Ecuador

Contingent Loan for Natural Disaster and Public Health Emergencies

Third Proposal for Reformulation of Loan EC-X1008; EC-X1014; EC-O0006

(EC-O0012)

Reformulation Proposal

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### Links

**Required:**

1. Monitoring and evaluation plan

**Optional:**

1. Project economic analysis
2. Program Operating Regulations
3. Automatic Redirection List
4. Technical document: Contribution to climate change adaptation
5. Technical document: Alignment with the crosscutting theme of gender equality
6. Bibliography
7. Comprehensive natural disaster risk management plan
8. Definitions, formulas, and sources of Results Matrix indicators
# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AML/CFT</td>
<td>Anti-Money Laundering and Countering the Financing of Terrorism</td>
</tr>
<tr>
<td>ARL</td>
<td>Automatic Redirection List</td>
</tr>
<tr>
<td>CCF</td>
<td>Contingent Credit Facility for Natural Disaster and Public Health Emergencies</td>
</tr>
<tr>
<td>CNDRMP</td>
<td>Comprehensive Natural Disaster Risk Management Plan</td>
</tr>
<tr>
<td>COE</td>
<td>Comité de Operaciones de Emergencia (Emergency Operations Committee)</td>
</tr>
<tr>
<td>COVID-19</td>
<td>Disease caused by the 2019 coronavirus</td>
</tr>
<tr>
<td>DRM</td>
<td>Disaster risk management</td>
</tr>
<tr>
<td>FIN</td>
<td>Finance Department (of the IDB)</td>
</tr>
<tr>
<td>IESS</td>
<td>Instituto Ecuatoriano de Seguridad Social (Ecuadoran Social Security Institute)</td>
</tr>
<tr>
<td>IFD/CMF</td>
<td>Connectivity, Markets, and Finance Division (of the IDB)</td>
</tr>
<tr>
<td>IHR</td>
<td>International Health Regulations</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INEC</td>
<td>Instituto Nacional de Estadística y Censos (National Statistics and Census Institute)</td>
</tr>
<tr>
<td>LOSNCP</td>
<td>Ley Orgánica del Sistema Nacional de Contratación Pública (Act Establishing the National Public Procurement System)</td>
</tr>
<tr>
<td>MEF</td>
<td>Ministry of Economy and Finance</td>
</tr>
<tr>
<td>MSP</td>
<td>Ministry of Public Health</td>
</tr>
<tr>
<td>NPV</td>
<td>Net present value</td>
</tr>
<tr>
<td>OVE</td>
<td>Office of Evaluation and Oversight</td>
</tr>
<tr>
<td>PCR</td>
<td>Project completion report</td>
</tr>
<tr>
<td>RFTP</td>
<td>Risk financing and transfer programs</td>
</tr>
<tr>
<td>RG-LOSNCP</td>
<td>Reglamento General a la LOSNCP (General Regulations Implementing the Act Establishing the National Public Procurement System (LOSNCP))</td>
</tr>
<tr>
<td>SGR</td>
<td>Secretaría de Gestión de Riesgos (Risk Management Department)</td>
</tr>
<tr>
<td>SNDGR</td>
<td>Sistema Nacional Descentralizado de Gestión de Riesgo (Decentralized National Risk Management System)</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
</tr>
</tbody>
</table>
PROJECT SUMMARY
ECUADOR
CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES
THIRD PROPOSAL FOR REFORMULATION OF LOAN EC-X1008; EC-X1014; EC-O0006 (EC-O0012)

Financial Terms and Conditions(a)

<table>
<thead>
<tr>
<th>Source</th>
<th>Original amount(d) (US$ million)</th>
<th>Reformulated amount(d) (US$ million)</th>
<th>%</th>
<th>Original weighted average life: 15.25 years(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDB Ordinary Capital:</td>
<td>Original 300</td>
<td>Modality I</td>
<td>300</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>Available 210</td>
<td>Replenishment(h)</td>
<td>210</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>Disbursed(g)</td>
<td>90</td>
<td>Modality II</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>Available</td>
<td>210</td>
<td>Total</td>
<td>400</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Flexible Financing Facility(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization period: 25 years(c)</td>
</tr>
<tr>
<td>Grace period: 5.5 years(c)</td>
</tr>
<tr>
<td>Interest rate: SOFR-based</td>
</tr>
</tbody>
</table>

Project at a Glance

Objective of the reformulated project: The general development objective of the project is to contribute to cushioning the impact that a severe or catastrophic natural disaster or public health event could have on the country’s public finances. The specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to assist the public affected by natural disaster and public health emergencies.

Special contractual condition for general eligibility to request disbursements: Approval and entry into effect of the program Operating Regulations on the terms previously agreed upon with the Bank (paragraph 3.4).

Special contractual conditions precedent to the first disbursement for each eligible event:
(a) Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event according to the parameters defined in the Operating Regulations; and (ii) the Comprehensive Natural Disaster Risk Management Plan (CNDRMP), previously agreed upon with the Bank, is making progress to the Bank’s satisfaction (paragraphs 2.7, 2.8, and 3.5);
(b) Disbursements under Modality II (natural disasters): (i) the Bank has verified the declaration of a national emergency caused by a natural disaster due to an eligible event as defined in the Operating Regulations; (ii) the CNDRMP, previously agreed upon with the Bank, is making progress to the Bank’s satisfaction; and (iii) the Bank has verified compliance by the borrower with the agreed complementary risk retention financing measures and conditions (paragraph 3.5); and
(c) Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the Operating Regulations; (ii) the borrower has provided evidence of up-to-date reporting of progress against International Health Regulations (IHR) compliance to the World Health Organization (WHO); (iii) the borrower has provided evidence to the Bank’s satisfaction of a preparedness and response plan for the specific event in line with the recommendations of the WHO/Pan American Health Organization (PAHO), to address the event for which it has declared the national public health emergency; and (iv) the Bank has verified compliance by the borrower with the agreed complementary risk retention financing measures and conditions (paragraph 3.5).

In addition to the above contractual conditions, the borrower must have submitted one or more disbursement requests within 90 calendar days after the occurrence of an eligible event, indicating the amount(s) of such disbursement(s) and, for disbursements under Modality I for natural disasters and Modality II for public health events, whether they will be drawn from the regular lending program, from undisbursed Automatic Redirection List (ARL) balances, or a combination of these two options. Disbursements under Modality II for natural disasters cannot come from the ARL. For ARL loans, the request must identify the loans in question and the respective amount to be utilized (paragraph 3.6). For special contractual conditions of execution, see Annex III.

Exceptions to Bank policy: None.
## Strategic Alignment

<table>
<thead>
<tr>
<th>Challenges:(^{(k)})</th>
<th>SI ☒</th>
<th>PI ☐</th>
<th>EI ☐</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crosscutting themes:(^{(l)})</td>
<td>GE ☒ and DI ☐</td>
<td>CC ☒ and ES ☐</td>
<td>IC ☒</td>
</tr>
</tbody>
</table>

\(^{(a)}\) Financial terms and conditions of the contingent loan in accordance with the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-4, approved by the Board of Executive Directors under Resolution DE-40/20 of 12 May 2020).

\(^{(b)}\) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

\(^{(c)}\) The amortization periods, weighted average life, and grace periods run from the date of the first disbursement for each eligible event.

\(^{(d)}\) Amount approved under Resolution DE-5/12 of 1 February 2012 (EX-1008) and amended by Resolution DE-243/14 of 18 December 2014 (EX-1014), Resolution DE-163/19 of 18 December 2019 (EC-O0006), and Resolution DE-102/20 of 3 September 2020 (COVID-19 coverage).

\(^{(e)}\) The coverage period or drawdown period (equivalent terms) can be extended for an additional five years at the Bank’s discretion upon the borrower’s request.

\(^{(f)}\) The disbursements of the financing will be contingent on the Bank having sufficient resources available from the ARL or from its regular lending program with Ecuador, as applicable, at the time of a disbursement request (paragraph 2.5).

\(^{(g)}\) Loan 5136/OC-EC (paragraph 1.2).

\(^{(h)}\) Although the CCF policy document establishes a specific procedure for requests for replenishment of funds disbursed to be approved by the Board via the short procedure (document GN-2999-9, paragraphs 4.21 and 4.22), it was deemed appropriate to address the country’s request fully and simultaneously in order to: (i) replenish the US$90 million disbursed to strengthen the immediate public health response to the COVID-19 emergency; and (ii) expand the scope of the contingent loan to include Modality II for up to US$100 million to cover disaster risks that cannot be parametrized and public health risks.

\(^{(i)}\) The inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank’s lending changes, in accordance with the applicable policies.

\(^{(j)}\) The fee is not charged if the loan is not used. The Bank will charge a one-time fee of 50 basis points at the time of disbursement, applicable solely to the amount disbursed against resources from the regular lending program. This fee is applicable to each disbursement. The drawdown fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges. The fee does not apply to amounts disbursed from ARL loans.

\(^{(k)}\) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

\(^{(l)}\) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).
I. DESCRIPTION AND RESULTS MONITORING

A. The country’s reformulation request

1.1 In February 2012, the Bank approved a Contingent Loan for Natural Disaster Emergencies for Ecuador for US$100 million (loan EC-X1008), under the Contingent Credit Facility for Natural Disaster Emergencies (CCF) (document GN-2502-2). In December 2014, the Bank approved contingent loan EC-X1014, which reformulated operation EC-X1008 to increase the coverage to US$300 million, the new maximum amount under Modality I of the CCF (document GN-2667-2). In April 2016, the Bank disbursed US$160 million in response to the earthquake in Manabí province (loan 3670/OC-EC).¹ In December 2019, the Bank approved a second reformulation of the operation (EC-X1008; EC-X1014), corresponding to contingent loan EC-O0006, to replenish the total coverage availability to US$300 million.

1.2 Amid the COVID-19 pandemic, in 2020 the Board of Executive Directors approved the proposal to expand the Contingent Credit Facility for Natural Disaster Emergencies to include public health risks (document GN-2999-4). In that context, on 3 September 2020, the Bank approved the amendment of loan contract EC-O0006 to include COVID-19 coverage, which helped to strengthen Ecuador’s immediate public health response by disbursing a total of US$90 million to combat the pandemic (loan 5136/OC-EC).² This reduced the total coverage available under Modality I to US$210 million.

1.3 The country has requested reformulation of loan EC-O0006 because: (i) the financial coverage available from loan EC-O0006 was reduced to US$210 million; (ii) in 2019 the Bank expanded the CCF to create a Modality II that covers hazards that cannot be parameterized (document GN-2502-7); (iii) in 2020 the Bank expanded the CCF to include future public health risks under Modality II (document GN-2999-4); (iv) the country has a satisfactory Comprehensive Natural Disaster Risk Management Plan (CNDRMP) in place (paragraph 2.7); and (v) Ecuador is vulnerable to disasters caused by natural phenomena and public health events (paragraphs 1.4 to 1.11). The proposal consists of: (i) replenishment of the US$90 million in resources disbursed for the COVID-19 emergency, so that the country will have financial coverage of up to US$300 million under Modality I; (ii) reformulation of contingent loan EC-O0006 to include Modality II for up to US$100 million to cover volcanic eruptions, tsunamis, and future public health risks; and (iii) updating the terms and conditions of the contingent loan to reflect the recent changes to the CCF policy document (document GN-2999-9), i.e., the new eligibility period for expenditures and the new structure of the drawdown fee.

¹ Project completion report (PCR) of operation 3670/OC-EC rated as highly successful.
² PCR of operation 5136/OC-EC rated as highly successful.
B. Background, problem addressed, and rationale.

1. The country’s vulnerability to natural disasters and climate change

1.4 Ecuador is exposed to a wide variety of natural hazards [1]. Around 96% of the population lives in areas exposed to seismic risk, volcanic risk, and risk of severe flooding caused mainly by the El Niño-Southern Oscillation. It ranks among the 15 countries most exposed to natural hazards worldwide [2, 3, 4]. Between 1970 and 2022, a total of 91 disasters were recorded, with 40% caused by floods, 20% by earthquakes, and 16% by volcanic activities. These events affected 4.6 million people and caused more than US$10 billion in losses [5].

1.5 The potential catastrophic impact of disasters in Ecuador has been demonstrated by recent events [6, 7, 8]. In April 2016, a 7.8 magnitude earthquake struck the provinces of Manabí, Esmeraldas, Guayas, causing large human losses and infrastructure damage. More than 600 people perished, approximately 80,000 were evacuated or displaced, and the economic losses were estimated at US$3.444 billion (3.3% of GDP). Total public expenditure for emergency response was US$362.6 million, with US$160 million financed from the IDB’s contingent loan. In 2023, the country suffered a 6.5 magnitude earthquake, with 489 reported injuries and 300 destroyed dwellings. As for the risk of extreme climate events, mention should be made of the severe flooding in 2008 that affected more than 60,000 families [9]. The government declared a national state of emergency and allocated US$35 million for the immediate response [10].

1.6 Climate change. Ecuador is among the countries most vulnerable to the impact of climate change [11]. Major impacts have been seen between 1960 and 2020: (i) 40% of glacier coverage loss on volcanoes; (ii) increase in hydrometeorological events putting almost half of the country’s population at risk; and (iii) intensification of the El Niño-Southern Oscillation unleashing severe flooding [12, 13]. National projections for 2020-2050 are for rainfall patterns to change significantly, along with an increase in areas prone to flooding [14, 15]. To meet this great challenge, the country has developed a regulatory and strategic framework to combat climate change, including the National Climate Change Strategy 2012-2025 [16], the National Climate Finance Strategy [17], and the National Climate Change Adaptation Plan [14].

1.7 Gender and natural disasters. Disasters tend to disproportionately affect the most vulnerable groups, particularly women and girls [18]. This uneven impact is evident in various dimensions: shorter life expectancy [19], greater likelihood of suffering from a disability [20], and, in particular, higher risk of gender violence in situations of displacement and refuge, exacerbated by the temporary interruption of order and security mechanisms [21, 22, 23]. In Ecuador, the gender gaps bring out the importance of gender mainstreaming in the response and recovery stages, to

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3 See Bibliography (optional link 6).
4 According to Ecuador’s Geophysical Institute, the country has 27 potentially active volcanoes, including 7 on the mainland (Cotopaxi, Cayambe, and others) and 7 in the Galapagos Islands.
5 Evaluation of reconstruction costs, Earthquake in Ecuador, April 2016.
6 Costs of emergency care, reported by the Technical Secretariat for Reconstruction of Ecuador. 2018.
7 See the technical document on alignment with the crosscutting theme of gender equality (optional link 5).
minimize postdisaster gender violence [24]. To address this need, the Risk Management Department (SGR) has prepared a guide for addressing gender-based violence in emergency and disaster contexts [25].

2. The country’s vulnerability to public health events

1.8 Ecuador is also exposed to serious public health events [26]. In the last three decades, the country has experienced several events associated with communicable diseases such as dengue fever, cholera, and influenza A (H1N1). A dengue outbreak in 2000 had a total of 22,937 reported cases in the province of Guayas [27]. More recently, the COVID-19 pandemic hit the country hard in early 2020 [28], resulting in the declaration of a national health emergency and the adoption of public health response measures [29]. By the time the WHO declared the pandemic ended on 5 May 2023, Ecuador had recorded more than 1 million confirmed cases and 36,019 deaths [30].

1.9 These epidemic and pandemic risks constitute large contingent liabilities for the public finances, since extraordinary public expenditure are required when they occur to deploy an immediate public health response. Public expenditure to address the COVID-19 emergency in the period 2020-2021 was an estimated US$935.7 million. 8

3. Financial vulnerability to natural disasters and public health events

1.10 Ecuador’s economy has recovered since the pandemic but still faces challenges. In 2022, the country was successfully concluded its economic program with the International Monetary Fund (IMF) [31], resulting in a reduction in public debt from 2020 to 2022 and progress on the adoption of a prudent fiscal framework. Nonoil tax revenue rose 10.8% in 2022 compared to 2021, and total exports surpassed US$32 billion (year-on-year increase of 22.3%). In 2022, the public sector posted its first surplus since 2008, and GDP grew 2.9% (2023 growth is projected at 2.6%) [32]. However, this strong performance has been affected in 2023 by rising global interest rates, falling oil production and prices, and the earthquake this year (paragraph 1.5). This climate of uncertainty is compounded by the risks associated with the El Niño-Southern Oscillation, which could have an important systemic impact on the economy.

1.11 A severe natural disaster or a nationwide epidemic outbreak thus would constitute a major contingent fiscal liability. If a severe 1-in-100-year disaster hit large urban centers such as Quito or Guayaquil, public sector losses could reach an estimated 5% of GDP [33]. The progress made toward fiscal and public debt sustainability could be threatened, and responsiveness undermined, if that risk becomes reality. Therefore, it is indispensable for the country to continue strengthening its fiscal and financial resilience.

4. Natural disaster risk management in Ecuador

1.12 Ecuador’s legal and regulatory framework for disaster risk management (DRM) is rooted in the country’s 2008 Constitution, which calls for the establishment of a Decentralized National Risk Management System (SNDGR) [34]. The regulations implementing the Public and State Security Act, approved in 2010, define the scope

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8 See Table 5 of the PCR of operation 5136/OC-EC.
of the SNDGR and establish the Risk Management Department (SGR) as its apex agency [35]. The ECU-911 Integrated Security Service was created in 2011, to handle emergencies in Ecuador [36].

1.13 During the life of the contingent loan (EC-X1008; EC-X1014; EC-O0006), (paragraphs 1.1 and 1.2), the country has made significant gains in the major areas of strategic focus for DRM. Ecuador’s updated DRM diagnostic assessment is documented in the CNDRMP.

1.14 **DRM governance.** Ecuador has made significant gains in recent years, as reflected in the country’s Index of Governance and Public Policy in Disaster Risk Management, on which notable progress has been recorded in the area of governance [34]. Despite these gains, there is still room for improvement. The SNDGR and its apex agency are still embedded in a complex legal and regulatory structure. Ecuador is moving toward passage of a specific law governing DRM that would systemize the political, strategic, and technical tools for strengthening DRM.

1.15 **Risk reduction.** Driven by the “Good Life” National Plan and the National Climate Change Strategy, Ecuador has made significant gains in this area: (i) update of Ecuador’s Construction Standards approved in 2015; (ii) addition of DRM criteria to the Land Planning, Use, and Management Act passed in 2016; (iii) approval of Strategic Guidelines for Risk Reduction in Ecuador by the SGR [37]; and (iv) implementation of flood-control infrastructure projects for more than US$450 million [38]. However, challenges remain: (i) limited capacity and know-how in the autonomous decentralized governments for DRM implementation in land planning processes; and (ii) the need for larger public investment for implementation risk reduction measures.

1.16 **Financial management of risks.** Approval of the IDB contingent loan in 2012 has enabled Ecuador to take a proactive approach to risk management that emphasizes ex ante financial planning. Furthermore, the successful use of the loan in several different emergencies (paragraphs 1.1 to 1.3) shows the benefits of ex ante financial coverage for speedy access to funds to mitigate their economic and social impact. In 2020, the Ministry of Economy and Finance (MEF) and the SGR drafted a strategy for financial management of disaster risks, to promote the adoption of risk retention and transfer instruments [39]. Despite the progress made, some areas still need addressing: (i) adoption and implementation of the national financial management strategy; and (ii) extension of ex ante financial coverage to other risks such as volcanoes, epidemics, and pandemics.

5. **Public health risk management in Ecuador**

1.17 Ecuador’s health system consists of a public system and a complementary private system. The public system is the sector’s main provider of services with the Ministry of Public Health (MSP), the Ecuadorian Social Security Institute (IESS), and the health facilities of the national police and the armed forces. The MSP operates 2,110 health care facilities; the IESS, 926; and the rest of the public sector, 285. As for health emergencies, the Office of the Deputy Secretary for Health Surveillance,
Prevention, and Control is responsible for regulating, developing, coordinating, and evaluating implementation of sector policies for surveillance of diseases that affect the national health system [40].

1.18 **Epidemiological surveillance system.** The MSP has an epidemiological surveillance system that tracks key indicators for public health decision-making and enables optimal use of resources for disease mitigation, prevention, and control. The country also has a National Disaster Response Plan (“Plan Responde Ec”) [41]. Under that plan, the national Emergency Operations Committee (COE) coordinates sector actions to address adverse events. Lastly, the Office of the Deputy Secretary for Health Surveillance, Prevention, and Control coordinates International Health Regulations (IHR) implementation and compliance. The COVID-19 pandemic helped strengthen health governance systems to provide a comprehensive response. The 2022 charter established the Office of the Deputy Secretary for Governance of the National Health System. Also amid the pandemic, the MSP’s internal decision-making processes related to emergency response were strengthened, starting with health governance and extending to service delivery.

1.19 **Health services delivery.** In health emergencies, the National Office of Health Risks and Harms is responsible for designing and managing actions for prevention, preparation, mitigation, response, and monitoring the impact of dangerous events of natural or man-made origin in the health sector, in coordination with the public and private health care facilities. According to Ecuador's National Statistics and Census Institute (INEC), in 2021 the country had 23,196 available hospital beds, 2,372 emergency beds, and 1,983 intensive care beds.

6. **Risk financing and transfer programs for natural disaster and public health emergencies**

1.20 In 2007-2008, the Bank developed an integrated disaster risk management and finance approach to help countries improve financial planning (document GN-2354-7). The objective of this approach is to support the borrowing member countries in the design and implementation of natural disaster risk financing and transfer programs (RFTPs).

1.21 In 2009, under this strategic framework, the Bank created the CCF (document GN-2502-7) to deliver significant liquid resources for countries immediately after a natural disaster. In 2020, to meet the challenge of the COVID-19 pandemic, the facility was expanded to include public health risks (document GN-2999-4).

1.22 RFTPs assume the existence of budgetary and financial constraints, which means that no single instrument can efficiently cover all layers of risk [42]. Therefore, in designing RFTPs it is recommended that reserves be used to cover more frequent, lower magnitude risks. For events with a lower probability of occurrence and severe magnitude, the programs promote the use of contingent lines and risk transfer instruments such as insurance and/or catastrophe bonds [43].

1.23 **Potential benefits.** The benefits of RFTPs for the emergency phase have been proven to outweigh their costs. RFTPs enable countries to obtain financial coverage that benefits the population independently of whether the risks materialize, and are more efficient in terms of direct costs and the savings generated, since they help narrow the liquidity gap that arises for governments as a consequence of the
combination of higher costs, lower revenue [44], and incremental constraints in credit access and cost.

1.24 The availability of ex ante financial coverage for the emergency stage reduces the impact of an event on the public accounts and the vulnerable population by making resources available quickly to cover the costs of responding to emergencies. This has been verified in studies by the Bank [45] and other multilaterals such as the IMF [46].

7. The operation in the Bank’s sector and country strategy

1.25 The Bank’s support in Ecuador’s natural disaster sector and lessons learned. In the major strategic focus area of disaster risk management, the Bank supported development of an early warning system for eruptions of the Cotopaxi and Tungurahua volcanoes (loan 1707/OC-EC, for US$5 million) and is working with the country to strengthen a national early warning system for tsunamis and floods (loan 3913/OC-EC, for US$12.4 million). A loan is now in preparation to strengthen the universal provision of accurate early warning information for multiple threats, which is complementary to this reformulation because it will help to improve the country’s disaster preparedness and responsiveness. The Bank’s experience in this sector was key for updating the CNDRMP and its progress indicators (paragraphs 2.7 and 2.8).

1.26 The Bank’s support in Ecuador’s public health sector and lessons learned. With the “Multiphase Program to Improve Quality in the Delivery of Social Services – Phase I” (loan 4364/OC-EC, approved in 2017 for US$237.6 million, 95.41% disbursed), the Bank has supported the strengthening of health services in the area of digital transformation. During the COVID-19 pandemic, the Bank supported the country’s emergency response through the operation “Support for Health Service Delivery and the Social Safety Net in the Context of the Coronavirus/COVID-19 Pandemic” (loan 5031/OC-EC, approved in 2020 for US$250 million and in the closing process, 93.53% disbursed) and the current contingent loan (loan 5136/OC-EC, approved in 2020 for US$16.3 million, completed). One important lesson learned from these operations was for timely coordination between the Bank and the country to agree on making payments for services with a set value per patient. The reasonable assurance audits made it possible to verify the eligibility of expenditures (paragraph 1.29).

1.27 Good practices and lessons learned under the CCF. The Bank has approved 17 loans from the CCF,10 with six disbursed for disasters for a total of US$310.5 million (loans 3670/OC-EC, 4331/OC-DR, 4853/OC-BH, 5195/BL-NI, 5631/OC-ES, and 5632/BL-NI). The instrument’s relevance and efficiency have been verified and supported by the Country Program Evaluation: Ecuador 2012-2017, prepared by the Office of Evaluation and Oversight (OVE) [47] and the project completion reports (PCRs) validated by OVE for the operation to respond to the Manabí earthquake in 2016 in Ecuador (loan 3670/OC-EC) and Hurricane María in 2017 in the Dominican Republic (loan 4331/OC-DR).

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10 Active contingent loans currently total US$3.941 billion.
Additionally, the recent use of COVID-19 coverage has contributed to strengthening Ecuador’s immediate public health response, as indicated by the PCR for the operation, which OVE evaluated as highly successful (loan 5136/OC-EC, completed). Among the most important outcomes: (i) the country was able to rapidly deploy the operation’s resources; (ii) the capacity to provide hospital services improved, as did the ability to detect COVID-19, with 34,633 services for patients with severe and acute respiratory symptoms hospitalized and in intensive care units, and 420,388 PCR-TR tests financed; and (iii) the operation was complementary to other Bank interventions.

The design of this operation incorporates the lessons learned from the earlier ones, particularly the disbursements made from the contingent loan for the Manabí earthquake in 2016 (paragraph 1.1) and the COVID-19 emergency (paragraphs 1.2 and 1.28): (i) strengthening of the mechanism for interagency coordination between the executing agency (the MEF), the SGR, the MSP, and other relevant players to ensure timely execution of the resources disbursed in emergencies (paragraph 3.3); (ii) inclusion in the program Operating Regulations of guidelines and operating procedures for program supervision and execution, as well as early coordination between the executing agency and the Bank to streamline justification of the use of resources (paragraph 1.26); (iii) the requirement to contract an independent reasonable assurance auditor to safeguard the eligibility of expenditures (paragraph 3.10); and (iv) workshops held during the coverage period to strengthen the MEF’s capacity in the potential use of proceeds from the reformulated loan (paragraph 2.12).

Strategic alignment. This reformulation is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the development challenge of social inclusion and equality, by benefitting a larger number of people, particularly the vulnerable, through an increase in ex ante financial coverage for natural disaster and public health emergencies. The reformulation is also aligned with the following crosscutting themes: (i) climate change, since the resources of this operation under Modality I can be used in their entirety to support the country’s financial framework for climate change adaptation, particularly severe flooding. According to the joint methodology of the multilateral development banks for tracking climate finance, this reformulation will contribute an estimated additional US$90 million to adaptation, corresponding to better financial management of disaster risks (22.5% of the reformulated operation), and contributing to the IDB’s climate finance target (30% of the volume of annual approvals); (ii) gender equality, since gender is mainstreamed in disaster risk management through the activities included in the CNDRMP and the Results Matrix (paragraph 1.33); and (iii) institutional capacity and rule of law, since the operation will help build the country’s capacity to administer

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11 For more details, see the PCR for operation 5136/OC-EC and OVE’s validation.
12 See the technical document on contribution to climate change adaptation (optional link 4).
13 Only the new resources of this third reformulation corresponding to the replenishment under Modality I (US$90 million), which covers flooding, have been included. The new resources under Modality II (US$100 million) do not cover climate risks. The resources of the second reformulation EC-O0006 (US$300 million) were already booked the year they were approved.
public resources, increasing the amount of ex ante contingent financing and strengthening management of contingent fiscal liabilities (paragraphs 1.10 and 1.11).

1.31 This reformulation is also aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12), by contributing to the following indicators: (i) beneficiaries of enhanced disaster and climate change resilience, through an increase in the number of people who are more resilient to disasters, epidemics, and pandemics as beneficiaries of the ex ante financial coverage provided by the loan; and (ii) countries with strengthened tax and expenditure policy and management, through the country’s increased capacity to manage public resources and contingent fiscal liabilities.

1.32 This reformulation is consistent with the Bank’s Disaster Risk Management Policy (document GN-2354-5), the Climate Change Sector Framework Document (document GN-2835-8), the Health and Nutrition Sector Framework Document (document GN-2735-12), and the Gender and Diversity Sector Framework Document (document GN-2800-13), by contributing to improve the financial management of climate risks, disasters, and public health events with a gender lens. The operation is aligned with the IDB Group Country Strategy with Ecuador 2022-2025 (document GN-3103-1), by contributing to: (i) the strategic objective to reduce inefficiencies in public administration in the area of stabilization of public finances through more efficient management of contingent fiscal liabilities associated with emergencies; and (ii) the crosscutting areas of climate change, sustainability, and natural disasters through the improvement of the financial management of climate and disaster risks.14

1.33 Gender considerations. Through the CNDRMP, the project will promote actions to mainstream gender equality in the country’s DRM. First year actions included in the emergency preparedness line of the CNDRMP matrix of indicators will focus on officially introducing and raising awareness of the guide for addressing gender-based violence in emergencies and disasters by the SGR [27]. Also, given the gender gap identified (paragraph 1.7), the reformulation includes, as an additional output, development of an action plan for implementing this guide, to promote gender mainstreaming and minimum standards for action that will help prevent gender violence for actors and institutions involved in emergencies and disasters (paragraph 1.39). This output will be produced following the guidelines of the strategic framework for gender mainstreaming in contingent loans,15 and implemented as part of tracking and monitoring the CNDRMP (paragraph 3.13).

C. Objectives, components, and cost

1.34 Objectives of the reformulated project. The general development objective is to contribute to cushioning the impact that a severe or catastrophic natural disaster or public health event could have on the country’s public finances. The specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible

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14 As established in document GN-3142-1, the Paris Alignment Implementation Approach (PAIA) does not apply to CCF operations.

15 See section II of optional link 5.
contingent financing to cover extraordinary public expenditures to assist the public affected by natural disaster and public health emergencies.

1.35 As an additionality, the reformulated operation will help improve the country’s overall disaster risk management through the CNDRMP (paragraphs 2.7 and 2.8). Gender equality will also be mainstreamed in the country’s DRM through gender actions in the CNDRMP (paragraph 1.33) and development of an action plan to implement the guide for addressing gender-based violence in emergency and disaster contexts.

1.36 **Sole component.** The proposed reformulated operation has a sole component for US$400 million to structure stable, efficient, and rapidly accessible ex ante financial coverage to timely meet expenditures that could arise during severe natural disaster or public health emergencies.

1.37 **Subcomponent 1.1. Coverage under Modality I (US$300 million).** This subcomponent will timely finance extraordinary public expenditures that could arise during severe or catastrophic natural disasters (parametric coverage) (paragraph 2.3). The events with coverage will be earthquakes, floods caused by torrential rainfall, floods associated with the El Niño phenomenon, and lahars flowing from the Cotopaxi volcano.

1.38 **Subcomponent 1.2. Coverage under Modality II (US$100 million).** This subcomponent will timely finance extraordinary public expenditures that could arise during severe or catastrophic public health or natural disaster emergencies (nonparametric coverage) (paragraph 2.4). The events with coverage will be volcanic eruptions, tsunamis, and future epidemics and pandemics.\(^\text{16}\)

1.39 The reformulated operation also includes, as a specific output, the development of an action plan to implement the guide for addressing gender-based violence in emergency and disaster contexts,\(^\text{17}\) to strengthen the country’s efforts in this area (paragraph 1.33).

1.40 To dimension the country’s financial needs for coping with severe or catastrophic natural disasters or public health events, the Bank analyzed exposure and vulnerability to such events, such as the 2016 earthquake and the COVID-19 pandemic, and their historical impact, factoring in the effects of climate change (paragraphs 1.4 to 1.9). That analysis was used to determine the loan amount of US$400 million, consisting of US$300 million under Modality I and US$100 million under Modality II. These amounts are within the limits established per modality for CCF operations (document GN-2999-9, paragraphs 4.4 to 4.7).\(^\text{18}\)

1.41 **Beneficiaries.** The potential beneficiaries are, generally, the entire population of Ecuador, and more specifically, the affected population receiving emergency assistance under the proposed coverages.

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\(^{16}\) The loan cannot be used for the COVID-19 pandemic declared by the WHO between March 2020 and May 2023 because it is not an eligible event within the scope of CCF Modality II (document GN-2999-4, paragraph 3.16). However, future pandemics or epidemics may be eligible, including those caused by the new SARS-CoV-2 coronavirus.

\(^{17}\) This output will be financed under regional technical cooperation operation **ATN/OC-18888-RG**, Promoting Institutional Capacity-Building for Gender Mainstreaming in Natural Disaster Risk Management Under the CCF.

\(^{18}\) The coverage limit under Modality I is up to US$300 million or 2% of the country’s GDP, whichever is less, and under Modality II, up to US$100 million or 1% of GDP, whichever is less.
D. Key results indicators

1.42 To show the expected contribution to the general objective of the reformulated project (paragraph 1.34), the following indicators will be monitored: (i) ex ante financial coverage in relation to the probable maximum expenditure during emergencies caused by natural disasters of catastrophic magnitude covered by the project; and (ii) ex ante financial coverage in relation to the probable maximum expenditure during national public health emergencies covered by the project.

1.43 To determine whether the specific objective of the reformulated operation has been met (paragraph 1.34), the following indicators will be monitored: (i) amount of ex ante financial coverage available for the country to address natural disaster or public health emergencies; (ii) beneficiaries of the ex ante financial coverage available for natural disaster emergencies; (iii) beneficiaries of the ex ante financial coverage available for public health emergencies; (iv) differential between the financial cost of the IDB loan and Ecuador’s long-term external sovereign debt; (v) financial savings ratio when an eligible event occurs: the cost of the IDB resources disbursed in relation to the cost of issuing sovereign debt, expressed in net present value (NPV); and (vi) speed of access to resources when an eligible event occurs: number of days between the request for verification of eligibility and the availability of resources.

1.44 Economic analysis. The economic analysis uses a cost-effectiveness methodology that evaluates a scenario in which the full amount of the financial coverage (US$400 million) is used as a consequence of the occurrence of a catastrophic natural disaster or public health event.\(^\text{19}\) The NPV of the financing cost of the IDB loan was compared to the NPV of the cost of issuing bonds, under the following assumptions: (i) the interest rate set for the IDB loan; and (ii) bonds issued with a maturity of around 10 years, based on the country’s current risk premium on the international market. Both NPVs were calculated using a discount rate of 12%. The results show that the contingent loan is equal of 31.1% of the cost of issuing debt, making it a much more efficient option.

II. Financing Structure and Main Risks

A. Financing instrument

2.1 This proposal consists of the replenishment of resources disbursed for the COVID-19 emergency and the reformulation of the loan to include Modality II to cover disaster hazards that cannot be parameterized and public health risks (paragraph 1.3), through the instrument of an investment loan of up to US$400 million from the Bank under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-9). Of that amount, up to US$300 million will be used under Modality I for natural disasters (parametric coverage), and up to US$100 million will be used under Modality II for natural disasters and public health events (nonparametric coverage). The funds will come alternatively from resources of the regular lending program, available

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\(^{19}\) Two other scenarios were evaluated, and the findings were that the contingent loan would still be the most efficient option. See Project economic analysis (optional link 1).
undisbursed balances of investment loans in execution identified in the Automatic Redirection List (ARL),\textsuperscript{20} or a combination of these two options. For natural disaster coverage under Modality II, the funds cannot come from the ARL (document GN-2999-9, paragraph 4.12).

2.2 Contingent loans under the CCF have special financial terms and conditions (described in the Project Summary), to effectively support the country at the critical time of an emergency caused by severe events, when public finances are affected. The specific terms and conditions include the following: (i) the amortization periods, weighted average life, and grace periods run from the date of the first disbursement for each eligible event; (ii) the Bank will charge only a one-time fee of 50 basis points (reviewed periodically) at the time of each disbursement, applicable solely to the amount disbursed against resources from the regular lending program (i.e., non-ARL resources); and (iii) the drawdown period (coverage period) is five years, running from the entry into effect of the amendatory contract of the reformulated loan, and can be extended for an additional five years at the Bank’s discretion upon the borrower’s request, as long as the Comprehensive Natural Disaster Risk Management Plan (CNDRMP) remains in force and is progressing to the Bank’s satisfaction, and/or the country’s reporting of progress against International Health Regulations (IHR) compliance to the World Health Organization (WHO) is up to date.

2.3 \textbf{Eligible events under Modality I.} The loan will provide coverage under Modality I for earthquakes, torrential rainfall, flooding associated with the El Niño phenomenon, and lahars from the Cotopaxi volcano, according to parameters for intensity and the affected population established contractually between the country and the Bank and defined in the terms and conditions for coverage under Modality I (Annex I of the Operating Regulations). The eligibility of events will be verified on the basis of the agreed parameters. The annex describes the specific factors related to the functioning of the parametric triggers for determining the eligibility of events and the methodology for calculating the maximum amount of available coverage.

2.4 \textbf{Eligible events under Modality II.} The loan will provide coverage under Modality II for volcanic eruptions and tsunamis resulting in the declaration of a state of emergency and future epidemics and pandemics (excluding the current COVID-19 pandemic) resulting in the declaration of a national public health emergency. Annex II of the Operating Regulations describes the specific factors related to the legal framework, scope, and procedure for emergency declarations.

2.5 Disbursements of the financing will be contingent on sufficient resources being available from the ARL or from the resources allocated for the Bank’s regular lending program with Ecuador, as applicable, at the time of a disbursement request. For disbursements under Modality II for natural disasters, the financing cannot come from the ARL. If insufficient resources are available from those sources at the time

\textsuperscript{20} The ARL includes Bank investment loans with the country that are in effect and have available undisbursed balances that could be redirected automatically if an event occurs (document GN-2999-9, paragraph 4.12). The ARL was agreed upon between the borrower and the Bank. If an eligible event occurs, the borrower and the Bank will update the ARL based on the following criteria: (i) the government’s priorities in a potential emergency; and (ii) the status of execution and performance of the loans. If the disbursed resources are drawn in whole or in part from the ARL resources, the Bank will update the tools for managing the loans from which the resources are drawn, to reflect the changes in the selected loans. The Bank’s regular procedures will be followed if material changes are made to these loans, and a reformulation is deemed necessary.
of the request, the Bank may disburse up to the maximum available amount. If no such resources are available, the Bank will not be obligated to make disbursements, as long as resources remain unavailable. When that situation has ended, as determined by the Bank, it will notify the borrower.

2.6 **Disbursement limits per event.** The maximum disbursable amount for each eligible event will be subject to the lesser of the following limits: (i) the available undisbursed balance of the coverage under the corresponding modality; and (ii) the limit for each disbursement method established in the **Operating Regulations.** For Modality I, the limit will also be subject to the maximum amount resulting from application of the parametric coverage terms and conditions to the declared eligible event.

2.7 **CNDRMP.** To be eligible for financing under the CCF, the member countries must have a public policy for comprehensive disaster risk management in place and promote its effective development (document GN-2999-9, paragraph 4.3(a)). Ecuador has a CNDRMP in place that is satisfactory to the Bank, according to the verification performed in December 2022 as part of loan EC-O0006, so it meets this eligibility requirement. The country’s CNDRMP document was updated for this reformulation (EC-O0012), and country progress indicators were agreed upon with the government for the main components of disaster risk management. The CNDRMP agreed upon between the government and the Bank is documented in Annex III of the program **Operating Regulations** and is satisfactory to the Bank.

2.8 To maintain natural disaster coverage, the country has to make progress on the CNDRMP that is satisfactory to the Bank. For monitoring purposes, annual progress indicators have been established for each main strategic area of the CNDRMP. Progress monitoring will be performed annually. The indicators for the next monitoring exercise have been agreed upon and are described in Annex III, Table 1, of the program **Operating Regulations.** Satisfactory execution of the plan will be determined on the basis of significant progress on all agreed indicators. New progress indicators, including gender indicators, will be established in coordination with the government for subsequent annual verification periods.

2.9 **International Health Regulations (IHR).** The CCF establishes that, to receive financing under the public health coverage, countries must be up to date with their reporting of progress against IHR compliance to the WHO. According to the WHO’s self-assessment annual report (SPAR) platform, Ecuador is current on this IHR obligation after reporting its last annual evaluation in 2022. The Bank will monitor the country’s annual IHR compliance progress reporting to the WHO during the coverage period of the reformulated loan.

**B. Environmental and social risks**

2.10 Operations under the CCF are exempt from the Bank’s Environmental and Social Policy Framework (document GN-2965-23). Since the loan proceeds can only be used to finance expenditures in response to an emergency, and the Ministry of Economy and Finance (MEF), as executing agency, must comply with the country’s

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21 Reporting on IHR compliance is updated annually through a self-evaluation known as the **self-assessment annual report (SPAR).** For more information, see **Guidance Document for the State Party Self-Assessment Annual Reporting Tool.**

22 **Results of Ecuador’s 2022 annual IHR compliance assessment.**
environmental and social legislation, no negative environmental or social impacts are foreseen. Furthermore, the loan contract includes a list of ineligible expenditures (negative list).

C. **Fiduciary risks**

2.11 The operation will conform to the requirements and specific fiduciary control procedures established in the CCF policy (document GN-2999-9) and in Annex III, “Fiduciary Agreements and Requirements,” supplemented by the Financial Management Policy for IDB-financed Projects (document OP-273-12).

D. **Other key issues and risks**

2.12 **Institutional environment risk.** There is a medium-high risk that, owing to delay in interagency coordination and communication among the public sector institutions involved in budget execution during natural disaster or public health emergencies—the MEF, SGR, MSP and other institutions required for the emergency response—the resources disbursed for an eligible event may not be executed in a timely manner within the period stipulated in the loan (paragraph 3.9), making the operation less effective. As a mitigation measure: (i) the Bank will provide technical support to the MEF, including training workshops to explain the functioning of the parametric coverages and conduct catastrophe role playing as part of the project supervision and execution process; and (ii) an early coordination and execution mechanism will be established to streamline communication and processes relating to procurement and financial management, as well as justification of the use of resources (paragraphs 3.2 and 3.3). For disbursement, the Bank will monitor the functioning of the mechanism for coordination and execution among the stated institutions.

2.13 **Sustainability.** Ecuador is expected to continue strengthening comprehensive disaster risk management through implementation of the strategy for financial management of disaster risks (paragraph 1.16), in order to support the adoption of efficient risk retention and transfer instruments. The country is also expected to continue its commitment to progress against the IHR. Additionally, the Bank-supported activities to improve the sector’s responsiveness to the COVID-19 health emergency will contribute to program sustainability (paragraph 1.26).

III. **IMPLEMENTATION AND MANAGEMENT PLAN**

A. **Summary of implementation arrangements for the reformulation**

3.1 The borrower will continue to be the Republic of Ecuador. The executing agency will continue to be the borrower, acting through the Ministry of Economy and Finance (MEF). The contingent loan proceeds will be disbursed to the MEF. Under MEF coordination, the contingent loan proceeds will be used by the public sector institutions responsible for budget execution during natural disaster or public health emergencies (implementing agencies). The executing agency will be responsible for: (i) providing overall coordination of the project; (ii) ensuring achievement of the project objectives and compliance with terms and conditions; (iii) processing and submitting disbursement requests to the Bank; (iv) allocating the disbursed funds to the implementing agencies; (v) coordinating the tracking of monitoring and evaluation requirements for execution of the loan proceeds; and (vi) submitting the
justification of use of the disbursed funds to the Bank within the established time (paragraph 3.11).

3.2 **Policy framework for interagency coordination in emergencies caused by natural disasters and public health events.** For natural disaster emergencies, the MEF, acting through the Risk Management Department (SGR) and the national Emergency Operations Committee (COE), will coordinate with the implementing agencies and other institutions responsible for the immediate response, in accordance with the country’s DRM policy framework (paragraph 1.12). If an eligible event occurs, the national COE, assisted by the SGR, will be responsible for assessing immediate emergency and rehabilitation needs and specifying the necessary requirements for financing them. The funds will then be channeled through the MEF to the implementing agencies executing the response. For emergencies caused by epidemics and pandemics, the MEF, acting through the Ministry of Public Health (MSP) and the national COE, will coordinate with other institutions responsible for the immediate public health response, in accordance with the country’s policy framework (paragraphs 1.17 and 1.18). The MSP will be responsible for preparing a response plan and establishing sector guidelines for effective intervention. For operational matters, the MSP and other national health system institutions (paragraph 1.17) will coordinate the immediate public health response actions through the national COE.

3.3 **Coordination and execution mechanism for use of the loan proceeds.** The coordination and execution mechanism led by the MEF will permit funds to flow to the implementing agencies in case of natural disasters or public health events (see program Operating Regulations). The Bank will monitor its implementation by the MEF immediately after making a disbursement of the contingent loan. This mechanism will be coordinated under the country’s existing institutional arrangements for managing emergencies caused by natural disasters and public health events (paragraph 3.2) and will include at least the following processes: (i) response prioritization and planning; (ii) budget management; (iii) execution and monitoring; and (iv) accountability and closing.

3.4 **A special contractual condition for general eligibility to request disbursements will be the approval and entry into effect of the program Operating Regulations on the terms previously agreed upon with the Bank.** The program Operating Regulations will include: (i) the reference framework including the interagency coordination and execution mechanism; (ii) operational provisions; (iii) coverage terms and conditions under each modality; (iv) the Comprehensive Natural Disaster Risk Management Plan (CNDRMP); (v) the Automatic Redirection List (ARL); (vi) the terms of reference for engaging the audit firm for independent verification of the use of resources disbursed when an eligible event occurs; (vii) application forms for advances and reimbursements; (viii) an example of an indicative list of potential eligible expenditures for future pandemics; and (ix) the list of excluded expenditures (negative list).

3.5 **Special contractual conditions precedent to the first disbursement for each eligible event:**

   a. **Disbursements under Modality I (natural disasters):** (i) the Bank has verified the occurrence of an eligible event according to the parameters defined in the Operating Regulations; and (ii) the CNDRMP, previously
agreed upon with the Bank, is making progress to the Bank’s satisfaction (paragraphs 2.7 and 2.8);

b. Disbursements under Modality II (natural disasters): (i) the Bank has verified the declaration of a national emergency caused by a natural disaster due to an eligible event as defined in the Operating Regulations; (ii) the CNDRMP, previously agreed upon with the Bank, is making progress to the Bank’s satisfaction; and (iii) the Bank has verified compliance by the borrower with the agreed complementary risk retention financing measures and conditions (paragraph 3.5); and

c. Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the Operating Regulations; (ii) the borrower has provided evidence of up-to-date reporting of progress against International Health Regulations (IHR) compliance to the World Health Organization (WHO); (iii) the borrower has provided evidence to the Bank’s satisfaction of a preparedness and response plan for the specific event in line with the recommendations of the WHO/Pan American Health Organization (PAHO), to address the event for which it has declared the national public health emergency; and (iv) the Bank has verified compliance by the borrower with the agreed complementary risk retention financing measures and conditions.

3.6 In addition to the above contractual conditions, the borrower must have submitted one or more disbursement requests within 90 calendar days after the occurrence of an eligible event, indicating the amount(s) of such disbursement(s) and, for disbursements under Modality I for natural disasters and Modality II for public health events, whether they will be drawn from the regular lending program, from undisbursed ARL balances, or a combination of these two options. For ARL loans, the request must identify the loans in question and the respective amount to be utilized. Disbursements under Modality II for natural disasters cannot come from the ARL. These contractual conditions are established as standard conditions for the execution of contingent loans in the CCF policy document (document GN-2999-09).

3.7 Each disbursement under this loan will be on the financial terms and conditions established in document GN-2999-9 and included in the Project Summary of this proposal, regardless of whether the funds are drawn in whole or part from the regular lending program, the ARL loans, or a combination of these two options, as applicable.

3.8 Eligible expenditures. The loan proceeds may be used to pay for extraordinary public expenditures incurred during emergencies caused by eligible events that meet the following requirements under document GN-2999-9 (paragraph 4.20(c)): (i) they are not explicitly excluded in the loan contract (negative list); (ii) they are legal under the laws of the Republic of Ecuador; (iii) they are directly or indirectly related to the natural disaster or public health emergency for which the financing has been provided; (iv) they have verifiable documented and clearly registered acquisitions and payments, demonstrating that the goods and services have been used; and (v) they have been adequately dimensioned and priced. For examples of
the type of expenditures that could be eligible, see Annex VI of the program Operating Regulations.

3.9 The Bank will recognize up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower from the day on which the eligible event began and up to 180 calendar days immediately thereafter. At the borrower's request, the Bank, at its discretion, may extend this period for an additional 90 days (document GN-2999-9, paragraph 4.20(f)). In all matters related to procurement and contracting, the operation will be governed by the CCF policy (document GN-2999-9). The borrower will use its national legislation on procurement of goods and contracting of works and services applicable to extraordinary fiscal expenditures in cases of emergency (Annex III).

3.10 Reasonable assurance audits. The Bank will require independent verification of the expenditures financed by the loan, to evaluate compliance with the eligibility criteria established in the loan contract and the program Operating Regulations. This independent verification should be performed concurrently by a reasonable assurance audit firm on the list of auditors approved by the Bank. The MEF will be responsible for contracting the audit firm, which may be done using the relevant Bank policy, and the costs will be eligible for financing from the loan (document GN-2999-9, paragraph 4.20(b)). This process will require the Bank's approval of the terms of reference, the contracting, and the firm's reports.

3.11 Justification of use of proceeds. The borrower, acting through the MEF, will justify the use of the funds disbursed through a consolidated declaration of adequate use of resources, delivered to the Bank within 365 calendar days after onset of the eligible event for which the Bank has disbursed the funds in question. The declaration will be accompanied by the final report of the reasonable assurance audit contracted by the borrower for the concurrent review of expenditures (paragraph 3.10). Once the consolidated declaration of adequate use of resources has been delivered, the Bank will determine the total amount of expenditures eligible for financing. In the event of unjustified or ineligible expenditures, the Bank may require the borrower to repay the unjustified amount.

3.12 If necessary, as established document GN-2999-9, within not more than two years after each disbursement, the Bank, at its entire discretion and without cost for the borrower, may perform additional audits to verify the adequacy of the declared eligible expenditures. The findings of those audits may be used for an eventual request to repay sums determined to be ineligible for financing.

B. Summary of arrangements for monitoring results

3.13 Monitoring. During the coverage period of the reformulated loan, the Bank will periodically monitor the progress of the CNDRMP and gender activities and assess them annually (see monitoring and evaluation plan). If, as a result of these assessments, based on the indicators established for such purpose, including the gender mainstreaming indicators, the Bank finds that the CNDRMP is not progressing satisfactorily, it will notify the borrower of the specific actions that require implementation within a period of 90 days from the day of the issuance of the notice, to maintain eligibility for natural disaster coverage. Once this timeframe passes, if the Bank finds that the recommended remedial actions were not completely and properly taken, it will send a formal notice to the borrower suspending the borrower's
eligibility for natural disaster coverage until the shortcomings in question are remediated. Notwithstanding the above, once such coverage has been activated, it will remain active for the duration of the period established in the contract, unless the Bank formally notifies the borrower that such coverage has been suspended (document GN-2999-9, paragraph 4.25).

3.14 Evaluation. As indicated in the monitoring and evaluation plan, the loan for an eligible event that gives rise to a disbursement will be evaluated through a project completion report (PCR). The evaluation methodologies are a before-and-after approach and an ex post cost-effectiveness analysis. Under the first evaluation, the evaluation will focus on the efficiency of the loan during the entire planned coverage period and on whether the speed with which the country gained access to the loan proceeds was adequate. The second evaluation will focus on comparing the NPV cost of the disbursed funds with the cost of other sources of financing, to estimate the rate of financial savings for the country.

IV. RECOMMENDATION

4.1 Based on the analysis and information contained in this document, the Bank’s Management recommends that, as established in Operations Administration Manual (Substantial and Fundamental Changes to Operations); paragraph 3.29(c) of the Regulations of the Board of Executive Directors of the Inter-American Development Bank (document DR-398-19); and paragraph 6 of the “List of Matters That Can Be Considered by the Board via Short Procedure” (document CS-3953-4), the Bank’s Board of Executive Directors approve the proposed reformulation contained in this document via short procedure by adopting the attached proposed resolution.
### Development Effectiveness Matrix

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#### 1. Corporate and Country Priorities

<table>
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<tr>
<th>Section 1. IDB Group Strategic Priorities and CRF Indicators</th>
</tr>
</thead>
</table>

- Social Inclusion and Equality
- Gender Equality and Diversity
- Climate Change
- Institutional Capacity and the Rule of Law

<table>
<thead>
<tr>
<th>CRF Level 2 Indicators: IDB Group Contributions to Development Results</th>
</tr>
</thead>
</table>

- Beneficiaries of enhanced disaster and climate change resilience (#)
- Countries with strengthened tax and expenditure policy and management (#)

#### 2. Country Development Objectives

<table>
<thead>
<tr>
<th>Country Strategy Results Matrix</th>
<th>GN-3103-1</th>
<th>Reduce inefficiencies in public administration.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Program Results Matrix</td>
<td></td>
<td>The intervention is not included in the 2023 Operational Program.</td>
</tr>
</tbody>
</table>

**Relevance of this project to country development challenges (If not aligned to country strategy or country program)**

#### 3. Development Outcomes - Evaluability

<table>
<thead>
<tr>
<th>3. Evidence-based Assessment &amp; Solution</th>
<th>Evaluable</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Program Diagnosis</td>
<td>3.2</td>
</tr>
<tr>
<td>3.2 Proposed Interventions or Solutions</td>
<td>4.0</td>
</tr>
<tr>
<td>3.3 Results Matrix Quality</td>
<td>10.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Ex ante Economic Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Program has an ERR/NPV, or key outcomes identified for CEA</td>
</tr>
<tr>
<td>4.2 Identified and Quantified Benefits and Costs</td>
</tr>
<tr>
<td>4.3 Reasonable Assumptions</td>
</tr>
<tr>
<td>4.4 Sensitivity Analysis</td>
</tr>
<tr>
<td>4.5 Consistency with results matrix</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Monitoring and Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Monitoring Mechanisms</td>
</tr>
<tr>
<td>5.2 Evaluation Plan</td>
</tr>
</tbody>
</table>

**Overall risks rate = magnitude of risks’ likelihood**

- Medium Low

**Environmental & social risk classification**

- N.A.

#### 6. IDB's Role - Additionality

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Fiduciary</td>
<td>Procurement: Information System.</td>
</tr>
</tbody>
</table>

### Summary

The project is a Contingent Loan for Natural Disaster and Public Health Emergencies in Ecuador. The project consists of the reformulation proposal to loan EC-O0006 mainly with two purposes: (i) replenish the US$90 MM disbursed during the COVID-19 emergency to allow the country to have financial coverage of up to US$300 MM under Modality 1 which covers severe natural disasters that can be parametrized (e.g. earthquakes and floods); and (ii) the reformulation of the loan to now include Modality 2 coverage of up to US$100 MM that covers volcanic eruptions, tsunamis, and future public health risks.

The general objective of the project is to contribute to mitigate the impact that a natural disaster or public health event of severe and catastrophic magnitude can have over the country’s public finances. The specific objective is to improve fiscal management of natural disaster and public health risks by increasing contingent financing that is stable, cost-efficient and rapidly accessible to cover extraordinary public expenses incurred in the care provided to the population impacted by the natural disaster or public health emergency.

The diagnosis is solid and clearly identifies, based on empirical evidence, the main problem and the factors that determine it. The intervention proposal is clearly linked to the problems and factors identified. The results matrix reflects the objective of the program and captures a good vertical logic.

An ex-ante cost-effectiveness analysis is carried out and a monitoring and evaluation (M&E) plan is proposed in accordance with the DEM guidelines and the characteristics of contingent loans for natural disaster emergencies. The proposed evaluation seeks to assess the efficiency of the operation with an ex-post cost-effectiveness analysis in the event of the occurrence of an eligible natural disaster or public health emergency. Additionally, the M&E plan proposes a reflexive evaluation.
**RESULTS MATRIX**

**Objective of the reformulated project:**
The specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to assist the public affected by natural disaster and public health emergencies. The general development objective is to contribute to cushioning the impact that a severe or catastrophic natural disaster or public health event could have on the country’s public finances.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Baseline value</th>
<th>Baseline year</th>
<th>Expected year achieved</th>
<th>Target</th>
<th>Means of verification</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General development objective:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>To cushion the impact that a severe or catastrophic natural disaster or public health event could have on Ecuador's public finances.</td>
</tr>
<tr>
<td><strong>Indicator 1:</strong> Ex ante financial coverage in relation to the probable maximum expenditure during emergencies caused by natural disasters of catastrophic magnitude covered by the project.</td>
<td>%</td>
<td>10.5&lt;sup&gt;1&lt;/sup&gt;</td>
<td>2023</td>
<td>5</td>
<td>18.3&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Ministry of Economy and Finance (MEF)</td>
<td>See optional link 8.</td>
</tr>
<tr>
<td><strong>Indicator 2:</strong> Ex ante financial coverage in relation to the probable maximum expenditure during national public health emergencies covered by the project.</td>
<td>%</td>
<td>0&lt;sup&gt;3&lt;/sup&gt;</td>
<td>2023</td>
<td>5</td>
<td>9.5&lt;sup&gt;2&lt;/sup&gt;</td>
<td>MEF</td>
<td>See optional link 8.</td>
</tr>
</tbody>
</table>

---

<sup>1</sup> Ecuador currently has US$210 million in ex ante financial coverage for natural disaster emergencies (results indicator 1). The amount of probable maximum expenditure during natural disaster emergencies is based on a catastrophic event with a recurrence interval of 1 in 50 years (see optional link 8).

<sup>2</sup> This value assumes that a severe event will not occur during the coverage period of the contingent loan but is adjusted for inflation.

<sup>3</sup> Ecuador currently does not have ex ante financial coverage for emergencies caused by public health events. The estimated probable maximum expenditure in a national public health emergency includes the extraordinary public expenditures to respond to the COVID-19 pandemic (PCR of operation 5136/OC-EC) (see optional link 8).
### Specific Development Objectives

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Baseline value</th>
<th>Baseline year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>End of project</th>
<th>Means of verification</th>
<th>Comments</th>
</tr>
</thead>
</table>

**Specific development objective:** To improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to assist the public affected by natural disaster and public health emergencies.

**Indicator 1. Availability and stability:** Increase in ex ante financial coverage available for the country to address extraordinary expenditures during emergencies caused by natural disaster or public health events.

- **Amount of ex ante financial coverage available for the country to address natural disaster or public health emergencies**
  - US$ million
  - Baseline value: 210\(^4\)
  - Baseline year: 2023
  - Year 1: 400
  - Year 2: 400
  - Year 3: 400
  - Year 4: 400
  - Year 5: 400
  - End of project: 400
  - Means of verification: MEF
  - Comments: See optional link 8.

**Indicators 2 and 3. Vulnerable people with greater resilience to natural disasters, epidemics, and pandemics as beneficiaries of the ex ante financial coverage provided by the contingent loan.**

- **Beneficiaries of the ex ante financial coverage available for natural disaster emergencies**
  - Thousand people
  - Baseline value: 140.0\(^5\)
  - Baseline year: 2023
  - Year 1: 266.7
  - Year 2: 262.6
  - Year 3: 258.6
  - Year 4: 254.7
  - Year 5: 250.8
  - End of project: 250.8
  - Means of verification: MEF
  - Comments: See optional link 8.

- **Beneficiaries of the ex ante financial coverage available for public health emergencies**
  - Thousand people
  - Baseline value: 0\(^6\)
  - Baseline year: 2023
  - Year 1: 217.5
  - Year 2: 214.2
  - Year 3: 211.0
  - Year 4: 207.7
  - Year 5: 204.6
  - End of project: 204.6
  - Means of verification: MEF
  - Comments: The maximum number of beneficiaries of the country’s ex ante financial coverage for public health emergencies. See optional link 8.

**Indicators 4 and 5. Financial cost: Contingent financial coverage is cost-efficient.**

- **Differential between the financial cost of Ecuador’s long term external sovereign debt and the IDB loan.**
  - Basis points
  - Baseline value: 2.016\(^7\)
  - Baseline year: 2023
  - Cost diff.: 2023
  - Cost diff.: 2023
  - Cost diff.: 2023
  - Cost diff.: 2023
  - Cost diff.: 2023
  - Greater than or equal to: 200
  - Means of verification: IDB Finance Department (FIN), Refinitiv Eikon, MEF
  - Comments: See optional link 8.

---

4. Ecuador has US$210 million in ex ante financial coverage under contingent loan EC-O0006.
5. These estimates assume average coverage per person of US$1,500, equivalent to about three months of the country’s per capita income, and ex ante financial coverage of US$210 million as the baseline value and US$400 million in subsequent years as natural disaster coverage is added.
6. This estimate assumes average coverage per person of US$460, equivalent to the cost of per patient hospitalized for dengue (2023 prices), US$0 as the baseline value, and US$100 million in subsequent years as coverage for public health risks is added.
7. See Project economic analysis (optional link 1 and optional link 8).
### Indicator

**Financial savings ratio when an eligible event occurs:** the cost of the IDB resources disbursed in relation to the cost of issuing sovereign debt, expressed in NPV.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Baseline value</th>
<th>Baseline year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>End of project</th>
<th>Means of verification</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>68.9&lt;sup&gt;8&lt;/sup&gt;</td>
<td>2023</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>FIN, Refinitiv Eikon MEF</td>
<td>Measures the rate of financial savings from using the IDB loan for emergencies. Calculated using a cost-effectiveness analysis methodology. See optional link 8.</td>
</tr>
</tbody>
</table>

**Indicator 6. Speed of access.** Contingent financial coverage is efficient in terms of the speed with which the country can access the loan proceeds to cover potential emergency expenditures.

**Speed of access to resources when an eligible event occurs:** number of days between the request for verification of eligibility and the availability of resources.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Baseline value</th>
<th>Baseline year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>End of project</th>
<th>Means of verification</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Days</td>
<td>90&lt;sup&gt;9&lt;/sup&gt;</td>
<td>2023</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>FIN, MEF</td>
<td>Number of days between the request for verification of eligibility of the event and notification to the country that resources are available. See optional link 8.</td>
</tr>
</tbody>
</table>

### Outputs

1. **Sole component:** Bank contingent financing for extraordinary public expenditures during emergencies caused by natural disasters or public health events.

   **Subcomponent 1.1: Coverage under Modality I.**
   - US$ million
   - Baseline value: 210
   - Baseline year: 2023
   - Year 1: 300
   - Year 2: 300
   - Year 3: 300
   - Year 4: 300
   - Year 5: 300
   - End of project: 300
   - Means of verification: MEF

   **Subcomponent 1.2: Coverage under Modality II.**
   - US$ million
   - Baseline value: 0
   - Baseline year: 2023
   - Year 1: 100
   - Year 2: 100
   - Year 3: 100
   - Year 4: 100
   - Year 5: 100
   - End of project: 100
   - Means of verification: MEF

2. **Action plan for introducing and raising awareness of the guide for addressing gender-based violence in emergency and disaster contexts.**

   **Indicator:** Number
   - Baseline value: 0
   - Baseline year: 2023
   - Year 1: 0
   - Year 2: 1
   - Year 3: 0
   - Year 4: 0
   - Year 5: 0
   - End of project: 1
   - Means of verification: Pro-gender indicator
   - Risk Management Department (SGR). See optional link 8.

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<sup>8</sup> A cost-effectiveness methodology was used that compares the NPV of the cost of IDB financing with the cost of issuing bonds. See [optional link 1].

<sup>9</sup> The value is the average time required to authorize and process a sovereign bond issue on the international market for a country that performs this type of transaction intermittently.

<sup>10</sup> This output will be financed from regional technical-cooperation operation ATN/OC-18888-RG, Promoting Institutional Capacity-Building for Gender Mainstreaming in Natural Disaster Risk Management Under the CCF.
FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Economy and Finance (MEF)
Operation name: Contingent Loan for Natural Disaster and Public Health Emergencies. Third Proposal for Reformulation of Loan EC-X1008; EC-X1014; EC-O0006

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation

<table>
<thead>
<tr>
<th>Budget</th>
<th>Reports</th>
<th>Information systems</th>
<th>National competitive bidding (NCB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury</td>
<td>Internal audit</td>
<td>Shopping</td>
<td>Other</td>
</tr>
<tr>
<td>Accounting</td>
<td>External control</td>
<td>Individual consultants</td>
<td></td>
</tr>
</tbody>
</table>

2. Fiduciary execution mechanism

The executing agency of the reformulated program is the borrower, acting through the Ministry of Economy and Finance (MEF), which will designate a management group consisting of a focal point/coordinator, a financial specialist, and a monitoring specialist.

The operation will consist of an investment loan of up to US$400 million under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-4), consisting of: (i) coverage for natural disasters under Modality I (parametric) (up to US$300 million); and (ii) coverage for natural disasters and public health events under Modality II (nonparametric) (up to US$100 million).

Given the specific features of operations of this kind, when an event occurs and, depending on the type of event, the borrower will designate the public institutions responsible for the emergency response and for corresponding procurements using the funds from this operation (implementing agencies). The executing agency, acting through the assigned team, will be responsible for coordinating the prioritization and allocation of the loan proceeds to the implementing agencies in accordance with the country’s response plan for each event.

The procurement and financial management policies will implement the operational aspects of the CCF policy (document GN-2999-9).

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1 Any system or subsystem approved subsequently may be applicable to the operation, according to the terms of the Bank’s validation.
3. Fiduciary capacity

| Fiduciary capacity of the executing agency | The MEF has the necessary and sufficient capacity to guarantee effective and transparent execution of the resources of this operation. The MEF is also executing operations 4364/OC-EC, 4670/OC-EC, 4812/OC-EC, and 4845/OC-EC with satisfactory results. |

4. Policies and guidelines applicable to the operation

- The Act Establishing the National Public Procurement System (LOSNCP) and the General Regulations Implementing the LOSNCP (RG-LOSNCP).
- Executive degrees issued by the supreme national authority and/or authority responsible for declaring a state of emergency due to national disasters and/or public health events.
- Executive decrees, resolutions, recommendations, instructions, and orders by the supreme national authority and/or responsible authority that are additional or supplemental to the LOSNCP and RG-LOSNCP, on rules and procedures applicable to the procurement of goods, services, and works due to emergencies caused by natural disasters and/or public health events.

5. Exceptions to policies and guidelines: In operations of this kind, the government institutions responsible for the emergency response conduct procurements under national laws and regulations, in accordance with document GN-2999-9.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

<table>
<thead>
<tr>
<th>Special contractual conditions precedent to the first disbursement:</th>
<th>Designation of a special bank account at the country’s central bank.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exchange rate:</strong></td>
<td>For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(ii). For such purposes, the agreed exchange rate will be the rate in effect on the date the borrower, the executing agency, or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.</td>
</tr>
<tr>
<td><strong>Type of audit:</strong></td>
<td>A reasonable assurance audit will be performed. Within 365 calendar days after the declaration of an eligible event, the borrower, acting through the executing agency, will deliver a final reasonable assurance report issued by an external audit firm contracted for such purpose.</td>
</tr>
<tr>
<td><strong>Other:</strong></td>
<td>Contracting of the Bank-eligible audit firm no later than 45 days after the first disbursement. The audit firm will be contracted by the MEF.</td>
</tr>
</tbody>
</table>
III. PROCUREMENT EXECUTION AGREEMENTS AND REQUIREMENTS

| ♦ Use of country systems | In Ecuador, emergency procurements are based on the provisions of Section II and Articles 57.1 and 57.2 of the LOSNCP of 4 August 2008, as amended on 17 February 2021, and conducted according to the provisions of RG-LOSNCP Section V, Articles 236 to 248. |
| ♦ Records and files | The borrower and the implementing agencies will be responsible for maintaining fiduciary records of the project (procurement and financial management documents), independently, according to their mandated areas, in the form of digital and physical files. They will have procedures and handbooks in place for their proper maintenance, to guarantee that all expenditures are properly substantiated and available for review when so requested by the Bank or the auditors, for a period of two years after the date of each disbursement. |

Main procurements

Since this is a continent loan, the contracts to be signed will be established after the event triggering the need for the funds to address its consequences has occurred. It is therefore impossible to identify what the procurements will involve at the time this operation is approved.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

| ♦ Programming and budget | The MEF and the implementing agencies are responsible for arranging for the expansion of their budgets through the established procedures for budgetary amendments. The borrower will allocate the necessary budgetary and accounting line items for the specific emergency expenditures using the e-SIGEF integrated financial management system. |
| ♦ Treasury and disbursement management | For disbursements under Modality I for natural disasters and Modality II for public health risks, when an eligible event occurs, the country will choose whether the amounts to be disbursed will be drawn from resources of the regular lending program, other investment loans already approved and identified in the Automatic Redirection List (ARL), or a combination of the two options. For disbursements under Modality II for natural disasters, the resources can only come from the regular lending program. The executing agency may submit disbursement requests within the timeframe established for this operation, in the following modalities:
  
  (i) **Advances of funds** to finance future eligible expenditures up to 35% of total approved coverage.
  
  (ii) **Reimbursement of eligible expenditures** incurred by the borrower with its own funds, up to 100% of total approved coverage.
  
  (iii) **Direct payments** made by the Bank to third parties on the borrower’s behalf and at its request for amounts agreed upon between the borrower and the Bank, which will follow the Bank’s AML/CFT policies. |
**Designated account.** To administer the advances of resources, before an advance is requested, the Bank and the borrower will agree on the designation of a subaccount in the country’s Treasury Single Account, or an equivalent account, to administer and identify the use of funds.

**Justification of advances of funds.** For the borrower to request a new advance, it will provide justification to the Bank for at least 60% of the total accumulated balance pending justification. This percentage is justified under document OP-273-12, given the importance of such flexibility for more nimble execution of resources disbursed in emergencies.

**Eligibility of expenditures.** Expenditures will be eligible, if incurred during the period in accordance with the eligibility criteria established in the amendatory contract for the reformulated loan.

**Projection of prioritized expenditures.** Prior to each request for an advance, the borrower will provide the Bank with a projection of financial needs and eligible expenditures prioritized according to the amount of the requested advance and based on the cash flow model, which will be promptly remitted by the Bank. The Bank will perform a preliminary review of the information provided in accordance with the criteria for applicability in relation to the list of prioritized expenditures, and for proportionality in relation to the allocation of the requested funds. If necessary, the Bank will propose modifications to the borrower.

**Declaration of expenditures financed with own resources.** In the disbursement request, the borrower will include a letter containing a declaration signed by the executing agency, expressly stating that the expenditures to be reimbursed by the Bank were financed exclusively with funds from the country’s treasury.

| ♦ Accounting, information systems, and reports | Information system. The country’s official accounting and control system, e-SIGEF, will be used. |
| ♦ Documentation and recording of expenditures. To be declared eligible, payments must have been made, recorded, and documented in accordance with applicable national laws. |
| ♦ Records. Proper recording must guarantee that the payments for which financing is being requested have not been, nor will they be, submitted by the borrower for financing from other Bank operations and/or other multilateral financial institutions. |
| ♦ Reports. Before requesting reimbursement, the MEF will submit a statement of eligible expenditures according to the requested amount and based on the reporting model, which will be remitted by the Bank. The items included in the statement of expenditures must be sufficiently detailed for the Bank to differentiate the expenditures incurred and for an independent firm to audit them. Each item listed in the statement of expenditures must, at a minimum, contain the information breakdown agreed upon with the Bank. |

| ♦ External control and financial reporting | Final report. The audit firm will produce a final reasonable assurance report, as an absolute requirement for the borrower to submit its final accountability reporting on the use of funds, within 365 calendar days after an eligible event. The audit firm will express a conclusion with a reasonable level of certainty as to whether the expenditures submitted by the borrower conform to the policies, procedures, specifications, and records and are sufficiently supported to be declared eligible, as stipulated in the amendatory contract for the reformulated loan and the applicable policies. |
The Bank may request partial audits on the progress of execution of expenditures, to accompany the partial accountability reports.

Additionally, the Bank, at its entire discretion, may verify through independent external audits, without cost for the Borrower, the adequacy of the declared eligible expenditures. Such audits must be carried out no later than two years after the end of the related CCF contingent loan disbursement period.

If, as a result of any of these audits of the loan, the Bank detects ineligible expenditures, it may require the borrower to immediately remedy the situation or reimburse the amounts in dispute.

| ♦ Financial supervision of the operation | Financial supervision will take the form of in-person visits or virtual working meetings, and reviews of the assurance reports or other reports or activities, as determined by the Bank. |
Ecuador. Contingent Loan for Natural Disaster and Public Health Emergencies to the Republic of Ecuador (EC-O0012) (Modification Proposal to Contingent Loan for Natural Disaster Emergencies (EC-X1008; EC-X1014; EC-O0006) and Amendment to Resolution DE-5/12, amended by Resolution DE-243/14)

The Board of Executive Directors

RESOLVES:

1. To approve the modification to Contingent Loan for Natural Disaster Emergencies (the “Contingent Loan”), approved by Resolution DE-5/12 and amended by Resolution DE-243/14, with the purpose of including the coverage of risks of non-parametric natural disasters and public health emergencies, in accordance with the terms and conditions established in document PR-____.

2. To authorize the replenishment of resources of the Contingent Loan up to the amount of US$90,000,000, from the resources of the Bank’s Ordinary Capital, subject to the availability of resources from the Bank’s regular loan program with the Republic of Ecuador or from the Automatic Redirection List, as the case may be, and subject to the terms and conditions established in the Contingent Loan.

3. To amend resolution DE-5/12, amended by Resolution DE-243/14, as follows:

“That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as borrower, to grant it a contingent loan for natural disaster and public health emergencies. Such contingent loan will be for the amount of up to US$400,000,000 from the resources of the Bank’s Ordinary Capital, and will be subject to the availability of resources from the Bank’s regular loan program with the Republic of Ecuador or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Modification Proposal contained in document PR-____.”

(Adopted on ___ ____________ 2023)