

## Technical Cooperation Document

### I. Basic Information for TC

▪ Country/Region:	ECUADOR
▪ TC Name:	Support to implement biodiversity conservation activities in the context of a debt for nature conversion
▪ TC Number:	EC-T1497
▪ Team Leader/Members:	Watson, Gregory (CSD/CCS) Team Leader; Esmeral Berrio, Roberto Mario (CSD/CCS) Alternate Team Leader; Anabella Palacios (CSD/CCS); Bucaram Villacis, Santiago Junior (CSD/RND); Gisela Ferrari (CSD/CCS); Gomez, Juan Carlos (CSD/CCS); Juan Francisco Martinez Cotrino (CSD/CCS); Murguia Baysse, Juan Manuel (CSD/RND); Natalia Almeida (LEG/SGO); Patricia Gutierrez Mesones (CSD/CCS); Prats Cabrera, Joan Oriol (IFD/CMF); Sara Carias (CSD/CCS); Villacorta Alvarez, Omar (IFD/CMF)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	EC-U0005
▪ Date of TC Abstract authorization:	28 Jul 2022
▪ Beneficiary:	Ecuador, Ministry of Environment and Ecological Transition
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	NDC Pipeline Accelerator Multidonor Trust Fund(ACL); OC SDP Window 2 - Sustainability(W2A)
▪ IDB Funding Requested:	NDC Pipeline Accelerator Multidonor Trust Fund (ACL): US\$300,000.00 OC SDP Window 2 - Sustainability (W2A): US\$300,000.00 Total: US\$600,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	January 2023
▪ Types of consultants:	Firms and Individual Consultants
▪ Prepared by Unit:	CSD/CCS-Climate Change
▪ Unit of Disbursement Responsibility:	CSD/CCS-Climate Change
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Gender equality; Institutional capacity and rule of law

### II. Description of the Associated Guarantee

- 2.1 The natural capital of Ecuador is vast including 91 types of terrestrial and 21 marine and coastal ecosystems. Ecuador is one of the 17 most biodiverse countries in the world, and one with the largest number of species per square kilometer. The Galápagos Marine Reserve consists of 138 thousand square kilometers made up of 13 main islands, and a marine protected area that includes 40 miles. More than 2,900 species have been reported in the Marine Reserve, of which 25% are endemic. It is home to 24 species of marine mammals, of which two are endemic. This natural capital not only has an invaluable intrinsic value but is also an input for important economic sectors in Ecuador, such as tourism and fishing. Despite its value, the conservation of Ecuador's marine biodiversity is threatened by unsustainable extraction, production, and consumption practices of marine-coastal species.

- 2.2 The ocean is also a carbon sink, absorbing up to a quarter of all CO<sub>2</sub> emissions. Climate change, for its part, also has a direct impact on marine biodiversity and, together with the unsustainable use of resources, constitutes one of its main threats. Climate change is related to increases in ocean temperature and acidity levels that affect the delicate balance that allows marine life. Extreme weather events, such as erosion and flooding, also deplete natural environments.
- 2.3 Recognizing the importance of ecosystems to national environmental, cultural, and economic patrimony, Ecuador has been proactive in seeking their conservation. Ecuador has integrated the protection of ecosystems in its Nationally Determined Contribution (NDC), which states that “Ecosystems such as the insular region with the Galápagos Islands are highly fragile and consequently highly vulnerable to the expected impacts of climate change, in the short, medium and long term”. The NDC also seeks “[the] existence of climate change adaptation projects financed with fiscal resources, international cooperation funds, multilateral banks, bilateral cooperation resources and mixed financing (national and international funds), through innovative mechanisms to reduce the vulnerability of livelihoods, the population and ecosystems”.
- 2.4 Ecuador has also recognized the importance of conservation in its National Biodiversity Strategy and Action Plan. As part of meeting its commitments to conservation and climate, the Government seeks to protect a new marine area adjacent to the Galápagos Marine Park, in the area known as “Hermandad”. To create this new Marine Protected Area requires both efforts from environmental authorities in delineating the area and implementing a management plan, and from financial authorities to fund the monitoring and conservation of the area, and any associated transition for communities impacted by new regulations on fishing or other activities.
- 2.5 Thus, the government is developing a debt for nature conversion supported by an IDB Policy-Based Guarantee (PBG EC-U0005), wherein savings from swapping existing sovereign debt for newly issued bonds will be used to fund a conservation trust fund to support the implementation of a management plan for a new marine protected area. The general objective of IDB PBG EC-U0005 is to strengthen environmental sustainability in Ecuador by guaranteeing a debt for nature transaction. The specific development objectives are: (i) to strengthen the institutional framework to support sustainable finance and the proper management of natural capital; and (ii) improve the organization and the functioning of public financing for environmental and financial sustainability. The Program comprises the following components:
- a) Macroeconomic stability.** It seeks to ensure a stable macroeconomic framework conducive to the fulfillment of the objectives of the second program established in the Guarantee’s Policy Matrix and the Policy Charter.
  - b) Environmental governance.** This component seeks to ensure sustainable use of the resources of the savings from the *debt for nature* operation. There is a specific focus on funding climate and biodiversity commitments under the remit of the Ministry of Environment, Water, and Ecological Transition.
  - c) Improvement of financial regulation for sustainable development.** This component seeks an adequate financial management in the country in the future,

putting emphasis on a medium-sized debt management strategy that considers climatic components, and adequate institutional functioning of debt management.

- 2.6 This Guarantee was approved by the IDB Board of Directors in October 2022. This PBG will benefit marine ecosystems in the Galapagos, citizen livelihoods, and climate change resilience.

### III. Objectives and Justification of the TC

- 3.1 This TC will support the Government of Ecuador in achieving the milestones under (PBG EC-U0005). A key aspect of this PBG is that it depends on the attainment of milestones in marine protection in coming years. The objectives of this TC are to (i) support the creation and effective management of a new marine protected area in the Galapagos Islands; and (ii) support the capacity building required for the Debt for Nature Conversion in Ecuador to go to market and successfully implement its conservation activities.
- 3.2 This TC will support the necessary technical studies and capacity building required to ensure robust implementation of activities related to achieving the conservation commitments of the PBG. It will ensure that the implementation of the management plan for the new reserve is solid, based on strong science and economic data, and responsive to the needs of local populations. The TC will also support activities to ensure that the trust fund created to channel resources from the debt operation is strong and transparent, and coordinated with other funding initiatives in the Galápagos. These activities will help facilitate achievement of the conservation commitments that back the debt conversion. Finally, the TC will help build capacity in the government for future debt conversions through training and by updating the management plans of protected areas in the Amazon.
- 3.3 This work will be complemented by the technical cooperation operations led by the IDB, such as (i) ATN/OC-18247-RG Natural Capital Lab: Mainstreaming Biodiversity and Financial Innovation; (ii) ATN/OC-18428-CH Support to Chile's Efforts to Promote Innovation in the Biodiversity Agenda; (iii) ATN/AC-19398-BA and ATN/OC-19397-BA Enhancing Sustainability Assets in the context of a PBG; and (iv) ATN/OC-19091-AR Innovative Financial Instruments for Biodiversity Conservation and Climate Action, all of which include specific support to the creation of conservation trust funds, and the development of innovative financial products for conservation.
- 3.4 **Strategic Alignment.** The present operation is consistent with the Second Update to the Institutional Strategy (AB-3190-2) and is aligned with the development challenges of: (i) productivity and innovation, as it intends to foster low carbon and resilient investments, while enhancing sustainable oriented debt management; and (ii) institutional capacity and the rule of law, as it enables Ecuador to develop monitoring systems and internal work processes to ensure good management of conservation resources. It will also help develop a private trust fund to deploy conservation funds in a transparent and accountable manner. This contributes to the Institutional Strategy goals of (i) convening actors for open government, improving transparency while leveraging technology; (ii) further integrating transparency and integrity into operations; and (iii) improving private-public sector complementarity.
- 3.5 The operation is also aligned with the cross-cutting theme of climate change and environmental sustainability, since it provides Ecuador with means to expand the ambition of its NDC and will ensure the protection of additional hectares of ocean space under sustainable management

by increasing the size of the Galápagos reserve, and by developing financing mechanisms to support conservation and restoration of natural capital. This TC is also aligned with the IDB's Integrated Strategy for Climate Change Adaptation and Mitigation and Sustainable and Renewable Energy (GN-2609-1) and its Action Plan (GN-2609-3).

- 3.6 The TC is aligned with the Ecuador Country Strategy 2022-2025, in that it supports indicators 1.1 to strengthen regulatory frameworks that facilitate private investment and 1.2 to improve access to finance by creating financing mechanisms to leverage private capital for conservation. Additionally, the operation responds to the objectives of OC SDP Window 2 - Sustainability (W2A) (GN-2819-4) as it contributes to expand the knowledge base on climate change, particularly through institutional capacities strengthening. The operation will contribute towards the goal of the Ninth General Capital Increase of the IDB (GCI-9), that establishes that 30% of its lending should include climate considerations, under the Bahamas Declaration, as it enables different mechanisms for climate change mainstreaming.
- 3.7 Additionally, the TC is aligned with the NDC Pipeline Accelerator Multi-Donor Trust Fund (ACL) (GN-2890), specifically with the Eligibility Criteria reflected as following: a) supports the preparation of EC-U0005; b) is directly linked to Ecuador's NDC making reference to the importance of Galápagos in National Heritage, as well as frequent reference to the importance of protected area management as a key component to reaching climate change mitigation and adaptation goals; c) leverages private funding through supporting issuing sustainability bonds and creating a private conservation trust fund capitalized with up to \$300 million; and d) supports adaptation to climate change. Specifically, regarding (b), the country commits to conservation of protected areas, management of carbon stocks and establishment of water recollection systems. In the ecosystem sector, the NDC states "actions implemented will focus on maintaining these areas and implementing further analyses regarding the need to increase them based on ecosystem dynamics and the potential distribution of species based on climate change scenarios". With regards to (d), this TC will make a tangible and measurable contribution to climate change objectives, by promoting efforts to address climate vulnerabilities by incorporating adaptation or resilience measures, through the conservation commitments of Marine Protected Areas (MPAs). Finally, the operation is aligned with the W2A Eligibility Criteria (GN-2878-14) as it fosters adaptation to climate impacts, supports healthy and functioning ecosystems, and promotes the sustainable use and development of land, coastal and ocean areas.

#### **IV. Description of activities/components and budget**

- 4.1 The Galápagos is a special area under Ecuadorian law, with a special legal regime, a complex interplay of national and local jurisdictions, and a multitude of national and international conservation actors. At the same time, given that there will be new conservation commitments and fishery regulations associated with the PBG, there can be conflict between these new fishing restrictions, economic interests, and conservation plans. While communities have been engaged in the planning process for the new marine protected area, continued attention to the economic and social impact of this MPA is important. In particular, it is important to consider the impacts on women, as household managers.
- 4.2 To assist the government with this work, this TC will support specific economic valuation studies on the impact of the conservation activities on fishing and on women, to inform programs to support transition. Similarly, this TC will support the creation of a permanent round

table of government and local actors and international donors in the Galápagos in order to build areas for dialogue, planning and consensus.

- 4.3 Component 1. Analytical Support for Conservation Commitments and the Implementation of Management Plans (\$435,000)** This component will strengthen implementation of the MPA management plan, and fund analytical work to support the achievement of the conservation commitments of the policy matrix of the Guarantee. Activities include: valuation of the natural capital of the Galápagos, mapping of funds in the Galápagos and the creation of a coordination mechanism between funds and government, analysis of the funding needs of the management plan, cost/benefit analysis of fishery reforms, including a specific study on the impact on women, with a focus on mainstreaming gender throughout the activities of the program.
- 4.4 Component 2. Strengthening of the Ministry of Environment, Water, and Ecological Transition (\$165,000)** This component includes activities related to strengthening the capacity of the government to engage in this and future debt for nature conversions. Specific activities include supporting workshops to disseminate the transaction structure at climate and biodiversity COP and help update management plans for additional protected areas in the Amazon to prepare for future debt for nature conversions.
- 4.5** The total amount of this operation is US\$600,000 which will be financed with resources from the NDC Pipeline Accelerator Multi-donor Trust Fund (ACL) (US\$300,000) and the OC-SDP Window 2 – Sustainability (W2A) (US\$300,000).

**Indicative Budget (US\$)**

Activity/Component	NDC Pipeline Accelerator Multi-donor Trust Fund	OC SDP Window 2 Sustainability (W2A)	Total Funding
<b>Component 1.</b> Analytical Support for Conservation Commitments and the Implementation of Management Plans	150,000	285,000	435,000
<b>Component 2.</b> Strengthening of the Ministry of Environment, Water, and Ecological Transition	150,000	15,000	165,000
Total	300,000	300,000	600,000

## **V. Executing agency and execution structure**

- 5.1** The IDB will act as the executing agency due to its ability to leverage its extensive network of internal and external subject-matter experts and well-established relationships with stakeholders involved. The IDB Country Office in Ecuador will be responsible for the supervision and implementation of the resources, in close collaboration and coordination with CAN, the divisions, and specialists involved in the PBG. The Unit of Disbursement Responsibility will be IDB's Country Office in Ecuador.
- 5.2** As requested by the Government of Ecuador<sup>1</sup>, this TC will be executed by the IDB, through the Climate Change Specialist of the IDB Country Office in Ecuador<sup>2</sup>, which will be responsible for the operation's supervision, disbursements, and procurement. Such structure will allow the

<sup>1</sup>[EZSHARE-368244450-2](#)

<sup>2</sup> This position has been created and a staff person has been selected. Until such time that this person is in country, the CCS Principal Specialist in HQ will supervise the operation.

Government of Ecuador to benefit from the IDB's technical support and supervision and will allow for a timely execution. In addition, the Climate Change Division will coordinate with other IDB departments. In accordance with the Annex II of the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), impartiality is also one of the reasons for which the Government of Ecuador has requested that the Bank executes this TC, as key sensitive environmental studies will be developed under this TC, using sensitive data that will benefit from IDB data management policies.

- 5.3 The Bank will follow its procurement policies and guidelines related to contracting processes: (i) individual consultants will be hired according to the guidelines established in policy AM-650; (ii) consulting firms of an intellectual nature will be hired according to the "Policy for the selection and contracting of consulting firms for operational work carried out by the Bank" (GN-2765-4) and its Operational Guides (OP-1155-4); and (iii) other non-consulting services in accordance with the "IDB Institutional Procurement Policy" (GN-2303-28).

## **VI. Major issues**

- 6.1 Studies of economic valuation of natural capital and expected impacts of regulatory changes on fisheries and local economic impacts may require access to sensitive data. If this data is not available, it can impact study quality. Efforts will be made to use methodologies that use publicly available data, where possible. In addition, this TC will require collaboration between the Ministry of Finance and Ministry of Environment and Ecological Transition. Working groups between these ministries have been set up in the context of the guarantee operation that should reduce the risk of delays associated with inter-governmental coordination. Finally, there is a risk in that there is no existing agreement among donors and funds to re-start the donor roundtable. Nonetheless, these actors have supported this concept during the workshops convened to develop the management plan and trust fund structure.

## **VII. Exceptions to Bank policy**

- 7.1 No exceptions to Bank policies are envisioned for this TC.

## **VIII. Environmental and Social Strategy**

- 8.1 This TC will not finance feasibility or pre-feasibility studies of investment projects with associated environmental and social studies; therefore, it is excluded from the scope of the Bank's Environmental and Social Policy Framework (ESPF).

### **Required Annexes:**

[Request from the Client - EC-T1497](#)

[Results Matrix - EC-T1497](#)

[Terms of Reference - EC-T1497](#)

[Procurement Plan - EC-T1497](#)

- [Procurement Plan](#)
- [Gender and Diversity Checklist](#)