

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

FINANCIAL MANAGEMENT MODERNIZATION PROGRAM

(EC-L1249)

LOAN PROPOSAL

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ABBREVIATIONS

AFD	Agence Française de Développement [French Development Agency]
CGE	Contraloría General del Estado [Office of the Comptroller General]
COPLAFIP	Código Orgánico de Planificación y Finanzas Públicas [Code of Planning and Public Finance]
e-SIGEF	Sistema Integrado de Gestión de las Finanzas Públicas [Integrated public financial management system]
GDP	Gross domestic product
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
MEF	Ministry of Economy and Finance
N-SIGEF	Nuevo Sistema de Gestión Financiera [New financial management system]
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PGE	Procuraduría General del Estado [Office of the Attorney General]
SNCP	Servicio Nacional de Contratación Pública [National Public Procurement Service]

PROJECT SUMMARY

ECUADOR FINANCIAL MANAGEMENT MODERNIZATION PROGRAM (EC-L1249)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility^(a)	
Republic of Ecuador			Amortization period:	25 years
Executing and subexecuting agencies:			Disbursement period:	5 years
Ministry of Economy and Finance (MEF) as the executing agency and Office of the Attorney General (PGE) as the subexecuting agency for Component 3			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	43,000,000	89.3	Credit fee:	^(c)
			Inspection and supervision fee:	^(c)
Local:	5,160,000	10.7	Weighted average life:	15.03 years
Total:	48,160,000	100.0	Currency of approval:	U.S. dollars
Program at a Glance				
Program objective/description: The program will help increase the efficiency and transparency of public resource management through the modernization of financial management technology and the institutional strengthening of the MEF and the PGE.				
Special contractual conditions precedent to the first disbursement of the loan: As special contractual conditions precedent to the first disbursement, the executing agency will submit, to the Bank's satisfaction, evidence of fulfillment of: (i) the approval and entry into force of the program Operating Regulations under the terms previously agreed upon with the Bank; and (ii) the appointment of the program's management teams by the executing agency and subexecuting agency, based on the profiles and terms of reference included in the program Operating Regulations (paragraph 3.5).				
Special contractual condition precedent to the first disbursement of the loan for Component 3: Evidence of the signing of a subsidiary agreement between the executing and subexecuting agencies, establishing the obligations of the parties with respect to program execution, including: (i) conditions for the transfer of resources from the executing agency to the subexecuting agency; and (ii) a commitment that the program activities within the subexecuting agency's responsibility will be conducted pursuant to the loan contract and the program Operating Regulations (paragraph 3.6).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges:^(d)	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
Crosscutting topics:^(e)	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

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

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

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

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Background.** Ecuador is facing a complex macroeconomic situation. After several years of high public deficits that increased the debt burden and eroded its reserves, Ecuador is undergoing an ambitious fiscal consolidation and structural reform process. As a result of these efforts, between 2017 and 2018, the total deficit for the nonfinancial public sector fell from 4.5% to 0.9% of GDP. However, Ecuador's gross financing requirements are still high in an international context that has become more adverse, with tougher financing conditions for emerging markets and volatile crude oil prices.
- 1.2 The government therefore decided to negotiate a financing agreement with the International Monetary Fund (IMF). On 11 March 2019, the IMF approved an extended fund facility for approximately US\$4.2 billion, to be disbursed over three years. Other multilateral organizations such as the IDB, the Development Bank of Latin America, the World Bank, the Latin American Reserve Fund, the European Investment Bank, the Agence Française de Développement (AFD), and the United Nations Development Programme will supplement this with approximately US\$6 billion.¹ Thanks to this financing package, Ecuador will not need to turn to the market while it completes a fiscal adjustment and implements reforms expected to promote a new development model in which private investment will play a more central role. While the government-promoted fiscal consolidation effort will result in an economic contraction of 0.5% of GDP in 2019, the IMF estimates that the reforms currently being implemented will increase the potential growth of Ecuador's economy to levels close to 3% in the medium term.
- 1.3 Having a more efficient and transparent public sector could mitigate the effects of the fiscal consolidation process and increase its probability of success. Increasing the efficiency and effectiveness of providing public goods and services would reduce the impact of spending cuts without affecting the amount of services offered.² Likewise, the impact of public expenditure and investment on growth is influenced by the degree of public sector efficiency. Therefore, there is an opportunity to mitigate the macroeconomic impact of a fiscal adjustment by improving institutional performance.³ Public sector effectiveness is one of the determining factors for the probability of success of fiscal consolidation processes.⁴ Therefore, it is essential that Ecuador's fiscal adjustment strategy includes actions to improve government institutions (paragraph 1.14).

¹ Of this total, the IDB would provide financing for approximately US\$1,680,000,000 in new approvals between 2019 and 2021, including US\$1,128,800,000 in 2019, US\$241,500,000 in 2020, and US\$300,000,000 in 2021.

² Organization for Economic Cooperation and Development (OECD). 2010. "Fiscal Consolidation: Requirements, Timing, Instruments and Institutional Arrangements." *OECD Economic Outlook*. 2010/2.

³ Angelopoulos, K. et al. 2008. "Does public sector efficiency matter? Revisiting the relation between fiscal size and economic growth in a world sample"; IMF. 2015. "Making Public Investment More Efficient."

⁴ Heylen, F. et al. 2013. "Government efficiency, institutions, and the effects of fiscal consolidation on public debt." *European Journal of Political Economy*.

- 1.4 In this regard, the 2017-2021 National Development Plan for Ecuador indicates the importance of “balancing public finances through transparent, efficient, and sustainable fiscal management.”⁵ Also, the reforms advocated by the 2018-2021 Prosperity Plan include a reduction in the size of the State through institutional mergers, optimization of public spending, and increased management transparency.
- 1.5 In recent years, Ecuador has made progress in public resource management. The main achievements include: (i) design and launch of an integrated public financial management system (e-SIGEF), which enabled the integrated management of public finances, serving more than 4,000 entities and 12,000 users;⁶ (ii) approval of the Code of Planning and Public Finance (COPLAFIP), which enabled progress in aligning the State’s general budget with the priorities of the National Development Plan; and, (iii) more recently, the merger of the Ministry of Finance and the Ministry of Economic Policy Coordination to create the Ministry of Economy and Finance (MEF) (by [Presidential Decree 7-2017 of 24 May 2017](#)), so as to improve the consistency between the formulation of economic and budgetary policy. MEF’s strategic objectives now include “increasing the effectiveness, efficiency, quality, and transparency of the management of public sector revenue, spending, and financing” as well as of its operational efficiency.⁷ Accordingly, the ministry has been improving its current information systems and reviewing its organizational structure, processes, and operational management models so that they are consistent with the responsibilities arising from this new institutional framework.
- 1.6 **Main challenge.** The main challenge that this operation will address is that the instruments developed have not yet achieved levels of public resource management efficiency and transparency comparable with those of the region, despite the improvements achieved or under way. One of the main indicators to measure this level of efficiency in resource allocation is related to the Public Expenditure and Financial Accountability (PEFA)⁸ Performance Indicator PI-12, “multiyear perspective in fiscal planning, expenditure policy, and budgeting.” On a scale from A (best) to D (worst), Ecuador was only able to achieve a C+.⁹ The situation is compounded by difficulties estimating the possible cost of contingent liabilities resulting from unfavorable judicial rulings¹⁰ and their significant amounts. This limits budget planning and threatens the fiscal consolidation process. In terms of budget transparency, Ecuador obtained 49 out of 100 points in the International Budget Partnership¹¹ ranking. Compared to the region, Ecuador is considerably below Mexico, Brazil, Peru, the Dominican Republic, and Guatemala, which obtained

⁵ National Development Plan, page 73; Policy 4.5, page 79.

⁶ Source: MEF. 2018. Implementación del nuevo SIGEF.

⁷ Informe de Rendición de Cuentas, 2017.

⁸ Public Expenditure and Financial Accountability.

⁹ Informe PEFA (Marco de referencia para la evaluación de la gestión de las finanzas públicas) del Desempeño de la Gestión de las Finanzas Públicas en la República del Ecuador, 2014. Since public policy decisions have multiyear implications for public spending, good practices require these decisions to be linked to estimates of medium-term revenue availability. For the country to be able to go from a C to a B score, the links between multiyear estimates and the subsequent establishment of annual maximum budget limits should be clear and communicated to the ministries for budget preparation, which is not currently occurring. An objective of this operation is to close that gap.

¹⁰ As of 30 September 2018, MEF only had US\$490.2 million in contingencies for legal disputes.

¹¹ Open Budget Index, 2017.

scores between 61 and 80. In both cases, this means that there are many opportunities for improvement.

- 1.7 The problem of low levels of efficiency and transparency is mainly associated with three factors: (i) limitations in technology capabilities to support public financial management persist and the current information system (e-SIGEF) lacks capacity to integrate new regulations and international good practices; (ii) limitations in MEF's management capacity prevent the adoption of international good practices and the concepts and regulations set forth in the COPLAFIP; and (iii) shortcomings in the capacities for the defense of the State's legal interests.
- 1.8 **Limited technology capabilities to support financial management.** The current e-SIGEF has the following issues: (i) the useful life of this type of software is estimated at 10 years, based on various factors, such as the continuity of the technology platform, changes in corporate and business environments, etc., such that, as the current system is from 2008, it has become obsolete¹² since it can no longer properly fulfill the functions for which it was created and its maintenance cost has become unsustainable (between 2011 and 2018, Ecuador spent almost US\$17 million in maintenance); (ii) it has reached its capacity limit¹³ and cannot be modified to include new features, like those required by the COPLAFIP and the International Public Sector Accounting Standards (IPSAS), such as a new remuneration and payroll system, an asset and inventory management system, and an increase in the number of transactions of approximately 25% per year; (iii) it presents security problems because it lacks data backup to maintain continuity in operations in case of catastrophic events and robust mechanisms to avoid user duplication and access to functions that are incompatible with the profiles that were assigned to these users;¹⁴ and (iv) its capacity for interoperability is very limited, with an inability to link the State's general budget with the National Development Plan and to develop applications for its inclusion in the Interbank Payment System of the Central Bank of Ecuador, which makes it difficult to pay the salaries of public servants.¹⁵
- 1.9 **Limitations in MEF's management capacity.** These limitations are reflected in the low score (C+) for the applicable PEFA indicator (PI-16)¹⁶ and the score (B) obtained for PEFA indicator PI-10, "public access to key fiscal information."¹⁷ These scores indicate that there are opportunities for improvement in management capacity. The limitations are related to the following challenges: (i) limited alignment between the new legal responsibilities of MEF and its processes, information systems, organizational structure, employee profiles, and performance indicators. The first

¹² Source: MEF. 2018. Implementación del nuevo SIGEF.

¹³ Because of this, the system experiences sustained peaks of operating at maximum capacity. This negatively impacts response times and increases the risk of system outages. Ibid.

¹⁴ Project "Implementation and Installation of SIGEF-Ecuador (2014-2018)." MEF.

¹⁵ Contraloría General de la República: recomendaciones para el MEF vinculadas a nuevos desarrollos (2011-2018). Examen Especial al e-SIGEF.

¹⁶ To obtain a B score, it would be necessary for significant in-year adjustments to budget allocations to take place only once or twice per year and be done in a fairly transparent way.

¹⁷ To obtain a better score, Ecuador should make available to the public duly audited, consolidated financial reports in accordance with the IPSAS and/or publish detailed information on the resources provided to primary service units with national coverage in at least two sectors and at least annually.

stage of the merger involved a simple summation of the existing organizational structures, which led to some functions not being clearly defined and certain activities being duplicated. This resulted in shortcomings in the updating and documentation of processes and procedures, which this operation will help improve, update, and document. Consequently, the professional profile of some employees does not match the needs of the new functions;¹⁸ (ii) MEF has been unable to fully comply with all the regulations set forth in the COPLAFIP and to add the new budget management concepts established in this code. For example, Article 82 of the COPLAFIP regarding national cash management, which is mainly aimed at maintaining cash liquidity, has not been applied. Budget allocations are adjusted frequently (according to MEF, there are approximately 50,000 adjustments per year), making it difficult to execute public policies; (iii) MEF is still in the process of implementing the IPSAS,¹⁹ and therefore, the information available does not provide a complete overview of the fiscal position and does not support decision-making at a management level; (iv) information on the use of public resources is not accessible to the public periodically, in open formats, and with sufficient detail; and (v) public sector personnel are not sufficiently familiar with and are not applying the new procedures and concepts of the COPLAFIP and the IPSAS.²⁰

1.10 Shortcomings in the capacities for the defense of the State's legal interests.

These shortcomings translate into a substantial accumulation of cases filed against public entities, which generate large contingent liabilities that could result in a considerable loss of public resources. The function of defending the State is mainly conducted by the Office of the Attorney General (PGE), which is responsible for: (i) judicial representation of the State; (ii) legal support for the State and its institutions; (iii) provision of legal advice and answers of a binding nature to legal inquiries for public sector bodies and entities; and (iv) oversight, subject to the law, of acts and contracts entered into by public sector bodies and entities.²¹

1.11 At year-end 2018, the PGE was handling 97,162 active cases nationwide. Of that total, 30% were actions under administrative law, 18% labor law actions, 14% constitutional-law actions, 12% civil cases, 12% tax suits, 9% criminal trials, and 5% cases in mediation.²² Taken together these cases totaled contingent liabilities of approximately US\$41 billion for the Ecuadorian State. Internationally, legal claims from lawsuits against Ecuador during the past 10 years surpassed US\$14 billion. To date, these have resulted in payment obligations to third parties of more than US\$2.2 billion. According to data from the PGE, 83% of the claims included in the lawsuits have been precluded so far, reducing the amount to be paid by the State by more than US\$10.8 billion.

1.12 The weaknesses in the State's legal defense system are related to: (i) limitations in the current management model of the PGE that constrain the rational use of human

¹⁸ Based on external analyses prepared by experts for MEF, of the 583 employees working for this ministry, almost 90 do not match the professional profiles required for the new structure.

¹⁹ The weighted level of current alignment with the IPSAS is 21%, taking into account the five dimensions of the standards. IDB. 2017. "Estado de convergencia NICSP."

²⁰ MEF has not yet implemented a training plan to enable its employees and system users from other entities to understand and apply these concepts and instruments.

²¹ Article 237 of the Political Constitution.

²² PGE. Case management system.

resources, systematization of internal processes, interoperability with other institutions, and accountability for the agency's various units; (ii) limited capacity to prevent the improper application of laws by the entities subject to lawsuits,²³ and for the PGE to provide legal advice to the entities, respond to legal inquiries in a timely manner,²⁴ and oversee the lawfulness of legal acts; (iii) limited coverage for mediation centers on administrative law matters;²⁵ (iv) insufficient capacity to adequately address disputes,²⁶ associated with staff's outdated knowledge of legal issues, defense during hearings, international case law and legal scholarship, and interagency coordination for defense;²⁷ and (v) lack of knowledge by society and civil servants of the services offered by the PGE.

- 1.13 **Rationale.** Support has been provided for projects to strengthen various areas of public financial management, with operations such as the Public Administration Institutional Reform Program (loan 2653/OC-EC), the Program to Improve Public Service Quality (loan 3073/OC-EC), the Internal Revenue Service Improvement Program (loan 3325/OC-EC), the Program to Enhance Fiscal Capacity for Public Investment (loan 4670/OC-EC), and other Bank-financed interventions. These areas include detailed engineering for the new integrated public financial management system, the new financial management system (N-SIGEF), parameters for asset and inventory modules, download and extraction of information, financial aggregation and consolidation, reporting using business intelligence, revenue projections, and the start of the strategic plan to implement the IPSAS. Under loan 3073/OC-EC, MEF retained, using a competitive process following the Bank's policies, the services of a consulting firm to implement the N-SIGEF based on a SAP solution, which is currently at nearly 50% of parametrization.²⁸ However, the government has requested continuing technical and financial support from the Bank to implement this solution, through financing for other technological security, hardware, and institutional components that are described below. These will ensure that financial management is more transparent and efficient.
- 1.14 **Internal and external validity of the interventions.** International literature highlights several advantages of financial information systems: "First, the improved recording and processing of government financial transactions also allows prompt and efficient access to reliable financial data. [...] Second, [a Financial Management Information System] strengthens financial controls, facilitating a full and updated picture of commitments and expenditure on a continuous basis. [...] Third, it provides

²³ Thirty entities account for 40% of the lawsuits against the State. The most sued entities include decentralized autonomous governments, State control and regulation entities, collection entities, and social sector entities and ministries.

²⁴ Most of these inquiries (70%) do not meet the minimum requirements to be addressed because the institutions, particularly municipal governments, lack the knowledge to formulate them properly. However, this "screening" involves significant labor for the PGE, and reformulating the inquiries means additional efforts for the entities. Source: Inquiry Division, PGE.

²⁵ During the past year, the workload at mediation centers increased 38%, while logistic and human resources remained unchanged.

²⁶ Nationwide, nearly 60% of final rulings are decided against the State.

²⁷ The division responsible for public defense has 48 attorneys to attend to more than 97,000 active proceedings nationwide. The PGE has limited capacity to provide support to foreign attorneys during international trials. Of the committed PGE budget for 2018 (US\$34.5 million), 57.2% (equivalent to US\$19.7 million) was used to retain international attorneys.

²⁸ MEF. Implementación e implantación del Sistema Integrado de Gestión de las Finanzas Públicas.

the information to ensure improved efficiency and effectiveness of government financial management. Generally, increased availability of comprehensive financial information on current and past performance assists budgetary control and improved economic forecasting, planning, and budgeting.”²⁹ There is extensive evidence in the literature about the effectiveness of implementing financial information systems for public financial management, including the various benefits of these platforms and conditions needed for appropriate replicability. For example, the IMF³⁰ mentioned that generating financial information through a Financial Management Information System has relevance for financial transparency. In addition, De Renzio et al.³¹ showed a positive relationship between the quality of public financial management through fiscal credibility and the development of these information systems, not as the single cause, but as a relevant determinant. Likewise, a systematic analysis of 176 financial platforms used by 198 governments worldwide prepared by the World Bank³² argued that, under certain conditions, a good implementation of these types of tools helps improve transparency, fiscal management, and governance.

- 1.15 **Complementarity with other Bank operations.** This operation complements a series of interventions that the Bank has been executing in the country to improve revenue collection and public financial management (paragraph 1.13), as well as others it has been implementing to help Ecuador overcome its macrofiscal issues. These include the recently approved Emergency Program for Macroeconomic Sustainability and Prosperity (loan 4771/OC-EC) and the following operations that are being prepared: (i) a policy-based loan to improve fiscal management and promote production, which will support the regulatory and institutional elements of the structural reforms being implemented in the fiscal management area; and (ii) several investment loans that will provide sustainability to that reform effort, including a program focused on improving the efficiency of tax administration by supporting process integration for the Internal Revenue Service and the National Customs Service of Ecuador, and a program to reform State-owned enterprises in the executive branch, aimed at reducing the fiscal burden for the State of owning inefficient enterprises.
- 1.16 **The Bank’s experience with the country and the region.** The Bank has extensive experience in the design and implementation of similar institution-strengthening and spending-efficiency projects in Ecuador and the region, including: Program to Improve Public Service Quality (loan 3073/OC-EC), Public Administration Institutional Reform Program (loan 2653/OC-EC), Program to Support Results-based Budgeting (loan 2043/OC-ME), Support to Strengthen Trinidad and Tobago’s Public Financial Management System (loan 3473/OC-TT), Program to Strengthen the Legal Defense of the State (loan 2755/OC-CO), and Program for Institutional Modernization of the State Defense Council (loan 2538/OC-CH). Since the Bank has been a strategic partner for Ecuador in strengthening its institutions through several

²⁹ Diamond, Jack; and Pokar Khemani. 2005. *Introducing Financial Management Information Systems in Developing Countries*. IMF Working Paper.

³⁰ IMF. 2012. “*Fiscal Transparency, Accountability, and Risk*.” Board Paper. Washington, D.C.: IMF.

³¹ De Renzio, P. et al. 2011. “*Does Donor Support to Public Financial Management Reforms in Developing Countries Work? An Analytical Study of Quantitative Cross-Country Evidence*.” Overseas Development Institute. London: Overseas Development Institute.

³² Dener, C. et al. 2011. *Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn’t*. World Bank: Washington, D.C.

operations, the country has requested that the Bank expand its support for these reforms. The Bank will also provide value added in promoting coordination between efficiency and transparency in public resource management by using modern systems and technologies for management and international good practices for institution-strengthening.

- 1.17 **Lessons learned.** Among the lessons learned and international good practices that are applicable to public financial management systems, successful strategies point to a gradual, modular approach to the development and installation or updating of the system, with effective maintenance and a user focus. The availability of sufficient technical and budgetary resources for system maintenance, along with the implementation and institutionalization of good management practices for information technologies based on international frameworks, are essential to ensure service quality and extend the system's useful life. A Financial Management Information System platform should have clear rules and interfaces, so that custom-made and off-the-shelf systems and modules can coexist and interact according to the needs of each government.³³
- 1.18 In recent years, through the Bank's support for the region with investment loans, a recurring issue that has arisen is the need to strengthen execution to continue supporting the countries beyond designing these systems. For Ecuador, a contract with a company to provide support throughout the cycle of installing and operating the system will bolster this technical assistance throughout project execution. It will also promote the inclusion of the IPSAS in the system and leverage the high level of commitment and technical and policy leadership in Ecuador on this issue.³⁴
- 1.19 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the productivity and innovation challenge by supporting the development and adoption of more efficient methods to deliver institutional services, particularly by updating technology, using the "new management models implemented" indicator. It is also aligned with the crosscutting topics of institutional capacity and rule of law by supporting the strengthening of public expenditure management through the indicator "multiyear perspective in fiscal planning, expenditure policy, and budgeting," as well as transparency through the indicator "Open Budget Index" from the International Budget Partnership. In addition, the program aligns with the Corporate Results Framework 2016-2019 (document GN-2727-6) by helping to increase the number of government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery, as well as through the indicator "countries using national fiduciary systems." The operation also aligns with the Sector Strategy Institutions for Growth and Social Welfare (document GN-2587-2), specifically its public sector management and finance component, and is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8) by promoting the strengthening of public financial management. Likewise, the program is consistent with the IDB Group Country

³³ Pimenta, Carlos and Seco, Antonio. 2019. "[Technological Opportunities and Recommendations for Modernizing Integrated Financial Management Information Systems in Latin America and the Caribbean](#)". IDB-DP-651.

³⁴ Hashim, A., and M. Piatti-Fünfkirchen. 2018. [Lessons from Reforming Financial Management Information Systems: A Review of the Evidence](#). Independent Evaluation Group. World Bank. Washington, D.C.

Strategy with Ecuador 2018-2021 (document GN-2924) through the strategic objective of “generat[ing] efficiencies and increas[ing] the quality of public expenditure.” Lastly, this operation is included in the 2019 Operational Program Report (document GN-2948).

B. Objectives, components, and cost

- 1.20 **Program objective.** The program will help increase the efficiency and transparency of public resource management through the modernization of financial management technology and the institutional strengthening of the Ministry of Economy and Finance (MEF) and the Office of the Attorney General (PGE). To do so, the program will include the following components:
- 1.21 **Component 1. Modernization of financial management technology (IDB: US\$26.5 million and local financing: US\$3.2 million).** This component will support the installation of a single information management platform for the public administration’s financial accounting cycle, providing central and decentralized government entities with a digital tool that supports the entire public expenditure budgeting and execution cycle.³⁵ This component will finance: (i) providing technical assistance services and licenses for the installation of the N-SIGEF, including MEF personnel training services, assuring the operation, maintenance, and upgrading of versions of the system to support its sustainability, and consolidating the support that the Bank has been providing for the new system;³⁶ (ii) providing external monitoring services for the implementation of the N-SIGEF; (iii) purchasing and installing hardware to support the new system; (iv) launching an Alternate Data Center³⁷ and formulating a disaster contingency plan; (v) implementing profile creation controls and user profiles based on national ID cards; (vi) implementing a transparency and public information module in the N-SIGEF, with accessible language and suitable data breakdowns; and (vii) establishing interoperability between the N-SIGEF and key public institutions.³⁸
- 1.22 **Component 2. Institutional strengthening of MEF (IDB: US\$10 million and local financing: US\$1.2 million).** This component will support the development of institutional capacities at MEF to improve the performance of its public resource management responsibilities. This component will finance: (i) preparing a situation

³⁵ This will enable benefits such as: (i) implement new financial concepts pursuant to the COPLAFIP; (ii) apply best practices for financial management in the public sector, including the IPSAS; (iii) include management by process in the financial area, supported by the new system; and (iv) support the increase in users from public entities, maintaining quality and response time.

³⁶ The resources provided through the operations indicated in paragraph 1.13 will be supplemented to finance the implementation of the SAP solution (through a contract signed on 8 December 2016 between MEF and Consorcio Ayesa Advanced Technologies S.A. - Informática El Corte Inglés S.A.), in addition to new licenses, tests, and functionalities. Maintenance savings with the N-SIGEF are estimated at approximately 30% of the average annual investments in the e-SIGEF over the past 10 years.

³⁷ For the implementation of the Alternate Data Center, an option to use a hybrid cloud model will be considered. This will include an analysis of the country’s connectivity costs, performance of new applications, and type of information to be stored. Pimenta and Seco, 2019.

³⁸ These include the Central Bank, Planning and Development Department, Internal Revenue Service, National Public Procurement System, and Office of Vital Records.

- assessment of MEF and proposal and implementation a management model;³⁹ (ii) developing technical standards regulating the processes applying the provisions of the COPLAFIP; (iii) implementing the IPSAS,⁴⁰ including actuarial studies, development of a valuation plan for contingent assets and liabilities, and support for initial implementation;⁴¹ (iv) providing training in the new business processes, new rules and concepts, and use of the N-SIGEF;⁴² (v) providing technical assistance, studies, and specialized consulting services;⁴³ (vi) developing and installing technological tools and systems for information analysis, based on institutional needs; (vii) implementing a public communication strategy (including strategy design, dissemination material development, social networks management, and public perception surveys); (viii) implementing the change management strategy; and (ix) optimizing talent based on the profiles for the new positions.
- 1.23 For talent optimization, support will be provided to finance terminations of employment prioritized by MEF⁴⁴ based on:⁴⁵ (i) mandatory retirement for employees over 70; (ii) voluntary termination due to catastrophic illness, incapacity, or disability;

³⁹ This includes: situation assessment; skills matrix; strategic plan, and analysis of institutional presence in the region; organizational charter; job position classification manual, including gap analysis and streamlining of talent; evaluation of the new structure's financial impact; and manual of updated key MEF processes. The new structure will emphasize the development of new functions and responsibilities on economic policy, public investment, and financial management of risks from natural disasters, based on the lessons learned during the response to the 2016 earthquake in Manabí.

⁴⁰ Among the benefits of implementing the IPSAS, the literature highlights improvements in: (i) efficiency and effectiveness in the use of public resources; (ii) integrity of information on assets and liabilities; (iii) accountability; (iv) financial control and auditing; (v) reflecting economic reality; (vi) fiscal sustainability; (vii) risk management; (viii) better policy formulation through more sophisticated evaluations; (ix) fraud prevention; (x) fiscal sustainability; and (xi) lower administrative burdens, etc. IDB. Beneficios Relacionados con las NICSP y el desarrollo económico en los países de Latinoamérica y el Caribe. Report. (2017).

⁴¹ The valuation of these assets and liabilities is necessary to meet the IPSAS.

⁴² Training on the use of the N-SIGEF will include employees using the system within and outside MEF. The plan includes approximately 120 MEF employees and 9,000 employees working at the 1,500 decentralized operating agencies and 250 financial management units using the new system (see results matrix, Output 2.4).

⁴³ This includes: advisory support on reviewing public investment analysis methodology; monitoring and supervision of investment projects; debt sustainability models based on IMF methodology; analysis methodology in the fiscal area; and other support based on the situation assessment.

⁴⁴ This expenditure complies with the policy "Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans" (document GN-2331-5) and the country financing parameters agreed upon with Ecuador (document CP-28273 and Annex IX of document GN-2495). There are plans to cover 89 terminations of employment with resources from this program, which is 100% of the total planned for MEF.

⁴⁵ The main eligibility requirement for termination of employment is that the Ministry of Labor, as lead agency on this matter, issues a decision that includes the prioritization and guarantee for severance payments, pursuant to the provisions of the Public Service Act and the Ministry of Labor's Manual for Processing Terminations. Support for other forms of termination of employment allowed under Ecuadorian law will be subject to their consistency with the country's legal and constitutional principles and their adherence to the program's criteria and objectives, and subject to the Bank's no objection. The Public Service Act and its regulations contain a detailed description of each form of termination of employment to be financed. The program Operating Regulations will refer to the articles in both documents that should be consulted regarding these matters.

(iii) voluntary termination; (iv) elimination of jobs; and (v) buyouts,⁴⁶ which should meet eligibility and other requirements established for these purposes under Ecuadorian law. These forms of termination are included in the current legal framework. This process will be accompanied by the recruitment of employees with suitable profiles for the new positions, through open, public, and merit-based competitive processes, which will be financed with budget resources.⁴⁷

- 1.24 **Component 3. Institutional strengthening of the PGE (IDB: US\$4.6 million and local financing: US\$0.6 million).** This component will consolidate the capacity for legal defense of public interests and State assets to control contingent liabilities due to litigation.⁴⁸ To this end, it will finance the contracting of consulting services, information systems, equipment, and training to enable the following activities: (i) formulating and implementing a governance model (including a situation assessment and model proposal, strategic plan update, personnel training, change management plan, demand study, financial sustainability strategy, and an integrated computer system together with its hardware and software);⁴⁹ (ii) strengthening the prevention functions for the effective application of the legal framework in the public sector and timely oversight of the legality of its acts and contracts, with an emphasis on providing legal advice and responses to inquiries made by public entities by developing a management system for inquiries and training State institutions to formulate their inquiries effectively; (iii) strengthening of mediation centers (including revamping physical spaces and providing equipment); (iv) consolidating the legal representation function of the State (including personnel training on legal issues, management of hearings and international case law, protocols for interagency coordination to defend cases, and access to specialized databases); and (v) implementing a public communication strategy (including strategy design, personnel training on communication tools, dissemination material development, equipment, and public perception surveys).
- 1.25 **Program administration.** The costs of program administration, estimated at US\$2.1 million, are additional to the amounts shown in the previous paragraphs. Of these, US\$1.4 million are for program management team and the remainder are for planning, monitoring, reviews, and audits (see Table 1).

⁴⁶ This form of termination of employment is governed by Article 108(bis) of the Public Service Act regulations. It corresponds to the discontinuing of functions through a voluntary termination with compensation. State institutions can establish plans for mandatory termination with compensation pursuant to the provisions of Article 47(k) of the Public Service Act, which are duly budgeted and based on the restructuring, optimization, or streamlining of these organizations.

⁴⁷ The Bank's support for these interventions in Ecuador has helped expedite the processes of institutional reform and personnel renewal, as well as helping to improve service quality and access for the public. Multigestión Asesores (2015). Estado de Avance del Proceso de Reforma del MINEDUC.

⁴⁸ An ex post cost-benefit evaluation of a very similar Bank project in Colombia found that the enhancements introduced had achieved sustained improvements in the success rate for cases of nearly five points in six years, as well as a 49.7% reduction in award and settlement payments. Evaluación Costo-Beneficio a 2018 del Programa 2755/OC-CO. Agencia Nacional de Defensa Jurídica del Estado [National Legal Defense Agency of the State].

⁴⁹ An IDB study in Ecuador identified as a lesson learned that it is necessary to have a comprehensive intervention that includes at least these components to achieve a successful institutional transformation. IDE Business School. 2018. "Una Historia de Transformación: Lecciones de la Modernización del Registro Civil de Ecuador (2007- 2016)," IDB-DP-599.

C. Key results indicators

- 1.26 The estimated program impact will be increased efficiency and transparency in public resource management. This will be reflected through improvements in: (i) strategic allocation of public resources (PEFA Performance Indicator PI-12);⁵⁰ (ii) transparency in resource management (Open Budget Index from the International Budget Partnership); and (iii) reduction in the liabilities payable by the State for legal contingencies (rulings decided against the State). The amount for unfavorable rulings or awards affects the payments that the State must make to cover the compensation determined by the courts or through arbitration. Therefore, a reduction in the rate of unfavorable rulings over the total number of rulings also decreases the payments to be made by the State as compensation.⁵¹ The impact will result from achieving these outcomes: (i) improved functionalities in the N-SIGEF; (ii) strengthened management capacity in MEF; and (iii) strengthened capacity for legal defense of the State.
- 1.27 **Economic analysis.** The economic analysis considered three potential scenarios. For the baseline scenario, the assumptions were: (i) maintenance savings of 50%; and (ii) a decrease of 4% in payments due to better legal defense of the State. For a more conservative scenario, the assumptions were: (i) savings of 20%; and (ii) a decrease of only 2% in arbitration award payments. Under the baseline scenario, the cost-benefit ratio for the program is 2.26. This means that US\$2.26 are expected to be recovered for every dollar invested in the program. The social internal rate of return is 59% and the net present value is \$60,059,098. For the most conservative scenario, the results remain positive, with a lower proportion of maintenance savings and lower arbitration award costs prevented; the result is a social internal rate of return of 21% and a cost-benefit ratio of 1.15 (see [economic analysis](#)).
- 1.28 **Beneficiaries.** The direct beneficiaries will be the Ministry of Economy and Finance (MEF) and the Office of the Attorney General (PGE), which will have the latest technologies for the country's public resource management, trained personnel, and organizational structures that enable them to fully meet their legal responsibilities and utilize their resources more efficiently. The indirect beneficiaries will be the population, through increased efficiency and transparency in the use of their taxes. The first benefit arises from the N-SIGEF platform's update and the second from improvements in the State's legal defense.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The program will have a total cost of US\$48,160,000, of which US\$43,000,000 will be financed by the Bank from its Ordinary Capital and the difference, US\$5,160,000, will be financed with local counterpart resources. Table 1 sets out the budget by

⁵⁰ "A consistent presentation of revenue and expenditure, founded on a credible macroeconomic framework, for a period beyond the upcoming fiscal year, allows the government and Parliament to take into account events outside the annual cycle. The medium-term framework facilitates the formulation of appropriate policies at the same time as unwanted fiscal development can be avoided." Ljungman, Gösta. 2007. "The Medium-term Fiscal Framework in Sweden." OECD.

⁵¹ Grafe, Fernando. 2014. *¿Es efectiva la defensa jurídica del Estado? Perspectivas sobre la gestión del riesgo fiscal en América Latina*. Discussion Paper IDB-DP-338.

component, and the details are in the [itemized budget](#). The financial costs of the local counterpart resources will be covered with fiscal resources.

2.2 The program is a specific investment loan with a five-year execution period.

Table 1. Estimated program costs (US\$ thousands)

Component	IDB	Local	Total	%
Component 1. Modernization of financial management technology	26,530	3,184	29,714	61.7
Component 2. Institutional strengthening of MEF	10,000	1,200	11,200	23.3
Component 3. Institutional strengthening of the PGE	4,600	552	5,152	10.7
Total for components	41,130	4,936	46,066	95.7
Program administration	1,870	224	2,094	4.3
Management team	1,239	149	1,388	2.9
Planning and monitoring specialists	281	33	314	0.7
Audits	200	24	224	0.5
Midterm and final review, and ex post cost-benefit analysis	150	18	168	0.3
Total	43,000	5,160	48,160	100

Table 2. Tentative disbursement schedule (US\$ thousands)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
IDB	26,670⁵²	9,370	2,855	2,514	1,591	43,000
Local	3,200	1,124	343	302	191	5,160
% per year	62%	22%	7%	6%	4%	100%

B. Environmental and social risks

2.3 According to Directive B.03 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this has been classified as a category C operation. No adverse environmental or social impacts are expected.

C. Other risks and key issues

2.4 **Development.** A medium development risk was identified, given the possibility of execution delays in the N-SIGEF if the vendor does not meet the updated contract agreements. As mitigation measures, the management team at MEF will be strengthened to monitor the operation and a company will be retained to provide support with technical supervision (monitoring) of the execution. Another medium risk is the possibility of delays in the updates of the Organizational Charter and the Job Position Classification Manual that could affect the optimization of the MEF and the PGE within the planned timelines. This will be mitigated by preparing an interagency agreement with the Ministry of Labor to improve the timelines for review and approval of the program's institutional framework documents.

2.5 **Public management and governance.** Two medium risks were identified, as follows: (i) budget problems for activity execution by the PGE that could impact the capacities for legal defense of the State, which the operation will mitigate through the design of financial sustainability mechanisms for the PGE (paragraph 1.24), including arrangements (protocol-procedure) to charge the costs of defense and contingency payments to the budget of the entities generating the contingency; and (ii) resistance to the inclusion of new tools, processes, and organizational structures

⁵² The amount of the first disbursement corresponds to the obligations arising from the technology solution contract indicated in paragraph 1.13.

- in the MEF and the PGE, which the operation will mitigate through the design of adequately financed change management plans (paragraphs 1.22 and 1.24).
- 2.6 **Program sustainability.** MEF has a long track record of permanently ensuring the financial and human resources necessary for the operation and maintenance of its financial management systems, as it has been doing with the e-SIGEF over the past decade, given their strategic nature as the main technological basis for public resource management. The installation contract for the N-SIGEF includes training services for MEF personnel and a guarantee of performance, maintenance, and version updates for the system that will reinforce its sustainability (paragraph 1.18 and footnote 36). Moreover, a relative reduction of maintenance expenses is expected compared to the larger universe of transactions to be conducted (paragraph 1.27 and [economic analysis](#)). In addition, this operation and other interventions that the Bank has and is developing in Ecuador (as indicated in paragraph 1.15) reflect coordinated support to achieve progress in comprehensive reforms. This contributes to the sustainability of the changes introduced beyond the execution horizon of this program and ensures support from the Bank in the medium term to continue working with the Ecuadorian government to strengthen priority areas.
- 2.7 With respect to system security, the program will finance the launch of an Alternate Data Center, formulation of a disaster contingency plan, and implementation of profile creation controls and user profiles based on national ID cards (paragraph 1.21). In addition, under Ministerial Agreement 166 of 20 September 2013, the National Ministry of Public Administration established a Government Information Security Plan based on Ecuadorian technical standard INEN-ISO/IEC-27002, "Code of Practices for Information Security Management." Pursuant to Article 1, all central and institutional public administration entities that report to the executive branch are required to use Ecuadorian technical standard INEN-ISO/IEC-27000 for information security management. Article 7 of the same Ministerial Agreement sets forth that entities will conduct a risk assessment and design and implement an institutional risk management plan, based on standard INEN-ISO/IEC-27005, "Risk Management for Information Security." The Bank is also providing support through technical cooperation funding Improving Human Resources Capacity in Cybersecurity (RG-T2788), as follows: (i) the country's entire critical infrastructure, including the main management systems, will be taken into account in the cybersecurity agenda and action plan; and (ii) a Government Technology Security Operations Center will be established and responsible for monitoring and responding to cybersecurity incidents for the entire government.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Execution mechanism.** The borrower will be the Republic of Ecuador and the executing agency and official counterpart for the program will be the Ministry of Economy and Finance (MEF), an agency with technical and administrative capacities and sufficient experience to execute the operation. The Office of the Attorney General (PGE) will be the subexecuting agency. MEF was the executing agency for loans 2653/OC-EC, 3073/OC-EC, and 4364/OC-EC, which have similar

characteristics to this operation.⁵³ MEF will be responsible for the execution of Components 1 and 2, and the PGE, as the subexecuting agency, for Component 3. For management purposes, the executing and subexecuting agencies will establish separate management teams to ensure that they are devoted exclusively and on a full-time basis to program execution. The management teams will be comprised of professionals with experience executing these types of programs.

- 3.2 Functions of management teams and coordination mechanism.** The MEF management team, as the executing agency, will have a coordinator and a support team, and the following functions: (i) communicating with the Bank for general program matters; (ii) administering program resources, including processing disbursement requests and preparing reports on the use of resources; (iii) preparing and submitting to the Bank (after approval by the Minister of Economy and Finance or their appointed official and by the Attorney General or their appointed official) the semiannual progress reports, audited financial statements, midterm review report, final review report, and other documents included in the [program Operating Regulations](#); and (iv) supervising the management of the program's environmental and social facets. The team will also be responsible for: (i) planning and monitoring Components 1 and 2; and (ii) managing procurement for Components 1 and 2. In turn, the PGE, as subexecuting agency, will submit in a timely manner to MEF all the information necessary to meet the requirements stated here. It will also provide strategic orientation, plan, monitor, manage, and report on the use of financial resources, as well as call for bids, contract, and manage the technical and fiduciary elements of goods, works, nonconsulting services, and consulting services for the component under its responsibility. For this, it will retain a coordinator for its management team, who will be responsible for: (i) communicating with the executing agency to consolidate the general program documents to be submitted to the Bank; (ii) communicating with the IDB for the sending of no objections with respect to its procurement; (iii) planning and monitoring for Component 3; and (iv) managing procurement for Component 3. Separately, a program communication matrix will be the main coordination mechanism between the executing and subexecuting agencies. This matrix will describe the main flows of information exchange between the parties, schedule, and channels for delivery of this information and the persons responsible,⁵⁴ as well as the coordination mechanisms for budget management. The [program Operating Regulations](#) will establish the composition of the management teams and detail the functions and responsibilities for execution and the coordination mechanisms between the executing and subexecuting agencies.
- 3.3 Procurement of goods, works, nonconsulting services, and consulting services.** Procurement financed in whole or in part with Bank resources will be handled in accordance with the Policies for the procurement of goods and works financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9). Expenses due to

⁵³ These projects have supported institution-strengthening activities, technological modernization, terminations of employment, etc.

⁵⁴ With respect to coordination in the N-SIGEF, MEF already has interoperability agreements with the main entities with which it needs to exchange information, such as the Central Bank, Planning and Development Department, Internal Revenue Service, National Public Procurement System, and Office of Vital Records. These agreements detail the teams and commitments for both parties.

termination of employment will be supported through recurrent audits to be submitted to the Bank. The procurement plan includes details of the procurement processes to be implemented during execution, as well as the procedures that the Bank follows to review these processes.

- 3.4 **Financial management and audits.** Financial management will be pursuant to the Financial Management Guidelines for IDB-financed Projects (document OP-273-6). MEF will be responsible for consolidating its information with that of the PGE, as well as for managing disbursements. Funds will be advanced to cover the resources needed for periods of up to 180 days. At the borrower's request, there may also be direct payments to suppliers or reimbursement of expenditures incurred. Annual audited financial statements will be requested within 120 days following the closing of each fiscal year or the deadline for the last disbursement on completion of execution.
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan.** As special contractual conditions precedent to the first disbursement, the executing agency will submit, to the Bank's satisfaction, evidence of fulfillment of: (i) approval and entry into force of the [program Operating Regulations](#) under the terms previously agreed upon with the Bank; and (ii) the appointment of the program's management teams by the executing agency and subexecuting agency, based on the profiles and terms of reference included in the [program Operating Regulations](#). There is justification for the conditions, since the [program Operating Regulations](#) will establish: (i) the composition and functions of the management teams (which will at a minimum have a coordinator and specialists in finance, procurement, and monitoring); (ii) the program activities under the responsibility of the subexecuting agency; (iii) the coordination mechanism between the executing and subexecuting agencies; (iv) the eligibility criteria for terminations; and (v) the conditions for resource transfers from the MEF to the PGE. These are all requirements for the efficient execution of program resources. The second condition is justified because the appointment of management teams for the MEF and the PGE, based on the profiles and terms of reference included in the [program Operating Regulations](#), is an essential condition for ensuring an efficient startup for program execution.
- 3.6 **Special contractual condition precedent to the first disbursement for Component 3.** Evidence of the signing of a subsidiary agreement between the executing and subexecuting agencies, establishing the obligations of the parties with respect to program execution, including: (i) conditions for the transfer of resources from the executing agency to the subexecuting agency; and (ii) a commitment that the program activities within the subexecuting agency's responsibility will be conducted pursuant to the loan contract and the [program Operating Regulations](#). This condition is justified, because it ensures the transfer of resources to the subexecuting agency, as well as the appropriate management and execution of program resources.
- 3.7 **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance, from the loan proceeds, up to US\$8,600,000 (20% of the proposed loan amount), and recognize as part of the local contribution up to US\$619,200 (20% of the estimated local contribution) in eligible expenditures incurred by the borrower prior to the loan approval date, for hardware, essential

consulting assignments for the implementation of the N-SIGEF, design of management models, and talent optimization, provided that they satisfied requirements substantially analogous to those established in the loan contract. Such expenditures will have been incurred on or after 14 December 2018 (program profile approval date), but in no case may they include expenditures made more than 18 months prior to the loan approval date.

B. Summary of arrangements for monitoring results

- 3.8 **Monitoring and supervision system.** The outcome and output indicators described for each component in the results matrix and reflected in the progress monitoring report will be used to measure program progress and evaluate fulfillment of its objectives. The executing agency will be responsible for maintaining data collection and monitoring systems. The annual work plan will include: (i) an estimated budget; (ii) an updated procurement plan; (iii) the planned indicators for the results matrix; (iv) the planned activities; and (v) an execution calendar. The executing agency will also submit semiannual progress reports, within 60 days following the end of each six-month period. The instruments for program supervision are detailed in the [monitoring and evaluation plan](#).
- 3.9 **Monitoring by the Bank.** There will be administration missions and inspection visits. The Bank agrees that the executing agency will use a progress monitoring report, which includes estimates of disbursements and fulfillment of physical goals and results. In addition, a meeting between the executing agency and the Bank will be held annually to discuss topics that include: (i) the progress made in the activities identified in the annual work plan; (ii) the fulfillment of the indicators established in the results matrix; (iii) the annual work plan for the following year; and (iv) the procurement plan for the following 12 months and potential modifications to the budget allocations for each component. The executing agency agrees to maintain a program monitoring and evaluation system for all the components, which will be used as the basis for preparing the reports and data it will submit to the Bank. The executing agency will have a specialist responsible for monitoring its activities (see [monitoring and evaluation plan](#)).
- 3.10 **Evaluation.** The results matrix and the [monitoring and evaluation plan](#) will be used for program evaluation, including the preparation of the program completion report. There are plans to prepare a midterm and a final review of the operation, including technical, administrative, and financial factors, as well as to prepare an ex post cost-benefit analysis. The midterm review will be conducted after disbursement of at least 40% of the loan proceeds or two and a half years after the entry into force of the loan contract, whichever occurs first. The final review will be conducted after disbursement of at least 90% of the loan proceeds. Its objective will be to verify progress in fulfilling the planned targets for each of the outcomes expected and the generation of outputs by component. There are plans to conduct an ex post cost-benefit review to verify the scope of the outcomes achieved.

Development Effectiveness Matrix		
Summary		EC-L1249
I. Corporate and Country Priorities		
1. IDB Development Objectives		Yes
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Countries that use fiduciary country systems (#)*	
2. Country Development Objectives		Yes
Country Strategy Results Matrix	GN-2924	Generate efficiencies and increase the quality of public expenditure.
Country Program Results Matrix	GN-2948	The intervention is included in the 2019 Operational Program
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		7.4
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		1.7
3.3 Results Matrix Quality		2.7
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		6.7
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.2
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	EC-T1417

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

The main goal of the operation is to improve the efficiency and transparency of public resources management. To achieve this, the proposal defines two specific areas of intervention. The first area proposes a technological modernization through the upgrade of the integrated system of financial administration (N-SIGEF); this project forms part of a process of a general modernization of public finance supported by the Bank. The second area proposes an institutional strengthening of the Ministry of Economy and Finance (MEF) and the General Procuracy of the State (PGE) for improving the capacity of legal defense of the State.

The project proposal diagnosis describes an overload of transactions in the current system of financial administration and limitations about the interoperability with other public entities: [MEF, 2018]. On the one hand, the diagnosis presents a weak institutional framework of the MEF after a fusion process between the finance and economy ministries. Currently, it has duplicity of functions and a misalignment between the legal responsibilities and the current organizational structure, on the other hand, the document shows that Ecuador is currently spending significant resources by reason of adverse judgments, in fact, the ministry disbursed \$443 US million in 2018, because of national and international arbitration awards. In the same way, diagnosis identifies problems and their causes. The solutions are aligned to the problems. There is no evidence on effectiveness for some proposed solutions in the country. Some outputs indicators are not SMART.

The economic analysis provides a quantification of some economic benefits. It quantifies benefits associated with the better legal defense of the State and an improvement in the efficiency of the finance management system. The assumptions on the magnitude of the expected benefits are based on international experiences such as Colombia, Peru, and Chile. The costs include maintenance and investments associated with the loan. The analysis concludes the project has a net present value of US\$60 million.

Monitoring relies on reports by multiple government agencies with many indicators provided by PEFA annual reports. The evaluation plan includes an ex-post cost-benefit analyst. The evaluation aims to measure the efficiency of the N-SIGEF, and the savings produce by a legal defense of the State improved.

RESULTS MATRIX

Program objective:	The program will help increase the efficiency and transparency of public resource management through the modernization of financial management technology and the institutional strengthening of the Ministry of Economy and Finance (MEF) and the Office of the Attorney General (PGE).
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Final target		Source / Means of verification	Comments
		Value	Year	Value	Year		
EXPECTED IMPACT: Improve efficiency and transparency in the use of public resources							
1. PEFA indicator PI-12, “multiyear perspective in terms of fiscal planning, expenditure policy, and budgeting”	PEFA score ¹	C+	2014	B	2024	PEFA report	For the country to be able to go from a C+ to a B score, the links between multiyear estimates and the subsequent establishment of annual maximum budget limits should be clear and communicated to the ministries for budget preparation, which is not currently occurring. An objective of this operation is to close that gap.
2. Open Budget Index from the International Budget Partnership	Points	49	2017	61	2024	International Budget Partnership report	The indicator’s scale ranges from 0 to 100, from less to more transparency. Ecuador is currently in the Limited Information Available (41-60) group, which is the third level. An expected program impact is to improve Ecuador’s ranking in the International Budget Partnership’s Open Budget Index to the second level, Substantial Information Available (61-80).
3. Final rulings decided against the State	%	60%	2018	50%	2024	PGE annual report	Final rulings are those that are not appealable, meaning that the State must cover the amount awarded by the judge within the deadline established in the ruling.

¹ The Public Expenditure and Financial Accountability (PEFA) framework scores indicators from A (best) to D (worst).

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Target		Source / Means of verification	Comments
		Value	Year	Value	Year		
COMPONENT 1. Modernization of financial management technology							
EXPECTED OUTCOME 1: Improved functionalities in the N-SIGEF (new financial management system)							
1. Average transaction time for the e-SIGEF system	Seconds	60.67 seconds	2014	1.6 seconds	2024	Measurement of system load testing	The final average will be measured based on the N-SIGEF.
2. Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery ²	Agencies	0	2019	2	2024	Report from MEF's Innovation Division	The program will finance the introduction of new information systems in the MEF and the PGE.
COMPONENT 2. Institutional strengthening of MEF							
EXPECTED OUTCOME 1: Strengthened management capacity in MEF							
1. PEFA indicator (PI-16), “predictability in the availability of funds for commitment of expenditures”	PEFA score	C+	2014	B	2024	PEFA report	This indicator depends directly on the amount of adjustments to budget allocations, which in turn affects cash liquidity. As budget formulation improves, these adjustments will tend to decrease.
2. PEFA indicator PI-10, “public access to key fiscal information”	PEFA score	B	2014	B+	2024	PEFA report	To obtain a better score, Ecuador should make available to the public duly audited, consolidated financial reports in accordance with the IPSAS and/or publish detailed information on the resources provided to primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics) and at least annually.

² Corporate indicator.

Indicators	Unit of measure	Baseline		Target		Source / Means of verification	Comments
		Value	Year	Value	Year		
3. Weighted level of current alignment with the IPSAS	%	21%	2017 ³	75%	2024	N-SIGEF convergence status	Takes into account the five dimensions of the standards.
COMPONENT 3. Institutional strengthening of the PGE							
EXPECTED OUTCOME 1: Strengthened capacity for legal defense of the State							
1. Number of active cases at the PGE	Number of cases	97,162	2018	68,600	2024	PGE annual report	Active cases are those referred to the PGE during the current year and previous years, which have not been resolved.

OUTPUTS

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Source / Means of verification	Comments
COMPONENT 1. Modernization of financial management technology										
1.1 N-SIGEF implemented	System	0	-	1	-	-	-	1	N- SIGEF operating	The testing and functional acceptance phases will be executed in year 1 and the installation phase in year 2. The N-SIGEF includes: (i) commissioning of an Alternate Data Center; (ii) implementation of a transparency and public information module in the N-SIGEF, with accessible language and suitable data breakdowns; and (iii) interoperability between the N-SIGEF system and key public and private institutions.
1.2 N-SIGEF project technical monitoring reports delivered	Reports	0	-	1	-	-	-	1	Final technical monitoring report accepted by MEF	
1.3 Hardware for N-SIGEF operation installed	Computer hardware	0	-	1	-	-	-	1	Certificate of delivery / acceptance of computer hardware purchased for operation of the N-SIGEF	

³ IDB. "Estado de convergencia NICSP," 2017.

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Source / Means of verification	Comments
COMPONENT 2. Institutional strengthening of MEF										
2.1 New governance model implemented	Model	0	-	-	-	1	-	1	MEF-management team report on the developments and activities conducted to implement the new model	The report will include fulfillment of at least one of the following milestones: situation assessment; skills matrix; strategic plan; MEF management model; Organizational Charter; gap analysis and streamlining of talent; evaluation of the new structure's financial impact; and manual of updated key MEF processes.
2.2 Change management plan implemented	Plan	0	-	-	-	-	1	1	MEF-management team report on the developments and activities conducted to implement the new model	The report will include fulfillment of at least one of these milestones: gap-based institutional training plan; work environment improvement plan; career plan; and enterprise architecture to define additional automation requirements for the N-SIGEF based on the MEF's new management model.
2.3 Personnel accruing benefits in MEF for termination of employment	Personnel	0	89	-	-	-	-	89	Talent report from MEF	
2.4 Institutional training plan implemented	Plan	0	-	-	-	-	1	1	MEF-management team report	Reports include personnel lists and institutions trained. Estimates include 120 MEF employees and 9,000 employees working at the 1,500 decentralized operating agencies and 250 financial management units using the new system.
2.5 Studies and standards to support legal changes and specialized public finance matters prepared	Studies	0	-	1	6	1	-	8	MEF-management team reports and certificates of delivery / acceptance of studies	Includes: (i) developing technical standards that regulate the processes to apply the provisions of the COPLAFIP; and (ii) actuarial studies, development of a valuation plan for contingent assets and liabilities, and support for initial implementation.
2.6 Specialized information systems for MEF management implemented	Systems	0	-	-	1	1	2	4	MEF-management team reports	Certificate of delivery / acceptance for consulting assignments, systems, and equipment.
2.7 Public-communication strategy implemented	Strategy	0	1	-	-	-	-	1	MEF-management team reports	

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Source / Means of verification	Comments
COMPONENT 3. Institutional strengthening of the PGE										
3.1 New governance model designed and implemented	Model	0	-	-	-	-	1	1	PGE report on the developments and activities conducted to implement the new model	The report will include fulfillment of at least one of the following milestones: (i) in-depth situation assessment, including: study of demand for services from the PGE; analysis of results for the State defense report for the PGE; analysis of legal advice and oversight; in-depth diagnostic assessment of the PGE; skills matrix; strategic plan; management model for the PGE; Organizational Charter; gap analysis and streamlining of talent; financial impact assessment; financial sustainability strategy; updated process manual; (ii) change management plan, including: gap-based institutional training plan; work environment improvement plan; career plan; (iii) integrated information system for internal management, mission-related processes, intelligence, and data analysis; (iv) optimization of the document management system; (v) upgraded hardware; and (iv) interoperability with systems from other institutions.
3.2 Activities to strengthen capacity for advice and response to legal inquiries implemented	Activities	0	-	-	1	1	-	2	PGE reports and certificates of delivery / acceptance of activities	Certificate of delivery / acceptance for consulting assignments and reports of training conducted.
3.3 Mediation centers for administrative disputes strengthened	Centers	0	-	2	2	-	-	4	PGE report and certificates of delivery / acceptance	Certificate of delivery / acceptance for revamped mediation centers.
3.4 Activities to strengthen the State's legal defense implemented	Activities	0	-	1	2	2	-	5	PGE reports and certificates of delivery / acceptance of activities	Certificate of delivery / acceptance for consulting assignments and reports of training conducted; license access contracts.
3.5 Public-communication strategy designed and implemented	Strategy	0	-	-	-	-	1	1	PGE reports and certificates of delivery / acceptance of activities	Certificate of delivery / acceptance for consulting assignments, equipment purchased, and reports of training conducted.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

COUNTRY:	Ecuador
PROJECT NUMBER:	EC-L1249
NAME:	Financial Management Modernization Program
EXECUTING AGENCY:	Ministry of Economy and Finance (MEF) and Office of the Attorney General (PGE) as the subexecuting agency for Component 3
FIDUCIARY TEAM:	Carolina Escudero and Juan Carlos Dugand (FMP/CEC)

I. SUMMARY

- 1.1 The fiduciary agreements on procurement and financial management for the program take into account: (i) the country's fiduciary context; (ii) the fiduciary risk assessment; (iii) the monitoring activities for loans executed by MEF; (iv) the institutional capacity assessment of MEF; and (iv) inputs from meetings with the teams and entities involved in program execution.

II. THE COUNTRY'S FIDUCIARY CONTEXT

- 2.1 **Country procurement system.** The "Agreement for Use of the SNCP of the Republic of Ecuador in Projects Financed by the Inter-American Development Bank" was signed on 13 May 2014 between the Ministry of Economy and Finance (MEF), the National Public Procurement Service (SNCP) (lead entity), and the Bank. Paragraph 3.2 of this agreement states that the system will be used on seven projects and expanded gradually. This agreement is based on document GN-2680-2, which was approved by the Board of Executive Directors of the Bank.
- 2.2 **Financial management system.** Government entities use the e-SIGEF financial management system, which integrates budgetary, accounting, and treasury processes. Government entities are subject to control and oversight by the Office of the Comptroller General (CGE). In general, the level of development of the country's financial management systems is adequate. However, for the purposes of executing Bank-financed projects, they need to be supplemented in the financial reporting (with nonaccounting records) and external auditing (performed by a Bank-eligible audit firm) areas. The government is implementing a new system to replace the e-SIGEF, which is planned to begin operating in 2020.

III. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 3.1 The Ministry of Economy and Finance (MEF) will be the executing agency and the Office of the Attorney General (PGE) will serve as the subexecuting agency for Component 3.

- 3.2 Under the Constitution of Ecuador, the PGE is an entity with administrative, budgetary, and financial autonomy. However, in practice, because it is not excluded from the National General Budget under the Constitution, it must follow the same requirements as central government entities.
- 3.3 MEF executes IDB-funded programs through the IDB Programs General Coordination Office, which provides support for procurement, financial management, and monitoring, and through institutional areas, which are responsible for technical elements based on their jurisdiction. The PGE will have its own allocated budget for this program and will directly manage procurement and payments through the Single Treasury Account for the component under its responsibility. However, MEF will be responsible for maintaining consolidated information for the entire program, submitting the required reports, and managing disbursements with the IDB.
- 3.4 The MEF and the PGE have been using country procurement systems, with records maintained in the public procurement portal. For financial management, both the MEF and the PGE use the e-SIGEF national system. Both institutions have internal control units and are subject to external control by the Office of the Comptroller General (CGE).
- 3.5 On 8 December 2016, as a result of international competitive bidding pursuant to the IDB's procurement policies, MEF retained the consortium Ayesa Advanced Technologies S.A. - Informática El Corte Inglés S.A. for the implementation and installation of an integrated public financial management system. The total amount is US\$31,902,744.79 (US\$16,299,544.57 financed with Bank resources from loan contract 3073/OC-EC and US\$15,603.22 financed with fiscal resources). Currently approximately 50% of the work has been completed. The Ecuadorian government requested that the Bank continue providing technical support until the solution is fully implemented and installed, and that the source of financing is changed to IDB resources for operation EC-L1249, except for value-added taxes. It should be noted that MEF is currently reviewing and renegotiating the conditions of the contract with Ayesa Advanced Technologies S.A. - Informática El Corte Inglés S.A. If these negotiations fail, the contract may go to arbitration.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 4.1 The potential for delays in the program's procurement processes and/or payments was identified as a low-level risk, due to: (i) complex precontract processes in Ecuador; (ii) the lack of an investment project to strengthen the PGE, making it unclear whether a priority single project code is needed; and (iii) the PGE's lack of experience managing projects financed by the IDB or other international organizations. As a mitigation measure, both the MEF and the PGE will have a management team dedicated to program execution.
- 4.2 The above risk was also classified as low because the MEF, as the executing agency and official counterpart for the program, has technical and administrative capacities and sufficient experience to execute this operation, having been the executing

agency for loans 2653/OC-EC, 3073/OC-EC, and 4364/OC-EC, which have similar characteristics.¹

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement execution.** The procurement plan will be updated at least annually, through the Procurement Plan Execution System. The program's main procurement processes are in Table V-2.
- a. **Procurement of works, goods, and nonconsulting services.**² Contracts will be subject to international competitive bidding³ (ICB), based on Table V-1, and executed using the standard bidding documents of the Bank.
 - b. **Selection and contracting of consultants (firms).** Contracts will be executed using the standard request for proposals of the Bank and any of the methods described in the Policies for the selection and contracting of consultants (document GN-2350-9). The threshold for inclusion of international consultants⁴ on the shortlist is indicated in Table V-1.
 - c. **Selection of individual consultants.** Contracting will be in accordance with the Policies for the selection and contracting of consultants (document GN-2350-9), section V, paragraphs 5.1 to 5.4.
 - d. **Use of the country procurement system.** The use of the National Public Procurement System⁵ will be pursuant to the agreement mentioned in paragraph 2.1.
 - e. **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance, from the loan proceeds, up to US\$8,600,000 (20% of the proposed loan amount), and recognize as part of the local contribution up to US\$619,200 (20% of the estimated local contribution), in eligible expenditures incurred by the borrower prior to the loan approval date, for hardware, essential consulting assignments for the implementation of the N-SIGEF, design of management models, and talent optimization, provided that they satisfied requirements substantially analogous to those established in the loan contract. Such expenditures will have been incurred on or after 14 December 2018 (program profile approval date), but in no case may they include expenditures made more than 18 months prior to the loan approval date.
 - f. **Domestic preference.** Bids offering goods originating in the borrowing country will have a price preference⁶ equivalent to 15% in contracts subject to ICB.

¹ These projects have supported institution-strengthening activities, technological modernization, terminations of employment, etc.

² Policy [GN-2349-9](#) (paragraph 1.1): nonconsulting services are treated as goods.

³ The ICB threshold is US\$3,000,000 or more for works and US\$250,000 or more for goods.

⁴ In contracting consulting firms, the threshold is for amounts equal to or greater than US\$200,000; for lower amounts, the shortlist may consist entirely of national consulting firms.

⁵ If the Bank validates another system or subsystem, this will be applicable to the operation, pursuant to the provisions of the loan contract and the Agreement for Use of the SNCP.

⁶ Policy [GN-2349-9](#), Appendix II; and the loan contract.

Table V-1. Table of threshold amounts (US\$)

Works			Goods			Consulting services	
ICB	National competitive bidding (NCB)	Shopping	ICB	NCB	Shopping	Consulting international advertising	Shortlist 100% national
≥3,000,000	<3,000,000 ≥250,000	<250,000	≥250,000	<250,000 ≥50,000	<50,000	≥200,000	<200,000

Table V-2. Main procurement processes

Activity	Selection method	Estimated date for tender request	Estimated amount (US\$ thousands)
Consulting firm services			
Phase monitoring: testing, implementation (functional acceptance), and installation for MEF	Quality- and cost-based selection (QCBS)	Q2-2019	448
Situation assessment; redefinition of new management model for the MEF and for the PGE (2 contracts)	QCBS	Q4-2019	1,535
Preparation of technical standards for the N-SIGEF	QCBS	Q3-2019	470
Technical standards for changes in legal requirements; analysis and update of public investment methodology (with monitoring and supervision); and debt sustainability models based on IMF methodology (3 contracts)	Selection based on the consultants' qualifications (CQS)	Q4-2020	336
Consulting assignment to support implementation of the IPSAS	QCBS	Q4-2019	325
Integrated information system for internal management, mission-related processes, intelligence, and data analysis for the PGE	QCBS	Q3-2020	896
Interoperability with systems from other institutions: PGE; CGE; Inspector General's Office; Economic and Financial Analysis Unit; MEF	QCBS	Q2-2022	336
Information system to provide legal advice to State institutions to avoid violating regulatory frameworks and to conduct optimum defense processes (design and implementation)	QCBS	Q3-2021	415
Midterm review, program completion report, and impact evaluation	CQS	2020, 2022	168
Program financial audit	QCBS	Annually	224
Goods and nonconsulting services			
Record digitization system	ICB	Q4-2020	380
Training on MEF functional issues based on the training plan developed	ICB	Q1-2022	1,792
Training on the use of the N-SIGEF for 9,000 users	ICB	Q2-2019	1,680
Four training contracts: (i) proper formulation of inquiries for the State and municipios; (ii) legal issues and management of oral cases for PGE employees; (iii) specialized international case law and precedent; and (iv) communication tools	ICB/NCB	Q2-2020 Q2-2021	840

Activity	Selection method	Estimated date for tender request	Estimated amount (US\$ thousands)
Individual consulting services			
Individual consulting assignments for the program's management team at MEF	National individual consultant selection based on qualifications (NICQ)/International individual consultant selection based on qualifications (IICQ)	As of Q2-2019	1,255
Individual consulting assignments for the PGE management team	NICQ/IICQ	As of Q2-2019	448
Conduct study on methodology improvement analysis in the fiscal area	NICQ/IICQ	Q4-2020	56

- 5.2 **Procurement supervision.** The procurement plan will establish the IDB's supervision method. Ex post reviews will be conducted annually in accordance with Appendix 1 of the policies, and there will be physical inspections if the Bank deems it necessary.

Table V-3. Ex post review thresholds (US\$)

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

Note: These are applied on the basis of the executing agency's fiduciary capacity for execution and can be modified if there are variations.

- 5.3 **Records and files.** The executing agency will maintain complete and orderly records, organizing them separately based on process and source of finance. The PGE will maintain independent records similarly to the executing agency.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** The Code of Public Planning and Finance establishes the provisions governing the programming, formulation, approval, execution, control, evaluation, and settlement of budgets. These provisions are applied to the execution of Bank-financed operations in the country. The integrated e-SIGEF system and the new system being developed by the government implement and standardize the application of these general provisions for the entire national public management system. MEF, as the executing agency, will manage the addition and/or update of the necessary investment programs⁷ to have the budget allocations for the components under its responsibility. The PGE, as the subexecuting agency, will manage the addition of its investment program and budget allocations necessary for the component it will execute. MEF will comprehensively oversee budget execution through the applicable systems.

⁷ MEF already has an investment and budget allocation program to develop a replacement for the e-SIGEF. However, it needs to be updated and include a new investment program in the Annual Investment Plan for the remaining components.

- 6.2 **Accounting and information systems.** Program accounting will be carried out through e-SIGEF or the new system being developed by the government when it becomes operational. All program commitments and payments will be recorded there, but nonaccounting records will be needed in order to have itemization by component and generate the program's financial statements, while the reliability of the new system and its reports is verified. The PGE will provide to the MEF the necessary information to prepare and submit consolidated financial statements for the program to the IDB.
- 6.3 **Disbursements and cash flow.** Since 2008, the Government of Ecuador has been using the Single Treasury Account as a mechanism to consolidate cash management for all central government entities. Because the PGE is not excluded from the National General Budget, it also makes all its payments through the Single Treasury Account.
- 6.4 The implementation of this mechanism did not eliminate the system of specific or special-purpose accounts set up at the Central Bank of Ecuador to receive the proceeds of multilateral loans. The program will have a dedicated account at the Central Bank, where disbursements from the loan will be deposited. Program payments will be made through the e-SIGEF system or the new system by debiting the Single Treasury Account.
- 6.5 The Bank will disburse loan proceeds in the form of advances of funds⁸ based on the program's actual liquidity needs, including the payment commitments made by the MEF and the PGE, in accordance with the financial plan and for a period of up to 180 days. At the borrower's request, the Bank may also make direct payments to suppliers or reimburse expenditures. MEF will be responsible for managing program disbursements.
- 6.6 The rendering of accounts for advances of funds will be done in accordance with the provisions of document OP-273-6. Once at least 80% of the corresponding balance of fund advances has been justified, a new disbursement can be made.
- 6.7 Supporting documentation for payments made will be subject to ex post review by the Bank and/or an external audit firm after disbursement of the resources.
- 6.8 **Internal control and internal audit.** The Constitution of the Republic of Ecuador establishes that the CGE is responsible for directing the public sector control system. As part of that sector, the executing agency has its own internal audit unit that reports directly to the CGE.
- 6.9 **External control and reporting.** The CGE has the authority to conduct audits of public sector entities. However, projects are not necessarily included in the annual audit plan. The program audit will be performed by an independent audit firm acceptable to the Bank, in accordance with Bank requirements (document OP-273-6). The firm will be retained by MEF as the executing agency for the entire program, including the part executed by the PGE as the subexecuting agency, based on the terms of reference previously agreed upon with the Bank. This can be financed with loan proceeds. During execution, audited financial statements will be submitted annually, within 120 days following the closing date of each fiscal year or the date of the last disbursement for the final audit. For terminations of employment

⁸ There will only be fund advances and MEF will be responsible for the applicable reconciliation in the Single Treasury Account.

(paragraph 1.23 of the main document), the executing agency will submit to the IDB audited reports with the terms and schedules previously agreed upon with the Bank. In addition, the IDB could require audited or unaudited financial statements related to the program when it deems it necessary.

- 6.10 There is no national policy regarding public disclosure of audit reports. Nonetheless, according to the current access to information and disclosure policy, the audited reports will be published in the Bank's systems.

Table VI-1. Supervision plan

Supervisory activity	Supervision plan			
	Nature and scope	Frequency	Responsible party	
			Bank	Third party
Operational	Review of the progress report	Semiannual	Project team	
	Review of the portfolio with executing agencies and MEF	Based on MEF requirements	Project team	PGE and MEF
Financial	Review of cash flow and disbursement schedule	As requested by the Bank, for every funds-advance request, for portfolio reviews, or for supervision visits	Project team	PGE and MEF
	Supervision visits	Annual	Fiduciary specialist	PGE and MEF
	Review of audited and unaudited financial statements	Annual	Fiduciary specialist and project team leader	PGE and MEF
	Review of disbursement requests	Periodic	Fiduciary and sector team	PGE and MEF
Procurement	Ex post review of procurement	According to supervision plan	Project team leader and fiduciary specialist	PGE and MEF
	Ex ante review of procurement	According to procurement plan	Project team leader with support from procurement specialist	PGE and MEF
	Procurement plan update	Annual	Project team leader with support from procurement specialist	PGE and MEF
Fulfillment	Fulfillment of conditions precedent	Once	Project team	PGE and MEF
	Budget allocation review	Annual	Project team	PGE and MEF
	Submission of audited financial statements	Annual	Project team leader and fiduciary specialist	PGE and MEF/Auditor

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Financial Management Modernization Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Financial Management Modernization Program. Such financing will be for the amount of up to US\$43,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2019)