



1. Project Data:		Date Posted : 03/18/2004	
PROJ ID: P040106		Appraisal	Actual
Project Name: Ec International Trade/integration	Project Costs (US\$M)	42.6	30.5
Country: Ecuador	Loan/Credit (US\$M)	21.0	20.6
Sector(s): Board: EP - Central government administration (72%), Other domestic and international trade (28%)	Cofinancing (US\$M)	21.6	9.9
L/C Number: L4346; LP286			
	Board Approval (FY)		98
Partners involved : Ecuador Export and Investment Promotion Corporation (CORPEI)	Closing Date	06/30/2002	06/30/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
Elliott Hurwitz	John H. Johnson	Kyle Peters	OEDCR

2. Project Objectives and Components

a. Objectives
The project objective was to promote increased socioeconomic growth via greater international trade development and integration with the global economy through (1) strengthening of governmental institutions, (2) provision of direct assistance to small and medium firms, and (3) upgrading process and product quality .

b. Components

1 - Modernize international trade management
Ministry of Trade, Industry and Fishing (MICIP) Program: Increase basic trade policy -making and execution capacity, with greater cost efficiency and in conformity with Ecuador's WTO commitments;
- Strengthen Ecuador's trade negotiating and representation capacity in order to conclude new market -expanding trade agreements on the subregional, regional and inter -regional levels;
- Develop MICIP's capacity to prepare, with private sector international assistance, competitiveness diagnostic and development programs at a sectoral/cluster level which address the public policy and firm -level constraints to expanding exports; and
- Build management capacity in the specialized trade policy areas of unfair trade practices and safeguards .
Customs Administration Program: Upgrade Customs Administration duty drawback system so as to reduce the effect of indirect taxes embedded in the cost of exported products .

2 - Catalyze entrepreneurial learning and innovation in smaller firms through private -public partnership institutions
Ecuador Export Program: Establish the Export and Investment Promotion Corporation (CORPEI) to increase outward-oriented growth and integration, particularly among smaller firms and low -income business groups by:.
- raising the interest of domestic producers in overseas markets,
- providing access to those international business support services which help increase international competitiveness and market linkages on competitive terms .

3- Upgrade Product and Process Quality: The aims of the Metrology, Standards, Testing, and Quality (MSTQ) subcomponent were to (i) increase local private sector recognition that quality and sound MSTQ systems are critical to international competitiveness, (ii) reduce existing technical barriers to trade, (iii) increase the client service orientation of the current largely public MSTQ services of the national standards organization (INEN); and (iv) develop a system of certification of products, testing laboratories, personnel and quality and environmental management systems by qualified third -parties which is internationally recognized by Ecuador's trading partners and necessary for successful international business .

c. Comments on Project Cost, Financing and Dates
The one-year delay in the closing date was largely due to the need to renegotiate, at the Borrower's request, the co-financing terms on grants for small and medium enterprise (SME) training, increasing the share of Bank reimbursement from 30% to 50% of sub-project cost, as the Bank had originally proposed . Final project costs were subsequently reduced from the US\$42.6 million projected at approval to US\$32 million, which was in line with initial

Bank projections.

3. Achievement of Relevant Objectives:

1 - Modernize international trade management : MICIP Program --Moderately satisfactory

During project preparation, a new Foreign Trade and Investment Law was passed (1997), which defined an institutional framework for improved trade policy formulation and execution . A Foreign Trade and Investment Council (COMEXI) was formed to coordinate trade policy; the functioning of COMEXI was moderately satisfactory . It brought together the traditional agencies involved in trade policy with modest success . It should be noted that the external environment provided a strong incentive for better trade policy coordination, as the country was confronting several regional trade negotiations . MICIP became an active participant in trade negotiations, and helped bring coherence to the process. MICIP also benefited from a reorganization, training programs (English language and trade negotiation) and additional IT equipment. The agency's capacity to investigate unfair trade practices was strengthened. The government reduced the number of mandatory technical standards (which inhibit trade) from 80% to 25% of all standards (around 5-10% is average for Latin American countries). However, by project end, it had re-raised them to 38%. The project reduced the processing time on duty drawback requests from 6-12 months to 40-90 days, which, while somewhat higher than the project goal of 15 days, should produce some benefits . However, because the qualification procedures were made more difficult, little or no benefit was realized by small or medium -sized firms. The Export and Investment Promotion Corporation (CORPEI)--a public-private partnership--was created, which expanded and improved services to potential exporters . MICIP sponsored work to benchmark the country's competitiveness in specific export-related sectors. However, there was no evidence that this diagnostic work actually led to removing barriers to expanding exports, or specific plans to do so (sec. 5).

2 - Catalyze entrepreneurial learning and innovation in smaller firms through private -public partnership institutions : Satisfactory

CORPEI was created and its staff trained . The agency implemented a Learning and Innovation Fund (LIF), a program which disbursed US\$7 million in grants to 730 firms, of which 71% went to firms with sales of US\$1 million or less. Funding was used for staff training (27%), market development (15%), process quality improvement (11%), and product improvement (10%). This activity seemed to have a positive impact on the beneficiaries (see sec. 4); around 80% of firms considered that they were better prepared to export, and around 60% introduced new technology (including internet access) that enhanced their export performance .

A Grassroots Growth Fund provided export-related knowledge to micro businesses . Using a network of 33 NGOs, business associations, and universities, more than 300 workshops were given. Evaluation of a sample of beneficiaries found that the exports of firms that exported in 2002 were 57% higher that year than they were in 2000. Most beneficiaries were positive about their experience, however, some NGOs seemed to produce better results than others.

CORPEI also conducted a project to enhance the country's "export culture." Seminars were presented throughout the country relating to the benefits of exporting and basic skills . Around 3,000 people were directly trained, as well as additional individuals in follow-on courses and "virtual classrooms." Most participants were positive about the export culture program.

3- Upgrade Product and Process Quality --Unsatisfactory

Progress was delayed by Congressional indecision concerning the legal framework . After a 15-month delay, the legal and regulatory framework was created in 2000, including a national standards body, INEN . To date, INEN has not yet gained international accreditation, and thus, is not able to certify exports as meeting global standards . Around US\$0.6 million in LIF grants was provided to 151 firms to enhance their product and process quality and awareness of international quality standards . Participants expressed satisfaction with the training and information they received under the program .

4. Significant Outcomes/Impacts:

- 15 laboratories were certified for sanitary inspection of food products as well as an additional 10 environmental laboratories
- Firms that received LIF grants reported higher sales and exports (up 27% and 36% 1999-2001), increased employment (up 22.1% over the same interval), and greater diversification of export destinations (compared to earlier years)

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Macroeconomic instability, high turnover of Government officials during the first 4 years of project implementation, and some continued uncertainty over trade policy leadership limited the project's impact .
- While diagnostic work on competitiveness and exports was conducted, no evidence is provided that any significant impact was achieved, or that there are specific plans to address export barriers .
- INEN was not partially privatized as called for in the PAD, nor has it achieved international accreditation --an explicit project goal. INEN's failure to divest its commercial quality testing components has maintained the potential for a conflict of interest .
- Achievement under the National Quality Program was substantially delayed .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
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Outcome :	Satisfactory	Moderately Satisfactory	Deficiencies in the Quality area (sec. 5) detract from achievements in the international trade management and CORPEI-administered programs. There was modest progress on trade policy formulation and coordination; the active role taken by MICIP, and the relatively long tenure of its Minister are positive signs. However, the country backtracked on progress achieved in removing mandatory technical standards and remains far above the regional average.
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	While Bank performance was satisfactory, during supervision the Bank did not track the monitoring indicators in the PAD. Staff also did not evaluate the performance of participating firms against a control group (as called for in the PAD). Had these actions been taken, better information would have been available on what aspects of the project design were most valuable.
Borrower Perf .:	Satisfactory	Unsatisfactory	Despite the good performance of the implementing agency (MICIP), government implementation performance overall was unsatisfactory and leads to an overall rating of unsatisfactory Borrower Performance: <ul style="list-style-type: none"> • As the ICR acknowledges, the country did not maintain a satisfactory macroeconomic environment, which was a significant obstacle to expanding exports. • The political environment was very turbulent during the project, although recently turbulence has been reduced. MICIP had 8 ministers during the first 4 years of implementation--which adversely affected project progress. Relations with Congress were also difficult. • Relations between MICIP and the Ministry of Foreign Affairs were poor and "frequently contentious," according to the ICR. Consultations with the private sector were mostly unstructured and informal. • Deficiencies in implementing the quality program included delays due to Congressional debate and insufficient commitment to achievement of project goals by the relevant agencies.
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- **A participatory approach can be very beneficial** --The project design benefitted from substantial participation by private sector stakeholders of varying sizes and from various regions .
- **Changes in the legislative and regulatory framework for international trade are necessary but not sufficient** --While legislative and regulatory progress under the project was helpful, without further investment in

institutional strengthening and enforcement of regulations, the resultant benefits have been relatively limited .

- **Use of indicators of development impact can be extremely useful** --The PAD provided sound monitoring indicators by which to measure project development impact, including the use of a control group of firms that did not benefit from the project. Had these indicators been utilized, the Bank's understanding of the value of the various parts of the project, and their effect on the country's economy, would have been enhanced .

8. Assessment Recommended? ● Yes ○ No

Why? It would be useful to examine this project more intensively and in the context of progress on the FY03 Fiscal Consolidation and Competitive Growth Adjustment Loan . It would also be useful to assess, after perhaps 2-3 years, the extent to which the benefits to firms participating in the LIF and Grassroots programs were sustained, and to assess the development impact of the activities undertaken in the project .

9. Comments on Quality of ICR:

The ICR is satisfactory, but only marginally so . It does not present the project development outcome indicators as stated in the PAD, which were: "The development outcome indicators for the project are the incremental direct and indirect value added, employment, and household income derived from outward -oriented growth." Instead, the ICR states that the "key performance indicators" for the project objective consist of the main output indicators defined in the PAD. The ICR states that diagnostic work on international competitiveness and "recommended program strategies in 5 productive clusters" was completed and was valuable, but does not say what the results of that work were. The ICR does not explain why project identification /preparation was initiated in January 1995, but the project was not approved until June 1998. The ICR also states that in the 3 year period beginning August 1999, there were only 3 supervision missions, when in fact there were 6.