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ECUADOR

**IDB GROUP COUNTRY STRATEGY WITH ECUADOR
(2022-2025)**

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ABBREVIATIONS

BCE	Central Bank of Ecuador
EAP	Economically active population
EFF	Extended Fund Facility
EGDI	E-government Development Index
ENEMDU	Encuesta Nacional de Empleo, Desempleo y Subempleo [National Survey on Employment, Unemployment, and Underemployment]
ENSANUT	Encuesta Nacional de Salud y Nutrición [National Survey on Health and Nutrition]
IMF	International Monetary Fund
INEC	National Statistics and Census Institute
IPSAS	International Public Sector Accounting Standards
kcal	kilocalories
LGBTQI+	Lesbian, gay, bisexual, transgender, queer, intersex, and other minority gender identities and sexual orientations
MEC	Ministry of Economy and Finance
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
NDC	Nationally Determined Contribution
NDP	National Development Plan
PBLs	Policy-based loans
PPP	Public-private partnership
SENAE	National Customs Service
SINAFIP	Sistema Integrado de Administración de las Finanzas Públicas [Integrated Public Finance Management System]
SNCP	Sistema Nacional de Contratación Pública [National Public Procurement System]
SPE	Public Employment Service
SRI	Internal Revenue Service
TFFP	Trade Finance Facilitation Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value-added tax
WEO	World Economic Forum

EXECUTIVE SUMMARY

Economic and social context. From 2014 to 2019, Ecuador posted an average year-on-year growth rate of 0.5%, and its public debt climbed from 29.6% of GDP to 53% of GDP (the fiscal deficit stood at 3% of GDP at year-end 2019). The growth model of Ecuador's dollarized economy was grounded in increasingly unsustainable policies that resulted in substantial macroeconomic, fiscal, and institutional imbalances, and as oil prices slumped in late 2014, it became clear that this model was running out of steam. Despite reforms launched by the State in 2017 and other efforts and progress on the fiscal front, the pandemic heightened the country's fiscal fragility and weakened its growth: GDP contracted 7.8% in 2020, while the poverty rate jumped from 25% to 33%. The economy partially recovered in 2021, when higher oil prices, fiscal and institutional development policies, and the expanded coverage of social programs were leveraged into GDP growth of 4.2%. The poverty rate fell from 33% in 2020 to 27.7% in 2021.

The IDB Group in Ecuador 2018-2021. The previous country strategy had three priority areas: (i) strengthening of public finances; (ii) support for productivity and the private sector; and (iii) deepening of social advances. The topics of gender and diversity, climate change and natural disaster risk management, and the strengthening of the institutional capacity of local counterparts were addressed as crosscutting issues. The Bank approved 30 sovereign guaranteed loan operations for a total of US\$4.595 billion, while IDB Invest and IDB Lab approved 56 nonsovereign guaranteed operations for a total of US\$1.5113 billion.

Priority areas 2022-2025. The new country strategy continues to pursue the priority areas set out in the previous strategy, with new emphasis and innovations drawn from the dialogue with the client, the identification of opportunities related to the post-COVID-19 recovery, and lessons learned: (i) development of the productive sector as a driver of sustainable growth; (ii) stabilization of public finances and institutional development; and (iii) strengthening of social progress, with emphasis on reducing gender gaps. Gender equity and social inclusion, climate change and environmental sustainability, institutional capacity and rule of law, and digitalization will be addressed as crosscutting issues. The strategic approach is aligned with: (i) the findings of the IDB document, "Ecuador: Country Development Challenges 2020;" (ii) the Government of Ecuador's National Development Plan 2021-2025; (iii) the IDB Group's Institutional Strategy; and (iv) the IDB Group's Vision 2025. This country strategy aims to maximize the resources of all IDB Group windows to provide effective, innovative support for the Ecuadorian government's development program and meet the demands of the private sector, which is expected to be the driving force behind the country's growth during the post-pandemic recovery. This strategy also includes new areas of emphasis, such as the promotion of public-private partnerships (PPPs) as a vehicle for investment, the leveraging of the equity market through thematic bonds and guarantees, and the productive development of Ecuador's Amazon region.

Lending framework. The IDB anticipates US\$1.4 billion in approvals over the 2022-2025 period and projects US\$1.531 billion in disbursements under sovereign guaranteed operations. With this level of approvals and expected loan disbursements and net annual flows, the IDB would maintain its position as the country's largest source of multilateral financing, accounting for 33.4% of the country's multilateral debt and 15.5% of its external debt as of January 2022. This amount would be supplemented by IDB Invest and IDB Lab resources for private sector projects.

Risks. The main risks to implementation of this strategy involve: (i) fiscal constraints and limited capacity for project execution; (ii) Ecuador's vulnerability to external forces; (iii) the uncertainty surrounding implementation of the key reforms needed by the country; and (iv) climate change and natural disaster risk.

I. SOCIOECONOMIC CONTEXT¹

- 1.1 **The end of the so-called “commodity supercycle” exposed the fragility of Ecuador’s growth model.** After the sustained growth and macroeconomic stability of the 2000 to 2014 period (when year-on-year growth rates averaged 4.7%), the country was hit by the decline in oil prices, the appreciation of the dollar beginning in 2015, and an earthquake in 2016. From 2015 onward, it was apparent that the country’s growth model was volatile and largely unsustainable:² the model depended on favorable terms of trade fueled by oil prices, was driven by public investment (especially in infrastructure),³ and had been crafted in an economy that had few buffers to mitigate external shocks and natural disasters (buffers that are crucial for dollarized economies like Ecuador’s). The economy clearly needed stronger rule of law, more flexible labor legislation, and a more agile and efficient State that could develop clear regulations, enforce them, and promote competition. Productivity gains had not been accompanied by higher wages,⁴ and the country’s industry needed to be diversified so it could create formal, quality jobs. The crisis that began in 2015 translated into a decline in fiscal revenue and a contraction in public investment. During this period, the growth rate fell from 3.8% to 2.4%, and the country ran up its debt, increasing its short-term domestic borrowing, expanding the central bank’s balance sheet, and taking on more bilateral debt (primarily from China).
- 1.2 **From 2017 to 2019, Ecuador implemented fiscal and institutional reforms to address the crisis.** In 2017, the country began to implement fiscal deficit consolidation strategies involving expenditure adjustments, which helped lower the primary balance, bringing it from a deficit of 4.5% of GDP in 2017 to a surplus of 0.1% of GDP in 2019.⁵ Over that period, the Ecuadorian government also pressed ahead with institutional reforms that reinstated presidential term limits, strengthened the country’s anti-corruption framework, and enhanced the independence of public sector oversight agencies and the judiciary.⁶ Some of these reforms were carried out under the loan agreement that the Ecuadorian government signed with the International Monetary Fund (IMF) in 2019. Public debt rose from 44.6% of GDP in 2017 to 53% of GDP in 2019, while economic growth seemed to stall, averaging 1.3% over the same period. Fiscal constraints and weak growth diminished the Ecuadorian government’s ability to safeguard jobs and increase social investment. Even with the implementation of policies to curb rising poverty, underlying

¹ For a more detailed discussion of the country context, including sources, see the [Country Development Challenges](#). A [bibliography](#) is also available.

² At present, total factor productivity stands at a level comparable to those reported in the 1970s.

³ Public investment rose from 5.2% of GDP in 2000 to 15.7% in 2014.

⁴ IMF, 2019. Ecuador: Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility: Press Release; Staff Report; and Statement by the Executive Director for Ecuador. March 2019.

⁵ Ecuador signed an Extended Fund Facility (EFF) arrangement with the IMF in 2019.

⁶ In 2021, Ecuador had a score of 71.2 on the [Fragile States Index](#) (down three points since 2018) and a score of 36 on the [Corruption Perceptions Index](#) (up two points since 2018).

imbalances led to a decline in adequate employment rates⁷ from 42.3% in 2017 to 38.8% in 2019, while the poverty rate rose from 21.5% to 25%.⁸

1.3 Though the pandemic provoked an economic contraction and hindered fiscal consolidation efforts, Ecuador enacted significant structural reforms in 2020.

The Ecuadorian economy, which began 2020 with the challenge of advancing structural reforms to consolidate the fiscal accounts, was battered by the pandemic. The country's financing requirements rose to 12.7% of GDP in 2020, and the difficulties in raising revenue coupled with the unprecedented collapse in oil prices put the country at risk of default. To meet its short-term needs, the Ecuadorian government signed an emergency loan with the IMF in March 2020 (for US\$800 million) and reached an agreement on an Extended Financing Facility (EFF) with the IMF in September (for US\$6.5 billion over the next three years). GDP shrank 7.8% that year. Nevertheless, the reforms implemented helped prevent the additional decline projected for 2020 and drove growth in 2021.⁹ The country renegotiated its debt with private lenders in 2020, which deferred approximately US\$3.3 billion (5% of total public debt) in debt servicing slated for 2021 and eased the State's short-term commitments. Also in 2020, the Ecuadorian government reformed fuel subsidies, implementing a system of moving bands for gasoline and diesel prices. This arrangement remained in place until October 2021 and trimmed subsidy expenditures by 0.7% of GDP in 2021. The Humanitarian Act of 2020 included labor reforms under which terms of employment could be modified to safeguard sources of employment. There were also several reforms to the Ecuadorian economy's transparency and governance framework, driven in part by the agreements reached with the IMF in 2019 and 2020.¹⁰ During the pandemic, the Ecuadorian government leveraged multilateral financing to cover its financing requirements. As a result, the country's debt jumped from 19.7% of GDP in 2019 to 59% of GDP at year-end 2021.

1.4 The pandemic increased the need for social investments, especially those aimed at protecting women, Indigenous peoples, and Afro-Ecuadorians.

As GDP contracted in 2020, social indicators deteriorated even further. However, this trend started to reverse course in 2021. Poverty rates decreased from 33% in December 2020 to 27.7% (4.9 million people) in December 2021. As in previous years, there were higher than average poverty rates among women (28.5%), Indigenous peoples (59%), and Afro-Ecuadorians (31%). The unemployment rate rose from 3.8% of the economically active population (EAP) in 2019 to 4.7% of the

⁷ An individual is considered adequately employed if, in the reference week, they work 40+ hours and earn a monthly wage equal to or greater than minimum wage, regardless of their desire or ability to work additional hours. Adequate employment also includes employees who earn a wage equal to or greater than minimum wage but worked fewer than 40 hours in the reference week and are not able to work additional hours (INEC).

⁸ Time series and tabulation from the National Survey on Employment, Unemployment, and Underemployment (ENEMDU), 2019. INEC.

⁹ IMF forecasts anticipated a contraction of 11.8% of GDP in 2020.

¹⁰ Reforms to the Comprehensive Criminal Code (Anticorruption Act) and the Property Confiscation Act strengthened rule of law. The government also overhauled the framework for fiscal and debt statistics to bring it in line with international standards and reformulated the fiscal discipline framework with its approval of the Public Finance Consolidation Act of 2020. The reform of the Financial and Monetary Code empowered the Central Bank of Ecuador (BCE) to ensure that international reserves would not be used to finance expenditure in Ecuador's dollarized economy.

EAP in 2020, while the adequate employment rate fell from 38.8% of the EAP to 30.4% of the EAP over the same period. Labor market gender gaps, which have persisted for decades,¹¹ widened between 2019 and 2020. While unemployment rates among men increased by 1.3 percentage points (rising from 3.3% to 4.6% of economically active men) from 2019 to 2020, unemployment rates among women grew by 2.5 percentage points (rising from 4.6% to 7.1% of economically active women).

- 1.5 **The enacted reforms and the global economic recovery translated into stronger-than-expected economic and social performance in 2021.** In addition to the structural reforms discussed above, the expanded coverage and increased effectiveness of public health and vaccination programs¹² and the sustained rise in oil prices drove the stronger-than-projected economic performance in 2021. According to the Central Bank of Ecuador (BCE), GDP grew 4.2%,¹³ as opposed to the 2.8% forecast at the beginning of the year. This growth was accompanied by higher revenues (12.8% higher in 2021 than in 2020) and higher levels of exports (which increased from 20.5% of GDP in 2020 to 25.4% of GDP in 2021). At year-end 2021, the country's international reserves stood at a 15-year high (US\$7.898 billion). Adequate employment rates rebounded from 30.4% in 2020 to 33.9% in 2021. Economic growth, coupled with the massive expansion of transfers to vulnerable individuals in 2020 and 2021, helped stem the pandemic-related rise in poverty, bringing the poverty rate down from 33% in 2020 to 27.7% in 2021. In late 2021, Ecuador approved the fiscal reforms set out in the Fiscal Sustainability and Economic Development Act, which should bolster revenue gains, improve expenditure quality, make the public finances more organized and transparent, and make government operations more effective.
- 1.6 **These recent reforms and the Ecuadorian government's public policy agenda amount to a favorable outlook for the new country strategy execution period.** The structural reforms discussed above work alongside other trends in the same direction. For example, the Ecuadorian government is currently pursuing reforms that would make labor contracts more flexible, increase productivity, promote trade integration, and make the country more competitive. All of these reforms aim to position Ecuador as a more productive and diversified economy that can better compete on international markets and is a more attractive destination for foreign and domestic investment. The Ecuadorian government is also designing and implementing policies to improve the quality of public expenditure and make the public sector more efficient through organizational, technological (emphasizing digital transformation), institutional, and human resource innovations at government agencies and State-owned enterprises.

¹¹ On average, the gender gap in employment from 2007 to 2020 stood at 19.8%.

¹² As of March 2022, 89% of the population age 5 and older had received one dose of the vaccine, 85% had received two doses, and 27.5% had received a booster, according to reports from Ecuador's Ministry of Public Health.

¹³ In 2021, Ecuador reported a nominal output of US\$106.166 billion and real growth of 4.2% over 2020 levels. This growth was driven by 10.2% annual variation in household consumption and 4.3% annual variation in investment, which are, respectively, the highest annual changes in 20 years and in 4 years. Imports grew 13.2%, driven by commodities and capital goods.

- 1.7 **Nevertheless, gaps and risks to the country's long-term development persist, including challenges that Ecuador must address to achieve social inclusion.** With regard to the labor market in particular, statistics released by the National Statistics and Census Institute (INEC) in January 2022 reveal that the unemployment rate among women is 6.7%, versus 4.5% among men, while the full/adequate employment rate among women is 25.7%, compared with 38.4% among men. Whereas women who are employed earn an average wage of US\$497, men earn an average wage of US\$583. Data from the most recent Survey on Employment, Unemployment, and Underemployment (ENEMDU, 2021)¹⁴ reveal that there were minority wage gaps among adults ages 18 to 65 in 2021: while Indigenous and Afro-descendant workers earn average monthly wages of US\$305 and US\$384, respectively, the average monthly wage among mestizo workers is US\$475. Children who belong to minority groups attend school less frequently than non-minority children: among children ages 5 to 16, 6.7% of Indigenous children and 8% of Afro-descendant children do not attend school, compared with just 4.5% of non-minority children.
- 1.8 **Climate change also poses risks for the country's economy and its social development.** All regions of the country have experienced significant changes in average temperatures and precipitation rates. Among Latin American and Caribbean countries, Ecuador has the third highest natural disaster risk.¹⁵ For example, over the last 50 years the country has incurred an estimated US\$4.4 billion in losses from weather events caused by El Niño or La Niña.¹⁶ Estimates also indicate that intense droughts have taken a toll on agriculture, affecting 2.03 million hectares of farmland (66.7% of the country's total farmland) and 2.1 million hectares of pastures (53.7% of the country's total pastures). Beyond economic losses, 28,568 people were directly affected by particularly intense flooding in 2013, while another 33,955 people were directly affected in 2015. In February 2008, heavy rains resulted in flooding and landslides that affected over 5,000 families in Ecuador's coastal provinces.¹⁷ Estimates from 2018 indicate that over two million dwellings in Ecuador are located in areas with high climate and natural disaster risk (IDB, 2018).
- 1.9 **The war in Ukraine casts uncertainty on Ecuador's economic performance.** The war between Russia and Ukraine has drawn attention to how volatile the Ecuadorian economy is to external shocks to commodity prices. This turn of events may be beneficial for the country in the short term, but it draws attention to Ecuador's vulnerability to external shocks, making even more pronounced the need to implement structural reforms to lock in fiscal progress, move forward with State reforms, and streamline and enhance the efficiency of public service delivery. Though declining demand for Ecuadorian exports in destination markets such as Europe (strictly speaking, in Russia) has already started to affect the country's exports, net commodity exporters are expected to benefit from the current situation.¹⁸

¹⁴ Based on an analysis of data from the 2021 ENEMDU administered by the INEC.

¹⁵ European Commission Disaster Risk Knowledge Centre.

¹⁶ Agosti, Rubiano, and Pérez Maldonado, 2020.

¹⁷ Ibid.

¹⁸ According to the Minister of Production and Industry, the war between Russia and Ukraine disrupts exports, creates difficulties for the chain of payments, and increases the cost of Ecuadorian exports to Eurasia as well as the cost of inputs.

In the case of Ecuador, the net fiscal impact¹⁹ should be positive in the short term because the country is a net commodity exporter.²⁰

- 1.10 **The Ecuadorian economy should converge on pre-pandemic levels during the country strategy 2022-2025 implementation period.** Projections indicate that the Ecuadorian economy will grow at an average rate of 2.8% over the 2021-2025 period, near the growth rate posted over the past two decades (2000-2019) of 3.3%, driven by economic reconstruction, mass vaccinations, and better terms of trade alongside relatively low inflation levels. The fiscal deficit should continue to edge down over this period, averaging 6.6% of GDP. Latent challenges include consolidating the public finances, increasing investment for sustainable growth, diversifying the productive sector, creating quality jobs, and protecting vulnerable groups.

II. THE IDB GROUP'S PRESENCE IN THE COUNTRY

A. Implementation of the IDB Group's Country Strategy with Ecuador 2018-2021

- 2.1 **While the previous country strategy was in effect, the IDB consolidated its role as a key partner for the Ecuadorian government, supporting the country's essential reforms with financing, technical cooperation assistance, and knowledge.** The IDB Group's work over this period pursued three priority areas: strengthening of public finances; support for productivity and the private sector; and deepening of social advances. Emphasis was also placed on efforts in the IDB Group's crosscutting areas of gender and diversity, disaster risk management and climate change, and strengthening of the institutional capacity of local counterparts.
- 2.2 **An innovative mix of instruments was used to implement the operational program in order to meet the country's needs.** A strategic mix of investment loans, policy-based loans (PBLs), and guarantees was used over this period. To respond to the country's macroeconomic challenges, the IDB Group implemented innovative financing arrangements, such as special development loans and policy-based guarantees (which combine a PBL with a guarantee to support future debt issuances by the government), as well as five thematic bonds approved by IDB Invest.²¹ Over this period, the IDB Group allocated US\$828.7 million to climate change adaptation and/or mitigation measures.
- 2.3 **The IDB approved 31 sovereign guaranteed loan operations for a total of US\$4.595 billion.** Of those, 21 were investment operations (for a total of US\$1.9515 billion), and 4 were PBLs (for a total of US\$880 million). The IDB also approved two special development loans (for a total of US\$1 billion) and three guarantee operations (for a total of US\$763 million), and the Contingent Credit Facility for Natural Disaster Emergencies (CCF) was replenished to the tune of

¹⁹ The Ministry of Economy and Finance indicates that every \$1 increase in oil prices will generate US\$48 million in annual revenue in the State's 2022 budget.

²⁰ The war has been a major driver of rising oil prices but also represents an opportunity to transition towards a low-carbon economy with a more diversified production matrix.

²¹ Namely, a sovereign social bond, a green bond, a social bond for financial inclusion, a sustainable bond with target-linked incentives, and a social bond with a gender focus.

US\$160 million, replacing the amount used in the wake of the 2016 earthquake.²² The operational program focused on financing for the strengthening of public finances and macroeconomic sustainability; the strengthening of the country's energy and mining system; support for the financial sustainability of micro, small, and medium-sized enterprises (MSMEs) and the strengthening of institutions that impact the business climate and productivity; and support for health services and the social safety net during the COVID-19 pandemic. With this level of approvals, Ecuador's debt with the IDB amounted to 33.4% of its total multilateral debt and 15.5% of its total external debt as of year-end 2021.

- 2.4 **Approvals of nonsovereign guaranteed operations amounted to US\$1.504 billion.** Of that amount, 22 operations were long-term loans (for a total of US\$1.049 billion), while short-term loans amounted to US\$455 million. All told, 47% of approvals involved transactions to support access to financing through the financial sector and full-service banks, operations under the Trade Finance Facilitation Program (TFFP), and operations to promote green financing for SMEs (US\$703 million), while 18% was directed to the corporate sector, mostly to support Ecuador's largest chain of supermarkets and increase local access to quality products (US\$270 million); 15% (US\$220 million) went toward the development, construction, operation, and maintenance of Posorja port; 11% (US\$164 million) was channeled to the science and technology sector to improve the capacity and coverage of the country's mobile network and expand access to broadband mobile devices; 6% (US\$86 million) went to agribusiness; and 2% (US\$26 million) was directed to the industrial sector to help strengthen the textile value chain and boost exports.
- 2.5 **Lastly, nonreimbursable technical cooperation operations amounted to US\$19.7 million.** The IDB approved 49 technical cooperation operations (for a total of US\$15.3 million), while IDB Lab and IDB Invest approvals amounted to US\$4.4 million and US\$1.9 million, respectively. Most technical cooperation operations were used to expand the scope and impact of loan operations or support new areas with business potential.

B. Main results of the IDB Group Country Strategy with Ecuador 2018-2021

- 2.6 **During the previous country strategy period (2018-2021), IDB Group support contributed to results achieved under three pillars of support for the country's development.** This section will discuss some of the progress made.

Strengthening of public finances

- 2.7 **The IDB Group supported the fiscal reform approved in 2021, one of the most important public policy achievements in the country's recent history.** The IDB played a key role in designing the reform as well as in facilitating and coordinating working groups that brought together representatives from the Ecuadorian government, international organizations, and academia to draft a proposed reform that informed the one submitted to the National Assembly and ultimately approved

²² For the purposes of this document, sovereign guaranteed operations are those signed with central government entities or with other entities provided that the operation has a sovereign guarantee. Nonsovereign guaranteed operations are those that are signed with private sector entities or that do not have a sovereign guarantee.

by operation of law.²³ Thanks to IDB support, Ecuador was also able to push ahead with implementation of its Integrated Public Finance Management System, a new administrative and budget management model whose operation will align with international standards (IMF Data Quality Assessment Framework and IPSAS).²⁴ The IDB also provided assistance for implementation of a reform approved in 2020, under which fossil fuel subsidies will be gradually phased out (the reform was postponed temporarily in October 2021). The IDB collaborated with the IMF and other multilateral organizations on efforts in these areas.

- 2.8 **The energy sector continued to be a major part of the IDB Group's program due to its importance for fiscal and environmental issues.** Through a mix of various financial instruments, the Bank made a significant contribution to the work toward Ecuador's energy transition. Fossil fuel consumption fell from 26.3% of total consumption in 2017 to 20.2% in 2020, while the share of electricity generated from renewable sources rose from 54% in 2013 to 91% in 2020.²⁵ The national electricity distribution system was also strengthened, which helped cut carbon dioxide emissions, minimize losses and service disruptions, and build capacity at electricity distribution companies. More specifically, three sovereign guaranteed loan operations in the energy sector²⁶ financed investments in infrastructure and strengthening of the sector's regulatory framework, thereby helping Ecuador meet its targets for electricity exchange in the region and increase electricity exports to neighboring countries, including Peru. The IDB led a sector dialogue to promote the initiatives of the Interagency Electromobility Roundtable with the participation of several government agencies. The dialogue resulted in the first IDB loan with resources from an operation with the Clean Technology Fund as well as the development of a National Electromobility Strategy. Meanwhile, IDB Invest financed a hydropower project that helped mitigate emissions and increase the country's generation capacity during the strategy period.

Productivity and private sector

- 2.9 **The IDB Group assisted the Ecuadorian government with the design and implementation of policies to remove obstacles to private investment and productivity, medium- and long-term investment financing, and access to export markets.** Sovereign guaranteed investment loans financed activities to improve the business climate through efforts to optimize and streamline bureaucratic requirements, regulatory improvements, public-private dialogue, and development of a competitiveness strategy.

²³ Since the proposed law was neither approved, rejected, or tabled by the National Assembly, the urgent legislation entered into effect by executive decree, pursuant to Article 140 of the Constitution and Article 62 of the Lawmaking Act.

²⁴ The system will have a user base consisting of 4,000 agencies and 12,000 individual users.

²⁵ According to the Independent Country Program Review: Ecuador 2018-2021, "while the decline in economic activity that the pandemic caused could have positively impacted some indicators, other expected outcomes that reflected progress were reductions in fuel imports, the annual subsidy on liquefied petroleum gas, carbon dioxide emissions, and the average frequency of outages; and increases in electricity exports."

²⁶ EC-L1265, EC-L1117, and EC-L1223.

- 2.10 **IDB Invest played a vital role in fostering private investment and access to export markets.** A case in point is the operation to support construction of the Posorja port, which has positioned itself as one of the most efficient ports in Latin America due to its elevated level of productivity, its “smart port” features, and its implementation of strict environmental and social measures. IDB Invest also provided US\$263 million in short-term financing for international trade under regional TFFP lines. IDB Invest transactions facilitated access to finance for over US\$800 million in equity investments through several corporations, which involved support for 50,344 jobs, and 64,930 people received support from employment initiatives. Financing channeled through financial institutions supported 42,512 SMEs, 90% of which received funds from the country’s leading banks under an initiative to increase access to microcredit with a gender and inclusion focus.
- 2.11 **Support was provided to strengthen disaster risk management capacity in Ecuador** in light of the significant impact that intense weather events and climate change have for the fiscal authorities, the public, and the productive sector. Ecuador continues to have a contingent credit facility for natural disaster emergencies, which was renewed in 2018. As part of the IDB Group’s comprehensive support in this area, the Bank provided financing to strengthen the country’s early warning system, which included improvements to centralized disaster control centers and installation of community sirens with surveillance cameras in the country’s coastal regions and in three priority river basins. These activities reinforced these communities’ ability to respond to emergencies caused by tsunamis and riverine flooding.

Deepening of social advances

- 2.12 **Special attention was given to promoting productivity through the inclusion of women and priority groups.** Through a PBL, the IDB supported the creation of the Gender Parity Initiative, a high-level public-private partnership that seeks to identify and reduce barriers that hinder access to work opportunities on a level playing field in the country, focusing on increasing women’s participation in the workforce, reducing the wage gap, and promoting women’s leadership. That PBL also helped create the institutional framework needed to facilitate a recovery in formal employment, especially in economic sectors that contribute to the country’s environmental goals. In addition, the IDB Group approved a guarantee to back the Ecuadorian government’s issue of the world’s first sovereign social bond. Resources generated from that bond issue were used to promote the government’s “Casa para Todos” [“Housing for All”] program. IDB Lab provided support through projects such as “Without Borders: Innovations for the Inclusion of Migrants,” which sought to lay the foundation for a social and economic integration system for migrants and host communities to facilitate livelihoods and income generation, and “Migrant Social Impact Entrepreneurship Through Diversity,” which supported the development and strengthening of social enterprises led by migrants and members of the local community, with a focus on women and the LGBTQI+ community.
- 2.13 **With respect to social services, the IDB Group’s programming focused on supporting the Ecuadorian government’s efforts in education, health, and water and sanitation.** Policies implemented in these areas placed particular emphasis on support for mothers and infants and on improving coordination and management at several social sector agencies. Investment operations helped increase primary and secondary school graduation rates, supported teacher training,

and supported development of a model to improve educational inclusion for students with disabilities. IDB Invest provided financing to build, outfit, and operate a new university campus (including technologies and incentives to reduce water and electricity consumption), bringing benefits to 50,158 students. Under its arrangement with the IMF, Ecuador expanded coverage of its unconditional cash transfers, thereby scaling up its social safety net. As of December 2021, the Ministry of Social and Economic Inclusion reported that 1,463,646 people had benefited from its voucher and pension programs (48.5% more than in December 2019). In addition, financing was provided for four early childhood centers, training was provided to nearly 6,000 early childhood educators and mother and child health care providers, the plan to promote mother and child health care was strengthened, and support was provided for the remodeling and outfitting of hospitals and health centers, development of education materials, and trainings for health care staff. Coverage of preventive health care services for children from 1 to 5 was expanded from 39% in 2012 to 97.8% in 2019. The IDB Group also supported the strengthening of cross-sector social coordination and management through an operation that partially updated the data repository for the Interconnected Registry of Social Programs (RIPS). IDB Lab signed a memorandum of understanding with Novulis, a social enterprise, to deliver dental care to priority groups in rural communities. Lastly, five sovereign guaranteed loan operations and one nonsovereign guaranteed loan operation focused on expanding access to safe water and sanitation services and improving existing services in several parts of the country.

- 2.14 **The IDB Group mounted a coordinated response to COVID-19 in Ecuador.** In 2020, the Ecuadorian government modified its public investment and policy approach to respond to the sudden challenges that arose with the onset of the COVID-19 public health crisis. The IDB Group mounted a nimble response to the crisis in Ecuador, adapting its financing instruments and giving priority to areas of investment to effectively address newly emergent public and private sector demands. For instance, the IDB expanded the coverage of its contingent credit facility for natural disasters to include public health crises, enabling countries that have contingent credit lines with the Bank to use those lines to finance pandemic and epidemic responses. The IDB Group focused not only on mitigating the short-term impact of COVID-19 on the health sector but also on providing financing to mitigate the pandemic's medium-term social impact and support the country in its efforts to transform the crisis into an opportunity to rebuild the country's industry and stabilize the economy. The first COVID-19 prototype operation approved by the IDB was an operation in Ecuador, which focused on safeguarding the productive fabric and employment and included funds to inject liquidity for SMEs, especially those led by women, and in doing so, keep that segment in business. The IDB's coordination with other multilateral organizations and development agencies yielded positive results for international cooperation, leveraging Ecuador's recovery in the wake of the COVID-19 crisis.

C. Active portfolio and lessons learned

- 2.15 **The active sovereign guaranteed loan portfolio consists of 34 operations for a total of US\$3.463 billion (US\$1.722 billion of which has already been disbursed).** The portfolio is primarily concentrated in financial markets (24%), health and social safety nets (22%), and energy (20%). The active technical cooperation operation portfolio includes 35 operations for a total of US\$14.1 million, mainly in the

social sector (20%), transportation (12%), and competitiveness, technology, and innovation (8%). The active IDB Invest portfolio comprises 28 operations totaling US\$869.3 million, with the following thematic distribution: other (26%), financial sector (26%), transportation (18%), science and technology (10%), agribusiness (8%), water and sanitation (7%), industry (3%), and education (2%). Disbursements in 2021 amounted to US\$148.4 million. IDB Lab's active portfolio consists of 24 operations (US\$15.2 million) focused on fostering the country's private venture ecosystem through equity investments in startups and loans for innovative businesses, with particular emphasis on promoting the empowerment of women and the inclusion of minorities.

- 2.16 **Implementation of the previous country strategy yielded lessons learned that will inform execution of the country strategy for the period 2022-2025 from a strategic standpoint.** The IDB Group firmly established itself as a key partner for the country in several areas, due to not only the financing it provides but also its valuable technical support, which builds on the value-added of IDB Group teams. At the strategic level, the IDB Group has gleaned the following lessons learned from the efforts implemented under the previous country strategy: (i) with an open, ongoing dialogue with other financial institutions and aid agencies in place, the comparative advantages of each organization can be tapped to better serve the client (as demonstrated by the financing provided for the pandemic response); (ii) strategic use of technical assistance resources is key to ensuring that the IDB Group has enough capacity to respond to the country's needs; (iii) continued efforts should be made to strengthen the regulatory and institutional framework for public-private partnerships (PPPs) in the country, with an emphasis on fiscal management; (iv) ongoing dialogue with sector ministries is key for building capacity to develop proposals, define policy strategies, and ensure the continuity of programs over time; (v) use of innovative products (such as thematic bonds and guarantees) has boosted the IDB Group's relevance in the country, making it possible to adapt better to client needs; therefore, both the public and private sector windows of the IDB Group should promote and expand the use of such products to provide innovative support to the country; and (vi) in view of the country's vulnerability to climate change and natural disasters, ensuring that all investments financed by the IDB Group include measures to enhance resilience to those risks is crucial.
- 2.17 **Lessons learned at the operational level will also inform execution of the Country Strategy 2022-2025.** With regard to the sovereign guaranteed portfolio, the following lessons learned should be taken into account: (i) in line with the recommendations set out by OVE in its Independent Country Program Review: Ecuador 2012-2017, it is important to provide execution units with ongoing technical support to ensure that they can sustain acceptable execution levels; (ii) innovative processes and methods should be developed to facilitate project execution and tailor them to local conditions; and (iii) steps should be taken to ensure that investment projects are supported by comprehensive assessments of social, geological, and environmental risks and that they take into account both the biodiversity of the areas affected by project execution and the likelihood that a natural disaster will occur. As for the nonsovereign guaranteed portfolio, one notable lesson learned is the importance of designing more comprehensive strategies for mitigating credit risk, in order to manage unexpected fluctuations on local and international markets

(including fluctuations in commodity prices), which tend to have an adverse impact on the performance of private sector operations.

- 2.18 **In addition to these lessons learned, projects at the subnational level pose a series of unique challenges.** High staff turnover, limited knowledge of procedures at multilateral banks, low levels of technical capacity, and the complex procedures that coordination across several institutions entails all affect the portfolio of projects executed by subnational agencies in particular (a point stressed by the Office of Evaluation and Oversight in its Independent Country Program Review 2018-2021). Accordingly, the IDB Group should step up its technical support and institutional strengthening efforts, not just in relation to IDB policies and procedures but also to build capacity at counterpart agencies so those agencies can build sound project portfolios that can attract Bank financing and conduct adequate supervision of works to maximize project quality and impact.
- 2.19 **Lastly, the IDB Group should harness synergies and cultivate coordinated work across its different windows.** For example, from 1994 to 1997, the IDB financed technical, legal, and financial studies for the structuring and concession of the Guayaquil Water and Sewerage Authority,²⁷ which laid the foundation for 2018, when IDB Invest financed the firm's fourth five-year investment program to improve service quality, execute modernization projects, and install new connections to drinking water and wastewater treatment in the country.

III. COUNTRY STRATEGY 2022-2025 PRIORITY AREAS²⁸

- 3.1 **Priority areas to support Ecuador's long-term development model have been identified in collaboration with the country's authorities.** To achieve a meaningful reduction in poverty levels with social inclusion, robust levels of economic growth are necessary. Given existing fiscal constraints, high levels of private investment are imperative for achieving such growth. The Ecuadorian government's strategy to foster this growth entails a swift expansion of the share of Ecuadorian goods that reach global markets as well as an open-door policy for investments in the country. The aim is to cultivate a diversified economy across sectors that can drive formal employment through investment, that makes social equity a top-line issue, and that is consistent with global environmental sustainability objectives. As a requisite condition to achieve such growth, Ecuador needs stable public finances and solid public institutions. Accordingly, this strategy proposes three priority areas for the IDB Group's work in the country over the 2022-2025 period: (i) development of the productive sector as a driver of sustainable growth; (ii) stabilization of public finances and institutional development; and (iii) strengthening of social progress, with emphasis on reducing gender gaps. The focus areas of gender equity and diversity, climate change and environmental sustainability, institutional capacity and rule of law, and digitalization will be

²⁷ Concession awarded to International Water Services (Guayaquil) B.V. Interagua Cia. Ltda.

²⁸ Information presented here on the activities the IDB will promote under these three priority areas is taken from "Ecuador: Country Development Challenges 2020," which addresses best practices for steps to address the problems identified in this country strategy (2022-2025). All references, as well as a detailed analysis of the development challenges addressed here, can be found in the Country Development Challenges document, available in the links section.

addressed as crosscutting issues, building on the progress achieved under the previous strategy.

- 3.2 **The Ecuadorian government's and the IDB Group's strategic visions guided the development of the country strategy priority areas.** The National Development Plan 2021-2025 sets forth five lines of action and sixteen strategic objectives. The intervention areas proposed in this country strategy align with the National Development Plan and with the following strategic objectives in particular: (i) increase employment opportunities and improve working conditions for all (objective 1); (ii) foster an economic system with clear rules that facilitate foreign trade, tourism, investment attraction, and modernization of the financial system (objective 2); (iii) ensure sustainable, transparent management of the public finances (objective 4); (iv) protect families, safeguard their rights and ensure their access to services, eradicate poverty, and foster social inclusion (objective 5); (v) safeguard the right to free, comprehensive, high-quality health care (objective 6); and (vi) promote public ethics, transparency, and the fight against corruption (objective 15). The priority areas are also aligned with: (i) the objective of tackling the development challenges identified in the IDB document "Ecuador: Country Development Challenges 2020;" (ii) the IDB Group's Institutional Strategy; and (iii) the IDB Group's Vision 2025. The IDB Group will tackle these priority areas through a coherent, concerted effort across the IDB, IDB Invest, and IDB Lab, harnessing the experience and expertise developed in building synergies across its three windows so the achievements of IDB Group interventions will have a deeper impact.
- 3.3 **The Country Strategy 2022-2025 calls for ongoing innovation of financial instruments, procedures, and knowledge to better serve the country's needs and demands.** This country strategy has been designed as a tool to support the country's post-pandemic recovery and has evolved out of the lessons learned from the previous country strategy regarding how to maximize the IDB Group's support by leveraging equity markets and tapping synergies across the IDB Group's various windows to mount a unified response that addresses the needs and demands of Ecuador's public and private sectors. Newly added areas of emphasis in this country strategy include the promotion of investments under PPPs, the leveraging of the equity market through thematic bonds and guarantees (such as green bonds and gender bonds), and the productive development of Ecuador's Amazon region.
- 3.4 **Though the objectives set out in this country strategy are conceptually similar to those from the previous strategy, the relative weight of each objective has changed.** In the Country Strategy 2018-2021, making progress toward fiscal sustainability was a priority issue in light of the need to bring order to and consolidate the fiscal accounts in the wake of the external shocks that emerged in 2015. To that end, under the previous strategy, the Ecuadorian government pushed ahead with its efforts in fiscal transparency, consolidation, and reform. In light of the budget constraints currently facing the Ecuadorian government and in keeping with the significant progress achieved on the fiscal front, development of the productive sector has taken on more relative importance in this new country strategy.
- 3.5 **The priority areas bring continuity to the work under the previous country strategy and support the active portfolio, strategic dialogue, and analytical agenda.** Along these lines, and in keeping with the Office of Evaluation and

Oversight's Independent Country Program Review 2018-2021, this country strategy endeavors to focus on the work areas in which the IDB Group offers the most value-added and can make the biggest impact while bringing continuity to areas in which the IDB has been working in recent years. The active portfolio and the analytical agenda will support the profiling and identification of knowledge and financial support options for Ecuador.

A. Priority area I: Development of the productive sector as a driver of sustainable growth

3.6 Several factors contribute to the insufficient development of the productive sector in Ecuador.

In particular, the following causes have been identified: (i) there is a perception that the costs of doing business are high, which hinders the development of sectors in which the country has comparative advantages (such as tourism), sectors with great strategic importance (such as the extractive industries), and sectors that are well-suited for private investment (such as PPPs in the infrastructure sector); (ii) the country has significant infrastructure gaps (physical, technological, and digital) that result in severe logistical constraints; and (iii) climate change has both adversely affected productivity in certain sectors (including coffee, banana, shrimp, and cocoa production) and increased the uncertainty surrounding investment projects due to natural disaster risk. All of this gives rise to an entrepreneurial ecosystem that is dominated by small companies with low levels of productivity that are concentrated in a handful of sectors, have low levels of innovation, and are not well integrated into global value chains. In such an ecosystem, companies have few incentives to be inclusive or properly internalize environmental and social costs.

3.7 Ecuador has been making an effort to diversify its industry, but there is still room for the country to reduce its dependency on the hydrocarbon sector and expand its participation in global value chains.

Ecuador's export sector is highly concentrated in commodities and low-value-added goods. As a result, the country's employment structure and productive fabric have low levels of technological sophistication and weak linkages. From 2011 to 2019, the share of value-added in Ecuador's gross exports stood at 11.2%, compared with 18.1% in Latin America and the Caribbean and 33% in Asia.²⁹ In 2021, only 3,930 Ecuadorian companies exported goods (8.6% of the combined total of small enterprises, medium-sized enterprises, and large corporations in the country³⁰). Integration of the country's agribusiness, fishery, agroforestry, textile, and tech services sectors in global value chains would generate an estimated US\$92.4 billion in potential business for those sectors.³¹ Ecuadorian entrepreneurs report that they face obstacles in the legal system, gaps in the regulatory framework, and steep costs when obtaining and renewing operating permits.³² According to the World Bank's strength of legal rights index (2019), Ecuador is next to last in the region with regard to legal protections for creditors. Insolvency proceedings in the country take 5.3 years on average (compared with an average of 2.9 years for Latin America and the Caribbean). The

²⁹ IDB, 2022. Strengthening Regional Value Chains in Latin America and the Caribbean.

³⁰ There are a total of 45,707 companies in the country, not including microenterprises.

³¹ Ibid.

³² In 2020, the country was ranked 90th out of 141 countries on the World Economic Forum's Competitiveness Index, while the 2021 Global Innovation Index ranked Ecuador 91st out of 132 countries.

Fraser Institute's 2019 Economic Freedom Index ranked Ecuador 105th out of 165 countries, stressing that the country had much room for improvement in its legal system and property right protections. Under Ecuadorian law, sectors in which the country has comparative advantages (including oil and mining) are considered "strategic," and the State can exercise greater discretion regarding investment rules in those sectors. As a result, investment rules are opaque and unpredictable for entrepreneurs, resulting in higher risks because property rights are tenuous.

- 3.8 **Small and medium-sized enterprises are the main vehicle for entrepreneurship, and there is room to improve their productivity and incorporate women and diverse groups into leadership positions.** There were 842,333 MSMEs³³ in Ecuador as of 2020 (99.5% of all companies registered in the country). These SMEs have low levels of technical and digital development and modest business models focused on local trade and manufacturing, which translates into low productivity, short lifespans, and weak growth. Yet SMEs are well placed to boost local investment and high-quality jobs. According to Global Entrepreneurship Monitor's 2019-2020 report, the main obstacles to SME growth are a lack of public policies tailored to SMEs and the scant supply of finance. SME development³⁴ creates opportunities for fostering entrepreneurship among women, since just 3 out of every 10 SME leaders/directors are women. This gap can be explained, in part, by the fact that women (and priority groups) have less access to productive loans.³⁵ Only 43% of women have an account in the financial system, versus 60% of men. Only 8% of women have taken out a loan from the financial system, versus 16% of men (just 3% of Indigenous Ecuadorians and 6% of Afro-Ecuadorians have a debit or credit card).³⁶ The scant access to credit in rural areas (which are home to many of the country's priority groups) can seemingly be attributed to the distance between households and points of service. Nearly 40% of Indigenous Ecuadorians, Afro-Ecuadorians, and Montubios cite the long distance they must travel to reach a financial institution office as one of the largest barriers to access to financial instruments.³⁷
- 3.9 **Tourism, which has ample room for expansion and technological sophistication, could improve investment rates.** Ecuador is among the 20 most megadiverse countries in the world,³⁸ which means that development of the tourism sector could boost other sectors that are built around the sustainable management of the country's natural wealth, such as sustainable agriculture, research, and biotechnology. Though the country has a robust network of community-based tourism companies, many of those companies do not have the capacity to develop sustainable business plans. As a result, many companies end up closing their doors

³³ Directory of Companies and Commercial Establishments. INEC.

³⁴ According to the INEC, one of the criteria to be considered an SME is a payroll with no more than 9 employees.

³⁵ According to the BCE's [economic inclusion statistics](#), as of the third quarter of 2020, 6,569 men had received a productive SME loan from the financial system, compared with just 2,823 women nationwide.

³⁶ BCE, 2021. [Estrategia Nacional de Inclusión Financiera 2020-2024 \[National Financial Inclusion Strategy 2020-2024\]](#).

³⁷ Ibid.

³⁸ National Geographic. https://viajes.nationalgeographic.com/es/a/paises-mas-biodiversidad-mundo_15317.

(Jaramillo-Moreno et al., 2020). The effects of the pandemic triggered a falloff in international tourist arrivals, leading to a 21% contraction in the tourism sector between 2019 and 2020. However, the sector began to rebound in 2021.³⁹ Promoting investment in tourism would help diversify the economy and create more formal jobs, especially for women, who accounted for 67% of the sector's workforce in 2021.

3.10 There are opportunities to close gaps in logistics and physical infrastructure.

The investment needed to expand and maintain the infrastructure required to achieve the sustainable development goals by 2030 amounts to US\$71.950 billion, broken down as follows: access to electricity, water, and sanitation (US\$11.808 billion); wastewater treatment and electricity generation and transmission (US\$21.024 billion); and access to rural transportation, urban mass transit, and residential broadband services (US\$9.662 billion). Using sustainable infrastructure investments to close these gaps could breathe new life into the productive sector and facilitate the identification of new opportunities within global value chains⁴⁰ (which could be facilitated through investments in the form of PPPs). An upgraded logistics system could also help bring down costs for producers and exporters. Documentary compliance in Ecuador entails higher costs and longer timeframes than in neighboring countries.⁴¹ The country is particularly behind in terms of international connectivity hubs and the quality of logistics services (including logistics infrastructure: facilities, corridors, etc.). One reason behind the gaps in shipping connectivity is the low level of development of intermodal connections between ports and overland transport, which means that appealing to cargo in overland transit to supply the region is not very practicable (Latin American and Caribbean Economic System, 2015).

3.11 There are regulatory challenges to establishing PPPs. PPPs are a promising way to address the challenges of efficient resource and risk allocation and remove barriers to priority investments (e.g., investments in strategic sectors or in basic infrastructure).⁴² For PPPs to be truly viable, beneficial, and aligned with the country's development objectives, suitable institutional arrangements must be in place. Since 1994, Ecuador has formalized some PPPs for transportation, energy, and environmental remediation, and the country's PPP Incentives Act has been in effect since 2015. Yet very few PPPs have materialized.⁴³ Though the country has a regulatory framework in place, there are still obstacles to bringing successful PPPs

³⁹ Prior to the pandemic, the tourism sector had started to become a more prominent player in the Ecuadorian economy, as its contribution to GDP rose from 1.8% in 2011 to 2.2% in 2019, when the sector employed 477,382 people and generated US\$2.422 million in annual revenue.

⁴⁰ Bricchetti et al., 2021.

⁴¹ Export times continue to be double the average times reported by Latin American and Caribbean countries. The Logistics Performance Index ranked Ecuador 62nd out of 160 countries in 2019 (World Bank, 2020).

⁴² For more information, see [Financiación privada de infraestructura como motor de crecimiento económico e igualdad en la región andina](#).

⁴³ According to data from the [Private Participation in Infrastructure Project Database](#), over the 2006-2020 period, PPP investments in Ecuador averaged 0.26% of GDP, compared with 1.12% in Peru and 0.68% in Colombia.

to fruition.⁴⁴ In 2021, the Ecuadorian government established the Technical Secretariat for PPPs, which is charged with coordinating activities to facilitate PPPs, launching a comprehensive public infrastructure system and procedures, streamlining bureaucratic formalities, and readying more public institutions to serve as counterparts.

- 3.12 **Actions to reduce vulnerability to climate change can help mitigate investment risks.** As mentioned above, climate change already has a devastating impact on Ecuador's productive fabric, imperiling production of crops for which Ecuador has a competitive advantage, such as coffee, bananas, and cocoa,⁴⁵ which comprise 24% of the country's nonoil exports. Therefore, Ecuador should build a climate resilience approach into all investments, and even regulatory frameworks and construction codes need to be brought into line with climate indicators. Furthermore, the country needs to scale up investments that help decarbonize its economy. Since the country is rich in natural resources, nature-based solutions offer an alternative that can support and contribute to the success of infrastructure investments while achieving goals related to climate change adaptation and mitigation. In fact, nature-based solutions can be used to protect against landslides, floods, and storms. For example, estimates indicate that Guayaquil's mangroves provide protection against flooding for more than 150,000 people per 20 kilometers of mangroves.⁴⁶ There is also a great opportunity to restore the country's mangroves, between 20% and 50% of which are degraded.⁴⁷
- 3.13 **The IDB Group's active portfolio includes operations aimed at tackling these challenges.** The IDB is currently supporting the push for sustainable investments in the mining and energy sectors, including financing for the mining cadastre and technical and professional capacity-building in these sectors. The IDB is also financing the development of policies to improve planning, regulatory frameworks, and oversight for investments in energy and other strategic sectors, including rules governing PPP investments and strategies to promote investment in these sectors. The IDB's assistance extends to support for the development of policies to deepen trade integration (for example, by joining the Pacific Alliance) and increase the productivity and competitiveness of the country's export sector (for example, by supporting impact assessments for trade agreements, capacity-building for the teams that negotiate trade agreements, and identification of opportunities to cut logistics costs).
- 3.14 **In keeping with this analysis, the IDB Group will support the country with the following lines of action over the Country Strategy 2022-2025 implementation period:**
- Cutting the cost of doing business to increase investment and make the country more competitive, through activities that streamline logistics, tax, hiring, and conflict resolution procedures. Strengthening regulatory frameworks that set out

⁴⁴ Limited institutional capacity and a lack of access to financing are some of the most significant obstacles. The Infrascope report (Economist Intelligence Unit, 2019) ranks Ecuador 12th out of 21 Latin American and Caribbean countries.

⁴⁵ Elbehri et al., 2015.

⁴⁶ Menéndez et al. 2020.

⁴⁷ Hastings, 2018.

property rights to regulate the effective use of natural capital, particularly in Ecuador's Amazon region.⁴⁸

- Developing a financial inclusion and financing strategy for SMEs, with particular emphasis on ventures led by women or members of priority groups as well as on segments related to bio-business. Improving access to financing for priority sectors, strategic sectors, and sectors in which Ecuador has comparative advantages.
- Boosting the business venture ecosystem to foster digital transformation and build innovation capacity (through such measures as investments in technologies and human capital) and to promote technological and organizational changes to effectively integrate companies into global value chains.⁴⁹
- Promoting investments in the delivery of basic infrastructure and connectivity services that make efficient use of natural capital and incorporate nature-based solutions. These investments will be aligned with Ecuador's National Strategy on Climate Change 2012-2025 and with its Nationally Determined Contribution (NDC) so they will be resilient to climate risks and minimize greenhouse gas emissions.
- Promoting institutional strengthening and capacity-building at the Ministry of Economy and Finance and at the Technical Secretariat for PPPs with a view to making PPP management more efficient and more effective. The IDB Group will also assist with efforts to standardize PPP contracts in a way that does not penalize innovation and adaptability, boost the State's capacity for developing methods to prioritize PPPs, and develop PPPs that help bridge the investment gap with innovative projects that foster the inclusion of women and vulnerable groups and that align with the country's climate objectives.
- Identifying and generating support for options that can increase investment in the tourism sector, including such segments as sustainable tourism, ecotourism, agritourism, rural tourism, and community-based tourism, with an emphasis on fostering inclusion of women and priority groups.

B. Priority area II: Stabilization of public finances and institutional development

3.15 Ecuador faces several problems in stabilizing its public finances and strengthening its institutions. First, there are inefficiencies in public sector institutions (central government, decentralized autonomous governments, State-owned enterprises, and other State agencies) that take the form of redundancy in positions and procedures, which makes the public administration inefficient and adversely affects the quality of public expenditure. Second, the tax system does not maximize potential revenue because tax expenditure is high⁵⁰ under the tax regimes currently in place. For the most part, tax floors, tax rates, and rules for tax breaks and exemptions are regressive and complex. In addition, taxpayer segmentation is

⁴⁸ Tourism is an example of a sector that could benefit from activities to cut the cost of doing business.

⁴⁹ The promotion of public-private partnerships is a possible outcome of activities to boost the business venture ecosystem.

⁵⁰ Government expenditure driven by provisions in tax law, regulations, or codes that lower or defer taxes for certain taxpayers.

weak, and tax evasion and tax avoidance rates are high since tax and customs oversight agencies are underequipped to enforce compliance with tax obligations because their procedures are limited and inefficient. Lastly, fiscal risks are considerable due to the high likelihood of shocks to State revenue, expenditure, assets, and liabilities driven by climate change, volatility on global commodities markets (especially oil), and other external shocks that take a particular toll on Ecuador because it is a dollarized economy. These challenges are discussed in additional detail below.

- 3.16 **There are opportunities for efficiency gains at public sector agencies.** In its most recent report,⁵¹ the IMF indicates that there are opportunities for improvements to institutional capacity (and human resources within the civil service)⁵² at several government agencies, notably the Social Registry Office, the BCE, the superintendencies that oversee financial institutions and insurance companies, the Ecuadorian Social Security Institute, and the Ecuadorian Statistics and Census Institute (and also at ministries, decentralized autonomous governments, and State-owned enterprises).⁵³ Some progress has been made, but existing fiscal and customs controls and risk management systems do not maximize the country's revenue potential.⁵⁴ The number and intensity of Internal Revenue Service (SRI) audits are below average for the region, as is the effectiveness of National Customs Service (SENAE) inspections. Sales can be traced thanks to the large amount of data and information generated by electronic invoicing, but the SRI and the SENAE have antiquated information systems and technological platforms, which hinders efforts to use this data to improve the efficiency of audits, risk management, inspections, and taxpayer services.⁵⁵ There are potential sources of fiscal revenue that are left untapped, and transaction costs make SRI and SENAE operations more expensive. Decentralized autonomous governments also contend with inefficiency issues that range from a dearth of technical and financial planning for operations and the poor quality of basic services to a lack of contingency plans and a shortage of well-trained staff. The tax administration lacks mechanisms to directly align spending with local needs, and the lack of linkages between the budget and the results achieved undermines expenditure efficiency within decentralized autonomous governments. To increase the efficiency of the public sector, the

⁵¹ Article IV [report](#) released by the IMF in October 2021 (along with the second and third reviews under the EFF).

⁵² All told, 40% of men employed by the civil service have a high school diploma, 32% have a university degree, 8% have a graduate degree, and 8% have completed a postsecondary technical degree program. As for women employed by the civil service, 17% have a high school diploma, 58% have a university degree, 12% have a graduate degree, and 8% have completed a postsecondary technical degree program.

⁵³ The Ecuadorian government cut its wage bill by 0.6% of GDP between 2015 and 2019, bringing it down from 10% of GDP to 9.4% of GDP, through a variety of measures that included staff cuts, wage cuts for senior management, and agency closures. All told, 80% of public servants are teachers, doctors, members of the armed services, or police officers.

⁵⁴ Studies show that institutional reforms have improved the performance of the tax administration, with positive spillovers for revenue (Díaz-Cassou and Ruiz-Arranz, 2019; and Ramírez and Carrillo-Maldonado, 2020).

⁵⁵ A recent [report](#) on trends in tax administration published by the Organisation for Economic Co-operation and Development (OECD) points to an accelerating trend toward e-government (use of digital methods for taxpayer identification, monitoring tax obligations, and customer service). Efforts are underway to develop risk management models powered by machine learning algorithms and artificial intelligence.

country also needs to strengthen rule of law and improve transparency, integrity, citizen security, and law and order.

- 3.17 **Despite the fiscal reform approved in 2021, there is still room to optimize tax expenditure.**⁵⁶ SRI estimates indicate that tax expenditure (deductions and exemptions related to direct and indirect taxes) amounted to 5.2% of GDP in 2019.⁵⁷ At that level, Ecuador is among the five Latin American and Caribbean countries with the highest tax expenditure, posting a rate that is similar to Costa Rica (5.49%) and the Dominican Republic (5.12%) but higher than Peru (2.13%), Chile (2.93%), and Panama (3.62%). Tax credits and waivers still could be more redistributive and more progressive, as could the profiling of the tax regimes that apply to different individuals and corporations.
- 3.18 **Addressing institutional weaknesses could make public asset management and investment more efficient.** A World Bank study on the maturity of the public asset management system found that: (i) addressing such weaknesses is not included among institutional priorities; (ii) there is a lack of established procedures for maintaining infrastructure for service delivery; (iii) there is a lack of criteria for assessing the value of public assets; (iv) only a small percentage of public institutions carry out activities related to maintenance of infrastructure and equipment; and (v) the data made available to inform decision-making is poor quality. These issues have been compounded by a severe cut in investment in maintenance of public assets, which fell from 7.6% of GDP in 2009 to 2.5% of GDP in 2016. The public investment system has low levels of efficiency,⁵⁸ which means there are opportunities for improvement. The weakest-performing areas are project planning and ex ante evaluation, selection criteria, implementation (bid selection, internal control, and audit), and ex post evaluation.
- 3.19 **Contingent liabilities associated with climate change, natural disasters, and epidemics and pandemics also increase fiscal risks.** The total cost of climate change through the year 2100 could range from 140% to 546% of 2010 GDP.⁵⁹ COVID-19 brought to light the potential fiscal cost that such crises can entail. Due to the country's high public-expenditure-to-GDP ratio (39% on average from 2017 to 2020), one area of opportunity is the possibility of using the public finances to make an impact on climate change, and there is room to scale up efforts along these lines, which began with Ecuador joining the [Coalition of Finance Ministers for Climate Action](#). Contingent credit lines and insurance could be a way to increase Ecuador's ex ante financial coverage, making the country more fiscally resilient.

⁵⁶ As regards the value-added tax (VAT), the reform includes new goods and services taxed at the 0% rate (menstrual products, COVID-19 protections, fuel imports, and tourism services), while removing others from the list of goods and services taxed at the 0% rate (including LED lamps, electric stoves, water heating systems, and web services).

⁵⁷ In 2019, VAT-related tax expenditure amounted to 2.3% of GDP, and 44% of tax waivers were related to foodstuffs, nonalcoholic beverages, and medications. Income tax expenditure amounted to 2.5% of GDP.

⁵⁸ According to a study on Ecuador's disaster risk profile ("Perfil de Riesgo de Desastres para Ecuador"), the maximum probable loss from potential damage to public infrastructure, buildings, and dwellings nationwide in a scenario in which Quito or Guayaquil is hit by a major earthquake with a return period of 1/100 years, would be approximately US\$30 billion.

⁵⁹ Economic Commission for Latin America and the Caribbean, 2012.

3.20 **There is room to accelerate the pace of digitalization in the public sector and pursue enhancements in citizen services, transparency in public procurements, and accountability.** The massive expansion of telework and the need to continue to serve the public during the pandemic have been driving forces behind the adoption of [digital technologies](#). Social distancing measures have increased the amount of time required to obtain permits, carry out legal proceedings, and access other services because public institutions are not equipped to offer such services virtually. At the same time, the cost of generating, securely storing, analyzing, and disseminating digital data has decreased. The pandemic has not only revealed challenges but has also brought to light several opportunities for improving processes in education, telehealth, procurement, logistics, and administration. It has also pointed up the need to strengthen cybersecurity.

3.21 **During the Country Strategy 2022-2025 implementation period, the IDB Group will assist Ecuador with the design, implementation, monitoring, and/or evaluation of public policies in the following areas:**

- Developing regulations that maximize revenue intake and make taxes more progressive, at both the national and the subnational level.
- Boosting fiscal revenue through a reduction in tax evasion and tax avoidance, improvements to tax and customs oversight systems, and improvements to management of the risk of tax and customs noncompliance.
- Improving the quality of fiscal expenditure at the national and subnational levels through expenditure reviews, development of results-based budgets, efforts to close gaps in investment and asset management, and opportunities for efficiency gains (such as with PPPs).⁶⁰
- Reforming and technologically and administratively modernizing public institutions (including State-owned enterprises), with particular emphasis on decentralized autonomous government agencies, to promote digitalization⁶¹ and ensure the most effective use of material resources and human capital.
- Improving climate-related fiscal risk management (documentation, analysis, assessment, budgeting, monitoring, mitigation, and reporting) and developing policies and instruments to integrate climate action into public budgets.
- Building the State's capacity for strategic planning, evaluation, and reporting.

C. Priority area III: Strengthening of social progress, with emphasis on gender

3.22 **The country faces several challenges in terms of improving employment and social services.** First, formal employment has a limited reach in the country. This problem is compounded by information asymmetries between companies and workers regarding available job skills and market demands, as well as by the

⁶⁰ Including recycling of existing infrastructure assets and the formation of new partnerships.

⁶¹ Efforts will be made to promote digitalization in the following areas in particular: (i) public administration (paperwork processing, monitoring, enforcement of obligations, and risk management), including an enabling framework for digital government and transformation; (ii) basic State duties and public service delivery (with an emphasis on taxpayer, importer, and exporter services); and (iii) efforts to collect, store, and effectively use administrative data in the design, implementation, monitoring, and evaluation of public policies.

mismatch between the skills that labor market participants offer and the skills the formal sector needs. Professional training opportunities are generally not aligned with the labor market, which has an acute impact on employment outcomes for women and members of priority groups. Second, the basic social services delivered by the public sector are tenuous, and access to quality services is uneven. There are opportunities to narrow the country's quantitative and qualitative housing deficits and boost the quality and coverage of education, health, water, electricity, sanitation, and road infrastructure services with an approach that fosters inclusion, sustainability, and universal accessibility. Lastly, more mechanisms for registering, identifying, and delivering social services to migrants are needed to promote their productive integration into Ecuadorian society. The following paragraphs discuss these issues in more detail and assess their scope.

- 3.23 **In 2020, the drop in the employment rate was sharper than the contraction in GDP, and women, Afro-descendants, and migrants were disproportionately affected.** That said, labor market indicators recovered in 2021. The unemployment rate rose from 4.6% in March 2019 to 6.2% in September 2020 to then settle at 4.4% in November 2021. The adequate employment rate decreased from 37.9% in June 2019 to 28.2% in October 2020 to then stabilize at 33.7% in November 2021. Women were hit hardest by the decline in employment: between June 2019 and September 2020, the unemployment rate among women rose 0.5% more than the rate among men. By November 2021, the unemployment rate among men had decreased from pre-pandemic levels (3.8% in March 2019 versus 3.4% at present), while the unemployment rate among women was slightly higher (5.7% in March 2019 versus 5.8% in 2021).⁶² The rate of unpaid work among women is 16.6%, compared to 5.5% among men.⁶³ The wage gap favors men by 17.9%.⁶⁴ Another demographic that was hit hard by the pandemic was young people: in 2021, 19.3% of young adults were neither in school nor employed, and 82% of young adults who are employed are informal workers. Ecuador is home to approximately 410,000-430,000 migrants, and estimates indicate that 50% lost their jobs due to the crisis, and only 18% are adequately employed.
- 3.24 **The pandemic's pronounced impact on the labor market adds to the challenges the country had been grappling with previously.** The first challenge is the lack of information and guidance for jobseekers. More than 6 out of every 10 jobseekers resort to informal methods to find employment. These methods have limited coverage and are relatively less effective for more vulnerable groups (Mazza, 2016). This challenge is caused by the limitations of the Public Employment Service's (SPE) Encuentra Empleo job search platform, which is still largely

⁶² ENEMDU, 2021.

⁶³ ENEMDU, 2021.

⁶⁴ The wage gap persists throughout an individual's entire career. Among workers with 0-5 years of experience, the gap is 11%. However, the gap then widens, climbing to 18% for workers with 6-12 years of experience. Among workers with 13+ years of experience, the gap remains higher than the early-career level but decreases to 13% (ENEMDU, 2019; ENEMDU, 2021).

underdeveloped.⁶⁵ The platform's coverage is very low, especially among employers (2.5% of companies are registered, compared with 15% in Mexico and 16% in Brazil), and the placement rate trails the regional average considerably (6% versus 27%). Second, there is a dearth of alternative job training and certification programs that align with employer demands. Those programs that do exist are focused on higher education, which means that the needs of young adults with lower education levels are not met.

- 3.25 **In addition to the difficulties that vulnerable groups tend to experience, with the onset of the pandemic delivery of basic services became unpredictable and the housing deficit widened.** In urban areas, 95% of the population has access to water, compared with 74% in rural areas. Sanitation coverage is 72% in urban areas and 65% in rural areas (SENAGUA, 2015). Only 28% of the wastewater that is collected is treated prior to being discharged to surface waters.⁶⁶ All told, 74% of the country's 221 autonomous decentralized municipal governments have some sort of wastewater treatment in place.⁶⁷ Expenditure on maintenance of the road network, urban traffic congestion, safe and environmentally sustainable transit, and water and sanitation is low. For example, the optimal level of investment and maintenance for the State Highway Network over the 2017-2020 period would have been US\$237 million annual,⁶⁸ but the actual amount invested was US\$83 million. Since water and sanitation is a decentralized service provided by decentralized autonomous governments, the approximate amount spent on operations and maintenance is difficult to come by. Nevertheless, given the fact that service rates do not defray 60% of operating costs in 65% of the country's cantons, presumably the amount spent on maintenance is not enough.⁶⁹ Nationwide, there is a quantitative housing deficit of 14.98% of unbuilt homes,⁷⁰ while the qualitative housing deficit⁷¹ affects 39.38% of the population (2.8 million people live in informal settlements). There is also a gap in access to mortgage financing because the high levels of informal and irregular employment restrict access to mortgages among lower income quintiles. Ecuador's Amazon region is the region with the highest housing deficit, with its rural areas reporting a quantitative deficit of 23% and a

⁶⁵ The SPE struggles with challenges on three fronts: (i) services for jobseekers and employers are limited and not very relevant (there are no specialized services for young people, women, or members of priority groups); (ii) its technology and information systems have low levels of capacity and interoperability; and (iii) there is no Labor Market Information System in place to consolidate data from different agencies in a coordinated fashion (Carrillo, 2019).

⁶⁶ Progress on Sanitation and Drinking Water, 2017.

⁶⁷ INEC, 2017.

⁶⁸ Data from the Ministry of Transportation and Public Works indicate that investments in maintenance in recent years amounted to US\$71.9 million (2016); US\$76.8 million (2017); US\$109.3 million (2018); and US\$74.7 million (2019).

⁶⁹ The electricity sector spends much more on operation than on maintenance: around US\$1.083 billion in 2015, or approximately 11% of the total value of the sector's assets.

⁷⁰ Data from the Housing and Urban Development Division (CSD/HUD) and the Ministry of Housing and Urban Development's Project, Program, and Plan Monitoring Office, as of December 2021.

⁷¹ Neighborhoods that are not covered by land-use planning and that are known for poor construction quality, weak property right systems, and precarious access to basic utilities.

qualitative deficit of 54% (compared with 17% and 50%, respectively, in the rest of the country).⁷²

- 3.26 Improvements to urban traffic congestion and rural roadways would strengthen social progress.** On a ranking of average hours lost in congestion in 200 cities worldwide, Quito comes in at 20th and Guayaquil is 23rd, with 173 hours and 167 hours lost annually, respectively.⁷³ Causes of traffic congestion include: (i) a lack of effective policies for urban growth management, which results in low density, inefficient urban sprawl; (ii) a shortage of quality intermodal and integrated public transit services; and (iii) a lack of sustainable mobility incentive and demand management policies that promote sustainable means of transit in lieu of private automobiles. Traffic results in productivity losses from the time the public spends on travel and can largely be attributed to the growth⁷⁴ of the motor vehicle fleet as well as its average age (16.1 years). Vehicular traffic is also responsible for over 40% of exhaust emissions in Quito and 21% nationwide, making the sector's environmental impact even worse. Use of bicycles as a sustainable transit alternative is not widespread because the country still lacks suitable infrastructure.⁷⁵ The Ecuadorian government is promoting the move to electric vehicles, and the recent Energy Efficiency Act stipulates that all new public transportation vehicles must be electric beginning in 2025. Highways managed by decentralized autonomous provincial governments are not in an optimal state of repair. In contrast to the quality of roads in the State highway network, rural highways in the secondary road network are lower in quality, which adversely affects agricultural productivity, market access, and performance of rural MSMEs. Over 66,000 kilometers of roads are in fair (29%) or poor (35%) condition.
- 3.27 Ecuador is undergoing an epidemiological and demographic transition that presents new challenges for the country's health care system.** The needs that already existed for investment to expand coverage (including infrastructure) and quality in the provision of healthcare services were laid bare by the pandemic. Despite the success of the country's COVID-19 vaccination campaign, with the pandemic, the unfinished task of eradicating infectious diseases exists alongside the challenge of addressing emerging chronic diseases.⁷⁶ Furthermore, given that life expectancy should rise to 80 years by 2040,⁷⁷ there are challenges involved in increasing coverage that will have to be addressed as the demand for healthcare services from older adults inevitably rises in the years ahead. In addition, as the government has pointed out, the chronic malnutrition rate among children under 5 is high across the board in Ecuador, and it is 8.7 percentage points higher in rural areas (28.7%) than in urban areas (20%). There is also disparity between priority groups, with malnutrition rates among children of Indigenous parents 19 percentage

⁷² Analysis based on data from the Ministry of Housing and Urban Development, 2021.

⁷³ Global Traffic Scorecard, INRIX, 2018.

⁷⁴ The fleet of motor vehicles registered in Ecuador grew by more than 1.4 million vehicles in a decade, to a total of over 2.4 million units as of 2018 (INEC, 2018).

⁷⁵ The city with the most kilometers of bike lanes is Quito, which is currently planning to increase its bike lane network to 62 kilometers.

⁷⁶ As of 2020, the leading causes of death in Ecuador are COVID-19 (20.6%) and ischemic heart disease (13.5%).

⁷⁷ INEC.

points higher (40.7%) than among children of mestizo parents (21.8%).⁷⁸ There are also geographic disparities in child malnutrition rates, with higher rates concentrated in provinces in the country's Central Sierra region, which report malnutrition rates between 32% and 35%. The infant mortality rate per 1,000 live births fell from 8.47 in 2014 to 7.7 in 2020, but the maternal mortality rate per 100,000 population rose from 49.2 to 57.6 over the same period, representing a healthcare challenge that must be addressed.

- 3.28 **Further progress is needed in education, particularly as regards coverage and retention.** Even prior to the pandemic, educational exclusion rates were troubling, especially in rural areas and among socioeconomically disadvantaged groups.⁷⁹ Studies indicate that educational exclusion in the region has worsened due to the pandemic (Lichand et al., 2021), as schools were closed for 231 days prior to October 2021. School closures lasted longer in the region than in any other part of the world (UNESCO, 2021). Educational exclusion, especially at the secondary level, is a source of clear disadvantages in terms of employment and opportunities. According to data from the 2021 ENEMDU, whereas 4.5% of mestizo children ages 5 to 16 did not attend school, that rate rose to 6.7% for Indigenous children and 8% for Afro-descendant children. With the return to in-person schooling, additional investments in school infrastructure are needed to ensure that students can return safely. To adapt to flexible teaching models, like hybrid instruction, Ecuador has to address the wide digital gap among students.⁸⁰ Due to the pandemic, in-person instruction was suspended for 4.6 million students in Ecuador. As of March 2022, there are calls for a return to in-person instruction throughout the country. Even though just 6 out of every 10 children have Internet access at home, the country has gleaned lessons learned for bringing digital education to Ecuadorian households.
- 3.29 **Migration increases demands on social services but also creates opportunities for growth.** The most recent INEC data indicate that 410,400 foreigners live in the country.⁸¹ The migrant population, and migrant adults over the age of 25 in particular, have, on average, higher levels of educational attainment than their Ecuadorian counterparts. All told, 37% of migrants have completed secondary education, and 36% have completed postsecondary studies, compared with 28% and 21%, respectively, of Ecuadorians. These differences appear to be at odds with the relatively similar poverty rates for the two groups (25% for the migrant population, compared with 27.7% for Ecuadorians). In addition, 95% of migrants who work hold informal jobs, and 88% report that they earn monthly pay that is less than minimum wage. These figures are worse than those for Ecuadorian workers with the same level of educational attainment. One key to achieving a quality integration of the migrant population into Ecuadorian society is ensuring that

⁷⁸ Source: National Survey on Health and Nutrition (ENSANUT, 2018). Estimates indicate that the average food deficit over the 2014-2016 period (an indicator that measures food access) for the entire region stood at 78 kilocalories (kcal) per capita per day, but the deficit in Ecuador was 80 kcal per capita per day, a rate higher than both the regional average and rates reported by countries like Colombia (50 kcal) and Peru (52 kcal).

⁷⁹ In 2018, just 76% of young people had completed high school. Among young people who live in rural areas or who belong to lower socioeconomic classes, this figure is even lower: around 57% for both groups (CIMA, 2018).

⁸⁰ UNESCO data indicate that only two out of every 10 students have connectivity devices for personal use.

⁸¹ Estimates based on data from the 2021 ENEMDU.

migrants have the documents needed to regularize their status and validate their credentials to bring them in line with labor market demands. The lack of residence permits is the main obstacle. On average, an employed migrant earns 12% less than a nonimmigrant, even after controlling for education level, age, and gender.⁸² There are also challenges regarding the delivery of health services, education, and services for unaccompanied children and adolescents, who are particularly vulnerable to human trafficking, kidnapping, forced labor, sexual and employment exploitation, abuse, mistreatment, and violence.

- 3.30 **Gaps in access to quality jobs and social services vary from region to region and are particularly pronounced in the Amazon region.** Of the country's four natural regions (the Galápagos Islands, the Sierra, the Coast, and the Amazon), the Amazon has the highest levels of income poverty, extreme poverty, and unmet basic needs.⁸³ Efforts to address these disparities would dovetail with the Ecuadorian government's National Development Strategy and the IDB's Amazon Initiative, which includes lines of action –and provides resources– to address access to basic services, connectivity, and the human capital of the residents of the region, where living conditions are more precarious than those in the rest of the country.
- 3.31 **The IDB has been supporting the strengthening of social progress.** As mentioned earlier, several operations in the portfolio aim to improve housing access and quality; water, sewer, and sanitation services; electricity; transportation; and waste and wastewater management. The IDB Group is also working to expand the coverage of social safety net, health, education, and child development programs and improve the quality and targeting of those programs.
- 3.32 **In addition to its ongoing efforts in these areas, the IDB Group proposes the following objectives in these areas to support the country during the Country Strategy 2022-2025 implementation period:**
- Boosting employment, with an emphasis on women and members of priority groups, through better matching between employees and employers in job searches and improving job skill development, with an emphasis on green jobs, tourism, and the digital economy.⁸⁴
 - Expanding and improving health and social service delivery, through efforts to promote the implementation and strengthening of digital systems as well as infrastructure investments involving cooperation with the private sector (including by promoting PPPs for the construction, operation, and/or maintenance of hospitals).
 - Supporting the design and implementation of the cross-sector strategic plan for the prevention and reduction of chronic childhood malnutrition (making prenatal care and the first 1,000 days of life a priority).

⁸² Calculated using data from the INEC's 2021 ENEMDU using weighted linear regression, in which the logarithm of wage income is driven by migration status, after controlling for gender, sex, age (17-65), education level, and region.

⁸³ Income and multidimensional poverty rates for the Amazon region stand at 54.4% and 71.1%, respectively, which stand in stark contrast to the respective rates in the Sierra (24% and 32%) and on the Coast (29% and 44%) (ENEMDU, 2021).

⁸⁴ Expanded social protection coverage could be a result of these actions.

- Strengthening the system for protecting educational pathways and promoting policies to lower drop-out rates, increase school attendance, and improve learning outcomes.
- Promoting digitalization processes to strengthen identification and comprehensive support services for migrants (including technical assistance to help local governments develop management models).
- Promoting activities to strengthen interagency relations between national government institutions and decentralized autonomous governments to coordinate policies for investment in health, education, social safety nets, and infrastructure.
- Supporting policies to improve investment planning and basic infrastructure asset management (housing, water and sanitation, electricity access, connectivity, and road networks), with particular emphasis on ensuring that maintenance of these assets is addressed in budgeting, with an environmental and social sustainability approach.

D. Crosscutting issues and dialogue areas

- 3.33 **The following IDB Group strategic priority areas will be addressed as crosscutting issues:** (i) gender and diversity; (ii) climate change, environmental sustainability, and natural disasters; (iii) institutional capacity and rule of law; and (iv) digitalization.
- 3.34 **Gender and diversity:** Ecuador reports gender gaps in several areas (the country was ranked 42nd out of 156 countries evaluated in the 2020 Global Gender Gap Report). Insecurity and violence disproportionately affect women and members of priority groups, resulting in more demand for social prevention policies. Insecurity and violence also stem from gender and diversity gaps in access to justice and security services. Labor market disparities are not limited to the gaps between men and women; members of priority groups also suffer from such disparities. There are gaps in other markets as well, including use of digital devices and access to credit. One of the IDB Group's objectives is to help the country reduce gender gaps and increase diversity in market access among minority groups in Ecuador. To that end: (i) sovereign guaranteed and nonsovereign guaranteed operations will promote public and private sector activities that aim to influence these gaps; (ii) priority will be given to investment programs whose objectives fully or partially focus on reducing gender gaps and disparities (which is evidenced by the emphasis placed on closing gender gaps in the priority areas set out in this country strategy); and (iii) efforts will be made to promote the generation of knowledge that draws attention to these disparities and identifies policies that can effectively correct them.
- 3.35 **Climate change, environmental sustainability, and natural disasters:** In Ecuador, the IDB Group will give priority to investment projects and policies that contribute to achieving the following objectives: (i) meeting the mitigation targets set out in the country's NDC; (ii) improving climate change resilience and adaptability in line with the 2012-2025 National Strategy on Climate Change and the NDC; (iii) integrating nature-based solutions into investments and national disaster risk management strategies and making specific investments in natural capital the first order of business to enhance infrastructure resilience; (iv) promoting the sustainable

recovery of the tourism industry by improving and safeguarding natural capital assets; (v) improving livelihoods in rural areas, promoting food security, and increasing the resilience of the agriculture sector through investments in sustainable and climate-smart agriculture programs; (vi) evaluating the economic and fiscal risks posed by the global energy transition to low-emission economies, supporting the country with vehicles it can use to manage risks and minimize the negative impact of the extractive industries; and (vii) supporting the development of financing mechanisms to fund ecosystem restoration and conservation and improve natural capital assets, such as debt-for-nature swaps and conservation trust funds.

- 3.36 **Institutional capacity and strengthening of rule of law.** Further efforts to strengthen Ecuador's institutions are necessary to make the country's development strategy sustainable. The IDB Group will promote investments that help strengthen the regulations that shape economic activity and the State's ability to effectively enforce such regulations. The IDB Group will seek out opportunities to work on the following areas: (i) creating incentives for investment in increasing the transparency of policies and the public accounts; (ii) preventing redundancies in responsibilities; (iii) cutting transaction costs for interactions between the State and the citizenry and between the State and private enterprises; and (iv) strengthening the State's relationship with the citizenry and with companies by increasing the coverage and quality of the public services it provides.
- 3.37 **Digitalization.** Digitalization is a key issue for the investments and priority areas proposed by the IDB Group in this country strategy.⁸⁵ Under the "development of the productive sector as a driver of sustainable growth" priority area, the IDB Group is promoting digitalization as a tool that features prominently in best practices for cutting the cost of doing business, which fosters economic competition and the use of digital platforms to access new labor markets (which also leads to more efficient energy use and reduces consumption of materials). In efforts to make the public administration more efficient, the core strategies that the IDB Group will support will involve a push for e-government (including such issues as a national digital agenda and governance, regulatory framework, cybersecurity, data use, interoperability, online government transactions, and digital talent for the public sector and the general public), the streamlining of bureaucratic formalities, and effective use of digital data to inform public policies. The IDB Group also plans to lock in social progress by expanding the connectivity of social service providers and the public at large while also supporting strategies to promote better quality, more relevant public services by boosting digital connectivity, digitalizing analog processes, and effectively using data in the design, monitoring, and impact evaluation of public policies. The digital transformation creates considerable demand for advanced digital skills, so the IDB will work with companies, jobseekers, and training providers to identify skills gaps and develop quality digital talent that can meet the demands of the productive sector. Facilitating the digital transformation of the Ecuadorian Social Security Institute is an essential part of the broader strategy to strengthen the pension system and work on tackling the key challenges of coverage, sustainability, and equity.

⁸⁵ These actions seek to encourage adoption of the [Principles for Digital Development](#) endorsed by the IDB Group.

- 3.38 **Dialogue areas.** In the IDB's dialogue with the Government of Ecuador, the possibility of support in the following areas has been discussed: (i) implementing public safety and justice plans;⁸⁶ (ii) identifying and sustainably developing highly biodiverse areas with a view to protecting them and monetizing their natural capital; (iii) supporting territorial, agricultural, ecotourism, and bioeconomy development policies, with an emphasis on areas with fragile or megadiverse ecosystems; (iv) designing and/or implementing an oil fund and/or supporting a hedging strategy to reduce the volatility of fiscal revenue; and (v) building capacity for natural resource management at the various institutional levels.

IV. ESTIMATED LENDING FRAMEWORK

- 4.1 **The nonfinancial public sector will continue to have financing needs throughout the period of this country strategy.** According to the 2018-2021 four-year budget plan, the nonfinancial public sector's projected gross financing requirements for the coming years will continue to be high but will trend down, coming in at US\$6.179 billion in 2025.⁸⁷ The government is expected to tap several sources to cover these needs, including bond issues on international markets, borrowing from domestic sources, primarily by public agencies (Ecuadorian Social Security Institute), and financing from bilateral and multilateral lenders.
- 4.2 **The projected demand for sovereign financing assumes average annual approvals of US\$350 million, or a total of US\$1.4 billion over the entire 2022-2025 period.** This level of approvals, coupled with projected disbursements, is consistent with the government's fiscal consolidation and borrowing strategy. As a result, IDB financing would account for nearly 33.5% of the country's multilateral debt and around 15.6% of its total debt.⁸⁸

V. STRATEGY IMPLEMENTATION

- 5.1 **Coordination within the IDB Group.** Coordination across the IDB, IDB Invest, and IDB Lab will adhere to the following parameters: (i) joint implementation of this strategy; (ii) planning of joint engagement missions with the authorities, especially in areas that require policy reforms and/or where there are clear synergies for collaborative work; (iii) organization of joint dissemination activities; (iv) maximization of operational synergies; and (v) joint generation of knowledge products (involving the three windows of the IDB Group) on topics that are relevant to the IDB Group's operational dialogue with its clients.

⁸⁶ According to the Ministry of the Interior, the homicide rate per 100,000 population rose from 6.88 in 2019 to 7.83 in 2020 and then jumped to 14.06 in 2021, while the number of homicides rose 81% between 2020 and 2021. With regard to vulnerable groups in particular, femicides increased 12.5% from 2019 to 2020 to then hold steady between 2020 and 2021, according to the INEC. The country has no data on challenges experienced by the LGBTQI+ population in the area of justice and security. Adding to this climate of violence, the Ecuadorian prison system is increasingly unstable. As of year-end 2021, the prison system reported that 320 prisoners had died in custody that year, making it the most violent year in Ecuadorian prisons since records have been kept.

⁸⁷ IMF Article IV report, October 2021.

⁸⁸ Ministry of Economy and Finance Debt Bulletin. January 2022. The Andean Development Corporation (CAF) accounts for 19.3% of multilateral debt and 8.9% of total external debt, the World Bank accounts for 13.2% and 6.1%, respectively, and the IMF accounts for 32.4% and 15%, respectively.

- 5.2 **Donor coordination.** The Bank anticipates close coordination with a variety of organizations, in line with the strategic priorities and comparative advantages of each institution, to strengthen synergies to help the country. Therefore the IDB Group expects to work collaboratively in the following areas: (i) with the IMF to coordinate efforts on fiscal, macroeconomic, and institutional reforms; (ii) with other multilateral development banks (the World Bank, the Andean Development Corporation, and the European Investment Bank) to ensure complementarity across investment projects and technical cooperation operations requested by the Ecuadorian government; (iii) with the Korea Trade-Investment Promotion Agency (KOTRA) and the Japan International Cooperation Agency (JICA) to promote investments in the energy sector; and (iv) with other agencies, including the French Development Agency, the Spanish Agency for International Development Cooperation (AECID), and the European Union, on a variety of investment projects. Through the Amazon Initiative, the IDB will mobilize public, private, and donor resources to promote socially and environmentally sustainable and inclusive development models and expedite achievement of the Sustainable Development Goals in Ecuador's Amazon communities and territories. Lastly, the IDB will promote bilateral cooperation on investment projects with such countries as the United Kingdom, the United States, Canada, France, and Spain.
- 5.3 **Country systems.** At present, the Bank fully uses the country's budget and treasury subsystems as well as its procurement information system. The accounting and reporting, shopping (standard goods and services), partial national competitive bidding, and advanced national competitive bidding subsystems are used on a partial basis. Over the strategy period, the Bank will seek to assist the government with fiduciary management initiatives related to: (i) improvements to the budget preparation and execution processes; (ii) improvements to Treasury Single Account controls and procedures; (iii) generation of timely, quality financial information as a tool for effective reporting in the Integrated Public Finance Management System (SINAFIP); (iv) improvements to interoperability between the Integrated Financial Information System and other Ecuadorian government applications; (v) full convergence with International Public Sector Accounting Standards; and (vi) follow-up and dialogue with the Office of the Comptroller General regarding adoption of the International Standards of Supreme Audit Institutions. The Bank also anticipates supporting the strengthening of the National Public Procurement System (SNCP) with: (i) the development of a new agreement regarding use of the SNCP in the active portfolio of operations financed by the IDB through the Country Office in Ecuador (CAN/CEC); and (ii) execution of an intraregional technical cooperation operation to help the National Public Procurement Service build capacity for replicating and implementing international best practices in the SNCP. At the Ecuadorian government's request, the Bank could also support other activities aimed at improving the SNCP. Annex V provides an overview of the use of country fiduciary systems through 31 December 2021.

VI. RISKS

- 6.1 **Execution risks.** The pace of execution of projects in the pipeline is constrained by the country's fiscal headroom. This risk, coupled with the fact that many executing agencies have limited capacity for project implementation and performance monitoring and with the high rate of turnover among administrative and managerial

staff, could derail timely completion of execution timeframes for the IDB portfolio. Furthermore, part of the work program proposed in this country strategy depends on the effective implementation of reforms included on the government's agenda. Therefore, any modification or postponement of public policy priorities could adversely affect program execution. To mitigate this risk, the Bank will stress use of a continuous portfolio review system to monitor operations and will remain in close dialogue with the Ministry of Economy and Finance and relevant sector ministries. The Bank will also continue to use technical assistance resources to support institutional and technical capacity-building for projects as needed. Efforts will also be made to innovate with training programs for public employees that address the specific skills needed when designing, monitoring, and evaluating IDB-financed development projects.

- 6.2 **Macroeconomic risk.** The country's fiscal revenues are volatile because they depend greatly on international oil prices; therefore, there is a risk that fiscal constraints will arise if oil prices worsen. Even though restrictions on economic activity have eased as the pandemic has stabilized, there is also still a risk that additional outbreaks could occur which, depending on their severity and scope, could result in economic and social impacts similar to the ones seen in recent years. Lastly, the global energy transition will inevitably entail technological, regulatory, and fiscal changes for the country. Though this is not expected to occur in the short term, it is important to prepare for an eventual scenario in which oil revenue, a significant source of revenue for the country, will decline.⁸⁹ To mitigate these risks, the IDB Group will work with the Ecuadorian government and other multilateral agencies in a coordinated manner to strengthen public finances and the institutional framework, taking into account different scenarios associated with the energy transition. The Bank will also continue its ongoing macroeconomic monitoring of debt and balance of payment sustainability and will continue to flexibly support the country with its public policy needs.
- 6.3 **Institutional risks.** Given current political and institutional conditions, there are risks that the policy objectives set forth in the National Development Plan may not be achieved, which would have implications for the country's development and would create a reputational risk for government agencies. Legislative approval has been secured to advance with some substantive reforms, but efforts on other reforms are still under way. To mitigate these risks, the IDB Group will work with the Ecuadorian government to build the State's institutional capacity for pressing ahead with an agenda of reforms that could help achieve the objectives of the National Development Plan within the bounds of the executive branch's authority.
- 6.4 **Climate change, natural disasters, and the energy transition.** As discussed above, the country constantly contends with the risk of large-scale natural disasters that could result in human and material losses and changes in the country's investment needs, which, by extension, could affect achievement of the objectives set out in this country strategy. Along these lines, the IDB Group will continue working to strengthen the country's ability to respond to disaster risk with a comprehensive approach, i.e., not only through a careful evaluation of risks inherent

⁸⁹ The pace of decarbonization depends on several global factors, but the International Energy Agency indicates that demand for hydrocarbons should peak in the current decade and decrease thereafter in a scenario in which the terms of the Paris Agreement are fulfilled.

to each project but also by promoting strategies and instruments to strengthen the country's prevention mechanisms.

ANNEX I: RESULTS MATRIX FOR THE COUNTRY STRATEGY 2022-2025 PRIORITY AREAS

Government priority: NDP-2021-2025	Country strategy priority area	Strategic objective of the country strategy	Expected outcome	Indicator	Baseline (source and year)
Economic focus Environmental transition focus	- Development of the productive sector as a driver of sustainable growth	1. Strengthen the regulatory frameworks that facilitate private investment	1.1 Increased private investment	1.1.1 Private investment (domestic and external) as a percentage of GDP	17% (BCE, 2019)
			1.2 Enhanced competitiveness	1.2.1 Global Competitiveness Index	55.7 (World Economic Forum, 2019)
		2. Improve access to finance	2.1 Growth in lending to the private sector	2.1.1 Lending to the private sector as a percentage of GDP ⁹⁰	49.33% (Superintendency of Banks, 2021)
		3. Expand the coverage and quality of physical and technological infrastructure	3.1 Expanded investment in infrastructure for competitiveness ⁹¹	3.1.1 Logistics Performance Index	2.88 (World Bank, 2018)
			3.2 Investments that are resilient to climate change and minimize greenhouse gas emissions	3.2.1 Percentage of IDB climate financing	13.9% (41.41 million/577 million; January 2018-December 2021). IDB Group Corporate Results Framework.
			3.3 Improved energy balance in favor of renewable energies	3.3.1 Renewable energy supply/ Total energy supply	19.8% (National Energy Balance, Ministry of Energy and Nonrenewable Natural Resources, 2020)
Economic focus	- Stabilization of public finances and institutional development	4. Reduce inefficiencies in public administration	4.1 Efficiency gains in government administration	4.1.1 Government Effectiveness Index (percent range)	-0.44 (Worldwide Governance Indicators, 2020)
			4.2 Further digitalization of the public sector	4.2.1 E-government Development Index ⁹²	0.7015 (United Nations EGDI, 2020)

⁹⁰ Notably, 16.7% of lending to the productive sector is concentrated in the microcredit segment, so this indicator reflects the increase in competitiveness among MSEs.

⁹¹ Other results matrix indicators related to achievement of objective 1.3, “Expansion of infrastructure coverage and quality,” are 5.2.1, 8.3.1, 8.4.1, and 8.5.1.

⁹² The E-government Development Index (EGDI) presents the state of E-Government development of United Nations member states to reflect how a country is using information technologies to promote access and inclusion of its people.

		5. Increase revenue	5.1 Increased revenue	5.1.1 Tax revenue as a percentage of 2021 GDP	13.2% (SRI, 2021)
Economic focus	- Strengthening of social progress, with emphasis on reducing gender gaps	6. Reduce the precariousness of employment	6.1 Higher formal employment rates among women	6.1.1 Adequate employment rate ⁹³ among women	32.4% (INEC, Feb. 2022)
			6.2 Higher employment rates among Indigenous peoples and Afro-Ecuadorians	6.2.1 Adequate employment rates among Indigenous peoples and Afro-Ecuadorians	Indigenous peoples: 5.3% Afro-Ecuadorians: 3.1% (INEC, Feb. 2022)
				6.2.2 Adequate employment rate in the Amazon region	19.9% (INEC, 2021 ENEMDU)
6.3 Higher employment rates among migrants		6.3.1 Migrants who are employed as a percentage of the total number of migrants ⁹⁴	57.5% (INEC, 2021 ENEMDU)		
Social focus		7. Expand access to and improve coverage of basic and social services	7.1 Improved coverage and quality of education services	7.1.1 Percentage of the population age 18-29 with a high school diploma	73.83%, (ENEMDU, August 2021)
			7.2 Improved coverage and quality of health services	7.2.1 Chronic child malnutrition (children under the age of 5)	23% (INEC ENSANUT, 2018)
			7.3 Improved housing infrastructure	7.3.1 Quantitative housing deficit	704,991 (14.98%) (Ministry of Housing and Urban Development, 2021)
			7.4 Improved infrastructure for water access	7.4.1 Percentage of the population with access to safe water	67.78% (INEC, based on ENEMDU, 2019)
			7.5 Improved digital connectivity	7.5.1 Percentage of households with Internet access	53.21% (INEC, National Multipurpose Survey, 2020)

⁹³ An individual is considered adequately employed if, during the reference week, they earn a wage equal to or greater than minimum wage and work 40+ hours per week regardless of their desire or ability to work additional hours.

⁹⁴ Migrant women age 18+ who worked the previous week (93,210) / Migrant women age 18+ (162,008); Statistics calculated based on the ENEMDU. Stata code over annual ENEMDU (2021): tab p02 p15aa [iweight=fexp] if p15aa==3 & p03>=18 & p20==1; tab p02 p15aa [iweight=fexp] if p15aa==3 & p03>=18

ANNEX II: SOCIAL AND ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021
Sector Real (%)								
Crecimiento real del PIB	3,8	0,1	-1,2	2,4	1,3	0,1	-7,8	4,2
PIB per capita (US\$)*	6347	6099	6046	6217	6319	6261	5643	5938
Crecimiento real del PIB petrolero	-6,0	-52,4	-13,6	29,3	20,3	-5,5	-22,8	12,4
Crecimiento real del PIB no petrolero	8,8	4,0	1,5	3,1	2,1	1,0	-7,6	5,9
Inflación a fin de periodo	3,7	3,4	1,1	-0,2	0,3	-0,1	-0,9	1,9
Indicadores Sociales (%)								
Pobreza	22,5	23,3	22,9	21,5	23,2	25	33	27,7
Pobreza extrema	7,7	8,5	8,7	7,9	8,4	8,9	15,4	10,5
Desempleo Total	3,8	4,8	5,2	4,6	3,9	4,2	5,0	5,2
Empleo Adecuado Total	49,3	46,5	41,2	42,3	40,2	38,3	30,8	32,5
Sector Fiscal (% del PIB)								
Ingresos SPNF**	38,4	36,3	33,1	34,8	38,1	36,1	31,9	33,3
Gasto Público**	46,3	42,5	42,2	39,8	40,3	38,9	38,1	32,0
Resultado primario**	-6,9	-4,8	-7,5	-2,9	0,4	0,0	-3,3	2,6
Resultado fiscal**	-7,9	-6,2	-9,1	-5,0	-2,1	-2,8	-6,1	1,4
Deuda pública consolidada	29,6	33,0	38,2	44,6	46,0	53,0	63,6	59,0
Sector Externo (% del PIB)								
Balanza Comercial	-0,7	-2,1	1,2	0,0	-0,4	0,8	3,3	2,7
Balanza Comercial petrolera	6,8	2,8	3,0	3,5	4,2	4,2	2,7	3,7
Balanza Comercial no petrolera	-7,5	-4,9	-1,7	-3,5	-4,6	-3,4	0,6	-1,0
Balanza por cuenta corriente*	-0,7	-2,2	1,1	-0,2	-1,2	-0,1	2,5	1,8
Crédito al sector privado	28,7	28,4	29,9	33,4	37,2	41,2	46,0	49,2
Captaciones del sistema financiero	32,2	29,5	35,0	36,7	37,6	40,8	48,7	51,7
Reservas internacionales	3,9	2,5	4,3	2,4	2,5	3,1	7,2	7,5

* BCE estimates as of the third quarter of 2021. Most recent data available as of 1 April 2022.

** Ministry of Economy and Finance (MEC) data from November 2021. Most recent data available as of 23 March 2022.

Source: BCE, MEC, INEC, and WEO (October 2021).

ANNEX III: SUMMARY DEVELOPMENT EFFECTIVENESS MATRIX

Country Strategy: Development Effectiveness Matrix	
<p>In August 2008, the Board of Directors approved the Development Effectiveness Framework (document GN-2489) to increase the evaluability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country's strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."</p>	

COUNTRY STRATEGY: ECUADOR

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

EFFECTIVENESS

This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	100%
- That provides corresponding policy recommendations	100%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

ANNEX IV: COUNTRY SYSTEMS MATRIX

Strategic Objective	Expected outcome	Indicator	Unit of measure	Base-line	Base-line year	Main objective	Time-frame	Alignment to Corporate Results Framework
Increase the use of country systems	Increased use of the accounting and reporting subsystem	Active portfolio using the accounting and reporting subsystem	% of the active portfolio	42%	2021	50%	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality
	Increased use of the procurement subsystem	Active portfolio using the shopping subsystem	% of the active portfolio	19%	2021	40%	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality
		Active portfolio partially using the NCB subsystem	% of the active portfolio	19%	2021	40%	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality
		Active portfolio using the advanced NCB subsystem	% of the active portfolio	19%	2021	40%	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality
Strengthen country systems	Closure of gaps with International Public Sector Accounting Standards (IPSAS)	Progress implementing the IPSAS action plan	% of progress implementing the IPSAS action plan	50%	2021	100%	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality
	Updating of the technical regulations of the Office of the Comptroller General	Technical regulations updated	Technical regulations updated	0	2021	1	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality
	Digital tools of the Official State Procurement System updated	Digital tools updated	Digital tools updated	0	2021	1	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality
Improve the operational efficiency of the IDB portfolio	New integrated financial information system implemented	Integrated financial information system implemented	Integrated financial information system implemented	0	2021	1	End of country strategy period	-Institutional capacity and rule of law -Productivity and innovation - Social inclusion and equality

ANNEX V: COUNTRY FIDUCIARY SYSTEMS

System	Baseline (2021)	Estimated use at end of country strategy period (2025)	Slated activities
Budget	100%	100%	Initiatives to improve budget preparation and execution processes
Treasury	100%	100%	Initiatives to improve Treasury Single Account processes and controls
Accounting and reporting	42%	50%	Initiatives to generate project financial reports within the Integrated Public Finance Management System (SINAFIP)
Internal audit	0%	0%	No activities planned.
External control	0%	0%	Dialogue and monitoring
Information system	100%	100%	No activities planned.
Individual consultants	0%	0%	No activities planned.
Shopping (standard goods and services)	19%	40%	Promote use of the SNCP in new operations
Partial NCB	19%	40%	Promote use of the SNCP in new operations
Advanced NCB	19%	40%	Promote use of the SNCP in new operations

Source: IDB Financial and Fiduciary Planning Division.