Approach Paper

Ecuador Country Program Evaluation

September 29, 2022

The Country Program Evaluation (CPE) for Ecuador seeks to assess the performance of the World Bank Group in helping Ecuador address its main development challenges. The evaluation will cover fiscal years (FY)08–22.

Background to World Bank Engagement in Ecuador

The evolution of World Bank support to Ecuador over the past 15 years was set within the context of gradual and deliberate restoration of a partnership after a near total break in relations. In April 2007, the newly elected president, Rafael Correa, expelled the permanent representative for the World Bank from the country. The government announced it would not accept further financing from the World Bank, and all nondisbursed World Bank operations under preparation at the start of FY08 (approximately 20) were subsequently dropped. Shortly after the departure of the World Bank representative, the government instructed the permanent representative from the International Monetary Fund (IMF) to remove its offices from the Central Bank building. The Inter-American Development Bank (IDB) also ceased lending to Ecuador at this time.[1] In 2009, Ecuador withdrew from the International Centre for Settlement of Investment Disputes, the international arbitration institution of the Bank Group, terminating its membership of 23 years.[2]

The abrupt shift in relations with international financial institutions was accompanied by a reversal of many economic policies. The new government of Ecuador adopted a development model characterized by heavy participation of the state in the economy, increased levels of social spending and public investment (relative to the previous decade), and a prioritization of "equity" considerations through regulation, redistribution, resizing, and "demarketization" policies (Villalba-Eguiluz et al. 2020).

It is from this state that the World Bank's engagement with Ecuador evolved. Bank Group support over the past 15 years can be characterized by efforts along two interconnected fronts: (i) gradually reestablishing a constructive partnership with the

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[1] Unlike with the World Bank and the International Monetary Fund, this cessation lasted only one year, whereafter the institution became the primary multilateral lender to Ecuador.

[2] The constitution of Ecuador approved under the government of Rafael Correa prohibits contracts in which disputes are resolved by international arbitration centers, with the exception of Latin American ones.

government after a break in relations and (ii) supporting the country's rebalancing to an economic growth model that could support an expanded, dynamic, diversified, and resilient private sector.

1. Country Context and Development Priorities

1.1 Ecuador is a middle-income country of approximately 18 million people. It has a young population, with approximately half being under the age of 25. The economy is heavily dependent on natural resources, leaving it highly vulnerable to external shocks. Oil represented 55 percent of total exports and 35 percent of fiscal revenues during the commodity price boom between 2008 and 2013.[3]

1.2 Ecuador's economic development policy over the past 15 years has been characterized by two distinct phases. Between 2007 and 2016, the country's development model was characterized by a repudiation of the policies of the "Washington Consensus" in favor of a development model that enhanced the role of the state in the economy and aimed to promote equity through social spending. Then, beginning in 2017, with deteriorating economic conditions and a new government, revisions to that model reduced the state's role in the economy, put the country on a more sustainable fiscal path, and created a better enabling environment for diversified, private sector–led growth.

1.3 The development model pursued over the first phase reflected the Buen Vivir initiative, which emphasized human development, national sovereignty, and citizen participation in the public sphere. Buen Vivir entailed sweeping policy changes to enhance the role of the state in economics, politics, and society (Deidan 2020). To pay for significantly higher spending, the government renegotiated oil contracts with the private sector, resulting in a larger share of oil revenues flowing to the public sector. Public spending grew substantially, from an average of 21 percent of gross domestic product (GDP) in 2006 to 44 percent in 2014 (World Bank 2020), reversing the relatively disciplined fiscal stance observed before then (Cueva and Díaz 2019). Social spending doubled from 4.3 percent of GDP in 2006 to 8.6 percent in 2016, with large increases in spending on education, health, urban development, and housing.

1.4 Ecuador adopted the US dollar as the national currency in 2000 as a means to control persistent inflation, but this severely curtailed the use of monetary policy as a tool for macroeconomic management. To overcome this limitation, the government removed the Central Bank's independence in 2009 and established capital controls by

[3] With lower oil prices, between 2014 and 2019 the value of oil in exports dropped to 38 percent and the share of oil revenue to total revenue fell to 21 percent.

making banks hold 45 percent of their liquid assets domestically (increasing this to 60 percent by 2012; Deidan 2020). Between 2014 and 2017, the government borrowed significantly from the Central Bank. The government also implemented tariffs under the World Trade Organization's provision for emergency balance-of-payments safeguards.

1.5 In 2008, the government defaulted on US$3.2 billion in bond issues (approximately one-third of all external debt), deciding it had been illegally or illegitimately contracted.[4] Loans from multilateral creditors were supplanted by new bilateral foreign loans, which financed mega infrastructure projects like hydroelectric plants, roads, and dams. Over 2007–16, the ratio of bilateral to multilateral debt in Ecuador shifted from 0.4 to 1.3 (figure 1.1).

Figure 1.1. Bilateral and Multilateral Debt, 2007–16

Source: Saá 2018.

1.6 The early years of Buen Vivir saw significant gains on the economic and social fronts (figure 1.2). Annual economic growth averaged 5 percent between 2007 and 2013, driven by both strong public investment and the surge in oil prices.[5] GDP growth reached 8 percent in 2011, making Ecuador the third-fastest growing economy in the Region at the time (World Bank 2018). With the significant boost to subsidies and government spending on social sectors, poverty and inequality declined sharply. Poverty fell from 38.3 percent to 25.8 percent between 2006 and 2014 (World Bank 2016), and extreme poverty was more than halved, falling from 30.9 percent in 2001 to 11.2 percent in 2012 (World Bank 2013), the result of both stronger economic growth and government programs that targeted poor people (including the Bono de Desarrollo

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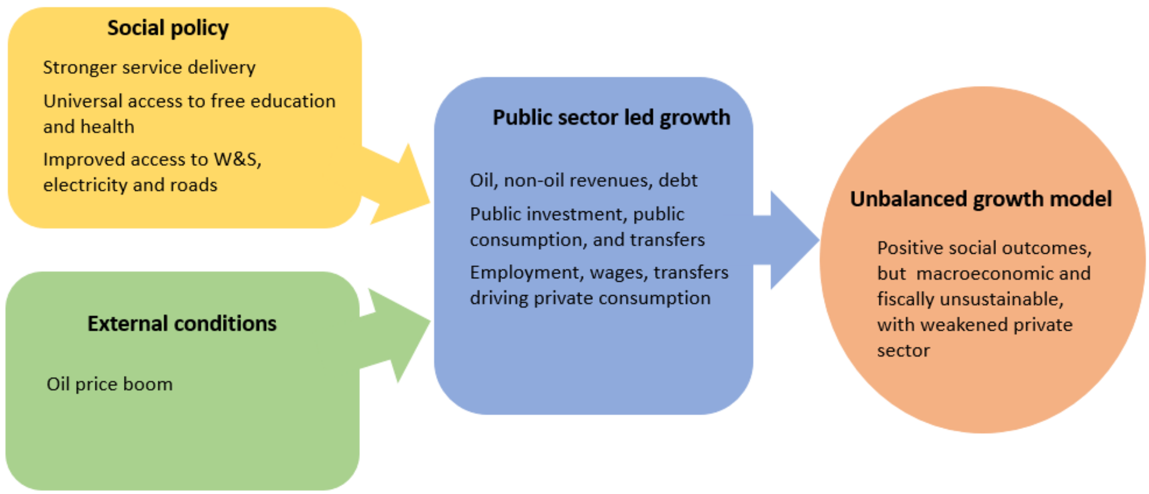
[4] The Correa government defaulted on the 2012 and 2030 sovereign bonds, claiming they were "immoral and illegal" obligations, but then proceeded to buy the debt back at a lower price.
[5] The nominal price of oil increased tenfold between 1998 and 2012 (World Bank 2018).

Humano cash transfer program, which doubled in size in percentage of GDP). Ecuador's progress on the social front put it among the best performers in the Region in terms of reducing poverty (World Bank 2016).

Figure 1.2. Key Attributes of the Buen Vivir Development Model

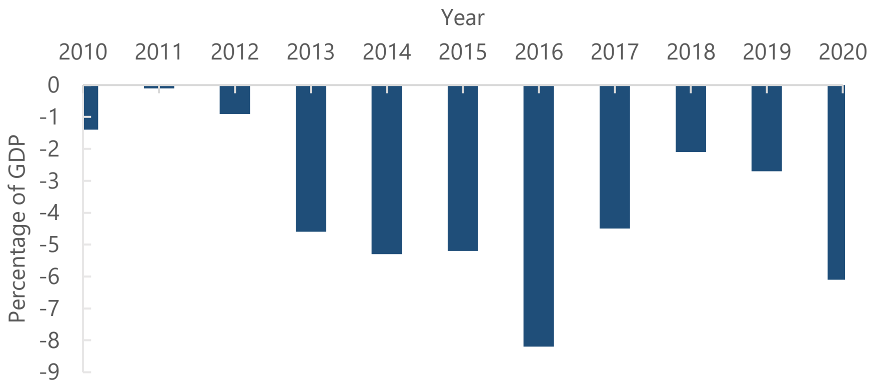


Source: World Bank 2018.
Note: W&S = water and sanitation.

1.7 There were also strong improvements in health and education outcomes, buoyed by large increases in spending (mandated by the 2008 constitution), coupled with the establishment of free public health and education services (World Bank 2018). Government spending on health doubled, and spending on higher education tripled from 0.7 percent of GDP to 2.1 percent, putting Ecuador at the top of Latin American countries in public spending on higher education.

1.8 A sharp decline in oil prices in 2014 and the appreciation of the US dollar began to create significant fiscal pressures and threatened progress on poverty and inequality reduction. Central Bank financing of government spending steadily undermined the viability of the dollarization framework. This, in turn, resulted in an increase in balance-of-payments vulnerabilities, a high public-debt-to-GDP ratio, inadequate reserve coverage, and an overvalued real exchange rate (IMF 2019). Oil revenues dropped to 5 percent of GDP by 2015 (from a high of 20 percent in the mid-2000s). GDP growth stagnated in 2015 and turned negative in 2016 (contracting by 1.2 percent). The fiscal deficit widened to more than 8 percent of GDP (figure 1.3), and gross public debt increased from 19.4 percent of GDP in 2011 to 43.0 percent by 2016 (IMF 2016, 2019). After an April 2016 earthquake, the government requested an arrangement from the IMF under the Rapid Financing Instrument to meet urgent balance-of-payments needs.

Figure 1.3. Overall Fiscal Balance to Gross Domestic Product, 2010–20



Source: International Monetary Fund staff reports from Ministry of Finance and Central Bank data.
Note: GDP = gross domestic product.

1.9 When a new government was inaugurated in May 2017, there was a significant shift away from the public sector–led growth model. The change in policy stance reflected Ecuador's desire to reduce the footprint of the state on the economy and create space for the private sector to expand. The new administration began to restore macroeconomic stability, reduce the role of the state in the economy, and allow private activity to play a stronger role in economic growth (World Bank 2021). Among the macroeconomic reforms undertaken, the National Assembly passed the Productive Development Law, which reestablished the independence of the Central Bank; created a fiscal framework that capped the growth of public spending; set a debt anchor; and reestablished the oil stabilization fund meant to smooth spending over the commodity cycle. The authorities also adopted measures to improve public spending and tax efficiency, build fiscal buffers, and realign domestic prices and costs to address external imbalances. Improvements in public debt transparency showed that public debt was significantly higher than previously stated,[6] which by 2019 had reached 49 percent of GDP (debt subsequently rose to 66 percent as a result of the COVID-19 pandemic).

Key Constraints to Ecuador's Development

1.10 Facilitating higher, more sustainable, and inclusive growth requires, among other things, increased private investment, which was inhibited by weaknesses on the business regulatory and financial sector fronts. The 2010 and 2017 Enterprise Surveys for

[6] Revisions to public debt estimates resulted in 2016 debt figures rising from 33.8 percent of gross domestic product (GDP) to 43.2 percent of GDP, above the 40 percent of GDP debt threshold.

Ecuador pointed to several issues that remain at the top of perceived business obstacles (figure 1.4):

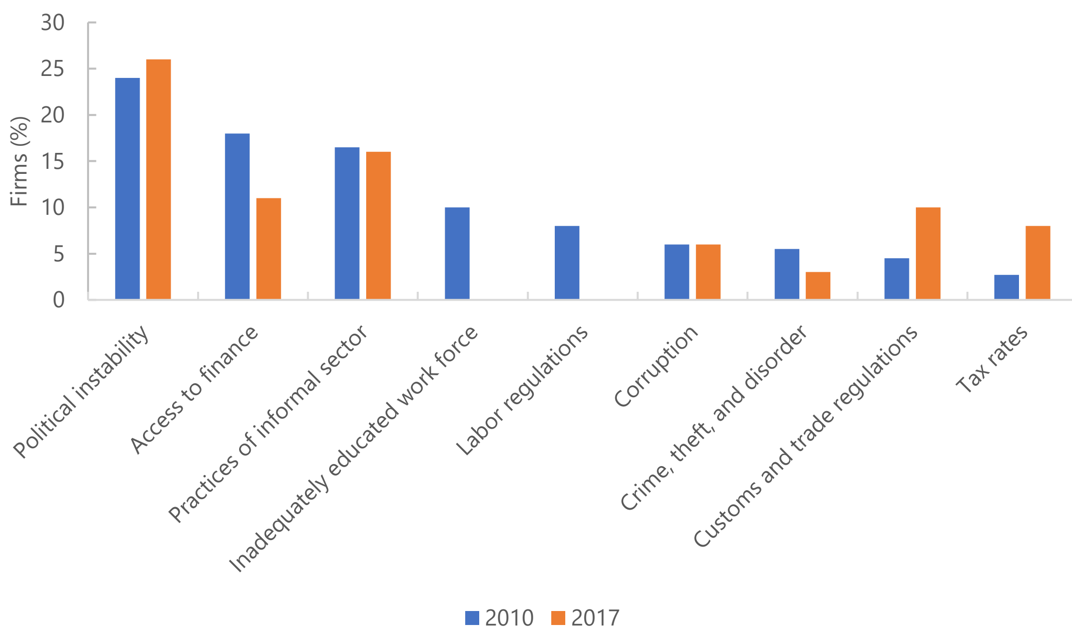
- Frequent policy changes, for example in taxes and tariffs, created a layer of uncertainty for investors.

- Access to finance by firms was hindered by distortions in the regulatory system, including from interest rate caps, which challenged banks' ability to lend and led to distortions in the allocation of credit.

- Restrictive labor regulations limited the ability of the private sector to adapt to changing market conditions and contributed to the growth of a large informal sector with which formal businesses must compete.

- Labor productivity was hindered by low-quality education and health. Despite recent improvements along both fronts, education quality is still affected by a range of factors, from lack of access to education in lagging regions to inadequate teacher professional development. Malnutrition and stunted growth of children also lower labor productivity.

Figure 1.2. Top Business Environment Constraints, 2010 and 2017



Source: World Bank Enterprise Surveys.

1.11 In addition to reforms needed to enable the transition to more diversified, private sector–led growth, the 2018 Systematic Country Diagnostic noted that Ecuador faced significant exposure to natural hazards and climate risks and that these had led to significant economic losses.[7] Ecuador is among the top 10 countries globally for natural disaster risk.

1.12 The Systematic Country Diagnostic also highlighted the need to ensure infrastructure does not degenerate or remain unfinished. Ecuador invested heavily in its energy sector and transportation infrastructure, particularly roads, ports, and airports. Many of these investments remain nonoperative or underused. Urban infrastructure in particular was affected. Ecuador's rapid urbanization was accompanied by high motorization rates, leading to increased air pollution and road accidents. Public investment in transportation failed to keep pace with Ecuador's development needs, with the need for improved roads and alternative transportation systems becoming increasingly evident.

1.13 Intermixed with the constraints to fiscally sustainable, private sector–led growth, Ecuador has faced significant challenges in implementing economic reforms that have an impact on households. Efforts to remove food and fuel subsidies resulted in large and violent social protests in both October 2019 and June 2022, highlighting the delicate balance between policy reforms aimed at facilitating economic recovery and social unrest.

2. World Bank Group–Supported Program in Ecuador

2.1 Before 2007, Bank Group support to Ecuador was guided by the 2003–07 Country Assistance Strategy, which prioritized fiscal consolidation and reforms to promote competitiveness, more inclusive access to economic opportunities, and strengthening of governance and public service delivery. Between 2003 and 2007, the Bank Group maintained a portfolio of advisory services and analytics (ASA), technical assistance, and lending operations averaging approximately US$105 million in disbursements per year. Development policy financing accounted for a little more than a third of all Bank Group financing over the period. Ecuador's one-year standby agreement with the IMF ended in April 2004 and was followed by oversight under the IMF's enhanced surveillance mechanism, which set quarterly macrofiscal targets.

2.2 The Bank Group's fractured relationship with the government can be traced in part to the cancellation of a World Bank policy-based operation in 2005 (see box 2.1). The fallout led to Rafael Correa's successful campaign for the presidency, with a promise to

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[7] Earthquakes have caused significant economic losses, estimated at US$8.5 billion in damages over the past 50 years, and climate-related El Niño—Southern Oscillation phenomena—both El Niño and La Niña—have generated losses of approximately US$4.4 billion.

renegotiate (and repudiate parts of) the country's external debt and to cut ties with multilateral organizations such as the World Bank and the IMF.

2.3 With the exodus of its permanent representative in the spring of 2007, new and ongoing Bank Group interventions in Ecuador were halted. Although the World Bank maintained its headquarters in Quito, staffing was limited to a few administrative positions until 2010.[8] ASA work that was under way, including a country social analysis and an institutional governance review, was also dropped. The International Finance Corporation focused on existing clients but did not undertake new business (World Bank 2013).

2.4 Between FY08 and FY13, there was no Country Partnership Framework (CPF) or strategy to guide the World Bank's assistance. The only new financing was a small grant-financed operation (discussed at the end of this paragraph).[9] However, in 2011, the World Bank initiated dialogue and technical assistance with several ministries and subnational governments on a limited set of issues. The sectors for these initial engagements were chosen opportunistically, where there was some ministerial interest (in social sectors, for example, where the World Bank's assistance could be aligned with efforts at poverty reduction) or where the political economy was more amenable (for example, municipal finance). Technical assistance to the social sectors focused on nutrition (through improving access to water and sanitation), early child development strategies, inclusion of people with disabilities, social security, and graduation options for the beneficiaries of the Bono de Desarrollo Humano program. In FY11, a grant-financed technical assistance project totaling US$2.2 million was approved to reduce child malnutrition in Chimborazo.

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[8] In November 2010, a senior country officer was sent to Quito to serve as the de facto country manager.

[9] Financed through the Japan Social Development Fund.

Box 2.1. The Breakdown in Relations with the World Bank Group

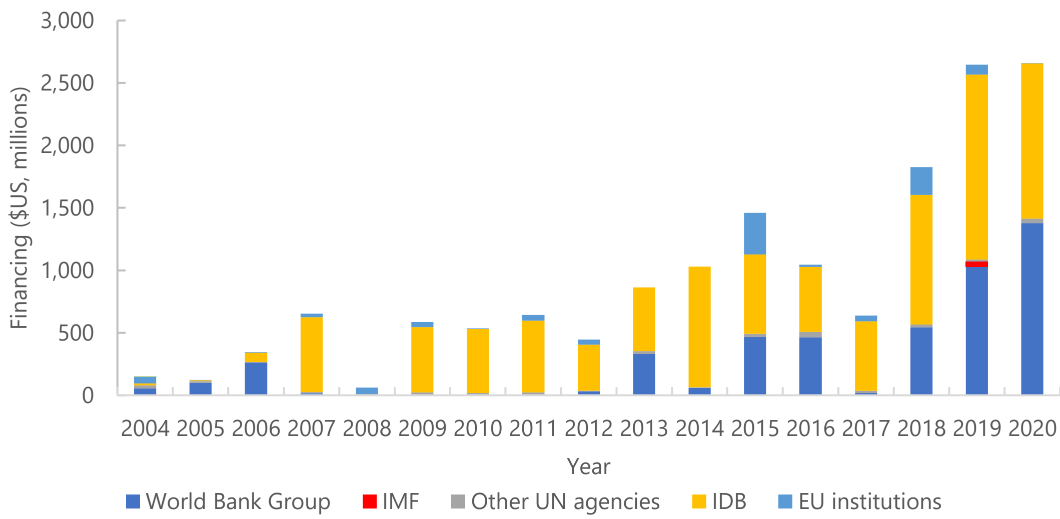
The rupture in relations between the World Bank and the government of Ecuador can be traced to the fallout from the cancellation of a World Bank structural adjustment operation in 2005. Although the US$100 million Second Fiscal Consolidation and Competitive Growth Structural Adjustment Loan was being prepared, Ecuador was experiencing a short period of macroeconomic stability and growth after decades of protracted fiscal, inflationary, and financial crises, fueled by external shocks. In 2000, the economy was formally dollarized, and inflation—which had reached 108 percent in 2000—fell to 4 percent by 2005. A recovery in oil prices helped improve fiscal and external positions, but there was concern that windfall revenues might be used to create new, structurally inflexible spending commitments, which would be difficult to contain when oil prices declined.

In 2002, Ecuador passed the Fiscal Responsibility Law, which established a special fund, Fondo de Establización, Inversión Social y Productiva y Reducción de Endeudamiento Pública (FEIREP). FEIREP was to receive all the tax income from the heavy crude oil pipeline, plus 45 percent of tax windfalls on preexisting oil exports that were attributable to the international price hikes. According to the 2002 law, 70 percent of FEIREP resources were to be used to pay off external public debt, and a target was set to reduce the debt ratio to 40 percent (from 55 percent of gross domestic product in 2000). Twenty percent of FEIREP revenues would be put into a fiscal stabilization fund, and the remaining 10 percent was to be channeled into health and education investment.

In March 2005, the World Bank approved the Second Fiscal Consolidation and Competitive Growth Structural Adjustment Loan, with a prior action requiring the allocation of 70 percent of the FEIREP for debt buybacks as outlined in the Fiscal Responsibility Law. Though the ratio of debt-to–gross domestic product had been lowered significantly since 2002, much of the remaining debt was on expensive terms, and allocating 70 percent of the FEIREP for debt buybacks was intended to ensure that the government replaced the most onerous debt with new borrowings. However, over 2005, political pressure from congress grew for more of the windfall oil revenues to be channeled into increased spending. As a result, congress changed the proportion spent on debt repayment to 50 percent and increased the share spent on health and education to 30 percent.

The World Bank responded to the reversal by canceling the disbursement of the loan to Ecuador, leading to the resignation of Minister Correa in July 2005. The confrontation helped launch Correa's successful campaign for the presidency, under a platform denouncing free trade, a promise to suspend payments on "illegally" acquired public external debt, and a repudiation of the multilateral development institutions as development partners. Shortly after his election in 2007, President Correa declared the permanent representative of the World Bank in Ecuador persona non grata. President Correa subsequently announced he would end relations with the International Monetary Fund (IMF) after paying off the country's final debts to the agency and instructed the IMF resident representative to close the IMF offices in the Central Bank (figure B2.1.1).

Figure B2.1.1. Ecuador's Financing from Multilateral Organizations, 2004–20



Source: Independent Evaluation Group staff estimates from Organisation for Economic Co-operation and Development Creditor Reporting System.
Note: EU = European Union; IDB = Inter-American Development Bank; IMF = International Monetary Fund; UN = United Nations.

Source: World Bank 2005, 2006.

2.5 Throughout FY11–13, a dialogue at the subnational level on urban infrastructure and disaster risk management was taking place. A good-practice exchange on urban transportation financing paved the way for a series of requests for municipal transportation assistance. Without an official request but with interest from the minister of finance in understanding how to finance municipal transportation, the World Bank produced a report highlighting regional financing plans, which it disseminated in a series of workshops in Cuenca. Those workshops created interest in municipal transportation assistance in other municipalities. World Bank support at the municipal level thereafter became a key entry point for the World Bank's lending reengagement.

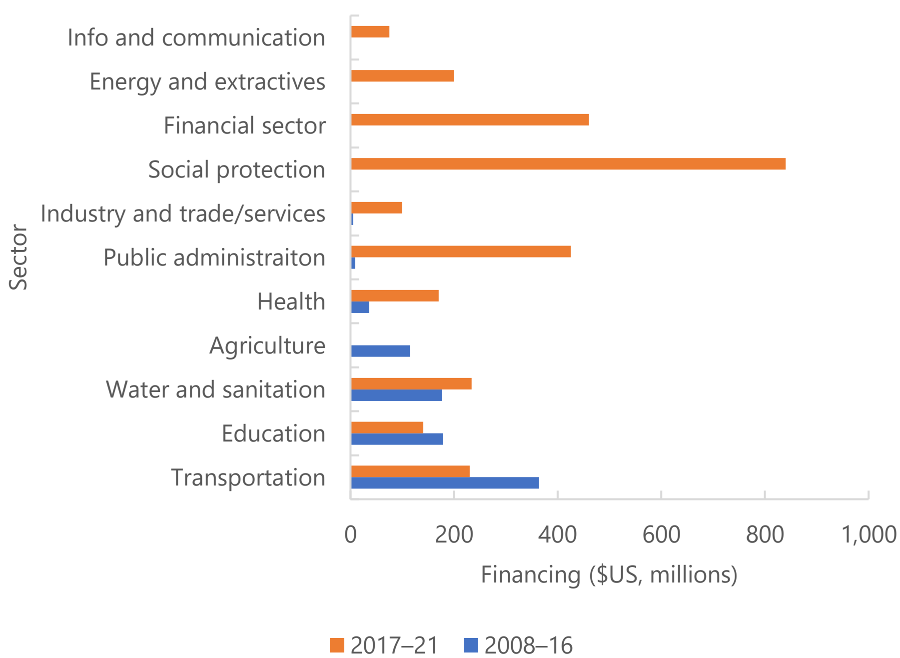
2.6 The FY14–15 Interim Strategy Note (ISN) signaled a return to a more normal, albeit limited, engagement with the government, with an objective to "consolidate the progress in the dialogue, while the government and the World Bank agreed on the most useful program for medium-term engagement" (World Bank 2013, 14). The ISN outlined a menu of possible areas of support, depending on how the dialogue progressed and how the government's demands and priorities evolved. The ISN included plans for technical assistance, advisory services, and lending for investment projects to build subnational capacity to implement key strategies and improve service delivery at the local level.

2.7 Over FY14–15, the World Bank approved a small portfolio, financing a series of municipal infrastructure projects (transportation and water and sanitation operations in

Manta, Quito, and Guayaquil) totaling US$407 million, for which the borrower was the municipal government, but the central government provided guarantees. The largest of these was an investment project for the underground metro line in Quito, cofinanced by the IDB, the Andean Development Corporation, and the European Investment Bank.

2.8 In addition, the World Bank financed a range of technical assistance activities and ASAs where it saw potential for further engagement, building on past involvement and on sectors prioritized by the government (figure 2.1). Technical assistance covered topics including safety nets, skills and employability, low-income housing and housing finance, poverty, environmental risk management, road safety, and competitiveness. The World Bank also delivered a 2014 informality study (through an ASA) using a World Bank–commissioned Enterprise Survey that assessed the aspects of the regulatory framework most problematic for firms and the reasons for regulatory noncompliance (World Bank 2012).

Figure 2.1. World Bank Financing Commitments by Sector, FY08–21



Source: Independent Evaluation Group Staff estimates from World Bank Operations Portal data.
Note: FY = fiscal year; Info = information.

2.9 The FY16–17 Country Engagement Note was prepared in an adverse and rapidly changing macroeconomic context, with a halving of oil prices in just three years and a strengthened US dollar resulting in a significant widening of fiscal and external imbalances. Building on the ISN, the Country Engagement Note aimed to advance engagement by "enhancing policy dialogue, deepening the WBG's [World Bank

Group's] knowledge, and providing a flexible framework that allows the WBG to respond effectively to the changing macroeconomic conditions in the country" (World Bank 2016, 1). Over FY16–18,[10] four additional World Bank projects were approved, continuing the municipal transportation support (in Ibarra) and building support in nutrition, risk management, climate change, and education. Analytical work also deepened, including with a Country Economic Memorandum and Poverty Assessment (2016); technical assistance on skills, labor inclusion, and productivity; and economic and sector work in health, social protection, economic management, and finance.

2.10 Over the ISN period, International Finance Corporation initiated limited engagements. It invested in the financial and agribusiness sectors and reopened trade finance guarantee programs that had been on hold since FY09. During the Country Engagement Note period, International Finance Corporation continued to play a role in these sectors, tripling its new commitments over the two-year period. An advisory program was also implemented in corporate governance, agribusiness, and banking.

2.11 The latest CPF covers FY19–23, building on the prior areas of engagement while supporting a program of assistance aligned with the government's development priorities as outlined in its Plan de Prosperidad. The 2019 CPF was underpinned by a Systematic Country Diagnostic, undertaken in June 2018 (table 2.1).

[10] Fiscal year 2018 was not covered by the Country Engagement Note, but a full Country Partnership Framework would not be undertaken until fiscal year 2019.

Figure 2.2. World Bank Engagement over the Country Program Evaluation Period (FY08–22)

FY14–15 ISN	FY16–17 CEN	FY17 SCD	FY19–23 CPF
Pillar 1: Supporting sustainable and inclusive growth	Pillar 1: Sustaining gains in basic service delivery and strengthening safety nets	Pillar 1: Supporting conditions for addressing macroeconomic imbalances	Pillar 1: Supporting fundamentals for inclusive growth
• Managing and protecting natural resources and biodiversity	• Strengthening social services for vulnerable populations	• Improving fiscal position	• Enhancing efficiency of public spending
• Supporting agriculture and rural development	• Expanding water and sanitation services for the B40	• Improving efficiency of public spending and taxation	• Improving conditions for private sector development
• Supporting infrastructure development	• Improving accessibility and efficiency of public transport at the local level	• Realigning domestic prices and unit labor costs	• Improving financial sector inclusion and intermediation
		• Realigning domestic prices and unit labor costs	
Pillar 2: Improving access to social protection and quality services for all	Pillar 2: Promoting economic diversification in a constrained macroeconomic environment	Pillar 2: Lifting barriers to private sector development	Pillar 2: Boosting human capital and protecting the vulnerable
• Supporting expanded social protection	• Identifying contraints in the non-oil sectors	• Modernizing labor regulations while increasing effectiveness of safety nets	• Improving access to demand-driven technical education
• Supporting improved service provision	• Linking small and medium agricultural producers to key value chains	• Revamping policies to encourage FDI and reduce trade barriers	• Strengthening efficiency and effectiveness of social programs
• Expanding access to housing	• Mitigating risks from climate change and environmental threats	• Reducing costs and uncertainties with business regulation and enforcement	
		• Reducing distortions associated with financial regulation	
Pillar 3: Strengthening public sector capacity to provide access to quality services		Pillar 3: Building human capital and expanding economic opportunities	Pillar 3: Enhancing institutional and environmental sustainability
• Supporting modernization of the state and improved public financial management		• Improving quality of education	• Strengthening evidence-based policy making and transparency

FY14–15 ISN	FY16–17 CEN	FY17 SCD	FY19–23 CPF
• Supporting governance and anticorruption agenda • Promoting innovation and entrepreneurship		• Strengthening efforts to address malnutrition and stunted growth of children • Strengthening gender-based violence prevention efforts • Enhancing integration of vulnerable groups and ethnic minorities Pillar 4: Improving the use of physical and natural capital • Rethinking use and sustainability of recently built infrastructure and unfinished projects • Improving quality of water, sanitation, and irrigation services • Investing in long-term resilience and adaptation measures • Improving investments in natural capital stocks and environmental services	• Improving resilience to disaster risk and climate change

Source: Independent Evaluation Group.
Note: CEN = Country Engagement Note; CPF = Country Partnership Framework; FDI = foreign direct investment; FY = fiscal year; ISN = Interim Strategy Note; SCD = Systematic Country Diagnostic.

3. Purpose, Objectives, and Audience

3.1 The objective of this CPE is to assess how the Bank Group supported Ecuador in addressing key challenges that constrained its development and how that support adapted over time to respond to changing circumstances, an evolving relationship, and lessons from experience. The evaluation will cover FY08–22. The time period is selected to include the earliest efforts at normalizing relations after the break in July 2007. Because this was such a pivotal aspect of the World Bank's support to Ecuador over the past decade, the CPE considers a somewhat expanded time period.

3.2 The primary audience for the CPE is the World Bank's Board of Executive Directors, its Committee on Development Effectiveness, and Bank Group management and staff working on Ecuador. The evaluation may also be relevant to other country teams seeking to rebuild relations with country authorities after extended periods of disengagement. It may also be of interest to other international financial institutions, which adapted their support within a significantly constrained environment. The report will be sent to the government for comment and, once finalized, will be made public (including government comments).

4. Evaluation Questions

4.1 The CPE will address three evaluation questions:[11]

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

4.2 Question 1 will evaluate the use of different entry points, instruments, and mechanisms by which the World Bank restored its relationship with the government of

[11] The Country Program Evaluation also includes a review of the evolution of the World Bank Group portfolio and strategies over the evaluation period, in addition to these strategic evaluation questions.

Ecuador, from the break in relations (2007) until 2022. The CPE will identify the trade-offs this involved and relevant lessons from innovations and adaptations to the complex political situation. The effectiveness of normalization of relations will be assessed using criteria that include the degree to which the activities (i) were relevant to identified development constraints; (ii) were responsive to the government's needs; (iii) resulted in a meaningful "influence dividend" with respect to government policies and programs; (iv) helped rebuild institutional capital; and (v) adapted to changing conditions (including the onset of the COVID-19 pandemic).

4.3 Question 2 will assess the impact of World Bank support for Ecuador's rebalancing from the state-led, inward-oriented, and public investment–driven development model put in place in 2007 to a more sustainable, diversified, private sector–led growth development model. The CPE will seek to assess how effectively the World Bank systematically prepared for and responded to the broad range of support needed in Ecuador's rebalancing of its sources of economic growth. The CPE will draw on a range of diagnostic work over the period (including the Enterprise Surveys and Country Private Sector Diagnostic) to inform the evolving needs for private sector–led growth. The CPE will likewise seek to identify lessons learned during the program implementation. Given the delicate social balance in the country (evidenced by violent protests in 2019 and 2022 in the face of austerity measures), question 2 will also consider how the World Bank took into account the sociopolitical context in designing its strategies and interventions.

4.4 Question 3 will assess how the Bank Group supported Ecuador to maintain and expand its achievements in social protection and inclusion. Over the Buen Vivir years, Ecuador enacted a range of initiatives to reduce poverty and tackle complex disadvantages associated with gender, disability, ethnicity, and location. Much of the Bank Group's early dialogue and technical assistance with Ecuador after the break in relations focused on protecting these gains, including through technical and advisory support in relation to the country's conditional cash transfer program, Bono de Desarrollo Humano. The CPE will seek to assess how the Bank Group's support to social protection and inclusion evolved over time to meet changing priorities and the extent to which the Bank Group disseminated lessons learned.

5. Evaluation Design

5.1 The CPE will use a mix of methods to answer the evaluation questions.

5.2 A portfolio review and strategy documents will provide information about the activities of the Bank Group. Although the evaluative evidence from World Bank projects is limited (given the small portfolio size, with most projects either active or only recently closed), the team plans to conduct more detailed assessments of a selection of lending and nonlending activities, both closed (but unevaluated) and under way. The team will make extensive use of in-depth interviewing with teams and key people in Ecuador who were involved in the normalization of relations between the Bank Group and the government. Process-tracing approaches will make use of deliberative evidence (for example, minutes from review meetings or aide-mémoire) to understand the basis on which decisions were made. The team may also compare and contrast the experience of other development partners as they sought to normalize relations with the government over the same period.

5.3 In addition to those noted above, methodological approaches will include the following:

- **Review of existing evaluative evidence and analytical work.** The evaluation will build on relevant evaluative evidence and analytical work, both internal and external to the Bank Group, including from academia, other development partners, and nongovernmental organizations.

- **Semistructured interviews.** The evaluation will conduct semistructured interviews with the Bank Group management and staff, government officials, development partners, representatives of the private sector, and relevant academics and civil society. The interviews will be based on a pre-agreed set of questions to assess relevance, partnerships, and the contributions of Bank Group interventions to identified development and institutional priorities.

- **Development partner mapping and analysis.** The evaluation will conduct a mapping of the main development partners active in Ecuador to assess World Bank collaboration and coordination. It will also use client opinion surveys over the evaluation period to further understand client perspectives.

6. Limitations

6.1 The evaluation faces specific limitations. Among them is the paucity of independent evaluative evidence from the World Bank operational portfolio in Ecuador, given that few of the projects approved since the resumption of lending have closed. Of the portfolio of 20 operations since 2008, only 7 have closed (3 of those part of a recently completed development policy operation series). Because the portfolio is limited, the team plans to undertake limited scope evaluations of select operations focused on relevance.

6.2 With regard to question 1, the team plans to work with a methods adviser to build a counterfactual (or set of counterfactuals), which will allow the team to better assess the advantages and trade-offs of particular decisions.

6.3 With regard to government and stakeholder consultations, the team plans to adopt a hybrid approach. The evaluation team will conduct selected interviews remotely, augmented by a field visit barring unforeseen circumstances.

6.4 Given the time period for the evaluation, it is likely that many of the government counterparts, local experts, and stakeholders will have changed, and many may be difficult to locate or unwilling to speak to the evaluation team. The evaluation team will include local consultants familiar with many of the former officials and counterparts and other relevant actors.

6.5 It is possible that information gathered from interviews with World Bank staff and government officials may be biased. The team will supplement Bank Group and government interviews with documentation and interviews with individuals other than those directly involved in project implementation, including beneficiaries of Bank Group activities.

7. Quality Assurance Process

7.1 Quality assurance will take place through peer review arrangements, close collaboration with Independent Evaluation Group (IEG) management, and triangulation of evidence. To enhance credibility of the evidence, validity, and utility of the findings, the evaluation will follow IEG standard quality assurance processes, which include internal review meetings with members of the leadership team. The work will be conducted under the guidance and quality assurance of Jeffrey Allen Chelsky (manager, Economic Management and Country Programs Unit) and Oscar Calvo-Gonzalez (director, Economic Management and Human Development Department) and under the overall direction of Alison Evans (Director-General, Evaluation). This Approach Paper and the final report will also be peer-reviewed by the following experts:

- Carola Alvarez, who was until recently the chief for development effectiveness and strategy at the IDB and between 2012 and 2017 was the country manager for Andean Countries, leading the IDB's Ecuador team (among others). Before that, she led the IDB's Office of Development Effectiveness.

- José Hidalgo-Pallares, who is an economist, columnist, and writer from Ecuador and is currently the director of the Corporación de Estudios para el Desarrollo, a private nonprofit institution that promotes studies on policies that affect the development of Ecuador.

- Ceyda Oner, who is the current mission chief for Ecuador at the IMF. Before her engagement with Ecuador, she was adviser to the first deputy managing director and, before that, deputy division chief in the finance unit. She has been an economist with the IMF since 2005 and, before that, was a visiting professor at Wellesley College.

8. Expected Outputs, Outreach, and Tracking

8.1 The main output of this evaluation will be a report that presents relevant findings and lessons that can inform the next CPF for Ecuador, currently planned for no earlier than the first quarter of FY24. The CPE is planned for e-submission in the fourth quarter of FY23.

9. Resources

9.1 The evaluation team will be led by Jennifer Keller (senior economist, IEG, Economic Management and Country Programs). Team members include Elisabeth Goller (senior evaluation officer, IEG, Infrastructure and Sustainable Development), Melissa Metz (senior economist, IEG, Economic Management and Country Programs), and Patricia Acevedo (program assistant, IEG, Economic Management and Country Programs), with support from external consultants (including in Ecuador). The estimated budget for delivering this evaluation is US$500,000, including US$25,000 for dissemination in FY24.

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Appendix A. Evaluation Design Matrix

Table A.1 indicates the key questions, sources, and data collection and analysis methods, and the strengths and limitations associated with these.

Table A.1. Evaluation Design Matrix

Key Questions	Information Sources	Methods	Strengths and Limitations
Q1: How effectively did the World Bank Group prepare for, and respond to, opportunities to restore productive and broad-based engagement with the government of Ecuador?	Bank Group strategy documents and internal and external diagnostics Ecuador development plans Bank Group project and ASA documents Key informants (Bank Group, development partners, government) External literature on reengagement and normalization of relations	Portfolio review analysis Limited scope evaluations of select projects (for relevance) Semistructured interviews Literature review	The question will triangulate evidence from interviews, review of Bank Group portfolio documents, and global lessons on reengagement. The limited scope evaluation of projects for relevance (of objectives, PAs) will mitigate constraint of limited ISRs.
Q2: How effective was the Bank Group's preparation and support for Ecuador's rebalancing toward a private sector–led growth model?	Bank Group strategy documents and internal and external diagnostics Ecuador development plans Bank Group project and ASA documents Key informants (Bank Group, development partners, government) External literature on transition to market-based development model	Portfolio review analysis Limited scope evaluations of select projects (for relevance) Semistructured interviews Literature review Available IEG project-level validations (IFC and MIGA)	The question will triangulate evidence from interviews, review of Bank Group portfolio documents, and—to the extent that they may be relevant—global lessons. The limited scope evaluation of projects for relevance (of objectives, PAs) will mitigate constraint of limited ISRs.
Q3: To what extent has the Bank Group contributed to ensuring gains in social protection and inclusion were maintained and expanded, particularly in disadvantaged groups?	Bank Group strategy documents and internal and external diagnostics Ecuador development plans Bank Group project and ASA documents Key informants (Bank Group, development partners, government)	Portfolio review analysis Limited scope evaluations of select projects (for relevance) Semistructured interviews Literature review	The question will triangulate evidence from interviews, review of Bank Group portfolio documentations, and diagnostics. The limited scope evaluation of projects for relevance (of objectives, PAs) will mitigate constraint of limited ISRs.

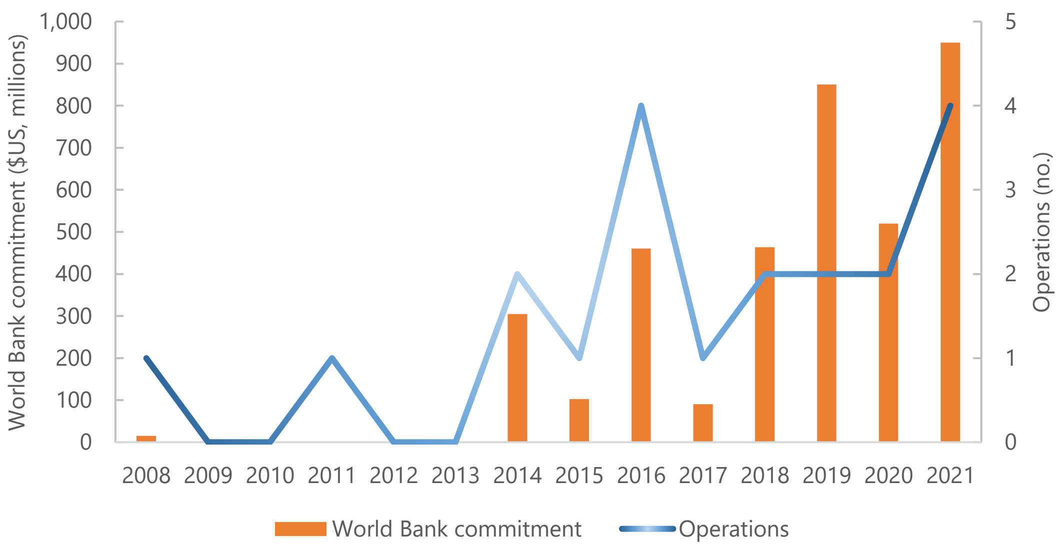
Source: Independent Evaluation Group.
Note: ASA = analytical and advisory services; IEG = Independent Evaluation Group; IFC = International Finance Corporation; ISR = Implementation Status and Results Report; MIGA = Multilateral Investment Guarantee Agency; PA = prior action.

Appendix B. World Bank Group Portfolio

World Bank Group Lending Portfolio, Fiscal Years 2008–21

Between fiscal years (FY)08 and FY21, the World Bank approved 20 operations valued at US$3.7 billion (figure B.1). With a break in relations starting in 2007, World Bank commitments over FY08–12 were limited to a single US$15 million operation, focused on irrigation in Chimborazo.[1] Starting in 2014 (the start of the Interim Strategy Note period), a limited lending portfolio resumed, and commitments have expanded considerably since FY18 (averaging approximately $700 million per year).

Figure B.1. World Bank Lending, FY08–21



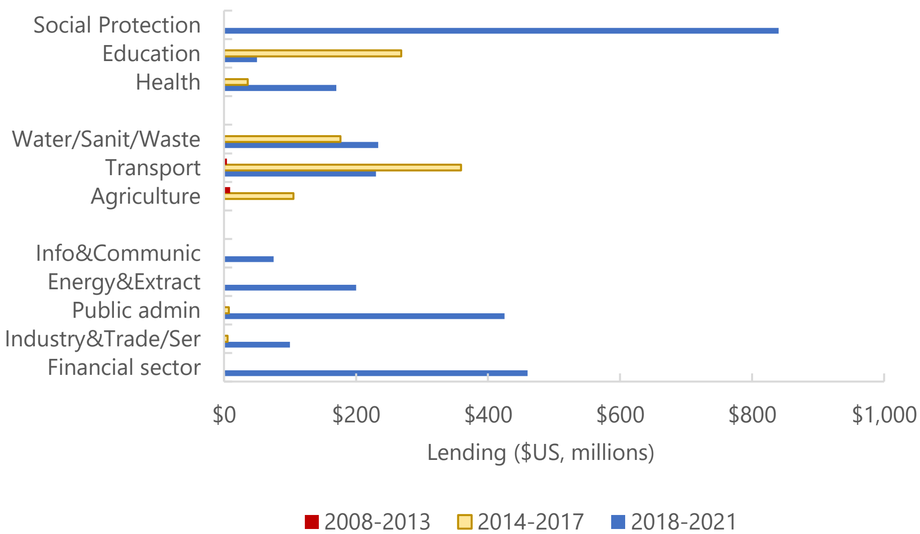
Source: World Bank operations portal.
Note: FY = fiscal year.

Sectorally, the World Bank's early portfolio was focused on municipal infrastructure (transportation; water and sanitation), agriculture, and some limited operations in education and health. When a fuller engagement was realized starting in FY18, the World Bank's portfolio branched out to include operations focusing on economic management, finance, and industry, and the World Bank's engagement in social sectors (through health, education, and social protection) expanded (figure B.2). In terms of World Bank instruments, all operations were investment project finance before FY19.

[1] Another World Bank operation over the period focusing on malnutrition was financed through the Japan Social Development Fund (US$2.2 million).

Since FY19, development policy financing has accounted for two-thirds of World Bank commitments.

Figure B.2. World Bank Lending by Sector, FY08–21

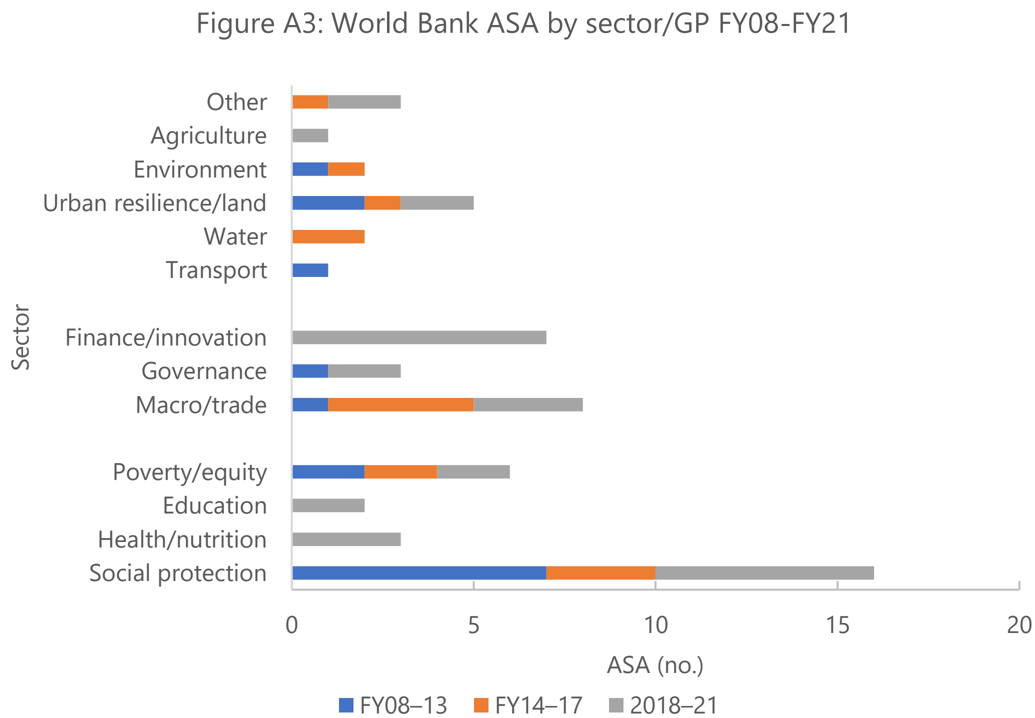


Source: World Bank operations portal.
Note: admin = administration; Communic = communication; Extract = extractives; FY = fiscal year; Info = information; Sanit = sanitation; Ser = services.

World Bank Advisory Services and Analytics Work

Between FY08 and FY21, the World Bank delivered 60 nonlending activities. Although there was a disruption in new advisory services and analytics (ASA) work after the break in relations 2007, ASA resumed starting in FY11; between FY11 and FY16, the World Bank delivered 30 pieces of nonlending work (the majority being nonlending technical assistance). Sectorally, early ASA focused on social protection and poverty, in addition to technical assistance related to housing for poor people (urban resilience and land). During the Interim Strategy Note period (FY14–16), the World Bank began to address topics related to macroeconomic and trade through its ASA and maintained continuous delivery of ASA on social protection and poverty. A limited amount of early technical assistance also went toward urban infrastructure (water and sanitation; transportation). Since FY18, ASA has been split relatively evenly between the macroeconomics, trade, finance, and governance sectors and the social protection and human capital sector (poverty, education, health, social protection; figure B.3).

Figure B.3. World Bank Advisory Services and Analytics by Sector, FY08–21



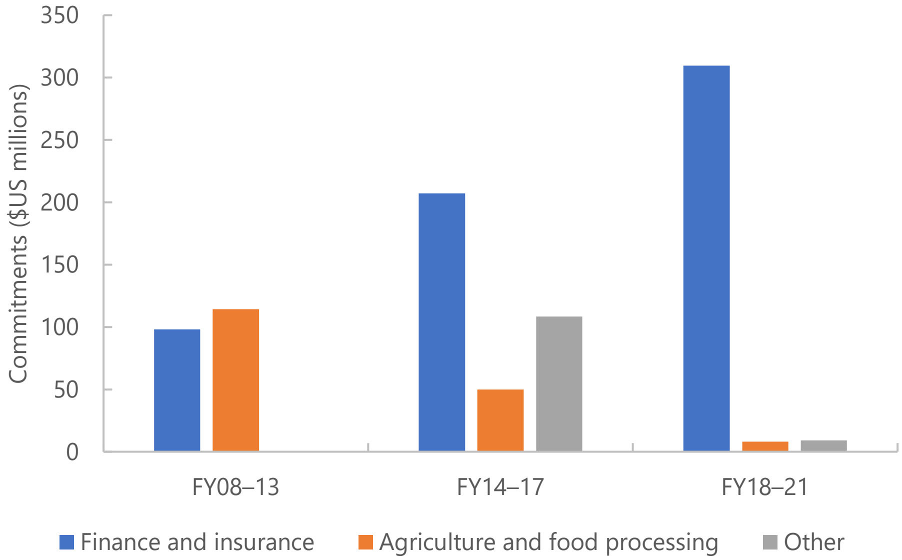
Source: World Bank operations portal.
Note: ASA = advisory services and analytics; FY = fiscal year.

International Finance Corporation and Multilateral Investment Guarantee Agency Investments and Advisory Services over FY08–21

The International Finance Corporation (IFC) remained active in Ecuador during the period of World Bank disengagement. At the time of the break in relations with the World Bank Group, IFC had US$109 million in active outstanding net commitments, more than half toward agriculture and agribusiness and a little less than a third in the finance and insurance sector. Over the period of limited Bank Group engagement (FY08–17), IFC undertook new commitments in the amount of US$578 million in net commitments, the majority toward finance and insurance (about 53 percent of commitments) and agribusiness (28 percent).

Over the period with fuller Bank Group engagement (FY18–21), IFC undertook another $327 million in commitments, with more than 95 percent directed toward finance and insurance clients (figure B.4).

Figure B.4. International Finance Corporation Commitment by Sector, FY08–21



Source: World Bank operations portal.
Note: FY = fiscal year.

IFC provided a limited number of advisory services during the period of limited engagement, including one project with the public sector. It had one advisory engagement with government clients—National Plan for Business Simplification in Ecuador—in FY10–14. This focused on simplifying construction permits and operating licenses in five cities, working with municipalities and in coordination with the national Ministry of Production Coordination, Employment and Competitiveness. IFC completed three advisory services with investees that had been ongoing as of FY07 during FY08–10. It completed one project with an investee in FY11–15. After the fuller normalization of relations in FY18, IFC completed one advisory services project with a client, conducted the Country Private Sector Diagnostic, and worked on one upstream seed project (sustainable tuna).

During the review period, the Multilateral Investment Guarantee Agency provided expropriation risk cover to one project: US$32.4 million in investment from three foreign investors in Surpapelcorp S. A., which consists of three integrated businesses: an existing paper mill, a corrugated cardboard box plant, and six existing recycling collection centers.