Introduction

1. The Country Assistance Strategy Progress Report for Ecuador and the two operations that accompany it come at a critical juncture for the country. Staff is to be commended for the quality of the analysis presented and the overall design of the strategy, which given the deep multidimensional crisis that plagues Ecuador at present, is realistically confined to the next two years. I concur with staff’s assessment that while the strategy itself, as well as the proposed adjustment operation, is highly risky, “the risks of doing nothing are much higher than the risks of getting involved, and that the potential benefits for the country justify taking these risks”. In addition, what is proposed is essentially the Bank’s fair share in a concerted international assistance package.

2. Overall, I find the proposed Bank support for public and financial sector reforms, and social sector measures intended to mitigate the impact of the crisis on the poorest, to be consistent with the Bank’s comparative advantage. I lend my support to the Strategy Progress report and to the two operations. Given the uncertainty that surrounds the expected implementation of the policy measures to be supported, however, I will appreciate it if the Board is kept informed on a regular basis about the progress in the implementation of the authorities’ reform program.

CAS Progress Report

3. The CAS Progress Report starts with a concise but informative and up-to-date assessment of Ecuador’s recent developments. The main message I take from this analysis is that, despite the fact that disruptive external economic and natural shocks hit the country in the 90’s, it is mainly the inappropriate and much delayed policy response that contributed to the acuteness of the current crisis.
4. Going forward, the first order of business in Ecuador is to restore a measure of macroeconomic stability. Re-basing the economy on the US dollar is the cornerstone of the Government’s program. For the plan to succeed it needs to be supported by quick and strong measures on the fiscal front, healing of the banking sector and improving the efficiency and the profitability of the non-financial sector. In my opinion the proposed lending program pays adequate attention to these priorities.

5. It is proposed that about two-thirds of the lending program be directly allocated to the social sectors and attacking rural poverty. Building on the lessons learned in Ecuador, including those, formulated in the CAE, it will be critical that lending operations be preceded or accompanied by TA and non-lending services that can contribute to strengthening limited institutional capacity. I welcome the inclusion of explicit minimum quantitative targets for critical social spending in the Lending Scenario Triggers. With regard to this I would appreciate a clarification from staff. According to Table 2 (page 24) the minimum social spending is targeted at a cumulative 8.5% of GDP, while the projections in para 43 (page 13) imply that total spending on social sectors is expected to be at 7% of GDP on average over the next three years. Is this a discrepancy or are the triggers so defined that they overlap partially and hence are not cumulative?

6. Consultation process. The CAS reports on what appears to have been an extensive consultation process in the course of preparing the strategy and policies to be supported by the Bank. This notwithstanding, I have received, as I believe colleagues also did, complaints by an Ecuadorian delegation on the quality and the substance of the consultative process. While I am not sure how representative these messages are, I tend to interpret them as signs of a continuing lack of national consensus around the painful but much delayed and needed reforms in Ecuador, something that the CAS document also draws attention to. This is regrettable, as experience from other crisis episodes has confirmed time and again that strong political support for radical reform is essential for its success. In this regard I would like to know whether the Bank intends to make additional effort in reaching out even more to the general public with explanations of the objectives and the rationale of Bank-supported reforms. It seems to me that there may be an element of misunderstanding. While the CAS spells out floors on social spending, civil society representatives speak of Bank-imposed ceilings on social spending.

Structural Adjustment Program

7. I support the proposed Structural Adjustment Program of US$ 150 million. I note with sympathy OED’s implicit recommendation for the Bank to refrain from adjustment operations in the light of the unfavorable track record or without sufficient evidence of commitment to reform on the part of the authorities. Given the current crisis situation, however, and the fact that in the absence of budget support at this time it is the poor who would have to shoulder a disproportionate and perhaps unbearable cost of a rapid fiscal adjustment, I find it appropriate for the Bank to offer this support. It is essential, however, that there be satisfactory assurance that Bank lending be used for the intended purposes. The operation supports crucial structural measures for achieving lasting stabilization and eventually for restoring growth. The intention to disburse in four tranches, two of which floating, offers both a cushion to the Bank and an incentive for the authorities to press ahead with the much-needed reforms. In approving this
I draw some comfort from the fact that it is an important ingredient of a concerted international package.

Financial Sector Technical Assistance Project

8. Finally, I support the proposed TA project, which albeit small in size, provides the authorities with critical assistance for managing the current banking crisis and putting the financial sector on a solid footing in the future.