to mid-2011 were to preserve its presence in Ecuador and prevent a more permanent disengagement, with a view to eventually supporting the government development agenda in some capacity. In the midst of a rapidly devolving partnership, World Bank management took no explicit steps to address the ruptured partnership with the government of Ecuador.⁷ However, the World Bank maintained its country office in Quito with a view to eventually reestablishing dialogue with the government—a move that contrasted a contemporaneous decision by Latin America and the Caribbean management to close the World Bank’s country office in Caracas.⁸ With a single operation financed by the International Bank for Reconstruction and Development, still active in Ecuador at the time, and with no formal request for the World Bank to close its office, the

World Bank's country management successfully argued to maintain a small country office in Quito, from which it could assess developments and gradually rebuild dialogue with the government of Ecuador.

The World Bank maintained a few existing channels of dialogue with the government. The World Bank's dialogue with the Coordinating Ministry for Social Development (MCDS), to whom it had delivered a 2006 child nutrition review, remained intact after the structural break, and the World Bank leveraged that dialogue to initiate a nonlending technical assistance (NLTA) activity in July 2008 to explore how the government conditional cash transfer program—BDH—could be used to incentivize nutritional outcomes (with a follow-up activity in 2010).⁹ The World Bank also responded to a request from the Coordinating Ministry for Production, Employment, and Competitiveness (MCPEC) for NLTA on select subjects related to productivity in 2011.¹⁰ Operationally, the World Bank serviced the single World Bank-financed project under implementation (in Chimborazo).¹¹ It also drew on a global trust fund to finance a small technical assistance project on disaster prevention and management for the Municipality of Quito.¹²

Stage 2: Scoping Potential Partnerships

Over FY12 and FY13, the World Bank took greater steps to proactively rebuild dialogue with the government of Ecuador and scope potential partnerships. Beginning in mid-2011, as the debt default exercise was resolved, the World Bank shifted from a holding pattern to actively seeking to reestablish dialogue with a few line ministries and establish new partnerships with subnational authorities.

The World Bank built dialogue with the government of Ecuador through NLTA. The World Bank initiated 17 pieces of analytic work over FY12–13, a ninefold increase in the number of ASA per year from the previous four years (figure 2.3). The World Bank provided NLTA across diverse topics, including state-owned enterprise governance, informality, innovation, environmental management, payment systems, and low-income housing finance. The World Bank also initiated NLTA in a few sectors that would ultimately expand over

the period, including nutrition and social protection, transport, and disaster risk management (DRM).

Figure 2.3. Advisory Services and Analytics Initiated per Year in Ecuador: Reengagement, Fiscal Years 2008–17 versus Fiscal Years 2001–05



Source: Independent Evaluation Group.
Note: ASA = advisory services and analytics; FY = fiscal year.

The World Bank financed the NLTA scale-up through a sixfold increase in budget (and increased use of trust funds). Over the period FY12–13, the World Bank increased its budgeting to ASA by more than 600 percent, whereas its use of trust funds for financing ASA increased tenfold. The World Bank drew on trust funds to partially finance NLTA activities on nutrition, social protection, DRM, and affordable housing. With the significant scale-up in finance, the number of ASA increased from 2 activities over the FY08–10 period to 21 over the FY11–13 period.

The World Bank used NLTA to rebuild lost knowledge. On several occasions, the World Bank took narrow openings and expanded the dialogue beyond the original requests. For example, when MCPEC requested the World Bank’s help in improving design of two of its flagship innovation programs in 2011, the World Bank broadened the assistance to conduct critical economic analysis of Ecuador’s enterprise sector, allowing the World Bank to strategically

reposition itself on private sector development issues after a five-year hiatus. The World Bank similarly expanded NLTA on labor informality to build knowledge on minimum wage legislation.

The World Bank was resourceful in creating channels for dialogue with the government of Ecuador. Country directors for Ecuador over the 2007–12 period indicated that personal relationships were instrumental in creating the inroads for productive dialogue.¹³ For several years after the break, formal World Bank meetings with line ministries were difficult to secure. Building up the small set of government counterparts receptive to World Bank support often depended on taking advantage of existing personal relationships (for example, drawing on mutual connections of World Bank staff and line ministries to enable introductions) or through meetings at informal social events. The World Bank also strategically used existing regional or global reports as a vehicle for dialogue with government officials, in which it could demonstrate value and also highlight Ecuador's successes. In 2012, for example, the World Bank hosted one of the launch events for the *World Report on Disability* in Quito (WHO and World Bank 2011), in which it highlighted actions Ecuador had taken to enhance disability access and rights and build dialogue with the vice presidency.¹⁴ Similarly, in 2012, the World Bank organized a workshop on safe and inclusive cities, “Hacia Ciudades Seguras, Sostenibles e Incluyentes,” and co-sponsored the event América Solidaria with the office of the vice president of Ecuador to spotlight successful interventions taken by the government of Ecuador in DRM, transport, and housing.

Several streams of World Bank dialogue gained traction with the government of Ecuador and expanded. The World Bank's dialogue on improving child nutrition through BDH led to a program of NLTA to support broader aspects of social protection, including improvement of skills and employability of BDH recipients, the need for unemployment insurance reform, and improvement of the social and economic inclusion of people with disabilities. At the subnational level, the World Bank capitalized on the trust fund–financed technical assistance project on disaster prevention and management for the Municipality of Quito to broach discussions on DRM with other municipalities, leading to follow-up NLTA covering other cities. The World Bank leveraged the municipal dialogue on DRM to discuss other topics, including

water and waste management.¹⁵ Separately, the World Bank initiated an NLTA program on transport to provide technical support to municipal governments planning urban transport upgrades.¹⁶ The NLTA focused on mobility planning, design, policy, and financing.

The World Bank's municipal transport NLTA helped open the door to an operational reengagement in Ecuador. The World Bank's NLTA to subnational governments on urban transport revealed a demand for World Bank financial support at the subnational level. Most prominently, the Municipality of Quito required considerable financing for its underground metro construction. Although the city had secured commitments from IDB, CAF, and the European Investment Bank, it additionally wanted the World Bank as a partner, primarily for cofinancing but also because of the World Bank's experience in transport system construction. In addition, the city of Manta was planning road network upgrades together with improvements to the water and sanitation network and nonmotorized transport infrastructure. With the objective of reestablishing an operational relationship in Ecuador, the World Bank took steps to repair the relationship with the president through high-level talks (actions that had not been taken previously). The culmination of stage 2 was the identification of two municipal transport projects that would reinitiate the World Bank's operational presence in Ecuador.

Stage 3: Demonstrating Value through Subnational Operations

The World Bank demonstrated its value and changed government perceptions of it through subnational investment projects. Interviews with country management over the operational reengagement suggest that the World Bank focused its operational reengagement on subnational infrastructure investment projects as the best platform for demonstrating value and changing perceptions within Ecuador. First, the World Bank felt that its deep experience with infrastructure investment projects would allow the World Bank to best demonstrate its operational effectiveness, technical rigor, and value for money after the seven-year lapse in operations. Second, targeting municipal governments, which had their own political autonomy, allowed the World Bank to circumvent the impasse in dialogue that continued at the national level.

The World Bank prepared two municipal-level infrastructure projects—the first World Bank-financed operations in Ecuador since 2007. The FY14 \$205 million Quito Metro project (with additional \$230 million financing in June 2018) sought to improve urban mobility through construction and operationalization of a metro line in the city of Quito, including investments in underground stations, tunnel and track, train cars, and technical assistance. The Quito Metro project was jointly financed by the World Bank, IDB, CAF, and the European Investment Bank. The FY14 \$100 million Manta Public Services Improvement Project sought to strengthen the sustainability of the municipality's water, sanitation, and urban mobility services through investments in water supply and sewerage, road improvement, and institutional strengthening. Both projects provided finance directly to municipal authorities, with the central government providing a guarantee. The World Bank would also begin preparation of the Guayaquil Wastewater Management Project, aimed at increasing access to improved sanitation services and reducing wastewater pollution in Ecuador's second largest city, which would be approved the following year.

The World Bank's reengagement strategy was formalized in its ISN for FY14–15. Approval of World Bank projects in Ecuador required a formal country strategy. In the spring of 2013, the Bank Group's ISN was approved by the Board, laying out a flexible strategy of support around three broad pillars—sustainable and inclusive growth, social protection and quality service provision, and public sector institutional strengthening. Its focus was partnership rebuilding, with the main objective to “consolidate progress in the dialogue in a few key areas and have flexibility to respond to evolving requests for support” (World Bank 2013).

Stage 4: Adapting and Expanding

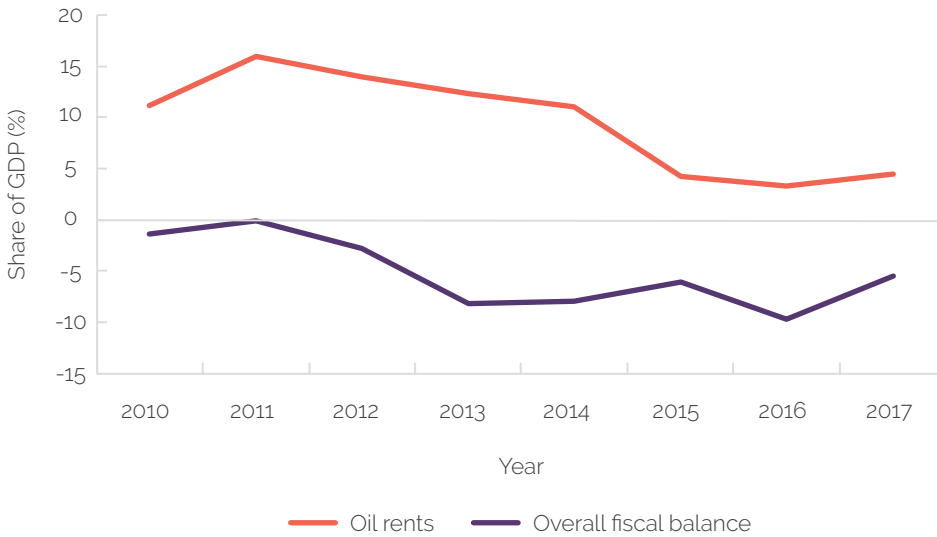
The World Bank's strategy after FY15 remained flexible to the evolving context and government dialogue. The World Bank followed up the ISN with another short-term strategy, the CEN for FY16–17, with two broad pillars of support designed to be flexible to its evolving engagement by capturing a range of potential activities. The first pillar—quality service delivery (including safety nets, water and sanitation, and transport)—umbrellaed the operation under preparation in Guayaquil and an urban mobility project

planned in Ibarra, as well as continued support toward social protection. The second pillar—promoting economic diversification—would encompass a range of technical assistance that had already been started on competitiveness, innovation, and productivity. A cross-cutting theme of mitigating the risks from climate change was also included, which could incorporate ongoing technical dialogue on DRM (which would ultimately lead to a project at the national government level on risk mitigation and emergency recovery from both natural disasters and macroeconomic shocks).¹⁷

The World Bank's strategic shift to national-level projects was in part to manage portfolio risks. The CEN shifted the operational focus to the national level as the World Bank's subnational portfolio exhibited increasing implementation challenges. At the time of its drafting, all three World Bank projects approved over the ISN cycle (the Quito Metro project, the Manta Public Services Improvement Project, and the Guayaquil Wastewater Management Project) were exhibiting implementation delays, in part attributed to their lack of familiarity with World Bank processes and procedures. The World Bank's shift to central government lending reflected an effort to mitigate further risks to the portfolio. Interviews with country management suggest that the shift out of municipal infrastructure was part of an adjustment to manage expectations about the reengagement. With few results to show at the time of the CEN, in 2016, the World Bank shifted its reengagement approach to lending at the national level, where institutional capacity for implementation was greater.

The World Bank's shift to national-level operations also reflected the central government's renewed openness to World Bank finance. The macroeconomic environment in Ecuador had changed substantially from the ISN period, which created central government demand for World Bank finance after a break of eight years. Crude oil prices had dropped more than 50 percent between 2011 and 2015, and Ecuador's crude oil rents over the same period dropped from 15.6 percent of GDP to 4.4 percent (World Bank 2024b; figure 2.4). In an environment of reduced fiscal space, the central government reopened channels for World Bank borrowing.

Figure 2.4. Overall Fiscal Balance and Oil Rents, 2010–17



Sources: Macro Poverty Outlook (database), World Bank; World Bank 2024b.

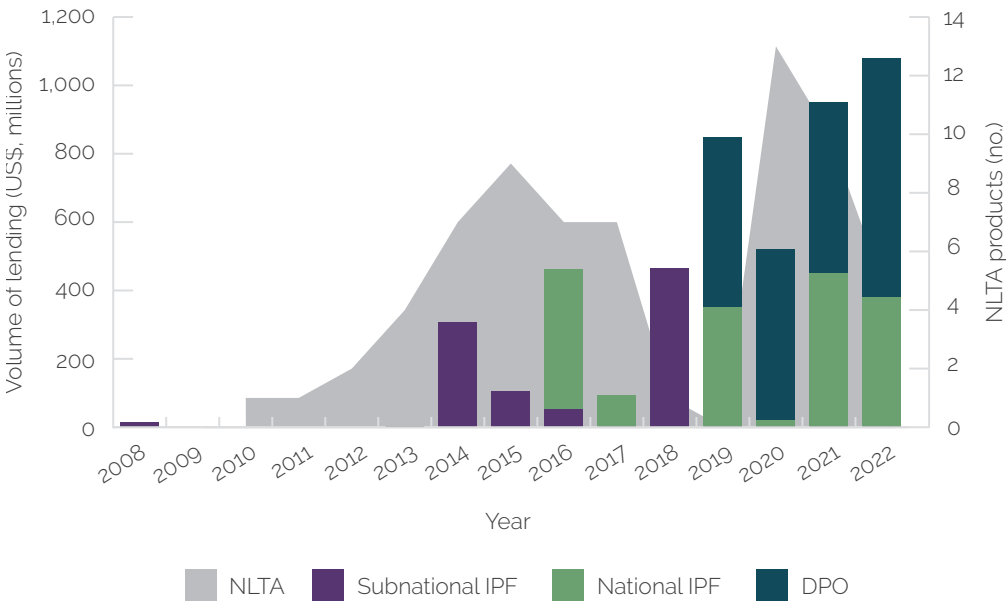
The World Bank would deliver four national-level projects over the CEN cycle. These included a DRM project (FY16 Ecuador Risk Mitigation and Emergency Recovery Project), two investment projects in education (FY16 Supporting Education Reform in Targeted Circuits and FY17 Transformation of the Tertiary Technical and Technological Institutes Project), and an agriculture project (Sustainable Family Farming Modernization Project).

The World Bank also planned to ramp up its analytic work to inform a new government administration. In anticipation of a new government in mid-2017,¹⁸ the CEN made plans for a significant increase in analytic work. The CEN proposed an ASA program that would build knowledge on macro and structural policy issues, which could underpin the World Bank's medium-term assistance. Toward that purpose, the World Bank prepared a Country Economic Memorandum in FY16, which would assess challenges facing the oil and gas sector, export diversification, the investment climate and innovation, and human capital development. The Country Economic Memorandum would be the first piece of major analytic work since 2007 to candidly outline major constraints of the development model, including those related to the size of the public sector; a poorly targeted fuel

subsidy system; labor market rigidities and an opaque and complex formula for determining minimum wage increases; uncertainty regarding the regulatory environment; and the lack of resolution of international investor disputes. The World Bank would also develop a set of policy notes across a range of themes, including fiscal policy, financial sector stability and regulation, and social protection.

The World Bank’s operational support from FY14 to FY17 was limited to investment finance. Despite the strengthened partnership, the World Bank would not provide policy-based lending to Ecuador until a new government was installed after May 2017. Only then, in support of the government’s new development model, would the World Bank provide policy-based lending to Ecuador (in 2019, for the first time since 2006). That shift reflected the full rebuilding of the relationship between the World Bank and the government of Ecuador, from strictly NLTA to subnational-level IPFs, to national-level IPFs, to national-level DPOs (figure 2.5).

Figure 2.5. Evolution of World Bank Lending to Ecuador by Level of Government and Instrument, 2008–22



Source: Independent Evaluation Group staff calculations from World Bank operational portfolio data.

Note: The 2018 lending reflects additional financing for earlier subnational projects. DPO = development policy operation; IPF = investment project financing; NLTA = nonlending technical assistance.

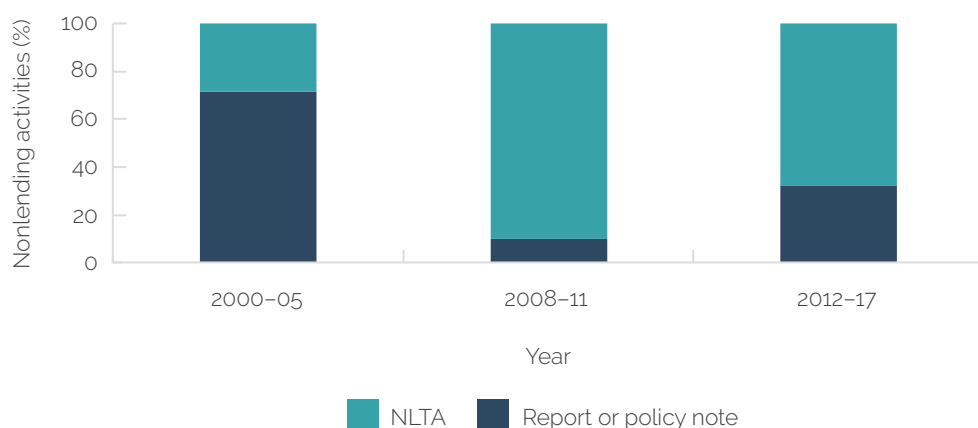
Assessing the Relevance and Effectiveness of the World Bank's Reengagement Strategy

Relevance and Effectiveness to Partnership Rebuilding

The World Bank was effective in rebuilding its partnership with the government, but the strategy limited the World Bank's accountability for delivering outcomes. Many of the steps taken by the World Bank were effective in creating greater opportunities for dialogue, building goodwill, and demonstrating the World Bank's value. However, the World Bank's formal strategies over the period prioritized flexibility over results, limiting World Bank accountability and monitoring. The World Bank's desire to demonstrate value through quick project preparation came at the expense of project quality.

The World Bank built goodwill through discreet or informal activities to meet the government's desire to limit the World Bank's visibility. The World Bank's normalization of relations entailed a significant step back in terms of the World Bank's visibility, including by shifting its mode of delivery of analytic work toward unpublished NLTA, primarily World Bank financed.¹⁹ NLTA captured a range of activities in response to government demand, and it allowed associated tasks to be delivered without a published output. From 2007 through 2017, most of the World Bank's ASA in Ecuador took the form of NLTA—a significant shift from an earlier emphasis on published reports. Between 2002 and 2005, approximately 75 percent of ASA took the form of published reports or policy notes, with only 25 percent taking the form of NLTA (which were not required to be published). Over 2008–17, however, close to 70 percent of ASA was through NLTA (figure 2.6). This shift responded to the government of Ecuador's desire for limited circulation of World Bank analytic work. The World Bank also carefully controlled dissemination of outputs to meet government requests. The Country Economic Memorandum, for example, limited dissemination to specific ministries, but its content was comprehensive, and its messages were candid. The dissemination of other policy notes and reports over the period was similarly contained.

Figure 2.6. World Bank Use of Nonlending Technical Assistance, 2000–17



Source: World Bank portfolio data.

Note: Activities reflect unique project codes. NLTA = nonlending technical assistance.

The World Bank’s operational reengagement demonstrated value in a politically acceptable way. Interviews with country office staff suggest that for several years after the break in dialogue, the government of Ecuador was wary of signaling any visible cooperative relationship with the World Bank (operational or otherwise). With municipal authorities as the official borrowers over the first years of the operational normalization (although the central government provided a guarantee), the World Bank was able to resume operations while preserving the government’s external posture. Municipal infrastructure investments also provided the opportunity for the World Bank to demonstrate comparative advantage as a strategic partner in terms of technical rigor, operational effectiveness, and financial benefits.

However, the World Bank’s prioritization of partnership rebuilding undermined development outcomes. The World Bank’s approach was relevant for partnership rebuilding, but several elements of the strategy came at the expense of development outcomes. Among them are the following:

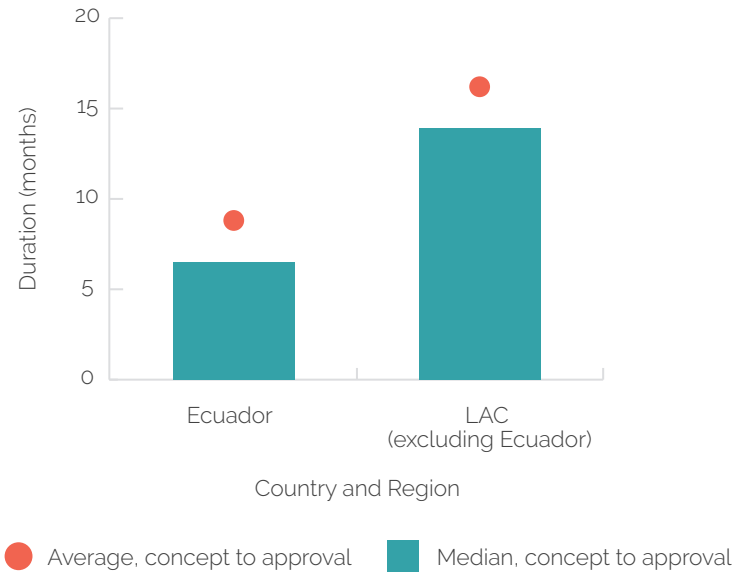
- » The World Bank’s quick project preparation came at the expense of project readiness. In preparing the Quito Metro project, the World Bank came in as the last of four multilateral lenders (the other three being CAF, IDB, and the European Investment Bank). As the latecomer in the process, and to meet

project delivery deadlines, the World Bank prepared its participation in the Quito Metro project in 5 months. Other operations were also prepared rapidly. The Guayaquil Wastewater Management Project was approved within 4 months from Concept Note review. The Manta Public Services Improvement Project was approved in less than 6 months from Concept Note review. Over the 2007–17 period, the median duration between project concept and approval for the World Bank’s projects in Ecuador was 6.5 months. That compares to a median duration of 13.9 months for other countries in Latin America and the Caribbean (figure 2.7). However, in some cases, the rapid preparation came at the expense of quality engineering designs. After approval of the Ibarra Transport Infrastructure Improvement Project, for example, deficiencies were found in the technical and financial design, making it necessary to substantially revise the project. In Manta, the project was also prepared and approved quickly, given the eagerness of both the municipality and the World Bank, but the subsequent staff self-evaluation acknowledged that project design was underdeveloped at approval. In addition, lack of quality technical studies affected later national infrastructure projects, including both the Ecuador Risk Mitigation and Emergency Recovery Project and the Sustainable Family Farming Modernization Project (which was approved before the subproject designs and feasibility studies were drafted), resulting in the loan not being used for three years.

- » The World Bank’s formal strategies neglected to include results frameworks, limiting the World Bank’s accountability for results. Neither strategy approved over the 2007–17 period included a results framework that could articulate higher-level development outcomes by which to measure progress. Reflecting the uncertain nature of the state of dialogue, the ISN for FY14–15 was relatively unspecific about the expected deliverables (beyond the two transport projects close to approval) and presented a menu of potential areas of reengagement, depending on how dialogue progressed. Progress was to be judged in terms of “timeliness of the analytic work, support provided through trust funds, the relevance of World Bank support to the government’s development strategy and policy formulation, and the government’s interest in a continued partnership with the World Bank.” Neither did the CEN for FY16–17 contain a results framework. Although the Bank Group’s short-term strategies do not require results frameworks, there are examples of ISNs

and CENs elsewhere that have included both expected outcomes and results matrices, helping establish a clear line of sight between the Bank Group’s support and higher-level goals.²⁰ The inclusion of results indicators would have also better allowed the Bank Group to take midcourse corrective actions where results lagged.

Figure 2.7. Duration between Project Concept Note Review and Project Approval in Ecuador and Latin America and the Caribbean, 2007–17



Source: Independent Evaluation Group staff estimates from World Bank operational data.

Note: LAC = Latin America and the Caribbean.

The World Bank’s partnership rebuilding was slowed by its lack of a clear and consistent approach to working with the government of Ecuador. The World Bank eventually rebuilt a relatively full partnership, but it was slow to define a strategy for working with the government. The World Bank would take six years to approve a strategy. That compares with IDB, which would pivot its country strategy to work with the new administration within a year, and CAF, which had no interruption in relations. Interviews with World Bank country management suggest that the delay in strategy was the result of internal disagreement about the reengagement for the first several years after the break in engagement. The country team supported efforts to establish the preconditions for International Bank

for Reconstruction and Development finance, but the World Bank's credit risk department rejected lending proposals.²¹ It would be only after 2012, which coincided with the change in World Bank senior management (at the regional and top leadership levels), that the World Bank would formally support renewed lending to Ecuador and a deepened partnership with the national government.

Relevance and Effectiveness to Development Priorities

The World Bank's reengagement strategy eventually targeted a development agenda that was aligned with the national plan and fell within the scope of priorities identified in earlier diagnostic work. The World Bank's Country Assistance Strategy (FY03–07) had identified three key agendas that were needed for sustained growth and poverty reduction: macroeconomic stabilization (to lay the foundations for private sector-led growth and address severe liquidity challenges the government of Ecuador was facing in the context of a dollarization framework), inclusive access to economic resources, and strengthened governance and public service delivery (World Bank 2003). Under a distinctly changed development model, the World Bank gradually defined an agenda that supported the national development agenda in politically nonsensitive sectors and that fit within the core objectives of public service delivery and improved access to resources.

Early support toward social protection and nutrition was relevant to the national development agenda. Enhancing social protection aligned with priorities articulated in the government of Ecuador's national development plan—Plan Nacional para el Buen Vivir. One of the main principles of the Buen Vivir plan was to reduce the gaps constraining inclusive growth through education and health. At the time, chronic child malnutrition was severe, affecting 44 percent of children in the lowest income quintile. Ecuador's conditional cash transfer program, BDH, was designed to incentivize improved health and education outcomes among poor people through conditional cash transfers to low-income mothers based on required behaviors (including taking children to preventive health checkups and requiring a minimum level of attendance at school for school-age children). Reinforcing Ecuador's social protection systems more broadly served the objective of reducing poverty and mitigating the impact of later subsidy

reforms by strengthening the program's design, implementation, and monitoring and evaluation.

Support to municipal capacity building was also relevant to improved public service delivery in the context of evolving responsibilities at the local level. Under the country's Law on Decentralization of the State and Public Participation (1997), reinforced through the new constitution (2008), many functions had been devolved to provincial, district, and parish levels, making capacity building at the local level increasingly important. The World Bank's DRM support to municipalities aligned with municipal needs as they assumed greater responsibilities, both in the development of DRM strategies and the execution of risk reduction. The World Bank's NLTA on nutrition (to the province of Chimborazo) served a similar purpose, strengthening subnational capacity in the face of the new requirements imposed by decentralization. At the operational level, the World Bank's support to infrastructure development focused on Buen Vivir's objectives for quality of life for the population and access to work, among others; support toward water and sanitation was relevant to identified priorities for poverty alleviation.

However, operations did not adequately account for low institutional capacity. World Bank projects over the operational normalization period did not adequately account for capacity constraints, leading to significant delays in project implementation (discussed further in this section). IEG's evaluation of the Manta Public Services Improvement Project noted that the project implementation unit (PIU) had no previous experience with World Bank procedures and faced huge coordination challenges because the project involved the Manta public water authority and six municipal directorates (World Bank 2022a). Most of the other municipality projects faced similar challenges. Interviews with government counterparts over the period suggest that the World Bank did not provide the level of support needed for effective implementation. According to one PIU coordinator, "the country lost the expertise to implement World Bank projects. The World Bank's procurement team provided training to the PIU, but insufficient to deal with the rotation in PIU staff that comes with a change in government administration."

The national government's absence from subnational projects heightened the need to build subnational implementation capacity. National authorities

often play a pivotal role in the effective delivery and scaling up of subnational infrastructure initiatives. They can directly support subnational agencies in project implementation, share best practice experiences on financing and delivery, facilitate authorizations and approvals, and adapt national laws, regulations, and institutions to ensure more effective project implementation. However, the deliberate hands-off role of the national government during the period of the World Bank’s subnational lending increased the need for institutional capacity building.

World Bank projects over the reengagement period were generally effective. Only four World Bank projects approved over the operational normalization period closed and had their staff self-evaluations validated by IEG (three other projects closed in December 2023 and have not yet been evaluated). Of these, three were rated moderately satisfactory for project outcomes, with one (Ecuador Risk Mitigation and Emergency Recovery Project) rated moderately unsatisfactory (table 2.1).

Table 2.1. Independent Evaluation Group Project Ratings for Closed Projects Undertaken between Fiscal Years 2007 and 2017

Project Name	Relevance	Outcome	Efficiency	Bank Performance
Chimborazo Development Investment Project	Substantial	MS	Modest	MS
Manta Public Services Improvement Project	Substantial	MS	Substantial	MS
Supporting Education Reform in Targeted Circuits	High	MS	Modest	MS
Ecuador Risk Mitigation and Emergency Recovery Project	Substantial	MS	Modest	MU

Source: Independent Evaluation Group.

Note: The Independent Evaluation Group’s validation of the Supporting Education Reform in Targeted Circuits project has not yet been conducted, and the scores shown reflect the self-evaluation ratings from country teams. Relevance for development policy operations is based on relevance of prior actions. MS = moderately satisfactory; MU = moderately unsatisfactory.

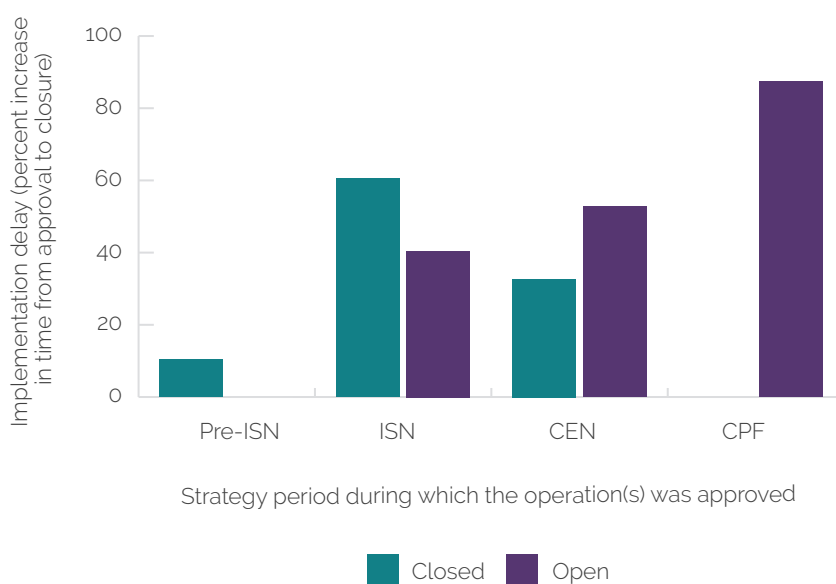
The bulk of the World Bank's municipal infrastructure projects achieved their outcome objectives. The Chimborazo Development Investment Project increased production and market access of rural families. Annual production and average family incomes increased, and vehicle operating costs and travel times declined, although the project did experience cost overruns, and assessed benefits were lower than anticipated. The Manta Public Services Improvement Project expanded the quality of water supply and sanitation services to the city in terms of continuity of service, access, and availability, and roads construction improved the quality and sustainability of urban mobility. There were shortcomings in achieving the financial sustainability of water supply and sanitation services.

World Bank projects near closure are also expected to achieve their objectives. According to the latest Implementation Status and Results Reports, recently closed and active projects approved over the reengagement period are likely to achieve their targeted results. The Quito Metro project (which closed in December 2023 but has not yet been evaluated) resulted in the construction and eventual operation of a universally accessible underground line that is expected to enhance citywide transport choices. Commercial operations began at the end of 2023, and several project development objectives related to capacity, reduced transport times, and accessibility have been achieved.²² The Implementation Status and Results Reports for the Guayaquil Wastewater Management Project (closing FY26) suggest that substantial progress has been made toward two-thirds of outcome indicators related to beneficiaries,²³ although outcomes related to pollution loads removed and extent of pro-poor service provision have not yet been achieved (World Bank 2023a).

However, World Bank projects suffered delays of 60 percent during the ISN period because of municipal capacity issues. Of the three projects approved over the ISN cycle, the Manta Public Services Improvement Project closed with a delay of 2.5 years, bringing the implementation period from 4 to 6.5 years (more closely reflecting the average time for an investment project); the Quito Metro project closed with a delay of 3 years (from 5.25 to 8.25 years, from effectiveness to closure); and the Guayaquil Wastewater Management Project remains open, with an expected increase in implementation of 3 years (from an expected implementation of 7.5 to 10.5 years).²⁴

The average implementation delays over the ISN period were 60 percent for closed projects and 40 percent for the open project (figure 2.8). ISN project delays can be linked to implementation capacity issues, including inefficiencies in Ecuador's budgeting process and restrictions in financial management systems, which impeded the timely disbursement of funds. In the case of Manta, underdeveloped designs at approval also impeded implementation (with designs requiring subsequent revision). Finally, restrictions stemming from the COVID-19 pandemic also affected implementation, particularly in Quito and Guayaquil.

Figure 2.8. Increase in Implementation Time of World Bank Investment Projects in Ecuador by Period of Project Approval



Source: Independent Evaluation Group estimates from review of portfolio.

Note: CEN = Country Engagement Note; CPF = Country Partnership Framework; ISN = Interim Strategy Note.

Implementation delays persisted during the CEN cycle, despite the portfolio's shift to national-level projects. The shift to national-level projects after FY15 reduced some of the project implementation delays, with delays over the CEN cycle among closed projects almost halved from the ISN cycle. However, project implementation continued to suffer delays that averaged more than twice the Latin America and the Caribbean average. Among open projects approved over the ISN and CEN cycles, the average

disbursement lag (over the planned timeline) was 50 percent. All projects approved between 2007 and 2017 experienced implementation delays—the result of both weak implementation readiness and changes in leadership that resulted in shifting priorities.²⁵

Political turnover within subnational governments accelerated institutional capacity losses and stalled project implementation. A high degree of subnational government turnover created further challenges for World Bank projects, not only through the loss of technical capacity of implementing units but also through substantial shifts in subnational government priorities. Over the implementation of the Quito Metro project, for example, the mayor changed three times. As a result, although almost all the civil works associated with the metro line were successfully completed by 2019, it would not be until December 2023 that commercial operations began because two essential conditions for achievement of outcomes—the award of contracts for operation and fare collection—were not realized promptly. At the time of project approval, the municipality had outlined its business model for public sector operation of the metro. However, midway through construction (and under a new mayor), the municipality shifted plans and sought a private sector operator instead. With political instability and staff turnover, the PIU was unable to defend its decisions on the approval of a private operator to the new government with technical and legal arguments, stalling the process for years.

The Bank Group missed opportunities to mitigate known institutional capacity risks. There were several opportunities in the project cycle (over preparation and implementation) to mitigate known capacity risks, but the Bank Group never took appropriate steps to do so. The Bank Group missed three main opportunities for mitigating risks:

- » The World Bank did not outline mitigation measures within its formal strategies. The ISN did not outline specific mitigation measures for known implementation capacity constraints; however, at the time of its drafting, two projects in the province of Chimborazo—a World Bank–financed project for rural roads and irrigation and a small trust fund–financed project for nutrition—were under implementation, and both exhibited weak capacity in implementing entities. Although the ISN noted these delays, it did not

outline specific support to address institutional capacity weaknesses and procedural differences in working at the subnational level beyond the World Bank's "due diligence" of regular procurement training and close supervision.

- » The World Bank did not use additional financing requests to include effective stipulations that could reduce risks. The Quito Metro project was significantly delayed when municipal authorities shifted their plans from a public sector to a private sector operator. With political instability and staff turnover, the PIU was unable to defend decisions on the approval of a private operator to the new government for several years. Although at the time of the Quito Metro project approval, the World Bank could not have foreseen the change in operator plans, this information was known by 2018 when the World Bank approved an additional financing for the metro. At that time, it had the opportunity to include covenants to ensure that an agreement on the operator was reached before disbursement, but it did not.
- » The Bank Group did not leverage IFC's expertise to guide the Quito Metro authority. The risks involved in a delayed metro operation were high, with all of the intended benefits dependent on the metro being fully operational. Even without IFC direct investment in the eventual operator or a formal advisory transaction, a limited informal engagement by IFC to advise and share knowledge and experience could also have been instrumental in moving the process forward.

¹ The value of Ecuador's International Bank for Reconstruction and Development loans in 2003 in per capita terms was \$68, higher than Brazil (\$47), Paraguay (\$52), and República Bolivariana de Venezuela (\$18), and not markedly lower than Colombia (\$79).

² The Second Indigenous and Afro-Ecuadorian Peoples Development Project was the follow-up to an earlier project (fiscal year [FY]02), at the time considered by the government as the model for the promotion of local development in rural and peri-urban areas (and with outcomes rated satisfactory by the Independent Evaluation Group).

³ The \$32 million Rural Roads Project, for example, in which the World Bank was to finance \$20 million, was approved in July 2006 and never became effective. The \$76 million National Rural Water Supply and Sanitation Project, in which the World Bank was to finance \$48 million and that built on a previous phase, was declared effective in December 2006. It had serious implementation issues because of diverging points of views between the government and the World Bank on how and what to implement. A significant part of the loan amount was canceled. It was prematurely closed in March 2009 with only \$7.5 million of World Bank financing disbursed.

⁴ In December 2023, the government of Poland dismissed the World Bank's representative.

⁵ After the default, in the midst of the global financial crisis and as bond prices dropped, Ecuador began a program of repurchasing them through financial intermediaries, ultimately buying back 91 percent of the bonds at 35 cents on the dollar (Feibelman 2017).

⁶ The objectives guiding the World Bank's decisions (and hence the theories of change to reach those objectives) were reconstructed based on analysis of program documentation and interviews with World Bank regional and country management, country office staff, and World Bank task team leaders over the period, with World Bank interview information corroborated through interviews with contemporaneous government authorities, where pertinent.

⁷ No high-level talks were initiated on President Correa's election to the presidency in October 2006 (despite mounting public rhetoric against the World Bank's earlier actions). The World Bank Group did not send a high-level representative to his inauguration (although both the Inter-American Development Bank and Banco de Desarrollo de América Latina y el Caribe did so). The absence of attempts to defuse the confrontation directly suggests ambivalence on the part of the World Bank to the normalization process over the early years.

⁸ In April 2007, Hugo Chávez announced withdrawal of República Bolivariana de Venezuela from the International Monetary Fund and the World Bank. Both the World Bank and the

International Monetary Fund closed their offices in Caracas, although República Bolivariana de Venezuela would ultimately not formally withdraw from either institution.

⁹ Child Development nonlending technical assistance (FY08).

¹⁰ After the passage of the 2010 Organic Code of Production, Commerce, and Investment, the Coordinating Ministry for Production, Employment, and Competitiveness was tasked with implementing Ecuador's transformation of the productive matrix. The main goal was to transform production away from natural resources and imports and to incentivize local production and systems of innovation and entrepreneurship.

¹¹ Chimborazo Development Investment Project (FY08).

¹² The nonlending technical assistance on disaster risk management to Quito would lead to a small \$0.8 million World Bank–executed project, financed through the World Bank's Global Facility for Disaster Reduction and Recovery, a trust fund established in 2006 to help low- and middle-income countries reduce vulnerabilities to natural hazards and climate change.

¹³ For example, according to the two country directors from 2007 to 2011 and from 2011 to 2014, the country manager appointed in 2010 was entrepreneurial in initiating low-level dialogue at social events that government ministry staff attended.

¹⁴ Lenín Moreno, the vice president of Ecuador from 2007 to 2013, pushed strongly for disability rights, in part stemming from his personal experience as a paraplegic.

¹⁵ For example, the United Nations Development Programme hosted an international conference on disaster risk management in Guayaquil in 2014, which provided one of the first opportunities for the World Bank to engage with the mayor, an engagement that would ultimately lead to a municipal-level wastewater management operation.

¹⁶ Ecuador Transport nonlending technical assistance.

¹⁷ Ecuador Risk Mitigation and Emergency Recovery Project (P157324).

¹⁸ President Correa was not eligible for reelection in 2017.

¹⁹ A total of 69 percent of the spending associated with analytic work delivered over the 2008–17 period was financed by the World Bank.

²⁰ See, for example, Libya Country Engagement Note FY19–21, South Sudan Country Engagement Note FY18–19, the Republic of Yemen Country Engagement Note FY20–21, Haiti

Interim Strategy Note FY13–14, Madagascar Interim Strategy Note FY12–13, and Tunisia Interim Strategy Note FY13–14.

²¹ International Bank for Reconstruction and Development financing requires adequate creditworthiness, which was absent after the bond default at end 2008 when Ecuador's rating from S&P Global (formerly Standard & Poor's) declined to below investment grade (CCC). However, even when Ecuador's credit rating rose and stabilized (by August 2010), the World Bank management remained unsupportive of operations financed by the International Bank for Reconstruction and Development to Ecuador until after 2012.

²² According to the December 2023 staff implementation report, within the first two weeks of operation, the number of passengers per day had met 45 percent of the targeted change, travel time reduction had met its target, the operating cost reduction for Quito's vehicle fleet was 45 percent of the targeted change, the reduction in emissions was 22 percent of the targeted change, and targets had been met for passenger capacity and satisfaction, satisfaction among female users, and percent of jobs accessible within one hour of travel time.

²³ With more than half of the targeted change in the outcome indicator achieved by December 2023.

²⁴ However, the bulk of the extension relates to a scale-up in activities from an additional financing request.

²⁵ For example, the national-level Sustainable Family Farming Modernization Project was restructured twice because of delays in most subprojects (irrigation works, training plans, and delivery of agri-environmental investment). The World Bank's Transformation of the Tertiary Technical and Technological Institutes Project experienced delays averaging more than 40 percent to date, with significant delays in civil works in several provinces, blocking the advancement of other components. A level 2 restructuring canceling part of the loan, changing implementation arrangements, and reducing the number of provinces supported by the project, along with a subsequent request to extend the closing date, improved disbursement rates.

3 | Support for Ecuador's Rebalancing to a Private Sector–Led Growth Model

Highlights

- ||| The government's emphasis on private sector–led growth diminished during the 2007–17 period.
- ||| The World Bank Group supported Ecuador's renewed focus on private sector–led growth after 2017 through policy support and direct investments in commercial banks and agribusiness firms.
- ||| The World Bank strategically focused on knowledge building during the 2007–17 period to make it “shovel ready” to support any eventual government transition to a more market-oriented and private sector–led approach to development.
- ||| After 2017, the World Bank provided a well-coordinated and comprehensive program to strengthen the country's macroeconomic environment and expand the private sector's role in the economy.
- ||| The International Finance Corporation took a systematic and relevant approach to supporting enterprise access to finance—a major constraint to the private sector. However, its investments in productive sectors were not grounded in an identification of the country's needs related to the shift to a private sector–led growth model; thus, the International Finance Corporation may have missed opportunities to better contribute to this shift.

The World Bank's private sector development support yielded early achievements in improving budget processes, expanding private sector access to credit, and improving market competitiveness by reducing tariffs and making it easier to create businesses.

In two reform areas—fuel subsidy reform and minimum wage reform—the World Bank's suggested approach was not adopted or was adopted but subsequently reversed. In both cases, the World Bank failed to build the needed consensus and provide adequate technical support that would ensure understanding of the reform rationale to those tasked with their implementation and use.

The International Finance Corporation supported expanded small and medium enterprise access to finance and agribusiness growth, but it does not adequately track data to assess contributions to broader development outcomes, reducing its accountability.

Chapter Objectives and Methodology

This chapter assesses the relevance and effectiveness of Bank Group support for private sector development in Ecuador. The chapter considers the extent to which the Bank Group laid the foundation for later support when conditions for change presented, including by conducting relevant analytic work to inform the agenda. It also considers the support delivered in terms of its alignment with identified priorities (through diagnostic work). The effectiveness of the support considers the outcomes attributable to Bank Group support (drawing on results indicators used to monitor efficacy, if applicable). The chapter examines the Bank Group support both over the period from 2007 to 2017 of heightened state intervention and public investment and after 2017, the move to a more sustainable private sector-led growth development model. Bank Group support is evaluated according to (i) its relevance to recognized development priorities, in the context of the evolving partnership, and (ii) the effectiveness of the support (examining the Bank Group's contributions to key objectives for the transition). The chapter finds that from 2007 to 2017 the World Bank built knowledge to be “shovel ready” should the government decide to transition to more of a private sector-led growth model and, after 2017, expanded this support to promote market competitiveness and high-potential growth sectors. However, the World Bank failed to ensure broad-based buy-in for energy subsidy and minimum wage reforms in the face of social opposition, leading to reform reversals.

Context of World Bank Group Support for Private Sector-Led Growth

The process of rebalancing toward a private sector-led growth in Ecuador has involved transition along two main fronts. On a first front, Ecuador has worked to address macroeconomic imbalances and a range of regulatory constraints that undermine private sector competitiveness and growth across the board. The World Bank's FY18 SCD for Ecuador outlined three core policy agendas. On the macroeconomic front, the SCD highlighted an urgent need to bring the fiscal accounts to a sustainable position and rebuild fiscal buffers. On the trade and regulatory front, the SCD identified several challenges that had deterred greater private sector activity in Ecuador:

(i) the lack of a coherent policy framework for private investment that reduces investor certainty and elevates costs; (ii) a complex and discretionary setting of the minimum wage; (iii) high costs associated with business regulatory compliance, including taxation; and (iv) trade restrictions and import tariffs that undermine competitiveness (World Bank 2018b). Outside of the trade and regulatory environment, significant distortions in the financial sector have reduced investor access to finance.

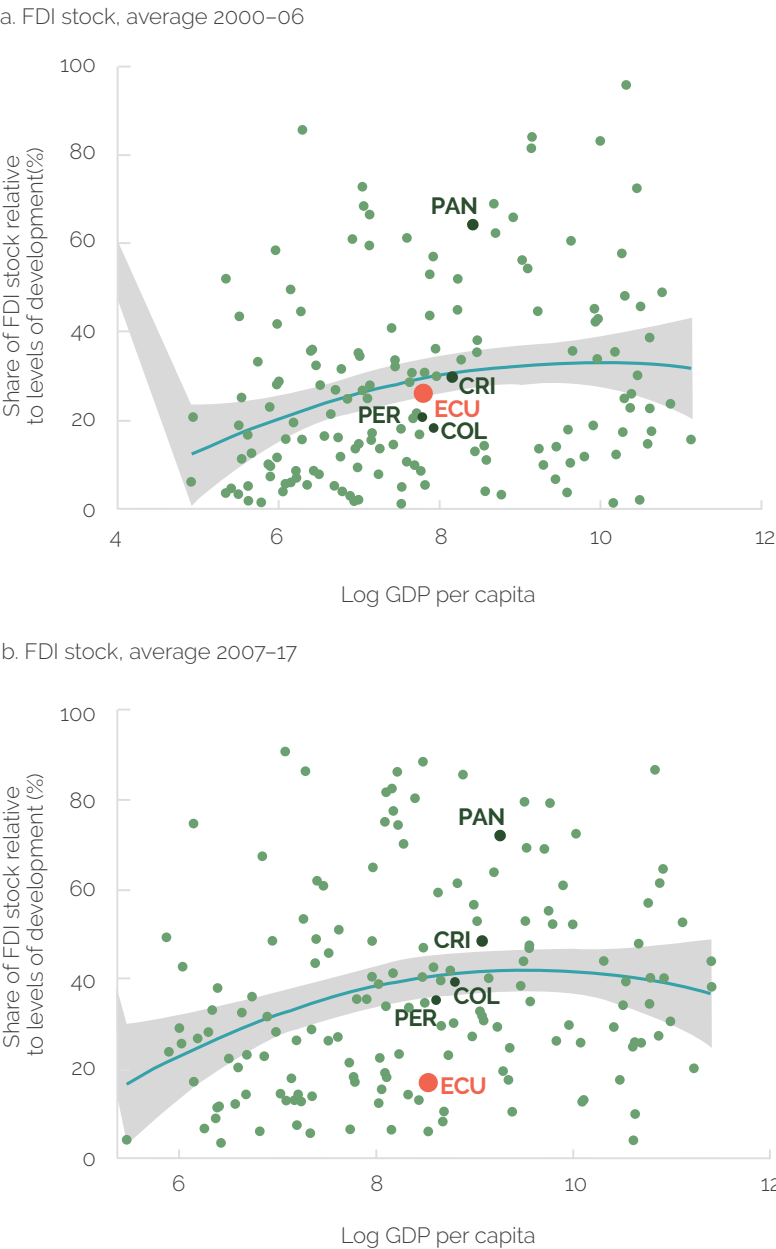
On a second front, Ecuador has aimed to encourage private investment in particularly high-potential growth sectors that have underperformed in the face of regulatory and other constraints. As part of its Plan de Prosperidad, the government of Ecuador has actively sought to attract foreign direct investment (FDI) that can facilitate Ecuador's integration into regional and global markets. IFC's FY21 Country Private Sector Diagnostic identified four sectors that demonstrate significant potential for greater participation from the private sector but that have been especially restrained by policy and regulatory constraints (both cross-cutting and specific to the sector). The four sectors—(i) medium- and large-scale mining; (ii) export of fruit, vegetables, and fisheries; (iii) transport and logistics for agriculture; and (iv) tourism—contribute in different ways to the government broader economic development goals (through jobs, export orientation, and links with the rest of the economy), and thus, special attention toward these sectors is viewed as potentially significant for the private sector-led growth transition (IFC 2021).

The Bank Group has supported Ecuador's transition along both fronts. The World Bank provided early technical assistance over the FY07–17 period to identify core constraints to private sector competitiveness and growth. With a change in administration in 2017, the World Bank shifted its support from purely technical knowledge to policy-based finance targeting public sector efficiency and fiscal sustainability and the removal of key regulatory and financial sector barriers to private sector development. IFC support included both early advisory work at the municipal level to support regulatory simplification and advisory support and investment finance to banks and agribusiness firms. IFC support to banks aimed to expand access to credit to small and medium enterprises (SMEs) and enable exporter access to international markets, whereas its investments in the agribusiness sector sought to expand market position and access to global markets and to support access to nutritious food across the country.

World Bank Group Private Sector–Led Growth Support from 2007 to 2017

Ecuador's private sector showed increasing signs of strain over the 2007–17 period. By many indicators, Ecuador's private sector was weakened over the Buen Vivir period starting in 2007. Private investment as a share of GDP had declined from 16.6 percent in 2006 to 13.9 percent in 2014. Annual FDI had also fallen from an average of 2.0 percent of GDP between 2001 and 2006 to an average of 0.6 percent between 2009 and 2014, making Ecuador's FDI rate the lowest in the region (World Bank 2018b). Relative to its level of development, Ecuador's FDI stock declined sharply from the 2000–06 to the 2007–17 period, whereas its peers either maintained their FDI stocks or gained ground (figure 3.1).

Figure 3.1. Foreign Direct Investment Stock Relative to Levels of Development, 2000–06 versus 2007–17



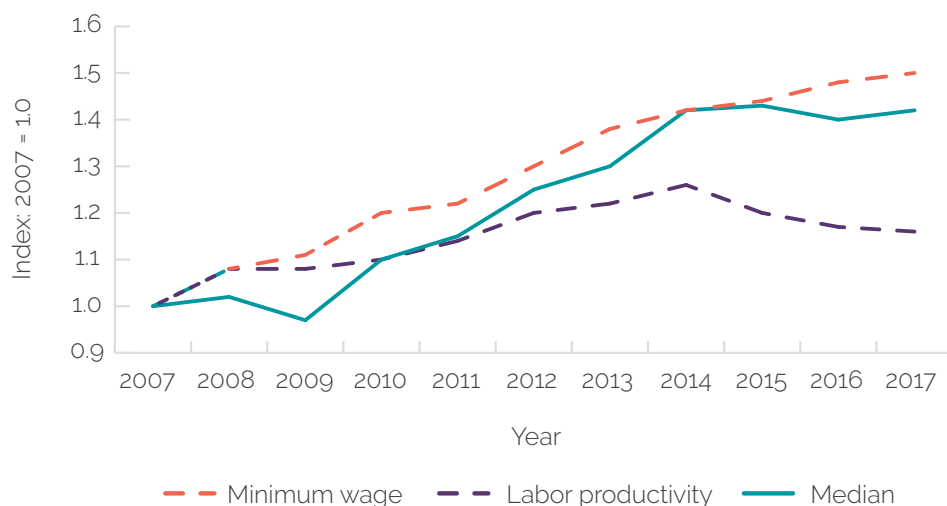
Source: International Finance Corporation 2021.

Note: COL = Colombia; CRI = Costa Rica; ECU = Ecuador; FDI = foreign direct investment; PAN = Panama; PER = Peru.

Several factors contributed to weak private sector growth in Ecuador. Various diagnostics point to key obstacles to private investment and growth (IFC 2021; World Bank 2011, 2017a). Among them are the following:

- » Frequent economic, commercial, and investment policy changes created a layer of uncertainty for investors, affecting incentives to engage in long-term projects.
- » Access to finance by firms is hindered by a shallow financial sector that is constrained from playing its role as an intermediary in support of the private sector. The financial sector is dominated by banks and credit cooperatives, and the framework for financial sector oversight is complex and uncoordinated, reducing banks' ability to lend and shifting the allocation of credit away from more productive purposes toward consumer lending (World Bank 2018b).
- » Trade and investment regulations, from insolvency procedures to taxation to licensing, inhibit firm entry and operations.
- » The framework for public-private partnerships has made it difficult to structure tenders that are bankable, transparent, and competitive.
- » Labor productivity is low and has not kept pace with wage increases. One factor contributing to a lack of correspondence between productivity increases and wage increases was the process for setting minimum wages, which was complex (including a national minimum wage and minimum wages by 21 sectors and across 2,300 occupations) and not evidence based. The minimum wages reflected a bargaining process between workers, employers, and government representatives, but when no agreement was reached, the minimum wage was set by the Ministry of Labor, resulting in divergent minimum wages for similar occupations and not reflecting differences in productivity within and across sectors and firms (figure 3.2).

Figure 3.2. Minimum Wage Relative to Value Added per Worker in Ecuador, 2007–17



Source: World Bank 2018b.

In addition, the development model was no longer fiscally viable. The commodity boom allowed for sizable public spending increases, but when oil prices fell, Ecuador faced increasing fiscal strains. High fiscal deficits and weak growth prospects led to a rapid rise in government debt from 19.2 percent of GDP in 2010 to 46.1 percent in 2019 and 61 percent in 2021 (IMF 2019a, 2021).

The World Bank’s support for fiscal sustainability and private sector–led growth responded to two distinct political economy settings. The World Bank’s engagement over the 2007–17 period was affected both by the rupture in dialogue with the government of Ecuador and by a fundamentally altered development model (relative to the prior administration, which guided World Bank support under the Country Assistance Strategy 2003–07 cycle). As a result, the World Bank’s strategy of support for a fiscally sustainable, private sector–led growth model went through two distinct stages: (i) over the Correa administration, where the focus was on building dialogue and knowledge, and (ii) after 2017, where the World Bank’s focus was on supporting the new government’s wide-ranging reform agenda.

The World Bank’s support during the 2007–17 period focused narrowly on building knowledge. With limited avenues established, the World Bank used

NLTA on a few diverse topics to keep abreast of economic developments and mitigate information gaps. Early activities did not provide comprehensive assessments of policy but laid a foundation of knowledge that could mitigate information gaps. Later analytic work tackled broader policy questions, bringing together the established analysis.

Several of these early analytic pieces built knowledge on constraints facing the private sector. For example, the World Bank undertook two studies to understand dynamics of informality, both at the firm level and at the labor force level. The early work would be extended with subsequent analytic work in conjunction with the National Institute of Statistics and Census (Instituto Nacional de Estadística y Censos) and would create important knowledge on the role that the minimum wage played in reducing formal sector employment (and increasing informality), among others.

The World Bank effectively filled knowledge gaps through development partnerships. For example, World Bank and IMF staff had limited confidence in official statistics provided by the Ministry of Economy and Finance and the Central Bank of Ecuador;¹ therefore, staff from both institutions organized a high-level working group to discuss and evaluate Ecuador's macroeconomic developments. The working group included actors from other development banks and from the private sector and academia (for example, the chief economists of large private banks).² This allowed the World Bank to fill information gaps from official channels and remain informed on emerging challenges.

The World Bank leveraged its dialogue with MCPEC to analyze constraints to Ecuador's firm productivity. After the passage of the 2010 Organic Code of Production, Commerce, and Investment, MCPEC was tasked with implementing Ecuador's transformation of the productive matrix. The main goal was to transform production away from natural resources and imports and to incentivize local production and systems of innovation and entrepreneurship. MCPEC reached out to the World Bank to provide limited analytic work on select subjects. Over the FY12–17 period, the World Bank expanded its range of analytic work to fill knowledge gaps on Ecuador's trade and investment dynamics. The World Bank's earliest work on informality (assessing aspects of the regulatory framework affecting firms' formality, their access

to finance, and their growth potential) broadened to cover innovation policy. The growing dialogue led to the first reimbursable advisory services to the government of Ecuador to examine the role of services in competitiveness and to inform policies for service sector innovation, their integration into export-oriented global value chains, and trade competitiveness through services. Further work on global value chains investigated constraints to greater global value chain integration and identified untapped global value chain opportunities. The analytic work ultimately led to the preparation of a Country Economic Memorandum in 2016, providing the core knowledge base from which to support the incoming administration in 2017.

Starting in FY17, the World Bank developed technical notes to inform the incoming administration on economic priorities. The World Bank presented a series of policy notes to the new government on fiscal policy, productivity and diversification, social protection, labor costs, labor inclusion, and financial sector stability. The World Bank used that knowledge base to draft its SCD (delivered in June 2018), which became the starting point for the World Bank's operational support starting in FY19. The Bank Group further strengthened analytic work after the SCD, undertaking a flagship report aimed at synthesizing the main macroeconomic stability and competitiveness challenges (World Bank Group 2019). The report wove together four related pieces of diagnostic work: (i) *Ecuador—Public Finance Review: Phase II* (World Bank 2019b); (ii) Public Investment Management Technical Assistance; (iii) Financial Stability and Inclusion ASA; and (iv) Trade, Investment, and Competitiveness ASA. Simultaneously, IFC and the World Bank jointly initiated a Country Private Sector Diagnostic (delivered in FY21).

After 2007, IFC focused on the financial and agribusiness sectors. In 2005, IFC launched the Global Trade Finance Program (GTFP), which supported participating banks' access to international corresponding banks,³ important for enabling trade finance to flow in the country, particularly under fluctuating macroeconomic conditions and at times high country risk. IFC added three Ecuadoran banks to its GTFP over 2007 and one in FY08.⁴ This was IFC's first substantial engagement in Ecuador's commercial financial sector—an engagement that IFC would build on over time.

Over the same period, IFC provided advisory services to support regulatory simplification at the municipal level. In 2006–09, IFC supported the municipalities of Manta and Quito to simplify the processes for obtaining an operating license and a construction permit. This project was coordinated with a semiautonomous agency under MCPEC. Based on the success of this activity, subsequent advisory services were undertaken in 2009–13 that expanded the work to four additional municipalities (Guayaquil, Cuenca, Loja, and Zamora).

World Bank Group Private Sector–Led Growth Support after 2017

A new government in 2017 sought comprehensive support from the World Bank to navigate a new development model. Although President Lenín Moreno was elected under the auspices of his predecessor’s political movement, his government quickly distanced itself from the prior government’s policy stance, seeking to reduce the state’s footprint on the economy, restore fiscal sustainability, and create space for the private sector to expand. The new government of Ecuador reached out to the World Bank and IMF for both financing and guidance on fiscal consolidation.

The Bank Group’s support toward the government reform agenda was developed under the CPF for FY19–23. The CPF foresaw Bank Group assistance (i) supporting fundamentals of inclusive growth by addressing macroeconomic imbalances, removing barriers to private sector activity, and enabling the financial sector to better intermediate the allocation of resources to productive use; (ii) boosting human capital and protecting the vulnerable by improving access to basic services and quality education, addressing malnutrition, and protecting the vulnerable through well-targeted social programs; and (iii) enhancing institutional and environmental sustainability by bolstering the ability for the public sector to make effective decisions based on solid evidence.

The World Bank used two programmatic DPO series to support the government transition to a private sector–led growth model. The first programmatic series—the Inclusive and Sustainable Growth development policy loan series (FY19, FY20, and FY21)—was prepared to support a major

transition to a more market-oriented and private sector–led approach to development. The DPO series (undertaken in parallel with a \$4.2 billion arrangement under IMF’s Extended Fund Facility) centered on three main pillars: (i) reducing the barriers to private sector development, (ii) promoting public sector efficiency and fiscal sustainability, and (iii) protecting poor and the most vulnerable people. The second DPO programmatic series—the Green and Resilient Recovery development policy loan series (FY22)—supported improved tax revenue collection and reduced trade barriers to support global integration, among others. The DPO series, along with an investment finance operation to improve firm access to finance (Promoting Access to Finance for Productive Purposes for MSMEs, FY21), allowed the World Bank to support reforms across three areas.

The DPO series and a financial sector IPF would also support broader reforms to remove fiscal and competitiveness constraints in Ecuador. Through the DPO series, along with an investment finance operation to improve firm access to finance (Promoting Access to Finance for Productive Purposes for MSMEs, FY21), the World Bank supported reforms across areas that constituted important barriers to fiscal sustainability and private sector–led growth.

First, the World Bank supported reforms to promote public sector efficiency and fiscal sustainability. These included the following:

- » Reforms oriented toward improved budget control and fiscal discipline (including strengthened budget preparation processes, the adoption of a medium-term fiscal framework, and improved oversight and mitigation of fiscal risks)
- » Reforms toward improved procurement processes, expanding the use of competitive processes
- » Elimination of public sector staff redundancies
- » Improved taxpayer compliance and elimination of select personal income tax expenditures
- » Energy subsidy reform aimed at rationalizing and reducing fossil fuel subsidies, thereby offsetting their negative impact on fiscal sustainability

Second, the World Bank supported reforms to improve private sector investment and competitiveness. The DPO series supported a range of reforms that together accounted for significant barriers to private investment. These reforms included the following:

- » A revision of the legal code to require the inclusion of international arbitration clauses on large contracts, paving the way for Ecuador to also rejoin the International Centre for Settlement of Investment Disputes (ICSID) and signaling to foreign investors the government's commitment to protect their investments
- » A reduction in tariffs and nontariff barriers on intermediate inputs that adversely affected Ecuador's export competitiveness, value added, and total factor productivity growth
- » Facilitation of enterprise creation, including through enhanced use of limited liability modality for firms, simplified regimes for registering a company, and simplified procedures for import
- » Minimum wage reform, reducing the number of sectoral minimum wages (estimated at 2,300 in 2018) by 5 percent a year (and setting a timeline toward a universal minimum per sector) and providing an objective, productivity-based formula for wage increases when tripartite negotiations failed

Third, the World Bank supported reforms to enhance access to finance for firms, particularly MSMEs. Through the Inclusive and Sustainable Growth DPO series, the World Bank supported government actions to enhance financial market efficiency through four main actions:

- » Supporting reforms to reduce financial distortions by consolidating credit segments and adopting flexible rate ceilings toward a gradual interest rate liberalization
- » Supporting reforms to eliminate central bank financing of public banks, in the process not only limiting quasi-fiscal operations but also helping level the playing field in terms of costs of funding between private and public banks
- » Supporting an increase in the effective liquidity of commercial banks through revisions to the interpretation of liquidity requirements

- » Supporting reforms to allow remote account opening, including via mobile phone, facilitating access to finance

The World Bank also supported SME access to finance through an investment project and ASA. Public banks traditionally had responded to gaps left by private banks in the MSME segment, but in the presence of fiscal constraints (most importantly over the COVID-19 pandemic), public banks had fewer resources. Through the Promoting Access to Finance for Productive Purposes for MSMEs IPF, the World Bank supported a strengthening of the institutional capacity of the Corporación Financiera Nacional (CFN)—Ecuador’s largest public bank. In addition, it helped CFN develop new or improved existing financial products to promote access to finance for productive purposes, especially MSMEs. The project supported CFN’s establishment of second-tier lending operations to the commercial and cooperative sector to serve MSMEs. The World Bank also provided ASA toward financial inclusion, undertaken through the Ecuador Financial Stability and Inclusion ASA and the Ecuador Financial Inclusion FIRST Project (an advisory project).

IFC supported Ecuador’s financial sector through an evolving stream of investments and advisory support. Starting in 2014, having developed relationships with banks through the GTFP, IFC moved into supporting the banks’ operations for lending to SMEs, including women-owned SMEs and some support for “climate-smart” projects. IFC lent \$150 million to four of Ecuador’s largest banks for these purposes from 2015 through mid-2017. IFC also provided knowledge, helping banks develop and grow their business with women-owned SMEs and energy efficiency. IFC’s relationships with these banks continued to grow in the 2017–22 period, with \$360 million in investment.

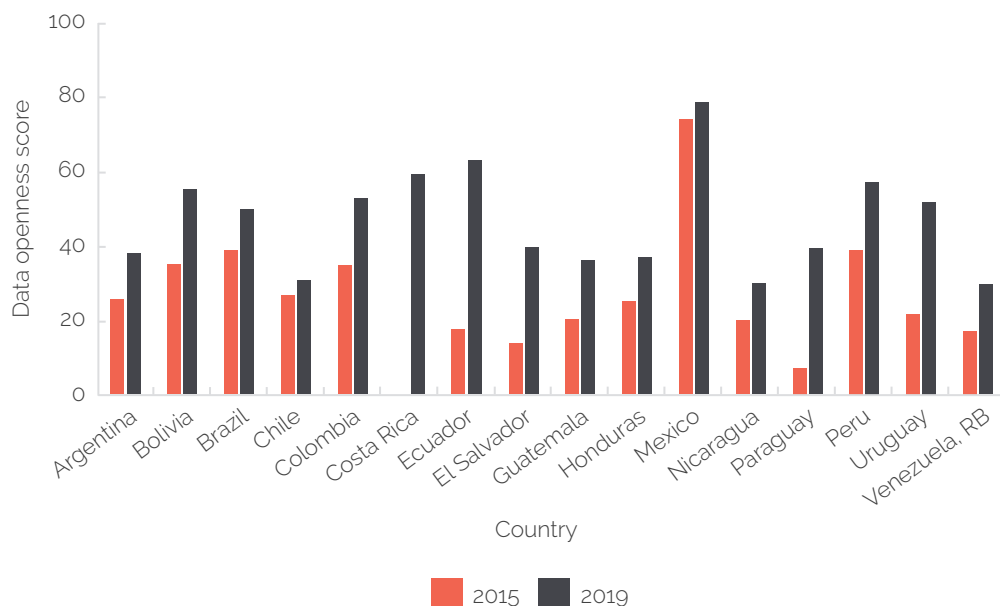
IFC’s investments in agribusiness aimed to help market leaders expand. IFC invested in market leaders in dairy, pork and poultry, shrimp, and bananas, aiming to help firms expand production and distribution, upgrade environmental standards, improve energy efficiency, and make other improvements. In addition to investment finance, IFC provided support to clients (at times through advisory services but also as part of its standard monitoring processes) to identify risks and establish strategies for mitigating them and to improve monitoring systems and social and environmental standards.

Relevance of World Bank Group Support

World Bank

The World Bank's early focus on ASA was relevant to the context, filling information gaps to inform future engagement. Over the periods of limited activity and operational reengagement (2007–17), Ecuador's data transparency was low. According to the Open Data Inventory, which assesses the coverage and openness of official statistics, Ecuador ranked near the bottom of all Latin American countries in 2015, with significant problems in access to key data—a situation that was significantly improved after the change in government (figure 3.3). The World Bank's analytic work over both periods and its coordination with other development partners used narrow windows of dialogue both to strengthen engagement and to fill information gaps for future policy support.

Figure 3.3. Open Data Openness Score: Latin American Countries, 2015 and 2019



Source: Open Data Inventory (database), Open Data Watch.

Note: The data openness score is based on data gaps and open data policies in 22 topical data categories grouped as social statistics, economic and financial statistics, and environmental statistics. The overall score reflects how well a country's data offerings meet international standards of openness. RB = República Bolivariana.

The World Bank's subsequent operational support starting in FY19 was relevant for restoring investor confidence and helping guide a credible policy agenda. Interviews with the Ministry of Economy and Finance suggest that the World Bank's support was critical to the government reform program for two reasons. First, the World Bank and IMF played an instrumental role in building credibility for the government reform agenda among the international community, which was vital to preserve dollarization and recover macroeconomic fundamentals. In 2018, the government of Ecuador was actively seeking to improve ties with US banks and multilateral lenders as means to address the rapidly deteriorating fiscal situation. The "stamp of approval" on Ecuador's reform agenda by the World Bank and IMF in particular was viewed as instrumental for the later bond repurchase agreement the government negotiated with Goldman Sachs. Second, and as important, the World Bank's technical staff guided key aspects of government reform agenda—one that included efforts to increase efficiency in the mobilization and

allocation of government resources, to eliminate barriers hindering private sector development, and to improve protection of Ecuador's most vulnerable population groups.

The World Bank-supported reforms undertaken by the government of Ecuador were informed by a breadth of analytic work.

- » **Fiscal reforms:** The government of Ecuador's subsidy reform agenda was informed by early distributional analysis on subsidies undertaken by the World Bank. The elimination of staff redundancies in deconcentrated offices responded to a growing public sector wage bill identified in the *Ecuador—Public Finance Review* (2018) and reflected an appropriate way to reduce costs without adversely affecting service delivery. Reforms toward improved budget control, fiscal discipline, and fiscal risks assessment emanated from priorities identified in the *Ecuador—Public Finance Review* (2018), which stated that the major budgetary challenges were absence of “budget preparation procedures and milestones that ensure consistency between the macro-fiscal programming exercise and the annual budget programming” (with a more than 20 percent deviation between approved and executed budgets); weak multiyear planning; and “a bottom[-]up approach with no aggregate, sectoral, or institutional ceilings” (World Bank 2024a, 13).
- » **Trade and regulatory reforms:** The removal of restrictions on international arbitration clauses was highlighted in both the SCD and the Country Private Sector Diagnostic as key to reducing perceived risks of investing in Ecuador, which at the time of the DPO series were particularly affecting private participation in the oil and infrastructure sectors. The reduction of tariffs and nontariff barriers undertaken in the context of the World Bank's Green and Resilient Recovery DPO targeted intermediate inputs that would have the highest immediate impact on productivity (and competitiveness), drawing in part on analytic work that showed that the shift from domestic intermediate inputs to imported inputs would increase Ecuador's manufacturing firm productivity by 7 percent. Similar analytic work underpinned other World Bank-supported reforms. The Inclusive and Sustainable Growth DPO series drew on more than 30 analytic activities and advisory tasks that set forth the priorities and challenges for transition from a state-led to a more market-oriented development strategy, the majority of which also underpinned the

2018 Systemic Country Diagnostic. Design of the series also drew on the 2018 and 2019 Public Finance Reviews; the 2019 Trade, Investment, and Competitiveness diagnostic; and the Energy Sector Management Assistance Program study on sustainable and equitable energy subsidy reforms in Ecuador (2018–20), among others.

- » **Financial sector reforms:** The World Bank–supported financial sector reforms addressed known constraints to access to finance. Fixed interest rate caps across all credit segments prevented lending to new or riskier borrowers, diverting resources to consumer lending, which is less constrained. Under the Inclusive and Sustainable Growth DPO series, the World Bank supported initial steps for interest rate flexibilization and transparency, by revising the criteria for determining the ceilings in different credit segments and by consolidating the credit segments. The action was expected to reduce opacity and increase flexibility in interest rate ceilings. Even though the action reflects a meaningful step toward interest rate liberalization, interest rates need to converge to market clearing rates across all credit segments. The World Bank’s support toward strengthening CFN, although not an identified constraint to financial access, remains relevant to expanding financial access to MSMEs. As with IFC support to financial institutions, the World Bank’s support to CFN allows participating financial institutions to expand their ability to service MSMEs through technical assistance, designated credit lines, and partial credit guarantees.

The World Bank closely coordinated its support with development partners. The World Bank–supported Inclusive and Sustainable Growth DPO series was complemented by a three-year Extended Fund Facility by IMF and financing packages from CAF, IDB, and the Latin American Reserve Fund. With regard to content, World Bank support toward fiscal sustainability and private sector–oriented regulatory reform under the Inclusive and Sustainable Growth DPO series and the Green and Resilient Recovery DPO series was part of a package of coordinated financial assistance from Ecuador’s main international partners: IMF, the World Bank, IDB, and CAF. Staff of the institutions met regularly to align messages and coordinate efforts, and there was a high degree of complementarity among the programs,⁵ with IMF focusing on improving the fiscal framework and

strengthening the credibility of the dollarization regime and the World Bank supporting efficiency gains in the allocation of government resources, structural reforms to foster private sector developments, and improvements in social protection and inclusion. There was an effort to ensure no overlap of specific measures supported in the development policy financing series with either the structural benchmarks in the IMF program or the prior actions included in the IDB and CAF operations (table 3.1).

Table 3.1. Coordinations of World Bank Group Support to Private Sector Agenda with Multilateral Financial Institutions

Reform Area	World Bank	IMF	IDB	Other
1. Private sector and private investment	•		•	
» Entry	•		•	
» Operation	•		•	
» Competition				
» Insolvency				
» Arbitration	•			
» Public-private partnerships	•		•	
» Opening; governance energy sector	•		•	
2. Labor reform	•			
3. Financial sector	•	•	•	
» Interest rate ceilings and liquidity requirements	•	•	•	
» Commercial bank regulations and supervision				
» State-owned banks	•			
» Cooperatives	•			
» Capital market development				

(continued)

Reform Area	World Bank	IMF	IDB	Other
4. International trade	•		•	•
» Facilitation			•	CAF
» Nontariff barriers	•			
» Tariffs and quotas	•			
» Agriculture price floors				
5. State-owned enterprise reform			•	

Source: Independent Evaluation Group.

Note: CAF = Banco de Desarrollo de América Latina y el Caribe; IDB = Inter-American Development Bank; IMF = International Monetary Fund.

IFC's support to the financial sector was relevant to SME financing needs. Lack of access to finance was a major constraint to the private sector. IFC's financing enabled exporters to access international markets through trade finance, the need for which was particularly acute in the earlier part of the evaluation period and that remained strong through the period. IFC expanded banks' capacity to lend to SMEs, with a focus on women-owned SMEs, particularly with loans of longer tenor than were available from domestic banks.

IFC's agribusiness support was relevant to promoting economic growth and improving conditions for poor people. Agribusiness is a major engine of the country's economy and export competitiveness. Loans at tenors offered by IFC (and in one case, the amount provided by IFC) were not available on the domestic market. IFC's activities were also relevant to improving conditions for poor people, reaching farmers and small suppliers (upstream), and lower-income consumers across the country through access to nutritional food (downstream). IFC's advisory services to food production companies in partnership with the Global Alliance for Improved Nutrition helped develop fortified food products for infants and children 6–24 months of age, targeted to low-income households.

However, apart from the financial sector, IFC did not take a strategic approach to alleviating the private sector's constraints to growth or systematically promoting opportunities for growth. This was partially because of the substantial political and economic risk perceived by IFC, which led IFC to take a cautious approach. The ISN and CEN kept the scope of IFC's possible investments very broad. In the real sector, IFC financed companies with strong sponsors in sectors with low perceived regulatory risk, and each project that IFC financed had a plausible development outcome (as discussed in this section). However, as seen in projects' Board approval documents, IFC did not ground its support in an understanding of needs or a theory of change related to the shift to a private sector-led growth model. Although the CPF established that IFC would focus on export-oriented agribusiness and energy (the latter as appropriate conditions are established), only one of IFC's clients in FY19–22 was primarily export oriented (this investment represented just under 20 percent of IFC's net commitments in the nonfinancial sector during that time). IFC did not have its own Country Strategy for Ecuador. Unlike in the financial sector, IFC did not take a strategic approach to supporting industries or themes (for example, participation in global or regional value chains) in the real sector. Diagnostics and a more strategic approach may have been useful even in a risky context. Thus, IFC may have missed opportunities to better contribute to the shift to a private sector-led growth model.

Effectiveness of World Bank Group Support

The World Bank's support for increasing the private sector's access to credit delivered important achievements. The World Bank-supported government actions to increase interest rate flexibility, reduce barriers to digital financial services, and increase bank liquidity through the Inclusive and Sustainable Growth DPO series contributed to an expansion of credit to the private sector from 34.3 percent of GDP in 2017 to 48.8 percent in 2022, although it is not possible to link the increase solely to the World Bank-supported reform agenda, within the context of a range of market-oriented reforms. Credit to MSMEs has also expanded, aided by the World Bank's support for restructuring CFN and the development of credit lines for second-tier lenders toward beneficiary MSMEs. After the World Bank's FY21 Promoting

Access to Finance for Productive Purposes for MSMEs IPF, approximately \$272.9 million was disbursed to 20 participating financial institutions for onlending to MSMEs. Of this amount, the participating financial institutions have already on-lent \$99.1 million to final beneficiaries, corresponding to 3,738 loans. Although not direct evidence of increased investment, these achievements reflect reasonable steps in the results chain to enhanced access to credit by the private sector.

The World Bank's support facilitated the entry of new firms into the domestic market. The World Bank's support to facilitate enterprise creation contributed to an increase in the number of formal commercial companies registered from 8,200 to more than 22,000 by 2022 (five times the increase targeted through the Inclusive and Sustainable Growth DPO series). Other positive results from this action included increased tax revenues from these businesses and increased participation of women as owners and employees.

The World Bank contributed to the government reducing tariffs on intermediate inputs, thereby increasing the competitiveness of domestic exporters. The World Bank supported tariff reforms under the same Inclusive and Sustainable Growth DPO series. As a result of these reforms, the share of capital and intermediate inputs in agriculture and technology subject to reduced tariff rates increased from 12 percent in 2017 to 24 percent in 2022 (doubling the targeted change). This represented a notable step toward the longer-term outcome of improved international competitiveness of domestic exporters.

The World Bank's support contributed to several improvements in government budget processes that reduce fiscal risks. Reforms toward budgetary preparation processes undertaken in connection with the Inclusive and Sustainable Growth DPO series supported a reduction in divergences between approved and executed budgets from 16.3 percent in 2017 to 8 percent by 2022. The improvement in budgetary processes could reasonably be expected to support improved budget control, fiscal discipline, and assessment of fiscal risks in the medium term, toward the objective of improved fiscal sustainability.

The World Bank-supported energy and minimum wage reforms were reversed by the government. Although the Inclusive and Sustainable Growth

DPO series supported reforms to energy subsidies and minimum wage increases, these reforms were partially or fully reversed. In the case of energy subsidy reform, the reforms undertaken led to large oil price increases that triggered violent protests and a subsequent reversal. The fuel subsidy reform agenda was revised over the third DPO toward more gradual removal of gasoline and diesel subsidies, while establishing a price smoothing formula to protect consumers from excessive price volatility. In the case of the minimum wage reform, the World Bank had supported a revision to the formal minimum wage setting process, providing an objective, productivity-based formula for setting minimum wages when tripartite negotiations (between unions, employers, and the government) failed. However, the reform was reversed by executive action.

The World Bank did not ensure government buy-in for an incremental approach to energy subsidy reforms. During the preparation of the First Inclusive and Sustainable Growth DPO, the World Bank recommended a gradual process for fuel subsidy reform based on prior incidence analysis.⁶ The World Bank provided extensive technical support to the government to steer its reform agenda, including technical reports on cost recovery and distributional impacts of subsidies and just in time technical support on compensation mechanisms for subsidy removal. Based in part on that support, Ecuador eliminated high-quality gasoline subsidies (super) and in December 2018 increased the price of gasoline. However, in October 2019, the government eliminated gasoline subsidies entirely. Although this action was not officially part of the DPO series discussions, the government's decision points to a failure in adequately communicating and building consensus within the government of Ecuador on the need for an incremental approach to the reforms. The government's desire to use its narrow political window to implement reform resulted in the government implementing a bolder set of fuel subsidy reforms that brought on widespread social protests.⁷ These protests led to the ultimate reversal of these reforms. Since then, through the support of the development policy financing series, the government adopted a price smoothing formula that was applied without interruption until October 2021, and the price of gasoline has made progress in converging toward international prices.

Inadequate technical assistance undermined minimum wage reforms. The World Bank supported the government of Ecuador's revision to the minimum wage setting process, including through a reduction in the number of sectoral and occupational minimum wages (from over 2,000) and the adoption of an objective, productivity-based formula for setting minimum wages when tripartite negotiations failed. If sustained, the minimum wage setting mechanism could better align labor costs with productivity to help firms remain competitive. The reform was implemented in 2020, but the continued use of the formula was interrupted when the new administration announced minimum wage increases of \$25 per year over President Lasso's term. The continued use of the formula depended on a deep consensus building within the country, with adequate understanding of its rationale and sufficient technical support toward the three parties tasked with its use (the Ministry of Labor, the Chamber of Industries and Production, and labor unions). Insufficient reform championing and technical assistance to the involved actors hindered that consensus building internally and the reform's continued uptake. At the same time, since 2023, the current administration has resumed the minimum wage salary setting in compliance with the legal instrument supported by the World Bank.

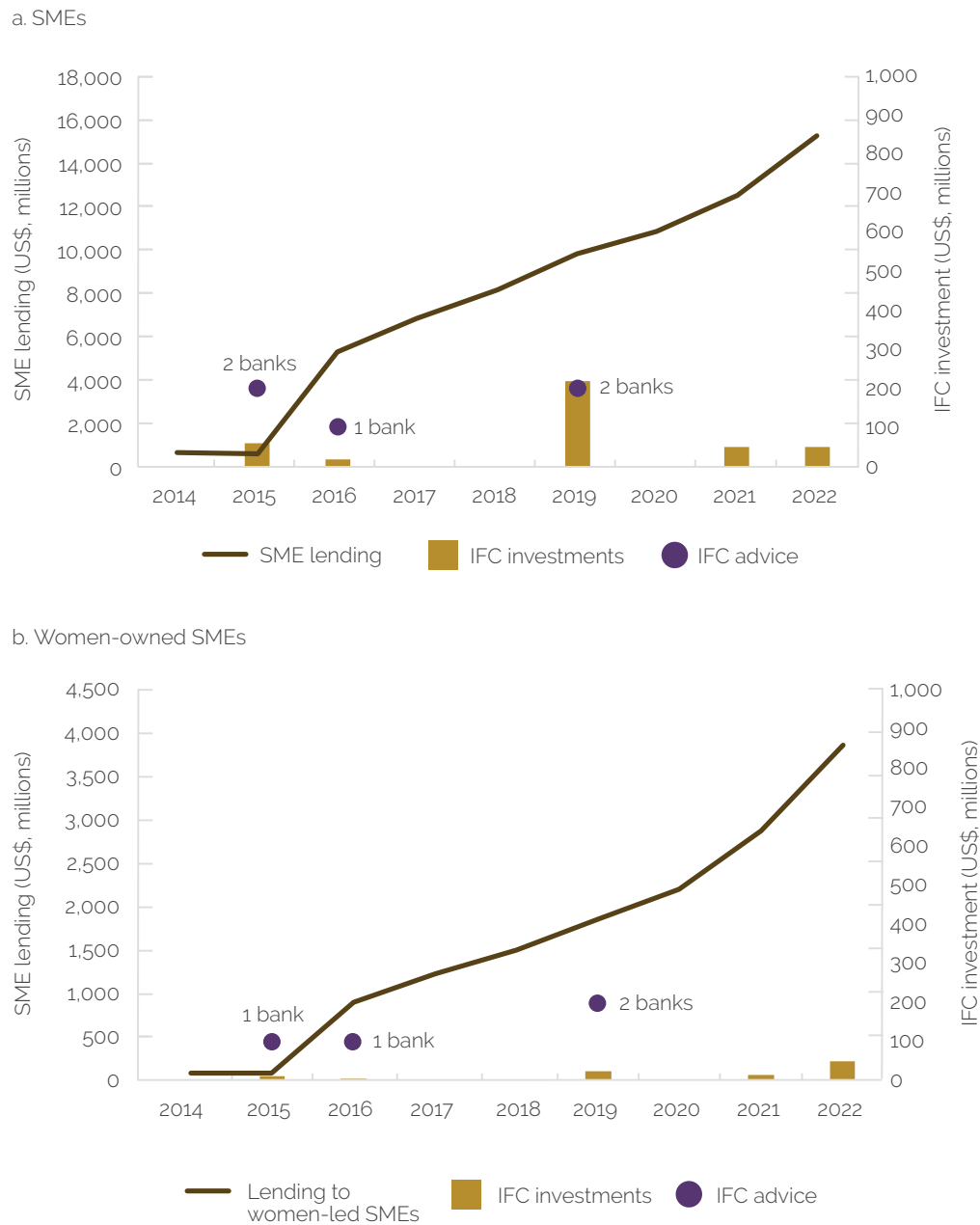
IFC's early advisory services helped simplify certain municipal-level processes. IFC's 2006–09 support to the municipalities of Manta and Quito to simplify the processes for obtaining an operating license and a construction permit led to combined cost savings for businesses of \$3.4 million against a target of \$1.6 million. The subsequent advisory services in 2009–13 expanded the work to four more municipalities (Guayaquil, Cuenca, Loja, and Zamora). The project simplified procedures, substantially reduced the time to obtain an operating license (94 percent reduction) and construction permit (67 percent reduction), and saved businesses \$3.7 million; however, these savings fell short of the target.

IFC's support also improved SME access to trade finance through financing and knowledge. The GTFP program played a key role in bank access to international corresponding banks,⁸ and when IFC moved into longer-term finance, its investment enabled banks to extend loans of longer tenor than were available with domestic resources and to improve financial products and management. This includes products and methodologies for lending

to women-owned SMEs, for energy efficiency, and for enhanced portfolio monitoring of gender aspects. Overall, IEG estimates that over the evaluation period, IFC lent \$558 million to banks for lending to SMEs and \$216.5 million for lending to women-led SMEs.

Although IFC made a plausible contribution to access to finance in these areas, its monitoring was insufficient to quantify its contribution. Despite the apparent success of its activities in the financial sector, there were gaps in IFC's monitoring, with data on actual lending by purpose (SME or women-led SME) some clients in some years. Few data were reported on outputs or outcomes of climate finance.⁹ Although some of its clients were already active in the areas supported, lending in each of these segments experienced substantial growth after IFC investment and advice. Figure 3.4 outlines how the portfolios of three of IFC's four client banks in Ecuador have grown over time, along with IFC investment and advice (not limited to official advisory services engagements) in the respective areas.

Figure 3.4. Increase in Lending by Segment and International Finance Corporation Engagement (Three out of Four Banks), 2014–22



Source: Independent Evaluation Group.

Note: IFC = International Finance Corporation; SME = small and medium enterprise.

Assessing IFC's impact in the agribusiness sector is also hindered by lack of monitoring. The impacts of IFC support on agribusiness are difficult to assess because of the lack of relevant data monitoring. Clients suggest that IFC support enabled them to expand production and distribution, upgrade environmental standards, improve energy efficiency, identify and better manage risks, and improve monitoring systems and environmental standards. However, similar to in the financial sector, data to assess IFC's overall impact on development outcomes—and also triangulate information gathered through interviews—are limited. IFC tracks some standard indicators—for example, suppliers and buyers reached, volume of product, employment, and score (out of 100 percent) on environmental and social management—but does not report on achievements for a client's specific project. For instance, it does not track the extent to which IFC-supported capacity expansions enabled production to increase, does not track export volumes and values, and for projects that aimed to support access to food by poor people through distribution networks, did not monitor the poverty profile of the areas reached through the distribution networks. Such aspects may be examined *ex post* in XPSRs,¹⁰ but few XPSRs were done for projects active in Ecuador during the evaluation period. The lack of focus of IFC monitoring on outcomes attributable to IFC support limit the ability to identify IFC's contribution to development outcomes, its accountability for development outcomes, and its ability to course correct when outcomes fail to be attained.

¹ The International Monetary Fund would not conduct an Article IV consultation in Ecuador until 2014 (with the first on-site Article IV occurring the following year).

² Based on interviews with World Bank country office staff and management.

³ The Global Trade Finance Program (GTFP) offers confirming (international) banks partial or full guarantees to cover payment risk on banks in the emerging markets (see <https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/global-trade/global-trade-finance> for more information). GTFP remained relevant throughout the evaluation period, with \$478 million of use through fiscal year 2022.

⁴ In the wake of increasing country risk, the International Finance Corporation would close the trade lines in 2010 and reopen them in 2013.

⁵ Based on interviews with the International Monetary Fund and World Bank staff and program documentation.

⁶ For example, the first development policy operation required the elimination of subsidies on premium gasoline, industrial diesel, and natural gas for commercial and industrial use—all of which were regressive, with most consumption by higher-income quintiles.

⁷ On the basis of interviews with the World Bank development policy operation team, with little notice, the president announced the broader energy subsidy reforms in place of the original plans to implement a value-added tax.

⁸ GTFP offers confirming (international) banks partial or full guarantees to cover payment risk on banks in the emerging markets (see <https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/global-trade/global-trade-finance> for more information). GTFP remained relevant throughout the evaluation period, with \$450 million of use through fiscal year 2022.

⁹ The Independent Evaluation Group was unable to develop a consistent time series data set for International Finance Corporation clients' lending to small and medium enterprises, women-owned small and medium enterprises, and for climate, and relied on data provided by each bank. One bank declined to provide data. For projects that supported climate finance, only one out of five projects monitored the volume of climate lending, and this project reports data for only one year. Another project monitored estimated greenhouse gas reductions, reporting on it for only two years.

¹⁰ Expanded Project Supervision Reports, which the International Finance Corporation prepares for 40 percent of its projects and the Independent Evaluation Group validates.

4 | Complementary Support for Improved Social Protection Systems

Highlights

The World Bank's support for the economic transition was complemented by continuous technical assistance on social protection. This technical assistance built a foundation for providing expanded support to poor and vulnerable people throughout the major reforms.

Evolving from an initial narrow focus to improve nutrition programming, the World Bank's social protection agenda expanded steadily from 2008 to a much broader scope of diagnostics, which aimed to promote solutions to shortfalls in Ecuador's social service delivery and data collection systems.

After the change in administration, implementation of this agenda was spearheaded by the Social Safety Net Project and underpinned by regulatory reforms supported by the Inclusive and Sustainable Growth and the Green and Resilient Recovery development policy operation series. Focus areas included strengthening the Social Registry and nutrition programming to mitigate the impacts of subsidy reform, COVID-19, and climate change.

The World Bank's work in social protection across the evaluation period demonstrated effectiveness with respect to relationship building and in terms of measurable improvements in targeting and service delivery.



These achievements notwithstanding, the World Bank was largely unsuccessful in improving low institutional capacity in a principle implementing ministry, reducing effectiveness of the Social Safety Net Project's sustainability component.

Chapter Objectives and Methodology

This chapter evaluates the World Bank's efforts to improve Ecuador's social protection services. NLTA, ASA, and lending are reviewed, with contributions assessed in terms of (i) relevance to the recognized development priorities of maintenance and expansion of social protection and inclusion, in the context of the evolving relationship (recognizing that certain types of support became feasible only as engagement was restored), and (ii) the effectiveness of support (examining whether interventions achieved their stated objectives in the area of maintaining and expanding achievements in social protection and inclusion). With respect to effectiveness, the chapter considers both measurable results and process-oriented outcomes (for example, influence dividends) concerning government uptake of technical guidance and policy advice. Although the latter cannot be weighted equivalent to quantified outcomes, they do reflect steps along a given results chain leading to the desired consequence.

The scope of analysis is limited to noncontributory schemes, as opposed to the entire social protection matrix. Although Ecuador has contributory social insurance programs that cover formal labor market workers via mandatory saving mechanisms,¹ most low-income beneficiaries (who are either informal workers or unemployed) have historically been covered exclusively by the social safety net (box 4.1), which consists of conditional and unconditional cash transfer programs and complementary social services, implemented by the Ministry of Economic and Social Inclusion (MIES).

Box 4.1. Major Components of Ecuador's Social Safety Net System

Bono de Desarrollo Humano (BDH) provides monthly income support with health and education conditionalities, targeted to poor and extremely poor households with children under 18 years of age.

BDH con Componente Variable targets extremely poor families with children under 17 years of age, providing a monthly fixed transfer and an additional transfer based on the number of children.

Bono 1000 Dias, launched in 2022, provides monthly income support with health and nutrition conditionalities, targeted to poor and extremely poor pregnant women and children under 2 years of age.

(continued)

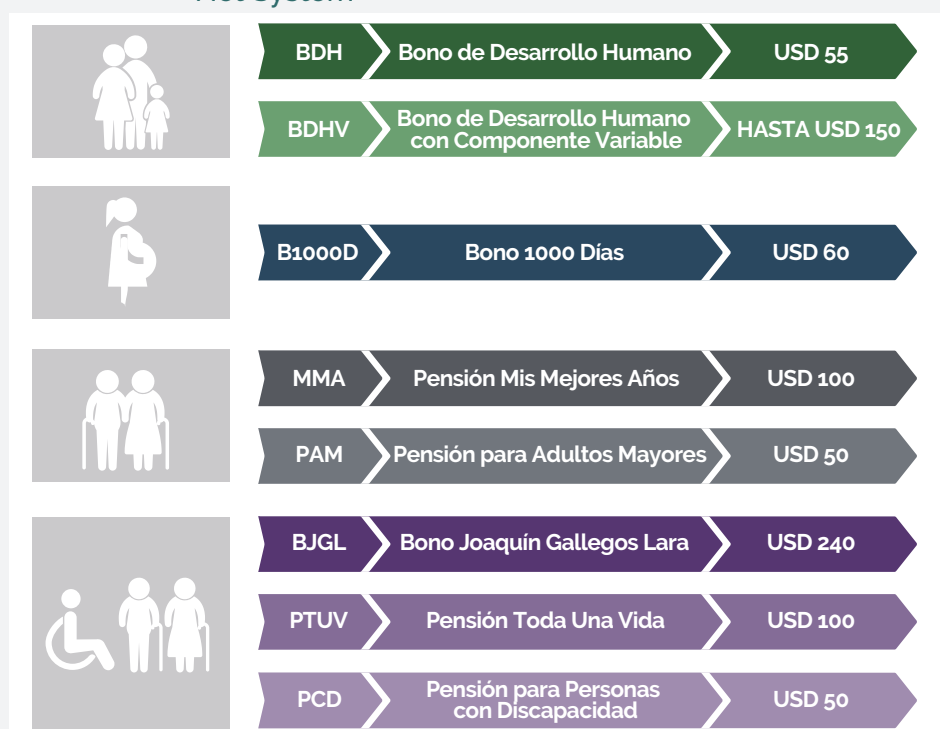
Box 4.1. Major Components of Ecuador's Social Safety Net System (cont.)

Crédito de Desarrollo Humano: Whereas BDH is a monthly transfer meant to guarantee a minimum level of consumption, Crédito de Desarrollo Humano pays a yearly amount aimed at promoting productive investments and can be requested only by households that are active recipients of BDH. It is informally considered the "graduation program" of BDH.

Pensión Adulto Mayor and Pensión para Adultos Mayores en Extrema Pobreza—Mis Mejores Años provide monthly unconditioned income support to poor and extremely poor seniors over 65 years of age.

Pensión para Personas con Discapacidad, Pensión Toda Una Vida, and Bono Joaquín Gallegos Lara provide monthly unconditioned income support to poor and extremely poor people with disabilities (figure B4.1.1).

Figure B4.1.1. Major Components of Ecuador's Social Safety Net System



Note: All transfer amounts circa February 2023. USD = US dollar.

Source: Ministry of Economic and Social Inclusion.

Description of World Bank Support

The government's social safety net policy at the start of the evaluation period did not adequately protect poor and vulnerable people. Despite the administration's heavy investment in public services, errors of inclusion, exclusion, and duplication in targeting for the flagship BDH and related transfers were widespread. The challenge was exacerbated by low transparency regarding verification of recipient eligibility data and weak compliance with the program's health and education conditionalities (Mideros and Gassmann 2017),² both of particular concern given persistently high rates of malnutrition and other risk factors among vulnerable groups.

These shortfalls were traceable in large part to a service delivery system that was poorly aligned with transfers and a data collection strategy that lacked cohesion and accountability. With respect to service delivery, implementation was compromised by (i) poor internal coordination within MIES, (ii) poor coordination between MIES and other government institutions providing complementary services, (iii) weak monitoring of local service providers, and (iv) infrequent or nonexistent evaluation of the impact of individual social assistance programs.³ As a result, many beneficiary families who were intended to receive cash transfers in conjunction with an integrated package of services (thus facilitating compliance with BDH conditionalities) frequently received either only the transfer or an incomplete, irregularly accessed package of services. In addition, the Crédito de Desarrollo Humano informally considered the “graduation” strategy for beneficiaries of BDH (see box 4.1) and faced design and operational challenges preventing it from ensuring a sustainable exit strategy for program users. With respect to data collection, the beneficiary selection process faced challenges related to outdated information and targeting accuracy. Although the Social Registry Unit (Unidad del Registro Social; URS) was created in 2009 to address these issues, it initially had neither the legal capacity to fulfill its mandate nor enough budget and human resources to perform its designated role as the unique entry point for accessing social programs.

Between 2007 and 2019, the World Bank generated over 20 diagnostic knowledge products to address these challenges. Predicated on a single ASA in 2007 to strengthen implementation of nutrition programming (World Bank

2007), World Bank support to MCDS and MIES expanded steadily from 2008, eventually including a wide portfolio of NLTA ranging from (among other things) studies to inform family planning and early childhood development (ECD) services, to research on vocational training and labor market inclusion to inform an exit strategy for BDH via the Crédito de Desarrollo Humano, to diagnostics for strengthening capacity of rural households and community authorities to monitor and improve children's physical growth and developmental outcomes. From 2009, the World Bank also provided technical assistance to the National Institute of Statistics and Census on the Human Opportunity Index and Poverty Assessment series. These ASA, including the Survey on Household Socioeconomic Status, collected a wealth of information on poverty mobility and data on BDH recipients, facilitating MCDS's assessment of multiple aspects of BDH's targeting criteria and strengthening the case for improving the government of Ecuador's data harmonization protocol. In line with the World Bank's work with the National Institute of Statistics and Census, a comprehensive census sweep (RS2018) was initiated in 2018 to improve the accuracy of the Social Registry database.

After the change in administration, the World Bank provided policy support and direct operational assistance to implementing agencies. From 2019 onward, the World Bank resumed lending support through (i) the Social Safety Net Project, which provided direct support on targeting and service delivery, and (ii) two DPO series (Inclusive and Sustainable Growth and Green and Resilient Recovery). Both DPOs included pillars to foster inclusion and stipulated regulatory reforms that underpinned the implementation goals of the Social Safety Net Project as follows:

- » Mandating that public executive agencies share their data registers with the URS.⁴
- » Mandating the permanent updating of Social Registry data every three years.⁵
- » Expanding the Social Registry's objectives to extend beyond targeting the extreme poor.⁶
- » Creating a unit within the Ministry of Economy and Finance to support the design of compensation mechanisms to mitigate the impact of subsidy reforms.⁷

World Bank operations prioritized reducing malnutrition and protecting the vulnerable from climate-related disasters. Both the Social Safety Net Project and the Green and Resilient Recovery DPO series supported the establishment in 2021 of the National Strategy “Ecuador Grows without Child Malnutrition.” This included the introduction of a nutrition assistance package for pregnant women and children consisting of a cash transfer (Bono 1000 Días)⁸ linked to ECD services provided by MIES and the Ministry of Public Health, improved provision of water and sanitation services, and an annual statistical survey of chronic child malnutrition rates to monitor progress and better target the prioritized package. In addition, the Green and Resilient Recovery DPO series supported the creation of the Single Registry of Victims (Registro Único de Afectados y Damnificados; RUAD) database, linked to the URS and designed to improve MIES’s capacity to identify beneficiaries at high risk of natural disasters. This database supported activities under the Social Safety Net Project, which added the Contingency Emergency Response Component in 2023 (World Bank 2023b), after increased risk of severe weather events.

During COVID-19, the World Bank supported the government’s emergency efforts to reach vulnerable households not covered by social assistance programs. Both DPOs and the Social Safety Net Project pivoted during COVID-19 to support the following actions:

- » Creation of an emergency cash transfer program—Bono de Protección Familiar—explicitly designed to reach highly vulnerable households not covered by existing social assistance programs. These new beneficiaries were identified using initial results from RS2018 and were eligible only if designated as “nonwage earners” or “informally employed.”
- » Facilitating access to this transfer by expanding the availability of retail banking agents, adjusting the calendar of payments, and improving communication with beneficiaries, including promotion of digital banking via remote uptake of basic accounts using mobile phones.
- » Creating the Migratory Registry to be shared with the URS and based on information drawn from the Migratory Census to ensure provision of public services to Venezuelan refugees during the pandemic.

Relevance of World Bank Support

Extensive early diagnostics identified weaknesses in Ecuador's social safety net system and generated evidence to inform improvements. The ASA released by the World Bank in 2007 provided a detailed evaluation of the country's inefficiencies in tackling chronic undernutrition (World Bank 2007). The report recommended a revised approach to increase agency accountability via improved data collection and strengthened delivery of proven, cost-effective interventions in regions where stunted growth of children was highest, primarily via ECD services provided by MIES. These recommendations drew on Ecuador-specific data (for example, with respect to drivers of undernutrition among Indigenous children) and regional and global evidence (Black et al. 2008; Horton et al. 2010) and provided a springboard for the aforementioned spectrum of NLTA on social assistance services, which, although opportunistic, was underpinned by a farsighted World Bank strategy to improve the effectiveness of public spending on the entire social safety net system. This strategy drew on a solid evidence base of global learning and the Ecuador-specific studies (World Bank 2012b).

Operational support conducted after 2018 was grounded in the substantial analytic work previously performed. In line with the World Bank's work on private sector development, diagnostics for social protection conducted before 2018 informed the ISN, the CEN, both DPO series, the Social Safety Net Project, and the SCD, providing a robust foundation for government collaboration and the overall design of operations. Additional diagnostics, which underpinned the relevance of post-2018 social protection operations, included the Rapid Social Response Program to assess the contribution of Ecuador's social protection system in reducing stunted growth of children and the poverty and social impact assessment showing that addressing inclusion and exclusion errors in BDH could reduce extreme poverty by 2–3 percentage points among women-headed households.

Policy reforms to improve the URS were relevant to various country needs. Improving the URS's capacity to accurately identify low-income households was fundamental to strengthening the social safety net. As such, both DPO series stipulated regulatory reforms to improve that agency's reach and functionality. These reforms were also critical for the introduction of

the emergency transfer program during COVID-19. With respect to climate change, the creation of RUAD, including a mandated link to the URS, was intended to facilitate MIES's capacity to identify and assist beneficiaries at high risk of natural disasters.

Strengthening the capacity of the URS database to identify vulnerable households was also relevant to reducing malnutrition. In 2021, the Social Registry covered 3.1 million households, of which only 30 percent had documented access to social assistance programs. Child malnutrition stood at 23 percent, one of the highest rates in the region and indicative of the pressing need for the nutrition assistance package described in this chapter. Improving the capacity of the URS to target the most vulnerable households increased the likelihood of these nutrition services reaching children that needed them most. In addition, because many of these households were also the most vulnerable to climate change and other shocks, this objective dovetailed with the relevance of RUAD. It is for precisely this reason that the Contingency Emergency Response Component was added to the Social Safety Net Project in 2023.

Effectiveness of World Bank Support

The extensive portfolio of diagnostics and NLTA generated between 2007 and 2018 is linked to measurable improvements in targeting and service delivery. Between 2007 and 2019, in anticipation of resuming operations, the World Bank built credibility with the government of Ecuador counterparts regarding recommendations to strengthen both the URS and nutrition and related social services. These recommendations were then operationalized under the Social Safety Net Project and the Inclusive and Sustainable Growth DPO series and can be linked to documented improvements (discussed in this section). In addition, they can be linked to process-oriented outcomes whose trajectories spanned the entire evaluation period, strengthening the World Bank's dialogue and influence in the sector as follows:

- » The World Bank's knowledge work influenced how MIES and the Ministry of Public Health approached nutrition surveillance and ECD counseling. From 2007, World Bank ASA promoted (i) educating parents regarding the importance of growth monitoring and antenatal care and (ii) routine

monitoring of height for age both to improve data harmonization between MIES and the Ministry of Public Health and to enable provincial civil registries to track individuals from birth (World Bank 2007).⁹ Both of these strategies were implemented under the Japan Social Development Fund: Growing with Our GUAGUAS (Children) project beginning in 2012. Results from this pilot included substantially reduced chronic malnutrition in historically high prevalence parishes of Chimborazo.¹⁰ The nutrition assistance package, initiated by Secretaría Técnica de Ecuador Crece Sin Desnutrición Infantil in 2022 with support from the World Bank, has adopted the approach nationwide.

- » The World Bank’s knowledge work also influenced how the National Secretariat for Planning and Development, MCDS, and other government actors approached data collection. From 2009, the World Bank used results from the Human Opportunity Index and the Survey on Household Socioeconomic Status surveys and other ASA to highlight the targeting and coverage shortfalls of BDH and related transfers and to advocate for a more cohesive and transparent data collection system, including an independent URS empowered to request and analyze data from public executive agencies. Similarly, this and related objectives were implemented as prior actions under two DPO series during the Moreno administration.

The World Bank’s support of the URS after 2019 can be linked to documented improvements in BDH targeting. Between 2019 and 2023, there were several measurable improvements in the targeting accuracy of BDH and related cash transfers.¹¹ This progress can be largely attributed to strengthened URS performance, which can, in turn, be partially attributed to World Bank support. Given the absence of major reforms that could have led to similar outcomes, it is reasonable to infer that the World Bank’s work on strengthening the URS before 2018 can be linked to improving the targeting of Ecuador’s social protection system thereafter—namely, in terms of extending coverage of poor and vulnerable households. These improvements to BDH targeting include the following:

- » The share of poor households included in the Social Registry increased from 38 percent in 2019 to 91 percent by 2021 via increased data collection and methodological index improvement (World Bank 2024a).

- » The share of extremely poor households with updated information in the Social Registry increased from 12 percent in 2019 to 96 percent in 2023.
- » The share of poor households receiving BDH and BDH con Componente Variable increased from 38 percent in 2020 to 71 percent by 2023.
- » By 2023, the share of extremely poor older adult beneficiaries of Pensión para Adultos Mayores en Extrema Pobreza—Mis Mejores Años had increased from 9 percent to 53 percent.

World Bank support can also be linked to improvements in data harmonization and service delivery. Ecuador's social safety net policy at the beginning of the evaluation period was constrained by a fractured service delivery system characterized by poor coordination and inadequate data sharing between MIES and other government providers and within MIES itself. As such, the Social Safety Net Project includes a strong focus on data harmonization to reduce silo effects and strengthen the integration of service delivery with receipt of cash benefits. Progress toward these goals is ongoing, with achievements as of June 2023 documented as follows:

- » Use of Social Registry data in MIES programs increased from 55 percent in 2019 to 95 percent in 2023.
- » Use of administrative records to validate, update, and correct records in the Social Registry database increased from 43 percent in 2019 to 72 percent in 2023.
- » By 2023, use of RUAD to assess exposure to climate-related risks had been completed for 55 percent of households in the Social Registry.
- » The share of poor households with children under three years of age receiving BDH or BDH con Componente Variable and corresponding ECD services nationwide increased from 4 percent in 2019 to 16 percent in 2023.
- » The share of extremely poor Indigenous older adult beneficiaries receiving Pensión para Adultos Mayores en Extrema Pobreza—Mis Mejores Años and older adult-care services increased from 6 percent in 2019 to 17 percent in 2023.

These achievements notwithstanding, low institutional capacity has reduced the World Bank's effectiveness in improving social services. Since 2017, MIES has served as the nominal leader for Ecuador's entire social safety net system.¹² This has proved challenging for MIES staff, whose remit was historically limited to implementing specific programs, with little to no expertise in interagency coordination or multilateral development bank lending protocol. High levels of staff turnover exacerbate the situation, not least with respect to limiting the long-term value of trainings provided by the World Bank or other agencies.

The World Bank underestimated these capacity challenges in the design phase of the Social Safety Net Project. Although the Project Appraisal Document identified low institutional capacity as a substantial risk and included credible mitigating measures (World Bank 2019c), MIES-executed aspects of this operation have faced delays in procurement and staff hiring and inadequate documentation of expenditures and miscommunication regarding project processes and outcome indicators, with the latter frequently perceived by MIES staff as outside their institution's authority to execute (World Bank 2021b, 2022b, 2022c).¹³ The World Bank attempted to address these issues by providing training and technical support regarding disbursement-linked indicators and procurement. Despite these efforts, inefficiencies in implementation have persisted. In addition, disagreement between MIES and the World Bank regarding the design and execution of the Crédito de Desarrollo Humano led to cancellation of a sustainability subcomponent on graduation (World Bank 2021a). This subcomponent included plans for a package of economic inclusion services designed to assist households that had exceeded BDH eligibility criteria and represented an important aspect of the project's theory of change,¹⁴ underpinned by multiple diagnostics on vocational training and labor market inclusion.¹⁵

¹ As of 2015, contributory schemes reached approximately 40 percent of the country's population (Apella and Zunino 2018).

² Interviews with World Bank, Ministry of Economic and Social Inclusion, and Secretaría Técnica de Ecuador Crece Sin Desnutrición Infantil staff.

³ Child development centers, parent education groups (Creciendo con Nuestros Hijos), nutrition counseling programs (Círculos de Cuidado, Recreación y Aprendizaje), services for people with disabilities (Las Manuelas and Las Joaquinas), and senior citizens programs (day-care centers, home visits, and nursing homes).

⁴ The Green and Resilient Recovery development policy operation (DPO) series.

⁵ The Green and Resilient Recovery DPO series.

⁶ The Inclusive and Sustainable Growth DPO series.

⁷ The Inclusive and Sustainable Growth DPO series.

⁸ The Bono 1000 Días cash transfer is linked to the Bono de Desarrollo Humano and aims to encourage the routine use of early childhood development services provided through the Ministry of Economic and Social Inclusion and growth monitoring, vaccination, and iron supplementation services provided through the Ministry of Public Health. It is also referred to as the Bono Infancia con Futuro.

⁹ See also the Ecuador Child Development series and the Japan Social Development Fund: Growing with our GUAGUAS (Children).

¹⁰ A significant reduction in stunted growth of children occurred at the province level during implementation of the Japan Social Development Fund: Growing with our GUAGUAS (Children) project, equivalent to a reduction in height-for-age Z score <2 of 2.5 percentage points per year. This was double the speed of the reduction of the stunted growth of children in the country as a whole at project close (Japan Social Development Fund: Growing with Our GUAGUAS [Children], November 2015 [TF098887]; World Bank 2018a).

¹¹ Unless otherwise noted, all statistics cited in this section are drawn from the disbursement-linked indicator matrix in World Bank (2023c).

¹² In 2017, the government reduced the Coordinating Ministry for Social Development's reach by making it a technical secretariat of the Plan Toda una Vida. In 2021, under President Lasso,

the agency was transformed again to the Secretaría Técnica Ecuador Crece Sin Desnutrición Infantil, further reducing scope, such that its purview was limited exclusively to nutrition.

¹³ In addition, interviews with World Bank and Ministry of Economic and Social Inclusion staff.

¹⁴ See figure 1 in the Project Appraisal Document (World Bank 2019c).

¹⁵ From 2013, the World Bank used diagnostics on vocational training and labor market inclusion to demonstrate how increasing the employability of Bono de Desarrollo Humano recipients would facilitate a sustainable exit strategy. Although these advisory services and analytics informed the graduation component of the Social Safety Net Project and the Interim Strategy Note, Country Engagement Note, and other World Bank documents, they failed to galvanize reform of the Crédito de Desarrollo Humano during the evaluation period.

5 | Conclusions and Lessons

Normalizing Relations with the Government of Ecuador

The World Bank was generally effective in partnership rebuilding after a structural break, but the process was slowed by the lack of a clear and consistent strategy. The World Bank was effective in rebuilding its partnership with the government by creating opportunities for dialogue and building goodwill. The World Bank increased finance to support NLTA as a way to develop dialogue and demonstrate value. Operationally, the World Bank supported priorities that were relevant to evolving responsibilities at the subnational level, and lending directly to municipal governments allowed the World Bank to overcome the impasse in dialogue at the national level. However, the normalization process was slowed by the lack of a World Bank strategy for six years, during which there was an internal disagreement about the reengagement.

The World Bank's strategy prioritized reengagement over development outcomes. Neither of the World Bank's approved strategies over the period included a results framework articulating higher-level development outcomes, reducing the line of sight between the Bank Group's support and higher-level goals. The World Bank's rapid project preparation at times came at the expense of project readiness, with several projects requiring revisions in engineering designs and resulting in implementation delays (and delayed benefits).

The World Bank's support over the reengagement was developmentally relevant and generally effective. The World Bank gradually defined an agenda that supported the national development plan in politically nonsensitive sectors and that fit within established priorities for public service delivery and improved access to resources. Most projects approved over the reengagement achieved or are expected to achieve the majority of their objectives.

However, World Bank operations did not adequately account for low institutional capacity, resulting in project implementation delays averaging 50 percent. Municipal infrastructure projects experienced implementation delays, on average 50 percent over the original time frame. Most delays were linked to both inadequate engineering designs (requiring revisions) and capacity issues stemming from lack of experience among subnational governments in implementing World Bank operations. Projects were also affected by a high degree of subnational government turnover, having an impact on project priorities.

The World Bank missed opportunities to mitigate known capacity risks in infrastructure projects. The World Bank failed to include specific mitigation measures within its partnership strategies to address known implementation challenges. The World Bank failed to use additional financing requests to deal with emerging implementation issues (for example, by including conditionality measures). The Bank Group did not adequately leverage IFC expertise to guide the Quito Metro authority, which might have accelerated the unit's ability to contract out a private operator.

Supporting Ecuador's Transition to a Private Sector-Led Growth Model

The Bank Group's support was relevant to Ecuador's development needs and to the partnership with the government of Ecuador. The World Bank's early focus on ASA helped fill important information gaps that could inform the World Bank's future engagement. A ramp-up in analytic work starting in 2017 informed a comprehensive reform agenda, including fiscal reforms, trade and regulatory reforms, and financial sector reforms, supported by World Bank policy-based lending programs. IFC's support to financial institutions provided finance to underserved SMEs, whereas its support to agribusiness firms addressed a deficit in loan tenors unavailable on the domestic market.

The World Bank's support contributed to important achievements. The World Bank-supported government actions contributed to an expansion of credit to the private sector, expanding business registration, and increased

tax revenues; improved international competitiveness of domestic exporters; improved budget processes; and reduced fiscal risks.

However, in a few areas, the World Bank failed to build internal consensus and communicate effectively across those tasked with adopting or implementing reforms. The World Bank supported reforms to energy subsidies and minimum wage increases, but these reforms were partially reversed or interrupted. In the case of energy subsidy reforms, the World Bank failed to communicate and convince the government of Ecuador to undertake incremental reforms, and in a desire to use its narrow political window, the government implemented a more ambitious program that resulted in widespread social protest (and ultimately reform reversal).¹ In the case of minimum wages, the World Bank did not build internal consensus and provide adequate technical assistance to those involved in the use of the new minimum wage setting formula (to ensure understanding of its rationale) and failed to ensure an effective communication strategy to those affected by its use. The government of Ecuador raised the minimum wage in 2022 (as part of a campaign promise) and discontinued use of the productivity-based formula until late 2023.

There were gaps in IFC's support to the shift to a private sector-led growth model and its monitoring of development outcomes. IFC took a strategic approach to supporting enterprise access to finance through the banking sector. However, in other sectors, with a broad scope of possible activities set out in the ISN and CEN, IFC did not ground its support in an understanding of needs or a theory of change related to the shift to a private sector-led growth model. This was partially because of the substantial political and economic risk perceived by IFC, which led IFC to take a cautious approach; however, the level of risk did not supplant the potential usefulness of diagnostics and strategy. On outcomes, in the financial sector, there were some gaps in IFC's monitoring of lending to SMEs, and there were few data on its climate lending. In agribusiness, it did not gather data that would identify development outcomes of IFC support (for example, use of IFC-supported production capacity, export volumes, and others). Such data may be gathered in ex post XPSRs but were not monitored systematically during project implementation. There is also scope to improve data management practices so that the data collected can be more easily used.

Supporting Social Protection

Despite underestimation of low institutional capacity, net impact of the World Bank's work in social protection has been substantial. Across the entire evaluation period, the World Bank deployed an evidence-based approach to address the considerable challenges posed by Ecuador's fractured social protection system. Although consistently sensitive to political priorities, this approach deliberately set the stage for action in anticipation of the moment when lending would once again become possible. Initially predicated on improving the design and implementation of nutrition services, the program of work expanded in line with the political "thaw" to eventually include a strong focus on ECD, capacity building for data collection, harmonization, and analysis and work on employability and an exit strategy for BDH. Although the latter had faltered by the end of the evaluation period, other workstreams had not. In addition to achievements in nutrition policy and programming, outcomes from the evaluation period include upstream progress in transforming the URS from a functionary of the National Secretariat for Planning and Development to an autonomous agency, with corresponding headway in improving downstream targeting. Overall, by 2023, World Bank support had helped more poor and extremely poor Ecuadorans qualify for and access social assistance, both with respect to cash transfers and in terms of health and care services delivered by MIES.

Lessons

The findings draw forth the following lessons that may be of relevance to future Bank Group engagements in Ecuador and future Bank Group engagements after a hiatus in dialogue:

- » First, rebuilding a constructive partnership after a break in dialogue may require the World Bank to take a significant step back in terms of its own visibility. The World Bank can continue to provide effective support tailored to the needs of the government without lending and without traditional dissemination activities of analytic work. In cases where the dialogue is severely circumscribed, providing low-profile technical assistance may deliver a means to build goodwill and demonstrate value.

- » Second, even over periods where dialogue is limited, the World Bank can use the space it is given to build analytic work that can help the Bank Group respond faster and more effectively when conditions for a fuller engagement materialize. That also means that the World Bank should be proactive in planning financing for such activities, including devoting sufficient World Bank finance for analytic work.
- » Although reengagement incentivizes the World Bank to be especially responsive to government requests for support, the World Bank needs to balance responsiveness with due diligence in project preparation. Projects that are prepared quickly but that are not underpinned by quality design studies may need to be redesigned or restructured, ultimately delaying social benefits.
- » After a significant lapse in World Bank operations, in situations where government authorities have limited project implementation experience or in cases where turnover in implementing authorities results in lost institutional capital, the World Bank needs to ensure that sufficient institutional capacity building is planned to mitigate risks. The World Bank should also use milestones in the project process (such as additional financing requests) to ensure that key processes in implementation take place and that projects can adapt accordingly.
- » The prolonged use of Bank Group strategies without results frameworks limits accountability. Even in circumstances where the World Bank cannot adequately predict a five-year agenda of support, the World Bank should stipulate higher-level outcomes achievable over the course of the short-term strategy to ensure an adequate line of sight between Bank Group support and higher-level achievements.
- » Particularly in the context of lack of social cohesion about economic reforms, the World Bank needs to make explicit preparations that can ensure broad-based ownership and understanding of the reform agenda—not only for those tasked with adopting the reforms and those involved in the reform implementation but also for those most affected by the reforms. Better and continuous communication across government, implementing agencies, and stakeholders around the rationale for and processes of significant reforms can provide strengthened guardrails against reversal.

¹ On the basis of interviews with the World Bank development policy operation team, with little notice, the president announced the broader energy subsidy reforms in place of the original plans to implement a value-added tax.

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APPENDIXES

Independent Evaluation Group

The World Bank Group in Ecuador

Appendix A. Evaluation Methodology and Data Sources

Evaluation Framework

The Country Program Evaluation of the World Bank Group support to Ecuador from fiscal year (FY)08 to FY22 is based on answering three questions that were pertinent to the Bank Group's engagement in Ecuador over the evaluation period:¹

- » **Evaluation question 1:** How effectively did the Bank Group prepare for, and respond to, opportunities to restore productive and broad-based engagement with the government of Ecuador? (chapter 2)
- » **Evaluation question 2:** How effective was the Bank Group's preparation and support for Ecuador's rebalancing toward a private sector-led growth model? (chapter 3)
- » **Evaluation question 3:** To what extent has the Bank Group contributed to ensuring that gains in social protection and inclusion were maintained and expanded, particularly in disadvantaged groups? (chapter 4)

The evaluation framework relies on four design principles. First, it relies on theory-based approaches to link causal processes to specific outcomes. The main theories of change posited within the Country Program Evaluation (and against which relevance and achievement of outcomes are assessed) relate to (i) steps taken by the Bank Group toward the objective of partnership rebuilding with the government of Ecuador; (ii) steps taken by the Bank Group to support a more fiscally sustainable, private sector-led growth; and (iii) steps taken by the Bank Group toward protection of the vulnerable, particularly as Ecuador transitioned to a more fiscally sustainable, private sector-led growth model. Theories of change are also embedded (implicitly or explicitly) in all World Bank projects over the full evaluation period.

Second, it relies on multiple methods and data sources. Most of the information used was qualitative in nature (individual semistructured interviews,

descriptive documentation, and so on), but quantitative data were also used (for example, project results indicators, project milestones, and so on).

Third, the evaluation triangulated data to strengthen the validity of the findings. The team drew on varied information sources to understand the objectives and scope of Bank Group activities and decisions, and within source (specifically interviews), the team ensured that the sampling frame included interviews across varied roles (both within and outside the Bank Group).

Finally, the evaluation relied on contribution analysis to reach conclusions about the contribution made by Bank Group interventions to observed results. Contribution analysis helped both draw plausible conclusions on the contribution Bank Group actions made to documented results and confirm and revise theories of change because of other potential influencing factors. As one example of this iterative process, the team developed theories of change related to specific outcomes of the reengagement process (as one example, the outcome of the World Bank's operational reengagement in Ecuador in FY14) and then examining cause-and-effect relationships that many have contributed to these outcomes. In the case of the operational reengagement, the team examined various factors that together contributed to the reengagement (including a high-level dialogue undertaken in 2012 at the time of the change in World Bank higher-level management, a change in the fiscal conditions in Ecuador, and a productive dialogue established on municipal infrastructure).

Information Used to Answer Questions, Including Performance Criteria and Indicators

The evaluation draws on the following sources, with differing scope and information and data based on the specific evaluation question:

- » **Interviews:** Interviews were conducted with Bank Group management and staff, country counterparts (government or client for the International Finance Corporation [IFC]), and other development partners (where applicable). Over the course of preparing the Ecuador Country Program Evaluation, the Independent Evaluation Group conducted more than 185 interviews with

Bank Group staff (including management), government officials (both at the national level and at the subnational level), IFC client companies, development partner agencies, and civil society within Ecuador (see table A.1 for summary on interviews).

- » In the absence of documentation, semistructured interviews provided the key information about the decision-making process over the early reengagement period, the state of relationship with the government, and the specific steps that opened up windows for the World Bank to reestablish lending operations in Ecuador. Semistructured interview data were also used to understand the objectives and specific activities associated with early advisory services and analytics (ASA) over the reengagement period, particularly in the absence of formal documentation. Finally, interview data supplemented other evidence used in evaluating program relevance and effectiveness throughout the full evaluation period.
- » **Project-related documentation:** Outputs of World Bank ASA, Project Appraisal Documents, Restructuring Documents, aide-mémoire, review of meeting minutes, project-related communication, Implementation Status and Results Reports, Implementation Completion and Results Reports, Board approval documents, IFC supervision reports, Expanded Project Supervision Report Evaluative Notes, and Evaluative Notes of IFC advisory services. Project-related documentation was used to understand program objectives and components and to assess program relevance and effectiveness. Project documentation also provided key information on known risks to project implementation and risk mitigation measures undertaken.
- » **Existing Independent Evaluation Group project and program evaluative documentation:** Implementation Completion and Results Report Reviews. Implementation Completion and Results Report Reviews provided the main evaluative evidence on project outcomes for closed projects.
- » **Bank Group strategies and strategy reviews:** Interim Strategy Note for FY14–15, Country Engagement Note for FY16–16, Country Partnership Framework for FY19–23, and Performance and Learning Review of Country Partnership Framework for FY19–23. Strategies and strategy reviews were used to understand the Bank Group's strategy objectives, the mechanisms for achieving those objectives, and the means by which to assess progress

in achieving those objectives. Strategies were also compared with actual program implementation to determine where the Bank Group's program diverged from plans.

- » **Development partner strategies and evaluations:** Development partner strategies provided key information on the objectives and means for achieving those objectives of other relevant development partners at the time. Data from other partner program evaluations provided supplementary information regarding specific implementation challenges, which could be compared with the challenges facing the Bank Group in its own program implementation.
- » **Organisation for Economic Co-operation and Development Creditor Reporting System data** (project-level data for Ecuador by country and donor agency for the evaluation period): Organisation for Economic Co-operation and Development creditor reporting data supplied information on overall assistance provided by other development partners over the evaluation period.
- » **Government strategy documentation:** Government strategies provided information on the government of Ecuador's development objectives and key strategies for achieving those objectives over the evaluation period.
- » **Development data indicators** among which are data on economic growth, poverty, fiscal and balance of payments outcomes from World Development Indicators, and country data sources; governance and political stability indicators from the Worldwide Governance Indicators; and commodity price data as reported by the World Bank Pink Sheet. Development data indicators were used to understand the country context and the state of development in key areas in which the Bank Group engaged.
- » **Media analysis** (for the purpose of understanding reporting on the World Bank over the reengagement period): Media analysis was used to understand the state of relations between the government of Ecuador and the World Bank over the reengagement period.
- » **Latin America and the Caribbean dashboard data** (for the purpose of understanding the tone of media coverage of the Bank Group across Latin America and the Caribbean countries).

- » **Project finance by multilateral development banks** between 2007 and 2017 (the World Bank versus other multilateral development banks).
- » **Internal and external analytic work** (including World Bank Enterprise Surveys, International Monetary Fund Article IV staff reports, World Bank Macro Poverty Outlook, and the World Bank and IFC diagnostic work delivered as part of the Bank Group program, including the Systematic Country Diagnostic, Public Finance Review, Country Private Sector Diagnostic, policy notes, and others).

Table A.1. Interviews Conducted in Preparing Ecuador Country Program Evaluation

Organization	Positions	Persons Interviewed (no.)
World Bank	Vice president, LAC Region	3
	Country director, Ecuador	4
	Staff	72
International Finance Corporation	Country manager	5
	Staff	18
Multilateral Investment Guarantee Agency	Staff	3
Ecuador, national government	Various	26
Ecuador, subnational and municipal governments	Quito	8
	Chimborazo	4
	Manta	3
	Guayaquil	2
	Ibarra	4
International Finance Corporation, clients	Various	25
ICSID	Senior management	2
Inter-American Development Bank	Various	3
International Monetary Fund	Various	2

(continued)

Organization	Positions	Persons Interviewed (no.)
Ecuador, civil society	Various	2
Total interviews conducted (without duplication of interviewees)		186

Source: Independent Evaluation Group.

Note: ICSID = International Centre for Settlement of Investment Disputes; LAC = Latin America and the Caribbean.

Data Collection and Analysis Methods

This evaluation drew on the following methods to obtain key information and to answer the evaluation’s main questions. These methods included the following:

- » **Semistructured interview processes:** Interviews were semistructured, with common questions around particular subjects (depending on the interview type). All information collected from interviews only (including around early decisions on the World Bank’s engagement) was verified through multiple sources. The sampling techniques employed were “near” systematic sampling (for all World Bank and IFC activities) and voluntary response sampling (for government counterparts, development partners, and stakeholders). For individual projects and ASA, the Independent Evaluation Group solicited interviews with the task team leads of all relevant activities (in the case of evaluation question 1, all ASA and projects undertaken from FY08 to FY17; in the case of evaluation question 2, all ASA, projects, investments, and advisory activities related to fiscal, business and regulatory, trade, and financial reforms and financial sector investments, including agribusiness investments over the full evaluation period; in the case of evaluation question 3, all ASA and projects related to nutrition and social protection over the full evaluation period).
- » **Portfolio review and analysis, including review of project and task-related documents.** The evaluation conducted a portfolio review of all formal support delivered by the Bank Group during FY08–22 in scope. For evaluation question 1, the team examined all support from FY08 to FY17. For evaluation question 2, the team examined all support delivered

during FY08–22, in which the objective and main sector fell within one of these categories: macroeconomic and fiscal management, business regulatory environment, trade environment, labor markets, or financial markets. For evaluation question 3, the team examined all support delivered during FY08–22 in which the main objective fell within the categories of nutrition, social protection, poverty, and labor markets.

- » **Contribution analysis:** Contribution analysis was used in answering all three evaluative questions. For evaluation questions 2 and 3, the team aimed to assess the contribution particular aspects of the Bank Group program of activities made toward important outcomes toward fiscal sustainability, an improved enabling environment for the private sector, and for enhanced social protection (including through nutrition). For evaluation question 1, the team developed theories of change guiding the World Bank’s actions toward reengagement and process traced how various external factors and actions contributed to key outcomes over the reengagement (including the reestablishment of dialogue across a broad range of line ministries, the operational reengagement at the municipal level, and the operational reengagement at the national level).
- » **Data triangulation:** A key method in reaching conclusions in the evaluation was data triangulation. Specifically, the team developed an “evidence matrix” for important findings related to the three evaluation questions and tested the evidence across sources. For each finding, the team elaborated on the varied sources of information pointing to the same conclusion. This evidence matrix was an important method in developing the theories of change guiding the reengagement (and the contributions that various actions made toward reengagement-related objectives).
- » A few specific examples of data triangulation include (i) the comparison of media analysis, World Bank deliberative documentation and interviews to understand when the structural break between the government of Ecuador and the World Bank occurred and the reasons behind the break; (ii) the use of analytic work and quantitative development data to understand key development challenges for private sector–led growth, supplemented with interview data and World Bank program documentation (including Implementation Completion and Results Report Reviews) to understand

the World Bank's contributions to specific private sector-led growth development objectives and results achieved; and (iii) a comparison of analytic documentation produced over the reengagement period and interview data (to determine diagnostic evidence produced over the period) with later World Bank program documentation (to determine degree to which later World Bank assistance drew on earlier analytic work).

Limitations and Mitigation Measures

There were limitations in reconstructing the events, World Bank activities, and objectives over the early reengagement. With regard to early deliverables (nonlending technical assistance), most of the engagement outputs were not published, limiting the ability to assess the outputs for relevance or effectiveness. The team drew on available output descriptions at the time of delivery (stated descriptions, lessons learned, and so on) from the World Bank's Projects and Operations portal and supplemented the knowledge with interviews with task team leads (and occasionally team members), and to the extent possible, complementing that information with interviews from country counterparts.

Documentation surrounding the nature of the structural break and early actions toward reengagement was limited, reducing the main source of information to interviews. The information drawn from interviews was subject to potential sample selection bias (with greater ability to locate World Bank staff associated with the Ecuador program than government counterparts). To the extent possible, the team ensured that the sampling frame included interviews across various roles (for example, World Bank management and World Bank staff, the World Bank and government, and World Bank task team lead and World Bank team member), but that potential bias remains. In reconstructing the theory of change for the reengagement, the team made greater use of unstructured interviews (asking probing questions that allowed for open-ended responses), deemed more appropriate to elicit participants' thoughts on complex and sensitive topics.

¹ The evaluation framework stipulates how the evaluation is organized and indirectly provides the scope of the analysis—in this case, the Country Program Evaluation was organized around specific questions over specific periods of time.

Appendix B. World Bank Group Portfolio, Fiscal Years 2008–22

Table B.1. World Bank Lending Portfolio, Fiscal Years 2008–22

Engagement Period	Project Legal Name	Approval FY	Project Status	Grant (US\$, millions)	IBRD Commitment (US\$, millions)	Total (US\$, millions)	Approval FY
Limited activity	EC Chimborazo Development Investment Project (PIDD)	2008	Closed	—	15.3	15.3	2008
	Disaster Risk Reduction Program for the Municipalities of Quito	2008	Closed	0.8	—	0.8	2008
	JSDF: Growing with Our GUAGUAS (Children)	2011	Closed	2.2	—	2.2	2011
Operational normalization	Quito Metro Line One	2014	Closed	—	205.0	205.0	2014
	EC Manta Public Services Improvement Project	2014	Closed	—	100.0	100.0	2014
	EC Guayaquil Wastewater Management Project	2015	Active	—	102.5	102.5	2015
	Ecuador—Sustainable Family Farming Modernization Project	2016	Closed	—	80.0	80.0	2016

(continued)

Engagement Period	Project Legal Name	Approval FY	Project Status	Grant (US\$, millions)	IBRD Commitment (US\$, millions)	Total (US\$, millions)	Approval FY
Operational normalization	Supporting Education Reform in Targeted Circuits	2016	Closed	—	178.0	178.0	2016
	EC Ibarra Transport Infrastructure Improvement Project	2016	Active	—	52.5	52.5	2016
	Ecuador Risk Mitigation and Emergency Recovery Project	2016	Closed	—	150.0	150.0	2016
	Transformation of the Tertiary Technical and Technological Institutes Project	2017	Closed	—	90.5	90.5	2017
Full engagement	Additional Financing Quito Metro Line One Project	2018	Closed	—	230.0	230.0	2018
	Guayaquil Wastewater Management Project AF	2018	Active	—	233.6	233.6	2018
	Social Safety Net Project	2019	Active	—	350.0	350.0	2019
	First Inclusive and Sustainable Growth DPF	2019	Closed	—	500.0	500.0	2019
	Engagement COVID-19 Emergency Response and Vaccination Project	2020	Active	—	20.0	20.0	2020
	Second Inclusive and Sustainable Growth	2020	Closed	—	500.0	500.0	2020

(continued)

Engagement Period	Project Legal Name	Approval FY	Project Status	Grant (US\$, millions)	IBRD Commitment (US\$, millions)	Total (US\$, millions)	Approval FY
Full engagement	Promoting Access to Finance for Productive Purposes for MSMEs	2021	Active	—	260.0	260.0	2021
	Territorial Economic Empowerment for the Indigenous, Afro-Ecuadorians and Montubian Peoples and Nationalities (TEEIPAM)	2021	Active	—	40.0	40.0	2021
	Ecuador Third Inclusive and Sustainable Growth DPL	2021	Closed	—	500.0	500.0	2021
	AF Ecuador COVID-19 Emergency Response and Vaccination Project	2021	Active	—	150.0	150.0	2021
	Strengthening the National Statistical System in Ecuador Project	2022	Active	—	80.0	80.0	2022
	Second AF Ecuador COVID-19 Emergency Response and Vaccination Project	2022	Active	—	100.0	100.0	2022
	Implementation of the Extractives Industry Transparency Initiative (EITI) in Ecuador	2022	Active	—	—	—	2022

(continued)

Engagement Period	Project Legal Name	Approval FY	Project Status	Grant (US\$, millions)	IBRD Commitment (US\$, millions)	Total (US\$, millions)	Approval FY
Full engagement	Ecuador Green and Resilient Recovery (EGARR) DPF	2022	Active	—	700.0	700.0	2022
	Additional Financing for the Social Safety Net Project	2022	Active	—	200.0	200.0	2022

Source: Independent Evaluation Group.

Note: AF = additional financing; DPF = development policy financing; DPL = development policy loan; EC = Ecuador; FY = fiscal year; IBRD = International Bank for Reconstruction and Development; JSDF = Japan Social Development Fund; MSME = micro, small, and medium enterprise.

Table B.2. World Bank Advisory Services and Analytics

Engagement Period	Project Name	Approval FY
Limited activity	EC Child Development	2010
	EC Child Development II	2011
	EC Informality Study	2012
	Dialogue for Disaster Vulnerability Reduction in Ecuador	2012
	EC Public Sector NLTA	2013
	EC—Innovation TA	2013
	EC HOI/Poverty	2013
	EC Social Security	2013
	Environmental Management Ecuador	2013
	EC TF Improving Access to Housing Finance for Low-Income Groups (FIRST)	2014
Operational normalization	Housing Land Technical Assistance	2014
	EC—Public Sector NLTA II	2014
	EC Poverty II	2014
	Promoting Environmental Management in Ecuador	2014
	Safety Nets	2014
	EC Skills and Employability	2014
	Promoting Environmental Management in Ecuador Phase II	2014
	Promoting Environmental Management in Ecuador Phase II	2015
	Field Measurement of Flare Black Carbon	2015
	Ecuador: Services for Competitiveness	2015
	EC Transport NLTA	2015
	EC Informality Study II	2015
	Ecuador's Disability's Program Child SP Umbrella	2015
	EC Skills and Employability II Child TA SP Umbrella	2015

(continued)

Engagement Period	Project Name	Approval FY
Operational normalization	Social Safety Nets IV Child TA SP Umbrella	2015
	EC Social Security Phase II/Social Sector	2015
	Evaluation of Social Programs in Ecuador	2015
	Improving Poor-Inclusive Sanitation Services Delivery in Manta and Guayaquil	2015
	Diversification, Competitiveness, and the Transformation of the Productive Matrix	2015
	Strengthening Public Management	2015
	Country Economic Memorandum for Ecuador	2016
	Ecuador: Mainstreaming DRM in Local Development, Territorial Planning, and Public Investments	2016
	EC Poverty Assessment	2016
	Ecuador Productivity TA	2016
	EC Gender—Teenage Pregnancy	2016
	Skills Development Strategy for Effective Social Inclusion	2016
	Promoting the Competitiveness of Ecuadorian Industries and Value Chains by Strengthening Supply and Demand of Industrial Services	2016
	Dropped—FIP in Ecuador	2017
Full engagement	Ecuador Fiscal Assessment/Policy Notes	2017
	EC Improving Firms' Innovation to Foster Productivity and Diversification	2017
	Social Protection and Labor Expenditure Analysis	2017
	Ecuador Financial Sector Condition, Stability and Regulatory/Mitigation Measures	2017
	EC Labor Market Inclusion	2017
	Ecuador Poverty Diagnostic for Water Supply, Sanitation, and Hygiene (WASH)	2017
	SENAGUA Institutional Strengthening Project	2017
	Regional Disabilities Workshop	2018

(continued)

Engagement Period	Project Name	Approval FY
Full engagement	DeMPA Quito	2018
	EC—ICT-Based GRM in Urban Transport	2018
	Improving Nutrition-Sensitive Social Protection in Ecuador	2018
	Analysis and Evaluation of Skills and Productive Inclusion Programs in Ecuador	2020
	Ecuador Country Forest Note	2020
	Analysis and Evaluation of Skills and Productive Inclusion Programs in Ecuador	2020
	Ecuador Adaptive Social Protection: Strengthening Social Programs for Post Disaster Response	2020
	Ecuador TA on Venezuelan Migration Impacts	2020
	Ecuador Jobs Recovery Advisory and Analytics	2020
	Ecuador Review of Labor Market Institutions and Regulations	2020
	Labor Demand Analysis: Determinants of Total Factor Productivity Growth, Resource Misallocation, and Labor Demand	2020
	Graduates and Higher Education	2020
	EC—Health Finance and Service Delivery ASA	2020
	Improving Productivity and Generating Jobs in Ecuador's Agriculture	2020
	Analysis of Public Sector Wage Bill	2020
	Ecuador Trade, Investment, and Competitiveness	2020
	Ecuador Financial Stability and Inclusion	2020
	Ecuador PFR	2020
	Public Investment Management in Ecuador	2020
	Foreign Financial Flows Impact on Firm Activity Using Administrative Data	2021
	Ecuador FSAP Update	2021
	Ecuador CEQ Tool	2021

(continued)

Engagement Period	Project Name	Approval FY
Full engagement	Showing Life Opportunities	2021
	Enhancing Sustainability in the Power Sector in Ecuador	2021
	Quito Integrated Transport Information System RAS	2021
	Financing Pension Payments and Reforming the Social Security System in Ecuador	2021
	A Core Analysis of Youth Employment in Ecuador	2021
	What Works to Prevent GBV in Vulnerable Communities in Ecuador	2021
	Ecuador AML/CFT National Risk Assessment	2021
	Ecuador Policy Notes 2021	2021
	Ecuador Financial Inclusion FIRST Project	2021
	Strengthening Ecuador's DRM Capacity through the Development of a Disaster Risk Financing Strategy	2021
	Sustainable and Equitable Energy Subsidy Reform in Ecuador	2021
	Knowledge Systematization for post-COVID-19 Learning Recovery in Ecuador	2022
	Ecuador: Fiscal and Financial Implications of a Pension Reform	2022
	Digitization of Government-to-Person (G2P) Social Transfer Payments in Ecuador	2022
	Ecuador: IESS Health Finance, Service Delivery, and Quality of Care	2022

Source: Independent Evaluation Group.

Note: AML = anti-money laundering; ASA = advisory services and analytics; CEQ = commitment to equity; CFT = combating the financing of terrorism; DeMPA = Debt Management Performance Assessment; DRM = disaster risk management; EC = Ecuador; FIP = Forest Investment Program; FSAP = Financial Sector Assessment Program; FY = fiscal year; GBV = gender-based violence; GRM = grievance redress mechanism; HOI = Human Opportunity Index; ICT = information and communication technology; IESS = Instituto Ecuatoriano de Seguridad Social; NLTA = nonlending technical assistance; PFR = Public Finance Review; RAS = reimbursable advisory service; SENAGUA = Secretaría Nacional del Agua; SP = Social Protection; TA = technical assistance; TF = trust fund.

Table B.3. International Finance Corporation and Multilateral Investment Guarantee Agency Investments,
Fiscal Years 2008–22

Institution (Client)	Commitment FY	Closing FY	Project Status	Total Net Commitment (US\$, thousands)	Industry Group
Banco Pichincha C.A.	2022		Active	50,000	Financial Markets
Operadora y Procesadora de Productos Marinos Omarsa S.A.	2022		Active	13,000	Agribusiness and Forestry
Procesadora Nacional de Alimentos C.A. Pronaca	2022		Active	50,000	Agribusiness and Forestry
Banco Bolivariano C.A.	2021		Active	1,118	Financial Markets
Banco de la Produccion S.A.	2021		Active	50,000	Financial Markets
Conjunto Clinico Nacional C.A.	2020		Active	9,000	Health, Education, Life Sciences
Banco Bolivariano C.A.	2019		Active	50,000	Financial Markets
Banco Pichincha C.A.	2019		Active	90,000	Financial Markets
Banco Internacional S.A.	2019		Active	38,500	Financial Markets
Banco de la Produccion S.A.	2019		Active	80,000	Financial Markets
Operadora y Procesadora de Productos Marinos Omarsa S.A.	2018		Active	8,000	Agribusiness and Forestry

(continued)

Institution (Client)	Commitment FY	Closing FY	Project Status	Total Net Commitment (US\$, thousands)	Industry Group
PROVEFARMA S.A.	2016	2020	Closed	18,500	Health, Education, Life Sciences
Banco Pichincha C.A.	2016	2020	Closed	20,000	Financial Markets
Banco Internacional S.A.	2016	2021	Closed	30,000	Financial Markets
Procesadora Nacional de Alimentos C.A.	2016	2019	Closed	0	Agribusiness and Forestry
Otecel S.A.	2016		Closed	75,000	Telecom, Media, and Technology
Operadora y Procesadora de Productos Marinos Omarsa S.A.	2016		Active	10,000	Agribusiness and Forestry
Holding Tonicorp S.A.	2016		Active	40,000	Agribusiness and Forestry
Conjunto Clinico Nacional C.A.	2016		Active	15,000	Health, Education, Life Sciences
Banco Internacional S.A.	2015	2018	Closed	40,000	Financial Markets
Banco Bolivariano C.A.	2015	2018	Closed	30,000	Financial Markets
Banco Pichincha C.A.	2015	2018	Closed	30,000	Financial Markets
Banco Pichincha C.A.	2015		Active	57,197	Trade Finance
Procesadora Nacional de Alimentos C.A.	2013	2021	Closed	25,000	Agribusiness and Forestry

(continued)

Institution (Client)	Commitment FY	Closing FY	Project Status	Total Net Commitment (US\$, thousands)	Industry Group
Holding Tonicorp S.A.	2012		Active	30,000	Agribusiness and Forestry
Favorita Fruit Company Limited	2011	2017	Closed	11,000	Agribusiness and Forestry
Moderna Alimentos S.A.	2010	2018	Closed	8,000	Agribusiness and Forestry
ProCredit Holding AG & Co. KGaA	2009	2015	Closed	10,000	Financial Markets
Cartones America S.A.	2009	2016	Closed	20	Agribusiness and Forestry
Procesadora Nacional de Alimentos C.A.	2009	2016	Closed	20,000	Agribusiness and Forestry
Favorita Fruit Company Limited	2008	2017	Closed	20,171	Agribusiness and Forestry
Banco Internacional S.A.	2008		Active	88,067	Trade Finance
Banco de la Produccion S.A.	2007		Active	63,183	Trade Finance
Banco de Guayaquil S.A.	2007		Active	100,038	Trade Finance
Banco Bolivariano C.A.	2007		Active	140,963	Trade Finance

Source: Independent Evaluation Group.

Note: AG = Aktiengesellschaft; C.A. = Compañía Anónima; FY = fiscal year; KGaA = Kommanditgesellschaft auf Aktien; Co. = company; S.A. = Société Anonyme.

Table B.4. International Finance Corporation Advisory Activities,
Fiscal Years 2008–22

Project Name	Implementation Start FY	Implementation End FY	Project Status
CTA Rest of LAC PPP Business Development	2022	2023	Active
Banco Pichincha GI BOW & SME	2019	2020	Closed
LAC Climate Finance Program Development	2019	2023	Closed
LAC SME Program III	2019	2025	Active
LAC SEF Climate Finance	2018	2023	Active
LAC Energy and Resource Efficiency Advisory	2015	2020	Closed
CG Regional Platforms in LAC	2015	2020	Closed
Moderna—GAIN	2012	2014	Terminated
Favorita—GAIN	2011	2015	Closed
National Plan for Business Simplification in Ecuador	2010	2014	Closed
Procesadora Nacional de Alimentos C.A.	2007	2010	Closed
Municipal Simplification in Ecuador (Quito and Manta)	2007	2009	Closed
Organic Waste Fermentation and Biogas Production Feasibility Study	2005	2016	Closed

Source: Independent Evaluation Group.

Note: BOW = Banking on Women; CG = corporate governance; C.A. = Compañía Anónima; GAIN = Global Alliance for Improved Nutrition; LAC = Latin America and the Caribbean; PPP = public-private partnership; SME = small and medium enterprise.



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