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EUROPEAN EXTERNAL ACTION SERVICE



EUROPEAN COMMISSION - DIRECTORATE GENERAL FOR  
DEVELOPMENT AND COOPERATION - EUROPEAID

## **MULTIANNUAL INDICATIVE PROGRAMME (MIP) 2014-2017**

**ECUADOR**

## MULTIANNUAL INDICATIVE PROGRAMME (MIP) FOR ECUADOR 2014-2017

The MIP reflects the EU's response strategy in support of Ecuador's efforts to tackle its development challenges. It has been elaborated in the perspective of phasing out bilateral development cooperation in the country, and therefore focuses on the continuity of previous interventions and covers a duration period limited to 2014-2017.

### 1. THE OVERALL LINES FOR THE EU RESPONSE

#### 1.1. STRATEGIC OBJECTIVES OF THE EU'S RELATIONSHIP WITH THE PARTNER COUNTRY

EU-Ecuador relations have intensified in recent years, in keeping with the numerous political and institutional changes that have taken place in the country. The legal and technical framework for cooperation was clearly embedded in the Framework Agreement on Cooperation in 2001, followed by regular contacts with national authorities in order to establish priorities for cooperation, principally in the areas of social development with the emphasis on education and in strengthening economic development via the productive sector.

With regard to trade, Ecuador resumed negotiations with the EU with the view of acceding to the Multi-Party Trade Agreement which the neighbouring countries of Colombia and Peru have already signed. A first meeting of the EU-Ecuador informal Bilateral Consultation Mechanism was held in June 2013 with the view of enhancing and deepening bilateral relations as well as developing a political agenda encompassing environment, climate change, human rights and governance issues.

These relations are complemented by political relations at sub-regional (i.e. Andean Community – CAN) and regional (Community of Latin American and Caribbean States – CELAC, Union of South American Nations – UNASUR) levels focussing on the fight against illicit drugs, social cohesion, regional integration, economy and development. With regard to Andean integration, the EU follows closely the developments in the CAN re-engineering process and, depending on progress, may envisage future cooperation initiatives in the field of economy and trade.

With the successive Governments of President Correa in place since 2007, Ecuador has embarked on a process of reforms with profound social and economic changes. As a response to a long period of turmoil, the Correa government aims to implement the political programme of the "*Revolución Ciudadana*": an extensive overhaul of the country and its institutions through an increased role for the State in political, economic and social life, with priority on socio-economic development. The 2008 Constitution puts emphasis on the respect for human rights, good governance and environmental protection which are fundamental values and objectives of the European Union. Greater political participation by citizens is promoted together with further decentralisation. Tax and non-tax revenue has been used to substantially increase Government investment in ambitious social programmes in the area of education and health and infrastructure upgrades have been widespread with the aim of improving connectivity. As a consequence, several social indicators (unemployment, extreme poverty, inequality) have improved and the country has maintained a sound pace of economic growth, reaching the status of Upper Middle Income Country.

Despite social and economic progress, the country still faces a number of challenges that can be addressed by the EU's response strategy. In order to ensure consistency of EU actions, the MIP is drawn up within the broader context of EU external policies, notably the European Consensus on Development<sup>1</sup>, *Agenda for Change*<sup>2</sup>, the Regulation Establishing a financing instrument for development cooperation (DCI)<sup>3</sup>, the *EU Strategic Framework and Action Plan on Human Rights and Democracy*<sup>4</sup>, and Ecuador's national strategy documents, notably the National Plan (*Plan Nacional para el Buen Vivir 2013-2017* – PNVB).

The EU strategic areas of policy dialogue, with the subsequent objective of poverty reduction, are:

**Economic diversification:** The dependence on the oil sector has driven the Government to promote a change of the productive matrix aimed at providing Ecuador with basic industry and hydroelectric power, and to encourage private industry to increase value added production through the promotion of research and innovation and technology transfer. This provided the opportunity to consolidate EU cooperation in the country, through the transfer of know-how and technology, and the strengthening of the country's strategic sectors, particularly the continued support to economic development while creating more solid links between the economic, social and environmental dimensions.

**Boosting and diversifying trade:** Ecuador depends heavily on the export of raw materials and is vulnerable to external shocks. The growth of the economy relies almost entirely on high oil prices. The country uses USD as a national currency, therefore there is no monetary or exchange rate policy which could help in the absorption of external shocks. Ecuador is regarded as one of the least "investor-friendly" countries in the Americas, with a very low Foreign Direct Investment inflow due to what is perceived as an uncertain legal framework for foreign investors. A frontline of EU relations should be the support to the eventual implementation of the Ecuadorian component of the EU Multi-Party Trade Agreement, as a way to boost trade in non-oil products and increase FDI. A positive outcome of the negotiations could lead to a substantial strengthening of ties, provided that Ecuador remains committed to an open trade policy and to a more business-friendly environment.

**Poverty, inequality and exclusion:** Although high public expenditure over recent years has been successful, notably in reducing the rates of extreme poverty, unemployment, illiteracy and improving the standards of living of the Ecuadorian people, the country is still confronted by a situation in which social inequality persists and 25.55% of the population is living in poverty. The extreme poverty rate reached 8.61% in December 2013<sup>5</sup> (2.57% drop from the previous year), with considerable higher levels in the rural areas (17.39%). There is a wide gap between theoretical enshrinement of economic and social rights and their practical implementation: approx. 50% of the population lacks sufficient income to meet their basic needs and/or is affected by underemployment, the access to healthcare and education systems is sometimes precarious, the minimum wage has risen significantly over the past two years but only a very small percentage of the population is part of the social security system. Hence, the EU's response aims to further consolidate social development,

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<sup>1</sup> Official Journal of the European Union C46 of 24.2.2006

<sup>2</sup> COM(2011) 637 final of 13.10.2011

<sup>3</sup> Official Journal of the European Union L77 of 15.3.2014

<sup>4</sup> Council Conclusion on Human Rights and Democracy, 25.06.2012

<sup>5</sup> Poverty indicators developed by INEC - Instituto Nacional de Estadística y Censos, December 2013

broadly directing areas of intervention towards the protection of most vulnerable groups, guaranteeing economic, social and cultural rights, in particular those of indigenous people and minorities. Vulnerable groups are also the most exposed to the effect of climate change and natural disasters. To the extent possible, the EU's response will integrate the principles of EU policy on resilience<sup>6</sup> and promote prevention and preparedness for crisis.

**Inclusive growth and stability:** The country is affected by the continued spill-over effects from the Colombian conflict (Ecuador receives the largest number of refugees in Latin America, 98% of which are Colombians) as well as by drug trafficking and money laundering networks whose activities have a negative impact on the region as well as on Europe, and to a wider extent, on security interests. Improvements to stability should go hand in hand with further developments in governance, access to justice systems and use of constitutional guarantees for the protection of human rights and fundamental freedom, especially in the northern border region.

**Democracy and Human Rights:** The EU's main priorities focus on the promotion of political rights, the freedom of expression and association in an increasing regulatory context, the situation of human rights defenders, gender equality and rights of persons belonging to minorities, migrants' rights as well as the human rights situation in the border with Colombia. These key issues are addressed in the framework of the contacts with Government officials and civil society, the Bilateral Consultation Mechanism and through thematic cooperation assistance.

**Regional integration, international key role:** Ecuador is also an emerging player at regional and international level in areas such as the environment and climate change. In this context, Ecuador has a role to play in the global endeavours for the conservation and sustainable use of biodiversity. The EU should seek to nurture the relationship in this area, using the new high-level policy dialogue as a platform. With regard to Andean (e.g. short to medium-term) and UNASUR / Latin American (e.g. long-term) political, economic and trade integration, the EU aid could assist: 1) the Ecuadorian private sector in taking advantage of the commercial opportunities existing in its "near-abroad", Colombia and Peru, which buy most of its added-value products, as well as in other important regional markets such as Mexico, Chile and Brazil; 2) the public sector, in enhancing coordination with its neighbours, easing cross-border trade, and promoting the integration of environment in all sectors, as well as in the use of existing CAN-defined norms and regulations, still little applied by its four member states.

In the context of Aid Effectiveness and Division of Labour, the Government has recently launched various Donor coordination mechanisms at provincial level, by organising local coordination roundtables on development plans in the provinces, involving donors and local stakeholders, and at national level by mobilizing the Donors on the Agenda for the Transformation of the Productive Sector.

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<sup>6</sup> Resilience building is an overarching goal of development cooperation and humanitarian assistance as outlined in COM (2012)586 final of 3.10.2012 and SWD (2013)227 final of 19.6.2013. Resilience strategies should contribute to different policies, in particular food security, climate change adaptation and Disaster Risk Reduction (DRR).

## 1.2. CHOICE OF SECTORS

Since 2007, the EU's cooperation has been supporting the sustainable and inclusive economic growth strategies that have contributed to economic diversification, export promotion and poverty reduction in the country. Through its budget support operations in the economic and education sector, the EU has contributed to the consolidation of public policies in the field of economic development and important improvements in public finance as well as concrete results in service delivery and economic development.

In the perspective of phasing out bilateral development cooperation and in line with the requests made by the Ecuadorian government to the donor community, the EU proposes to focus its support on the transformation of the productive matrix (including an aid for trade focal sector) with a view to focus efforts at the subnational/territorial level. The proposed territorial approach will support local governance as a major means for achieving more sustainable and inclusive growth, thereby strengthening actions under the previous programming period.

Within this context, the following sectors have been identified for the EU intervention:

- Sector 1: Support to sustainable and inclusive growth at the local level
- Sector 2: Fostering sustainable trade.

### **Sector 1: Support to sustainable and inclusive growth at the local level**

The promotion of sustainable and inclusive growth is central to the action of the current government, to reach poverty eradication and better living conditions. The country has designed a second phase of its PNBV National Plan (*Plan Nacional Para el Buen Vivir 2013-2017*), detailed through 12 strategic objectives with analysis, policy and strategy and meta-indicators. One of these objectives is the transformation of the productive matrix that includes the specific objectives of improving productivity, generating decent jobs, diversifying production, increasing the added value products, promoting environmental sustainability. This 10<sup>th</sup> national objective of the PNBV will be detailed into nine zonal plans, taking into account the local contexts and specific opportunities.

In the previous programming period, and within the framework of the sector budget support to the sustainable economic development, the EU cooperation concentrated at national level on the generation of economic opportunities for the poorest, as well as the improvement of competitiveness of small businesses. The main results achieved through the sustainable economic support programmes are: 1) the reinforcement of clusters and productive chains involving SMEs, with the improvement of their productive capacity and the generation of local employment; 2) a relevant contribution to the establishment of a comprehensive public finance management system; 3) substantial assistance to drafting the national development plans (*Plan Nacional para el Buen Vivir 2009-2013 and 2013-2017*), including the definition of indicators measuring the impact of public policies and of Official Development Assistance (ODA) directed to their support. In 2013, the Non-State Actors / Local Authorities thematic line, the EU cooperation launched and adjudicated selected new grants with a focus on decentralisation, public finance management at local level and support to the establishment of local, territorial development plans (including disaster risk reduction measures).

Through these interventions, the EU has demonstrated its comparative advantage of accompanying economic public policy development, particularly through the budget support modality.

In order to consolidate the results achieved at national level and to provide continuity of action and set the basis for future sustainability, the current proposal focuses on the same overall objectives but at sub-national level, through the implementation of territorial economic development plans, the promotion of local public financial management and greater decentralisation.

In particular, it will address institutional and capacity constraints for economic policy implementation with a clear focus on poverty reduction effects, supporting a transformative multi-actors process centred on the local private sector (SMEs). This process will aim at identifying local development constraints and opportunities, developing support action plans, and adopting innovative approaches based on business clusters and value chains analysis. Strengthening SMEs will assist in increasing employment opportunities and widening the formal labour market. Almost 70% of the Ecuadorian work force in 2012 was informally employed<sup>7</sup>, less informality has a direct impact on poverty reduction and inequality as it enables the inclusion of vulnerable workers (e.g. without contracts or social security benefits) in the labour market and a better distribution of the benefits of economic growth.

Activities in this sector will be geared towards supporting selected provincial Governments for building their capacity to implement sustainable development policies aimed at transforming the productive matrix as well as improving their financial management and accountability systems. The targeted provinces will be identified during the identification/formulation process, taking the Government's priorities and the division of labour among donors into account as well as taking into account provinces more prone to natural events and refugees' influx.

## **Sector 2: Fostering sustainable trade**

Inclusive and sustainable growth, one of the pillars of the Agenda for Change, requires a strong business environment and integration into the world economy as enabling vectors in developing countries. Likewise, the DCI Regulation defines "addressing economic vulnerability and contributing to structural transformation by establishing strong partnerships around trade i.a." as priority area of cooperation for Latin America. The rationale for fostering sustainable trade as a priority sector also derived from the positive effect it is expected to have in strengthening the SMEs, productive diversification – including goods and services produced by natural ecosystems – and creation of added value exports.

The focus on trade reflects Ecuador's interests and appears of particular importance in the context of the resumed negotiations for Ecuador to join the Multi-Party Trade Agreement already concluded with Colombia and Peru. The proposed intervention will support and prepare Ecuador to take full advantage of the trade opportunities under a possible agreement.

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<sup>7</sup> INEC – Instituto Nacional de Estadística y Censos

Building up trade capacities and reinforcing compliance with international norms contribute to the creation of an enabling environment for Ecuadorian companies to come up with a competitive exportable offer and to increase their presence in regional and global markets. In addition, a stable, transparent and predictable legal environment will attract foreign investment and provide for technology transfer. Trade assistance pulls in expertise, develops technical, human and financial capacities of the private sector, leads to sustainable income increases for the small producers and facilitates the internationalisation of the SMEs.

The EU is the largest market for non-oil exports (tropical fruits, tuna-fish, flowers, shrimps, cocoa), and around one third of these products originate from SMEs, largely in rural and coastal areas, where the Ecuadorian poor mostly live and are exposed to several natural hazards that affect production. Facilitating the inclusion of these small producers in the international supply chain would create more development opportunities for these marginal groups.

Ecuador is experiencing a crucial phase in its development, trying to evolve from being a producer/exporter of raw materials to an economy that creates knowledge and adds value to its primary products. To support this process, the EU assistance could focus on supporting the environment that promotes added-value business initiatives (chocolate vs cocoa; juices vs fruits; canned vs raw tuna-fish), as promoted by the Government of Ecuador in the transformation of the productive matrix. Moreover, Ecuador could focus more on organic production, whose demand in the EU is growing and for which the Andean country is undergoing the EU certification process.

The EU intervention would give continuity to the past economic cooperation deployed in Ecuador in support of the trade sector, largely recognised by the business representatives as a useful tool to enforce the role of the private sector in the economic life of the country. It will be based on the priorities defined in the PNVB National Development Plan regarding the development of a trade policy for Ecuador and the role of the private sector in the transformation of the productive matrix. This encompasses two main aspects, namely: 1) the strengthening of trade-related institutional capacities and: 2) the development of an enabling environment for doing business, with an emphasis on SMEs and the reduction of the informal economy in the framework of an environmentally sustainable path.

Attention will be paid to the promotion of socio-economic rights, non-discrimination and equal opportunities for all, including the accessibility to employment of the most marginalised and vulnerable groups like women and indigenous peoples and promoting practices and investments that are more resilient to natural hazards. Promotion of the UN guiding principles on business and human rights as well as women's empowerment in the private sector development could also be addressed.

Implementation modalities remain to be determined but could include, among others, direct management through project approach and/or budget support, if conditions allow; indirect management with Member States agencies, International Organisations or Latin American countries. The EU response may also be complemented by operations financed by the European Investment Bank. Cooperation with Ecuador will also continue using other instruments as appropriate such as regional and thematic programmes, Horizon 2020 and the new Partnership Instrument.

## 2. FINANCIAL OVERVIEW

The indicative allocation for Ecuador is EUR 67 million

Sector	Focus	Amount percentage	Amount Million €
Sector One	Support to sustainable and inclusive growth at the local level	80%	53.6
Sector Two	Fostering sustainable trade	15%	10.0
	Support measures (see §4)	5%	3.4
<b>Total</b>		<b>100%</b>	<b>€ 67.0 M</b>

## 3. EU SUPPORT PER SECTOR

The EU proposal intends to support inclusive and sustainable growth, as means for sustainable use of natural resources, job creation and decent work, to leverage impact on poverty reduction. This support will focus on two key drivers for growth:

- Inclusive business environment and productive capacity;
- Regional integration and international trade.

The EU intervention will be fully synchronized with the national strategy cycle 2013-2017.

### 3.1. Support to sustainable and inclusive growth at the local level: indicative amount EUR 53.6 million

3.1.1. The following **overall and specific objectives** will be pursued:

**Overall objective:** Interventions in this sector will contribute to increase sustainable economic growth at local level, through strengthening public institutions and local organisations and fostering sustainable economic diversification and opportunities for decent work in selected provinces.

#### **Specific objectives:**

- Strengthen local capacities (with an emphasis on provincial governments) for effective and transparent public administration and financial management.
- Foster the development of sustainable economic activities through the implementation of the "Agenda for the Transformation of the Productive Sector" in selected provinces.

3.1.2. For each of the specific objectives the main **expected results** are:

Expected Result 1      Increase of non-traditional exports in selected areas



- Expected Result 2      Improvements in selected government's capacities to implement public policies and public financial management systems
- Expected Result 3      Improvement in the share of formal vs informal employment in selected areas

### 3.1.3. **Main indicators:**

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in annex.

### 3.1.4. **Donor coordination and policy dialogue:**

The EU has been supporting sustainable and inclusive economic growth over the past years through sector support in the area of sustainable economic growth. Donor coordination and harmonisation in this field has been robust in recent years with regular meetings between the main donors in the sector. Policy dialogue is conducted at several levels with relevant central government, line ministries and civil society organisations.

Efforts to maintain and strengthen donor coordination and policy dialogue will be further enhanced to ensure the timely dissemination of information and evaluate programme implementation and impact in the productive sector. In 2013 and at the initiative of the EU Delegation, a roundtable on decentralization (*Plataforma Europea sobre Descentralización en Ecuador – PEDEC*) was established with the EU Member States.

All new programmes, complementary measures and related activities will be regularly discussed with both EU Members States and the larger international cooperation community, to ensure complementarity and the most efficient and effective use of resources.

The EU Delegation organises regular meetings with Heads of Mission and Cooperation Advisors from the Member States, and participates actively in Government-led roundtables. The most significant donors from the Member States are Spain, Germany, Belgium, Italy and the UK. Multilateral institutions include the Inter-American Development Bank (IDB), the *Corporación Andina de Fomento* (CAF) and the UN system.

### 3.1.5. **The Government's financial and policy commitments:**

The major strategic challenges in relation to the key macroeconomic imbalances and the need to encourage greater macroeconomic resilience have led to the Government's policy commitment to substantial changes in the productive matrix and to greater development at the territorial level. The new Law on Decentralisation and Territorial Organisation adopted in October 2010 provides the legal framework to implement processes of decentralization and devolution in the management of the national public policies. This new model of decentralized and devolved management requires the strengthening of decentralized autonomous Governments (GADs) and strong articulation between national development goals identified in the PNBV National Plan (*Plan Nacional Para el Buen Vivir 2013-2017*) and local territorial plans of the GADs.

**Objective 10** of the PNBV National Plan (*Plan Nacional Para el Buen Vivir 2013-2017*) promotes a major transformation of the productive matrix, through projects aimed at the promotion of industrial development, diversification of exports and target markets, boosting the activities of micro, small and medium enterprises, improving the quality, competitiveness and productivity through training and technological innovation, tax incentives, financing and marketing facilities. The policy roadmap for this process is the "Agenda for the Transformation of the Productive Sector" which focuses on changes in the productive matrix, quality jobs, fostering human talent, green growth and competitiveness.

In parallel, **Objective 8** aims to ensure equitable growth and wealth distribution among citizens whilst promoting greater economic growth and a particular emphasis on better geographic balance in order to promote economic development at all local levels.

Furthermore, the new Production Law "*Código de la Producción*" adopted in December 2010 establishes clear policy objectives including : i) Transformation of the Productive Matrix through knowledge and innovation, as well as environmentally sustainable and eco-efficient means, ii) Increase in productive development through greater territorial development, and iii) Promotion of greater productivity levels in less developed areas.

In the 2014 Budget, the Annual Investment Plan amounts to USD 7,262.98 million, of which 44.35% is dedicated to production, employment, competitiveness and strategic sectors in order to prioritise the financing of government priorities in the above-mentioned areas.

The Government displays a satisfactory execution rate of the Investment Plans: in 2012, the public investment executed (USD 6,287 million) topped the foreseen level (USD 4789 million). In 2013, it accounted for 15% of the GDP in 2013 (USD 7,960 million), one of the highest levels in the region, and the execution rate was above 85%<sup>8</sup>.

The execution of the national and sectorial planning is done in a de-concentrated manner, with a focus on the territorial level of governance. During the period 2008-2012, 16% of the public investment was executed through the decentralised governments. The National Plan (PNBV) intends to maintain this share at the same level for the following years.

#### 3.1.6. The overall **risk assessment** of the sector intervention:

The existence of a comprehensive legal framework for this sector together with clear Government policies as enshrined in the PNBV National Plan (*Plan Nacional Para el Buen Vivir 2013-2017*) substantially reduces potential risks.

The generally weak capacity of local governments and local organisations represents a certain risk with regard to the sound and effective management of tax and non-tax resources and the full and proper execution of territorial plans.

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<sup>8</sup> Data source: SENPLADES – Secretaría , Ministerio de Finanzas

Possible major risks	Possible mitigating measures
- Reduction in tax and non-tax revenue necessary for financing strategic sectors due to decrease in price of WTI crude oil price	- Further exploitation of oil fields - Assist the Government in developing alternative productions
- Limited ability and financial resources to implement ambitious Agenda for the Transformation of the Productive Sector	- Clearly identified and financed investment programmes in the annual investment programme 2014 and the multi-annual fiscal framework 2014-17
- Non-oil sector fails to grow at the projected rate of 5.25 annually	- Strong government leadership to guarantee the implementation of the Agenda for the Transformation of the Productive Sector
- Insufficient implementation capacity at the level of decentralized autonomous governments (GADs)	- Provision of institutional and capacity building for GADs
- Major natural disaster	- Promote integration disaster risk management in local planning and economic activities resilient to climate change and natural hazards

### 3.2 Fostering sustainable trade: indicative amount EUR 10 million

3.2.1 The following **overall and specific objectives** will be pursued:

**Overall objective:** Interventions in this sector will aim at further fostering the conditions for inclusive and sustainable growth and poverty reduction (including SME development, the reduction of the informal sector and a larger share of formal vs total employment), and at preparing Ecuadorian citizens and businesses for making the most of the opportunities offered by a possible, future Multi-Party Trade Agreement between the EU and Ecuador.

**Specific objectives:**

- Strengthen the general business environment in order to facilitate Ecuadorian firms' ability to comply with international commitments in the trade area, including in the field of environmental and labour protection, so as to promote decent work – including green jobs – and poverty reduction, inter alia through the formalisation of labour.
- Improve the conditions for SMEs development with special focus on sectors with high social impact and export development, principally at regional level but also to the EU.

3.2.2 For each of the specific objectives the main **expected results** are:

Expected Result 1      Compliance with policy, institutional and legal frameworks for international trade commitments

- Expected Result 2      Improved conditions for doing business in Ecuador  
Expected Result 3      Improved SMEs' access to business support services and public procurement

### 3.2.3 **Main indicators:**

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in annex.

### 3.2.4 **Donor coordination and policy dialogue:**

Whilst there is no formal forum for Donor coordination in economic and trade cooperation matters, EU economic counsellors discuss trade-related issues on a regular basis and exchange views on their respective projects, including on DCI-funded PASES and AL-Invest.

Policy dialogue is regular and open with the relevant Government institutions (the Foreign Trade Ministry and other trade related entities) and the private sector (i.e. FEDEXPOR, CORPEI, chambers of commerce). Discussions touch upon ongoing and planned economic cooperation, which allows information-sharing and fine-tuning of initiatives. Thanks to the implementation of most of the previous bilateral EU cooperation via sector budget support, the Delegation maintains regular and sound dialogue with relevant Government institutions on issues related to economic policy and public finance management: Ministries of Foreign Affairs, Foreign Trade, Finance, Economic Policy Coordination, SETECI, SENPLADES.

The Delegation has become increasingly involved in coordination meetings with the Member States and the different Government authorities to discuss and clarify aspects of the reforms affecting the trade sector and the commercial flows with the EU. The objective is to assist progress towards the successful negotiation of the Multi-party Trade Agreement, by facilitating solutions to bottlenecks that may be obstructing trade and thus ensuring compliance with international WTO and CAN regulations.

### 3.2.5. **The Government's financial and policy commitments:**

The Ecuadorian Government has demonstrated its commitment to promote trade by deciding to resume Multi-Party Trade negotiations with the EU in January 2014. This decision is a major policy commitment, which attempts to overcome the existing political differences within the country and within the administration among those in favour and those opposing a trade agreement with the EU.

In the light of the possible conclusion of this process and the entry into force of an EU-Ecuador Trade Agreement, the country's institutional capacities and that of the productive sectors, particularly SMEs, must be strengthened to take full advantage of the benefits of any future agreement.

Another relevant policy decision was the creation of the Trade Ministry (August 2013) and the reforms and modernization of public trade-related entities, all geared up to support SMEs productivity and help them to access to foreign markets (ProEcuador). Other complementary actions are the offers of a series of fiscal incentives, subsidized credits, i.e. to encourage production, facilitate trade, create better business environments and attract foreign investment.

The Government of Ecuador is increasingly supporting the private sector. Although the State maintains a leading role in economic and trade policy matters, public and private institutions collaborate with each other. Business facilitators play a key role, both public (Pro-Ecuador) and private (CORPEI, FEDEXPOR, Chambers of Commerce).

A further political commitment is the Government of Ecuador's support to the CAN re-engineering process, which is due to focus on economic and trade integration matters, leaving aside other sub-regional aspects (climate change, Parlandino). This is particularly relevant to Ecuador, as its main markets for added value industrial exports are fellow-CAN members Peru and Colombia.

Ecuador is devoting significant public investment resources (e.g. Multi-year Investment Plan 2013-2017, USD 13 billion) in production, labour and competitiveness sectors to achieve sustainable economic growth. It is one way to guarantee the change of the productive matrix which is driven by the strengthening of industrial production and services with added value of SME and by the promotion of industrial exports. This strategy requires a permanent public-private dialogue and articulation that should be strengthened and which is defined in the Objective 8 of the PNBV, in the Agenda for the Transformation of the Productive Sector, and the Production Code.

EU cooperation could also enable a continuous public-private sector dialogue in both sectors, with different features: in Sector 1, more operational, looking at the business activities of the provinces where EU aid would focus more. In Sector 2, it should be more oriented towards trade policy dialogue at the meso-macro level between senior business representatives and the Government of Ecuador central authorities.

Additionally, Ecuador is undergoing a series of reforms aimed at improving quality standards and technical norms to improve the quality of consumer goods. But some problems may be appearing at the moment of adapting them to the Ecuadorian needs, or implementing norms which are non-existent elsewhere. Technical assistance may be provided to address these weaknesses, in particular in order to avoid that these norms do not create obstacles to trade flows and investment.

### 3.2.6. The **overall risk assessment** of the sector intervention

The strengthening of the exportable offer and the diversification of markets are essential components in the transformation of the productive matrix. Although there is political will to sign the Multi-Party Trade Agreement and negotiations resumed in January 2014, Ecuador is confronted with two scenarios, one with and another without being part of the Multi-Party Trade Agreement.

Possible major risks	Possible mitigating measures
<p><b>1) Ecuador is part of the Multi-Party Trade Agreement</b></p> <ul style="list-style-type: none"> <li>• Confrontations with actors that are against the signature of the trade agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion of the benefits of the trade agreement</li> <li>• Designing cooperation programmes to assist exporting SMEs</li> </ul>

<ul style="list-style-type: none"> <li>• Difficult or incomplete application of the commitments set in the trade agreement</li> </ul> <p><b>2) Ecuador is not part of the Multi-Party Agreement</b></p> <ul style="list-style-type: none"> <li>• Deviation of trade flows to neighbouring Peru and Colombia, as well as to Central American countries, and loss of Ecuador market share in EU</li> <li>• Increased tariffs payments</li> <li>• Implementation of trade protection barriers</li> </ul>	<ul style="list-style-type: none"> <li>• Implementing aid for trade programmes, engagement with the authorities to advocate the correct application</li> <li>• Promote trade actions through regional economic and trade integration</li> <li>• Assistance in trade policy reforms and productive processes that would identify alternative, non-traditional markets</li> <li>• Engagement with the authorities to advocate the use of international best practices and WTO compatible measures</li> </ul>
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### 3.3 When needed, the appropriate type of environmental assessment will be carried out

The environmental assessment and climate risk assessment procedures in the Guidance for the Integration of Environment and Climate Change in EU Development Cooperation will be applied to determine the need for an environmental assessment (Strategic Environmental Assessment SEA in the case of a sector support programme or Environmental Impact Assessment EIA in the case of a project) and/or a Climate Risk Assessment. Even if an environmental assessment or a CRA is not deemed necessary, the screening questionnaire will help identify environmental and climate change (adaptation and mitigation) aspects that could be integrated in the project/programme formulation in order to enhance their environmental and climate change performance (*see guidelines: <http://capacitv4dev.ec.europa.eu/public-environment-climate/documents>*).

## 4. SUPPORT MEASURES

The main aim of such measures is capacity building and providing technical assistance in a more efficient and structured manner. These resources are envisaged to support communication and visibility activities to raise awareness of EU aid. They can also support thematic studies and impact assessments of projects, the formulation of public policies and policy dialogue, and short-term technical assistance, including assistance in monitoring the quality of Ecuador's official statistics and taking corrective measures as appropriate, as well as support aid efficiency initiatives such as donor coordination and division of labour.

**Attachments:**

1. Ecuador at a glance
2. Donor matrix showing indicative allocations per sector
3. Sector intervention framework and performance indicators
4. Indicative timetable for commitment of funds

## ATTACHMENT 1: ECUADOR AT A GLANCE

<b>Population:</b>	15.49 million (2012)
<b>Pop. growth rate (annual %):</b>	1.6 % (2012)
<b>Urban population:</b>	68 % (2012)
<b>Total area:</b>	256,370 km <sup>2</sup> (2011)

### Human Development Indicators

HDI Value <sup>1</sup>	Life expectancy at birth (years)	Under-five mortality rate (per 1000)	Adult literacy rate (% ≥15 yrs) <sup>2</sup>	Health expenditure, total (% of GDP)
0.724 (2012)	75.92 (2011)	23 (2012)	92 (2011)	7.3 (2011)
Income distribution (Gini) <sup>3</sup>	Poverty index (%) <sup>4</sup>	GII Value <sup>5</sup>	Human Rights Situation	Corruption <sup>6</sup>
0.493 (2010)	17.39 (2013) <sup>5</sup>	0.44 (2010)	Ecuador has ratified most international treaties. Women, indigenous peoples, migrants, freedom of expression, freedom of association, independence of justice, and penitentiary system are main concerns.	35 (2013)
0.477 (2012)	8.61 (2013) <sup>6</sup>			

<sup>1</sup> HDI: Human Development Index – comparative measure of life expectancy, literacy, education, and standard of living- PNUD data

<sup>2</sup> World Bank data

<sup>3</sup> Gini index: measure of inequality – a value closer to 0 indicates higher equality- World Bank data

<sup>4</sup> USD 1.25 / day at PPP, World Bank data

<sup>5</sup> Pobreza Rural, INEC data

<sup>6</sup> Extrema pobreza, INEC data

<sup>5</sup> GII: Gender Inequality Index –inequality between women and men in: reproductive health, empowerment and the labour market; value closer to 0 indicates higher equality, PNUD data

<sup>6</sup> CPI: perceived corruption among public officials and politicians – ranges from 0 (no corruption) to 100 (highly corrupt) – Transparency International data

### Economic Indicators (2012)

GDP (current, USD m)	GDP per capita (USD)	GDP growth (annual, %)	GDP by sector
84,040 (2012)	5,425 (2012)	5.1 (2012)	Agriculture: 6.4% Mining: 3.6% Electr., gas, water: 31% Manufacturing: 21.0% Commerce: 6.6% Transportation, storage, communication: 6.1% Services: 11% (2011 BCE)



Inflation (CPI, %)	Unemployment (% of labour total force)	Underemployment (%)	External debt stock (USD bn)
5.1 (2012)	4.15 (2013)	52.49 (2013)	16.9 (2012)

#### Foreign Direct Investment (Gross inflows 2012, USD m):

Total Inflow	EU Gross FDI inflow
587	95
Main EU investors	Sectors
Spain, Italy, UK	Mining, Manufactured industry and service sector

Sources: World Bank, CEPAL, Banco Central de Ecuador, INEC

#### Trade Indicators (2013)

Ecuador main trade partners	EU-ECU trade value in 2012
1-US	Imports from EU: € 2271 m corresponding to +/- 10%
2- EU	Exports to EU: € 2436 m corresponding to +/- 28%
3- China	<b>Trade balance: € 198 m</b>
4- Colombia	
Imports from EU	Exports to EU
Industrial capital goods (59%) composed of	Primary Products (96,7 %) composed of
Machinery and Transport equipment (32%)	Food and live animals (86.1%)
Mineral fuels, lubricants and related mat. (26.5%)	Crude materials, inedible, except fuels (7.2%)
Chemicals and related products, n.e.s (14.3%)	Animals and vegetables oils, fats and waxes (2.7%)

Sources: Eurostat, CAN, DG trade

#### Development Assistance

##### Net ODA received: USD 149m

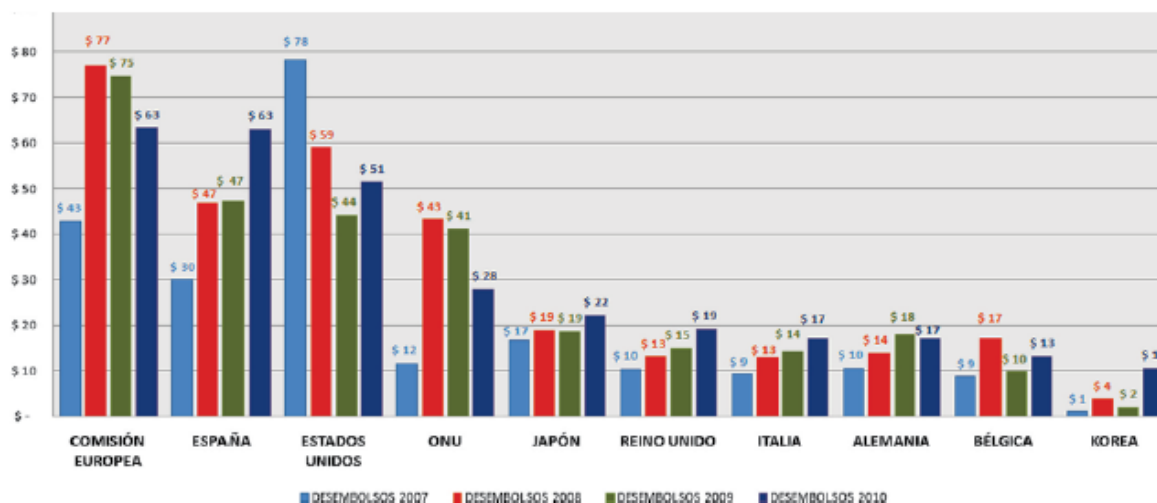
Share of GNI:	0.2%
Number of donors:	52
Per capita:	USD 9.6

**EC Bilateral Cooperation 2007-2013: € 141m (CSP)**

Sources: OECD, EC, Banco Central de Ecuador

## ATTACHEMENT 2: DONOR MATRIX

Comportamiento del nivel desembolsos de cooperación 2007 - 2010 de los 10 principales cooperantes en millones de dólares



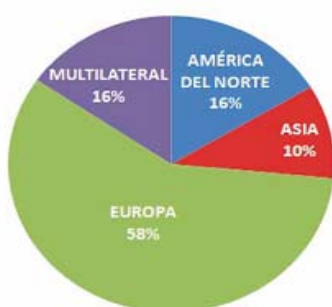
Fuente: Cooperantes Fecha: 08/06/2011. Elaborado por: IM/DESE/SETECI.

Cooperación internacional no reembolsable por país (10 primeros donantes)

Cooperante	# Proyectos	% Participación	Monto desembolsado 2010 en dólares	% Participación en montos
Comisión Europea	52	3,92%	\$63.328.864,11	16,99%
España	203	15,30%	\$62.956.773,91	16,89%
Estados Unidos	299	22,53%	\$51.323.886,84	13,77%
ONU	65	4,90%	\$27.901.827,42	7,49%
Japón	64	4,82%	\$22.170.220,12	5,95%
Reino Unido	47	3,54%	\$19.009.725,43	5,10%
Italia	132	9,95%	\$17.185.166,47	4,61%
Alemania	56	4,22%	\$17.138.430,84	4,60%
Bélgica	62	4,67%	\$13.121.072,33	3,52%
Korea	4	0,30%	\$10.460.386,48	2,81%

Fuente: BASE DE DATOS SETECI. Elaborado por: GS/DESE/SETECI.

Distribución de la procedencia de cooperación 2010 para el Ecuador por continente de origen de los recursos



Fuente: Cooperantes. Fecha: 08/06/2011. Elaborado por: IM/DESE/SETECI.

\* EUROPA = UNION EUROPEA + ESTADOS MIEMBROS

**Cooperación internacional no reembolsable por país (10 primeros donantes europeos)**

Cooperante	# Proyectos	% participación	Monto desembolsado 2010 en dólares	% Participación en montos
Comisión Europea	52	3,92%	\$63.328.864,11	16,99%
España	203	15,30%	\$62.956.773,91	16,89%
Reino Unido	47	3,54%	\$19.009.725,43	7,49%
Italia	132	9,95%	\$17.185.166,47	4,61%
Alemania	56	4,22%	\$17.138.430,84	4,60%
Bélgica	62	4,67%	\$13.121.072,33	3,52%
Austria	4	0,30%	\$ 8.157.687,69	2,19%
Países Bajos	27	2,03%	\$ 3.412.927,82	0,92%
Finlandia	6	0,45%	\$ 1.306.551,10	0,35%
Francia	11	0,83%	\$ 775.301,57	0,21%

**Fuente:** BASE DE DATOS SETECI

**Elaborado por:** GS/DESE/SETECI

### Cooperación Internacional no Reembolsable por sector de intervención

Sector de intervención	# Proyectos	% Participación en proyectos	Monto desembolsado 2010 en dólares	% Participación en montos
Desarrollo social	284	21,40%	\$ 81.508.539,08	21,87%
Educación	139	10,47%	\$ 57.709.857,22	15,48%
Ambiente	228	17,18%	\$ 53.002.993,43	14,22%
Salud	103	7,76%	\$ 28.985.223,14	7,78%
Comercio exterior, industrialización, pesca y competitividad	20	1,51%	\$ 27.382.971,49	7,35%
Apoyo productivo	158	11,91%	\$ 26.233.759,03	7,04%
Agropecuario	86	6,48%	\$ 22.087.513,50	5,93%
Recursos naturales y energía	11	0,83%	\$ 12.693.899,82	3,41%
Administrativo	41	3,09%	\$ 9.052.127,94	2,43%
Desarrollo urbano y vivienda	27	2,03%	\$ 8.694.115,31	2,33%
Protección del medio ambiente y desastres naturales	10	0,75%	\$ 5.785.638,94	1,55%
Migración	4	0,30%	\$ 4.852.868,37	1,30%
Refugiados	13	0,98%	\$ 4.235.074,18	1,14%
Justicia y seguridad	15	1,13%	\$ 4.053.169,49	1,09%
Gestión de riesgos	24	1,81%	\$ 3.882.230,87	1,04%
Multisectorial	19	1,43%	\$ 3.693.461,24	0,99%
Asuntos internos	13	0,98%	\$ 3.055.435,11	0,82%
Finanzas	9	0,68%	\$ 2.827.892,25	0,76%
Cultura	13	0,98%	\$ 2.777.961,35	0,75%
Turismo	18	1,36%	\$ 1.660.608,76	0,45%
Cooperación al comercio	3	0,23%	\$ 1.535.593,92	0,41%
Género	11	0,83%	\$ 1.109.726,40	0,30%
Desarrollo rural	11	0,83%	\$ 1.082.067,22	0,29%
Ciencia y tecnología	15	1,13%	\$ 865.603,64	0,23%

Seguridad alimentaria	4	0,30%	\$ 835.444,60	0,22%
Comunicaciones	9	0,68%	\$ 807.852,68	0,22%
Saneamiento ambiental	5	0,38%	\$ 685.217,47	0,18%
Legislativo	7	0,53%	\$ 412.052,42	0,11%
Organización y territorio	8	0,60%	\$ 277.386,91	0,07%
Asuntos del exterior	4	0,30%	\$ 236.195,37	0,06%
Seguridad interna y externa	2	0,15%	\$ 166.300,79	0,04%
Desarrollo productivo	3	0,23%	\$ 164.963,40	0,04%
Sectores estratégicos	3	0,23%	\$ 125.923,50	0,03%
Desarrollo de investigación científica	2	0,15%	\$ 125.609,78	0,03%
Patrimonio	1	0,08%	\$ 58.800,00	0,02%
Educación superior	2	0,15%	\$ 28.992,68	0,01%
Deportes	1	0,08%	\$ 17.205,00	0,00%
Desarrollo sustentable	1	0,08%	\$ 16.700,00	0,00%
<b>Total general</b>	<b>1327</b>	<b>100,00%</b>	<b>\$ 372.726.976,30</b>	<b>100,00%</b>

Fuente: BASE DE DATOS SETECI.

Elaborado por: GS/DESE/SETECI.

### ATTACHMENT 3: Sector intervention framework and performance indicators

The results, indicators and means of verification specified in the present annex may need to evolve to take into account changes intervening during the programming period.

#### **FOCAL AREA 1: Support to sustainable and inclusive growth at the local level**

All indicators are based on national indicators as indicated in the PNBV National Plan (*Plan Nacional Para el Buen Vivir 2013-2017*) with respective baselines and targets. The precise baseline data and targets corresponding to the selected regions of the EU programme will be established during the formulation process.

<b><u>EXPECTED RESULTS</u></b>	<b><u>INDICATORS</u></b>	<b><u>Means of verification</u></b>	<b><u>Baselines and Targets</u></b>
ER 1 Increase in the share of non-traditional exports in selected regions (*)	Indicator 1.1 : Value of the manufacturing industry in selected regions	based on Indicator 10.3 of the PNBV National Plan  Source : Ecuadorian National Bank (BCE)  Elaboration : Plan and Development National Secretary (SENPLADES)	Baseline : national baseline 12,8% - 2012  Targets : national target 14,5 % - 2017  The desegregated baseline and targets will be set during the formulation process
ER 2: Improvements in selected government's capacities to implement public policies and public financial management systems (*)	Indicator 2.1 : Percentage of Local Governments benefiting from program of institutional reinforcement	based on Indicator 1.3 of the PNBV National Plan  Source : National Council of Competences (CNC)  Elaboration : Plan and Development National Secretary (SENPLADES)	Baseline : national baseline 0% - 2012  Targets : national target 50 % - 2017  The desegregated baseline and targets will be set during the formulation process
	Indicator 2.2 : increase of self-management resources of Local Governments	based on Indicator 8.5 of the PNBV National Plan  Source : Ecuadorian National Bank (BCE)  Elaboration : Plan and Development National Secretary (SENPLADES)	Baseline : national baseline 1295,7 M\$ - 2012  Targets : national target +25 % - 2017 (1619,6 M\$)  The desegregated baseline and targets will be set during the formulation process

<p>ER 3: Improvement in the share of formal employment in selected regions (*)</p>	<p>Indicator 3.1 : Informal sector employment ratio</p>	<p>based on Indicator 9.4 of the PNBV National Plan</p> <p>Source : National Statistics Institute (INEC) : quarterly National Survey on Employment, Unemployment and Underemployment</p> <p>Elaboration : Plan and Development National Secretary (SENPLADES)</p>	<p>Baseline : national baseline 51,1% - 2012</p> <p>Targets : national target 42 % - 2017</p> <p>The desegregated baseline and targets will be set during the formulation process</p>
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\* The targeted provinces will be identified during the identification/formulation process, taking the Government's priorities and the division of labour among donors into account.

## **FOCAL AREA 2: Fostering sustainable trade**

Some possible indicators are mentioned below, without prejudicing the identification of new ones (with corresponding baseline data and targets, as well as more tuned with EU aid impact) during the formulation process. The identification exercise will be carried out jointly with the Ecuadorian Government (the Coordination Ministry for Production, Employment and Competitiveness/ the Coordination Ministry for Economic Policy/the Ministry of Foreign Affairs), in coherence with the Multiannual Sector Public Investment Plan and the PNBV Plan (*Plan Nacional Para el Buen Vivir 2013-2017*).

<b><u>EXPECTED RESULTS</u></b>	<b><u>INDICATORS</u></b>	<b><u>Means of verification</u></b>	<b><u>Baselines and Targets</u></b>
ER 1: Compliance with policy, institutional and legal frameworks for international trade commitments, with particular regard to EU market access	Indicator 1.1 : International ranking of business environment in Ecuador	Doing Business Report, World Bank	Baseline : #120 / 148  Targets will be included in Action documents at the latest.
	Indicator 1.2 : Improved SME participation in international exports	Ecuadorian Central Bank Reports, (by product and by country)  FEDEXPOR and National Statistics Institute (INEC) statistics  PRO ECUADOR (Ministry of Trade) – Exporta País 2014	Baselines and Targets will be included in Action documents at the latest.
	Indicator 1.3: Number of SMEs complying with organic production standards	Ecuadorian Central Bank Reports, (by product and by country)	
ER 2: Improved conditions for doing business	Indicator 2.1 : Time needed to initiate a business	Indicator 10.9 of the PNBV National Plan  Source : Doing Business Report, World Bank  Elaboration : Plan and Development National Secretary (SENPLADES)	Baseline : 56 days - 2012  Targets : 12 days - 2017

<p>ER 3: Improved SMEs' access to business support services and public procurement</p>	<p>Indicator 3.1 : Improved SMEs participation in public procurement</p>	<p>Ecuadorian Service for Public Procurement (SERCOP) – Analysis (Business intelligent data list)</p>	<p>Baseline: 48% of the contracts awarded through Ecuadorian Public procurement system (3.000 M\$) to MYPES and Popular Economy business (EPS) in 2013</p> <p>Targets will be included in Action documents at the latest.</p>
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**ATTACHMENT 4: Indicative Timetable for Commitment of Funds**  
*(DCI Committee decision)*

The amounts mentioned in this table are indicative.

	2014	2015	2016	2017	<b>TOTAL MIP</b> <b>(in EUR million euros)</b>
<b>FOCAL AREA 1:</b>					<b>53.6</b>
Support to sustainable and inclusive growth at the local level		53.6 (*)			
<b>FOCAL AREA 2:</b>					<b>10.0</b>
fostering sustainable trade		10.0			
<b>SUPPORT MEASURES:</b>					<b>3.4</b>
TA Contract		3.4			
<b>TOTAL</b>		<b>67.0</b>			<b>67.0</b>

*(\*) This forecast is dependent on the development of the productive matrix plans at provincial level.*