Statement by Todd Crawford  
Date of Meeting: June 22, 2000

ECUADOR - Country Assistance Strategy Progress Report (R2000-102),  
Structural Adjustment Program (R2000-105), and Financial Sector Technical  
Assistance Project (R2000-113)

1. We endorse the Country Assistance Strategy for FYs 2000-2002 outlined in the Progress  
Report and we support both the Structural Adjustment Program Loan (SAL) and the Financial  
Sector Technical Assistance Project. All three are well tailored to help the Government of  
Ecuador restore macroeconomic stability, strengthen public sector financial management, rebuild  
the financial sector, promote private sector investment, and improve the delivery of social  
services to the poorest and most vulnerable sections of the population. We commend the  
Government for steps that it has already taken to put the economy back on the path to sustainable  
growth and reduce poverty. We were pleased that the Government was able to resolve important  
financial sector issues, which could have delayed Board consideration of the Progress Report and  
the loans. We encourage the Government to continue working closely with the World Bank  
Group and other international financial institutions to maintain the reform momentum and ensure  
continuity of international financial support. We also urge the Government to continue its  
consultations with civil society to strengthen domestic political support for needed reforms.  
Public disclosure of this Progress Report and of the SAL could contribute to greater  
understanding and stronger political support and we urge the Government to request such  
disclosure.

CAS Priorities and Lending Cases

2. We appreciate the concise Progress Report on the Bank Group's Country Assistance  
Strategy. OED's June 4 Country Assistance Evaluation (CAE) for Ecuador is a helpful  
companion piece even if, having only received it on June 19, we have not had the opportunity to  
digest fully its insights. However, it is clear that the Progress Report reflects many of the lessons  
of the Bank's experience in Ecuador, including the desirability of a limited number of smaller,  
manageable projects and the need to base fast-disbursing assistance on policy actions that have
already been implemented. We are skeptical about the CAE's suggestion regarding adaptable program loans. Given the modest effects of the Bank's projects on institutional development over the previous CAS period, it may be difficult to develop the well defined milestones, performance indicators, and policy requirements necessary to justify use of this lending instrument.

3. We commend staff for the selectivity evident in Progress Report. We endorse the strategy's priorities and its balance of short and medium-term measures to cushion the effects of the economic recession on the poor, rehabilitate the banking sector, improve public sector management, and implement structural reforms to promote private sector investment and poverty reduction. We welcome the explicit information about activities that the Bank will not undertake. We support the base case lending scenario and its triggers, as well as the indicators that would trigger a low case lending scenario. We could also envision a high case lending scenario, if justified by the Government's performance and commitment to economic reform. However, we would welcome staff's clarification of the triggers for such a scenario. Those proposed in Table 2 are difficult to distinguish from the triggers for the base case.

Improving Efficiency and Effectiveness of Public Sector Expenditures

4. The economic contraction of the past year has worsened poverty in Ecuador and caused further deterioration of social conditions. A key to reversing this poverty trend is to improve access to health and educational services by the Ecuadorian population, notably the rural, indigenous, and Afro-Ecuadorian people who comprise the majority of the poor. In this regard, the Government faces the difficult task of ensuring adequate financing for expenditure programs that have a high impact on the poor while meeting the fiscal performance criteria of the stand-by arrangement with the IMF. This requires careful prioritization of programs based on their efficiency and effectiveness with respect to targeted populations.

5. Improvements in public procurement will contribute to the efficiency and effectiveness of public sector expenditures. In this regard, we are pleased that the Bank and the Government recently completed a Country Procurement Assessment Report (CPAR). Some discussion in the Progress Report of its findings and recommendations would have been helpful. Full implementation of its time-bound 11-point action plan is essential, not least because we are also considering today the approval of fast-disbursing assistance to Ecuador. We believe that implementation of at least the early elements of this plan should have incorporated into the tranche release conditions for the SAL.

6. We welcome the information in Annex 4 of the SAL about the social sector expenditure programs that the Government will protect with assistance under the SAL. Preserving and eventually increasing the volume of spending on these programs is the first step. The second and equally important step is to increase their efficiency and effectiveness within a framework of strengthened institutional capacities. We understand that the Government will begin later this year some studies to evaluate the impact and cost effectiveness of these programs. We believe it would be useful to put those studies into the broader context of a Public Expenditure Review to illuminate the trade-offs not only among social expenditures themselves, but between social and non-social expenditure and investment programs. A PER would complement a major objective
of the SAL, which intends to return the bulk of tax revenues to central Government budget control. A PER would also help to lay the foundation for privatization by clarifying options for use of privatization proceeds including, for example, environmental programs to promote sustainable development and social programs to mitigate any initial adverse effects of reduced public sector employment. Finally, a PER is needed to provide critical input for a high case lending scenario and would be a necessary building block of possible further structural adjustment lending.

Expanding the Role of the Private Sector

7. The gap between Ecuador's private investment as a percentage of GDP, compared with private sector investment rates in other developing countries in Latin America and East Asia, is a measure of foregone opportunities for growth. We concur with the emphasis that the Progress Report and the SAL place on removing constraints to capturing this wasted potential. Strengthening prudential regulation and supervision of the banking system, rebuilding its liquidity and capital, and establishing an appropriate framework for corporate debt restructuring are key to restoring financial intermediation and achieving the levels of private sector investment needed to sustain job creation, economic growth, and poverty reduction. We welcome the Financial Sector Technical Assistance Loan and the elements of the SAL that are intended to address these issues.

8. A vibrant private sector in Ecuador will also require a transparent and predictable regulatory and legal environment. In this context, we appreciate the CAS's candid discussion of long-standing problems with corruption and the weakness of the judicial system. We welcome the Bank's on-going and planned assistance for judicial reform and support for the Government's National Anti-corruption Plan. We also welcome the Bank's assistance to improve the legal and regulatory framework for private sector involvement in the electricity, telecommunications, and hydrocarbons sector. We support the IFC's engagement in Ecuador and would look forward to its expanded involvement and to MIGA's engagement as the climate for employment-generating private sector investment improves.

Building Consensus for Reform

9. Both the CAS and the SAL point to the significant domestic political and social risks to the Government's economic program and Bank assistance. These risks underscore the importance of on-going consultations with civil society to build a political consensus in favor of the Government's macroeconomic and structural reform program. We welcome the analytical work on social issues that the Bank did over the past 18 months leading up to this progress report, as well as the range of consultations that were held to prepare this CAS Progress Report, including consultations with women's, labor, and Afro-Ecuadorian groups. We encourage the Bank and the Government to continue their efforts to broaden such consultations. We look forward to a broad participatory process to underpin the next full CAS. Public disclosure of both the Progress Report and the SAL are essential, as this will contribute to the Government's efforts to create understanding and consensus. We would also urge the Bank and the Government to look for ways to involve civil society in monitoring expenditures financed by the SAL, as this
can also help broaden appreciation of the efforts to support and expand social protection programs.

10. We place equal importance on consultations by the Government and the Bank with civil society in the preparation of specific Bank-supported projects. Early consultations with key stakeholders to address labor and environmental issues are essential to ensure quality at entry and successful implementation of a number of the investment projects envisioned in Annex B-3 of the Progress Report. In this regard, we are encouraged by the progress that Ecuador has made in clearing its wage arrears to public sector workers. Going forward, consultations among the Government, labor, and employers about the country's reform efforts can contribute to harmonious relations and help to smooth the path of reform. Korea's experience may be illustrative, as some have given its Tripartite Commission a large measure of credit for the absence of serious labor-management confrontations that could have exacerbated the crisis and slowed the recovery. We also encourage the Government to spare, to the maximum extent possible, cuts to programs that fund or facilitate the preservation of Ecuador's forests and biological diversity.

Non-lending Services

11. In this context, we are concerned that planned economic and sector work (ESW) outlined in Annex B-5 of the Progress Report does not explicitly refer to knowledge generation, problem solving or other products that would help the Government plan for potential social and environmental consequences of increased private sector investment in the electricity, telecommunications, and hydrocarbons sectors. We believe that ESW on these issues is vital to complement, and should proceed simultaneously with, the Bank's assistance under the SAL to elaborate the legal and regulatory environment for privatization or other private investment in these sectors. Such ESW could lay the basis for an informed dialogue with civil society as Bank operations such as the Public Sector Reform and Privatization loan are developed. With sizable private investment envisioned in a new trans-Andean heavy crude oil pipeline, ESW to address environmental impacts is urgent. We strongly encourage the Bank to look again at the planned program of ESW with a view to funding early work on privatization and environmental issues, as well as a full PER.

Structural Adjustment and Technical Assistance Loans

12. We have already indicated our support for the SAL and the Financial Sector TAL. We commend the Government for the substantial reforms already implemented to qualify for the first tranche of the SAL, but underscore again the importance of maintaining the reform momentum so as to sustain international financial support. We concur with the conditions established for release of the second tranche and for the two floating tranches, although as noted above we would have recommended incorporating at least the early elements of the 11-point procurement action plan into the conditions for tranche release. We wish the Government every success in carrying out this important reform program.