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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

EMERGENCY PROGRAM FOR MACROECONOMIC SUSTAINABILITY AND SOCIAL PROTECTION

(EC-L1274)

LOAN PROPOSAL

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Required

1. Policy Letter dated 16 September 2021 and supplement (official letter MEF-DM-2021-0019-0) dated 12 October 2021
2. Means of verification matrix
3. Loan agreement approved on 30 September 2021 by the IMF (Letter of Intent and Memorandum of Understanding)
4. IMF country report 21/228, including the Article IV consultation, second and third reviews under the extended arrangement under the Extended Fund Facility, request for a waiver of nonobservance of performance criterion, and financing assurances review—press release, staff report, and statement by the Executive Director for Ecuador

Optional

1. Press release: IMF and the Ecuadorian authorities reach staff-level agreement on the second and third reviews of Ecuador's economic program under the Extended Fund Facility, 8 September 2021

ABBREVIATIONS

BCE	Banco Central de Ecuador [Central Bank of Ecuador]
BDH	Bono de desarrollo humano [human development voucher]
BPFE	Bono de protección familiar por emergencia [emergency family protection voucher]
bps	Basis points (hundredths of a percentage point)
CAF	Development Bank of Latin America
CETES	Certificados de tesorería [treasury certificates]
CFDD	Cuenta de Financiamiento de Derivados Deficitarios [Hydrocarbon Deficit Financing Account]
COIP	Código Orgánico Integral Penal [Comprehensive Criminal Code]
COMyF	Código Orgánico Monetario y Financiero [Monetary and Financial Code]
COPLAFIP	Código Orgánico de Planificación y Finanzas Públicas [Public Finance and Planning Code]
COVID-19	Coronavirus disease caused by the SARS-CoV-2 virus, first detected in 2019
CUT	Cuenta Única del Tesoro [Treasury Single Account]
EFF	Extended Fund Facility
ENEMDU	Encuesta Nacional de Empleo, Desempleo y Subempleo, Pobreza y Desigualdad [National Survey of Employment, Unemployment and Underemployment, Poverty, and Inequality]
FLAR	Fondo Latinoamericano de Reservas [Latin American Reserve Fund]
IESS	Instituto Ecuatoriano de Seguridad Social [Ecuadorian Social Security Institute]
IMF	International Monetary Fund
LCGE	Ley de la Contraloría General del Estado [Act Establishing the Office of the Comptroller General]
LED	Ley de Extinción de Dominio [Asset Forfeiture Act]
LIBOR	London Interbank Offered Rate
LOOFP	Ley Orgánica para el Ordenamiento de las Finanzas Públicas [Public Finance Act]
LFP	Ley para el Fomento Productivo, Atracción de Inversiones, Generación de Empleo y Estabilidad y Equilibrio Fiscal [Productive Development, Investment Attraction, Job Creation, and Fiscal Stability and Equilibrium Act]
LSCP	Ley del Sistema de Contratación Pública [Public Contracting System Act]
MEF	Ministry of the Economy and Finance
NFPS	Nonfinancial public sector
OC	Ordinary Capital
pp	Percentage points
QPC	Quantitative Performance Criteria
SDL	Special Development Lending
SOFR	Secured Overnight Financing Rate

PROJECT SUMMARY

ECUADOR
EMERGENCY PROGRAM FOR MACROECONOMIC SUSTAINABILITY AND SOCIAL PROTECTION
(EC-L1274)

Financial Terms and Conditions				
Borrower			**Special Development Lending**[(a)]	
Republic of Ecuador			**Amortization period:**	7 years
Executing agency			**Disbursement period:**	1 year
Ministry of the Economy and Finance (MEF)			**Grace period:**	3 years
Source	**Amount (US$)**	**%**	**Interest rate:**	U.S. dollar LIBOR-based rate[(b)] + spread for OC funds + fixed spread of 1.15%
IDB Ordinary Capital (OC):	500 million	100%	**Front-end fee:**	1%
			Commitment fee:	0.75%
			Weighted average life:	5 years
Total:	500 million	100%	**Currency of approval:**	U.S. dollar

Project at a Glance
Program objective/description: The general objective of the program is to stimulate economic recovery while preserving macroeconomic stability. The specific objectives are to: (i) ensure fiscal sustainability while safeguarding social safety nets; and (ii) strengthen money market stability. The program is aligned with the objectives of the IMF Extended Fund Facility (EFF) approved on 30 September 2020, and the Policy Matrix is synchronized with the third review of the EFF, completed in August 2021 with an April 2021 cutoff date. The Special Development Lending (SDL) budget support will help meet short-term funding needs and support economic recovery, while providing resources to ensure social protection. The program is structured under the SDL category as a single operation to be disbursed in a sole tranche.
Special contractual conditions precedent to the sole disbursement: The sole disbursement of the loan proceeds will be subject to fulfillment of the policy conditions contained in the Policy Matrix (Annex II) and the Policy Letter and its supplement (official letter MEF-DM-2021-0019-0), and to fulfillment of the conditions contained in the loan contract (paragraph 4.2).
Exceptions to Bank policies: None

Strategic Alignment			
Challenges:[(c)]	SI ☒	PI ☐	EI ☐
Crosscutting themes:[(d)]	GE ☐ and DI ☐	CC ☐ and ES ☐	IC ☒

(a) Under the Special Development Lending category (document AB-3134) and its Operational Guidelines (document GN-2031-17), this operation will be documented under the Flexible Financing Facility (FFF) with limited debt management options. The borrower has the option of requesting currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests. The applicable amortization schedule for this loan will consist of equal, semiannual installments that begin to accrue at the end of the grace period.

(b) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank, pursuant to the provisions of the loan contract.

(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(d) 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. Background, problem addressed, and rationale

1.1 Even before the pandemic, the Ecuadorian economy was in a profound macroeconomic crisis. Ecuador had been experiencing difficulties since the middle of the past decade as a result of the end of the commodity supercycle. There was a question mark over fiscal sustainability due to very high public spending that inadequate tax revenue could not defray, resulting in sustained growth of the debt-to-GDP ratio (Table 1). To ensure fiscal sustainability, in March 2019 an arrangement had been reached with the International Monetary Fund (IMF) under the Extended Fund Facility (EFF)[1] for US$4.2 billion over the following three years.[2] This was supported by other multilaterals, raising the amount of pledged aid to US$6.5 billion. The Bank contributed with the Emergency Program for Macroeconomic Sustainability and Prosperity (loan 4771/OC-EC), structured as US$500 million in Special Development Lending (SDL), approved by the Bank's Board of Executive Directors on 24 April 2019 and fully disbursed as of 1 June 2019. With the support of the funds disbursed, the government improved the public finances during 2019, achieving a consolidation of 1.3 percentage points (pp) of GDP, strengthened the regulatory framework for the public finances, including the fiscal rules, strengthened the institutional framework of the Central Bank of Ecuador (BCE), prohibiting monetary financing of the deficit, expanded the social safety net, increasing transfer payments, and launched major reforms in transparency and good governance, including an anticorruption bill.

Table 1. Principal macroeconomic indicators 2018-2021 (first quarter (Q1))

Variables	2018	2019	2020	2020-Q1	2021-Q1
Real GDP growth (%)	1.3	0.1	-9.5	-1.1	2.8
GDP per capita (US$)	6.319	6.261	5.643	5.643	5.778
Real nonoil GDP growth (%)	2.1	1.0	-7.6	-0.6	-
Inflation at end of period (%)	0.3	-0.1	-0.9	0.2	-0.8
Total unemployment (%)	3.7	3.8	5.0	-	5.5
NFPS revenue (% of GDP)	35.4	33.2	29.7	9.3	8.2
Public expenditure (% of GDP)	38.5	36.0	35.7	8.7	7.6
Primary balance (% of GDP)	-0.7	-0.1	-3.2	1.3	1.0
Fiscal balance (% of GDP)	-3.1	-2.8	-6.0	0.5	0.6
Consolidated public debt (% of GDP)	46.0	53.0	63.9	58.6	61.5
Trade balance (% of GDP)	-0.4	0.8	3.3	0.6	0.7
Current account balance (% of GDP)	-1.2	-0.1	-0.6	0.2	1.6
Credit to the private sector (% of GDP)	37.2	41.2	46.2	45.3	45.3

Source: World Economic Outlook, 2020

1 In Spanish, "Servicio Ampliado del Fondo" (SAF).

2 IMF (2019): Ecuador, Request for an Extended Arrangement Under the Extended Fund Facility. Country Report 2020/286. This operation was cancelled in 2020, when the crisis caused by the pandemic led to new IMF support operations. See paragraph 1.4.

1.2 **The COVID-19 emergency triggered a fresh crisis.**[3] In early 2020, the government projected that the fiscal consolidation achieved in 2019 would be sustained, when the primary deficit reached 0.1% of GDP. The projected financing requirements for the year were already considerable (5.2% of GDP), and the government needed to implement reforms to achieve a fiscal adjustment of three points of GDP. With near zero growth (0.2%) projected in 2020, on 12 March the government declared the first 60-day mandatory quarantine to slow the spread of the pandemic. Similar measures adopted in other countries caused global GDP to fall 3.3% in 2020. Moreover, the price of oil, Ecuador's chief export, slumped to historic lows in April 2020, while the U.S. dollar continued appreciating throughout the first half of the year.[4]

1.3 **Ecuador's GDP fell to historic lows.** The rising dollar made Ecuador's exports less competitive. At the same time, slowing domestic economic activity and falling oil prices impacted fiscal revenues, making it difficult to meet debt maturities in 2020. The already elevated country risk, which stood at 800 basis points (bps) in January, rose to 6,063 bps in March. Decreasing tax and export revenues and increasing calls for expenditure to meet the needs of vulnerable populations and affected economic sectors caused financing requirements to soar, reaching 14.8% of GDP in 2020. Ecuador's total public debt rose to 63.9% of GDP in 2020, and real GDP suffered a historic slump of -9.5% that same year.

1.4 **Support from multilateral institutions.** The need to finance extraordinary expenditures caused by COVID-19, compounded by plummeting oil prices and global demand, caused serious balance of payments difficulties, leading Ecuador to arrange new operations with the IMF. In May, it accessed a Rapid Financing Instrument (RFI) of US$643 million, to meet the country's balance of payments needs and support its healthcare systems and social safety nets.[5] The EFF program agreed upon in March 2019 was canceled to make room for that transaction. Subsequently, on 30 September 2020, the IMF Executive Board approved a 27-month support operation under the EFF[6] for a total of US$6.5 billion, of which US$2 billion was disbursed in October 2020 and US$2 billion in December 2020.[7] Other multilaterals also provided additional

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[3] For the purposes of the Special Development Lending Category Operational Guidelines (document GN-2031-17), an event is determined when a Lending Arrangement is approved by the IMF Executive Board.

[4] Until April 2020, the dollar continued to appreciate on the trend it had followed since June 2018 (representing appreciation of 7.4%).

[5] IMF (2020a): Ecuador: Request for Purchase Under the Rapid Financing Instrument and Cancellation of Arrangement Under the Extended Fund Facility. Country Report 2020/178.

[6] IMF (2020b): Ecuador: Request for an Extended Arrangement Under the Extended Fund Facility. Country Report 2020/286.

[7] IMF (2020c): Ecuador: First Review Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria. Country Report 2020/325.

financial support of approximately US$3 billion, US$757.6 million of which was financed by the IDB.[8]

1.5 **The pandemic drove up unemployment and poverty rates.** Unemployment rose from 3.8% in 2019 to 5% of the economically active population in 2020 (61% women), and 180,000 people left the labor force (62% women). Also in 2020, the number of adequately employed fell 20.1% and the number of underemployed fell 27%. In June 2021, 32.2% of the population was below the poverty line, and 14.7% was in extreme poverty.[9]

1.6 **The government successfully renegotiated its debt with private creditors and made progress on its commitment to reduce fuel subsidies.** Amid the pandemic, Ecuador renegotiated its US$17.5 billion debt with creditors in international markets. The agreement brought Ecuador effective relief on the terms of US$10 billion in debt between 2020 and 2024, and US$6 billion between 2025 and 2030. Bondholders accepted a haircut of 9% of the face value of their securities, saving more than US$1.5 billion, and an interest rate cut from 9.25% to an average of 5.25%. Ecuador also approved the replacement of the gasoline and diesel price subsidy system by a gradual price adjustment system anchored to variations in the international oil price, saving the country an estimated US$500 million in 2020.

1.7 **Ecuador reformed the fiscal discipline framework with passage of the Public Finance Act (LOOFP).** Enacted in July 2020, the LOOFP strengthened the regulatory framework for Ecuador's public finances. It set new rules for the formulation, reformulation, and execution of the government budget and for active administration of the public debt, and defined fiscal rules for a debt ceiling in line with a sustainable trajectory, under which the debt-to-GDP ratio is not to exceed 57%, 45%, and 40% of GDP in 2025, 2030, and 2032, respectively. This programming of debt ceilings in the LOOFP revised the previous fiscal rule of 40% of GDP, established in the Public Finance and Planning Code (COPLAFIP), which the country has failed to observe since 2017. The LOOFP also recovered the macroeconomic stabilization fund, which will accumulate extrabudgetary oil resources. In conjunction with the Productive Development, Investment Attraction, Job Creation, and Fiscal Stability and Equilibrium Act (LFP), passed with IDB support in 2018, the LOOFP promotes fiscal discipline in central government and autonomous decentralized governments, state-owned enterprises, and the Ecuadorian Social Security Institute (IESS), while pursuing unified management of

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8 Sustainable Management of Underground Resources and Associated Infrastructure (loan 4989/OC-EC) for US$78.4 million; Support for the Transition of the Energy Matrix in Ecuador II (loan 5044/OC-EC) for US$280 million; Corporación Favorita C.A. (loan 4974/CQ-EC) for US$5.5 million; Financing of Sustainable Electric Transportation in Ecuador (loan 5183/OC-EC) for US$33 million; Global Credit Program for Safeguarding the Productive Fabric and Employment (loan 5024/OC-EC) for US$93.8 million; Support for Health Service Delivery and the Social Safety Net in the Context of the Coronavirus/COVID-19 Pandemic (loan 5031/OC-EC) for US$250 million; Bankaio, a Mobile Solution for Digital and Financial inclusion, (loan 5190/MS-EC) for US$0.6 million; and CCF Contingent Loan COVID-19 Coverage (loan 5136/OC-EC) for US$16.3 million.

9 National Survey of Employment, Unemployment and Underemployment, Poverty, and Inequality (ENEMDU), July 2021.

the public treasury, and was taken as the frame of reference for setting the 2025 debt objectives in the financing program with the IMF.

1.8 **Laws have been passed to increase transparency in the civil service and public office.** These include the anticorruption legislation passed with the reform to the Comprehensive Criminal Code (COIP) in December 2020. This was one of the structural benchmarks in the agreement with the IMF signed on 30 September (IMF, 2020b). The law seeks to improve the effectiveness and efficiency of detection and indictment of crimes against the country's public assets. Among other things, it amends the Public Contracting System Act (LSCP) and the Act Establishing the Office of the Comptroller General (LCGE), defining new crimes and lowering transaction costs for bringing others to court. The Asset Forfeiture Act (LED) was passed in January 2021 with the same objectives, enabling the government to recover assets associated with crimes of corruption, while at the same time progress was made on judicial proceedings against persons accused of such crimes. Overall, these laws will strengthen accountability for the use of public funds.

1.9 **Legislation to strengthen dollarization was passed.** Following extensive debate, on 22 April 2021, the National Assembly passed a law reforming the Monetary and Financial Code (COMyF). The main objective of this law is to ensure the Central Bank of Ecuador's independence and prevent the use of international reserves to finance government spending, a practice which has shrunk the country's reserves by approximately US$7 billion since 2015. Disbursements from the EFF in effect with the IMF were also conditional upon passage of this law (IMF, 2022c).

1.10 **Ecuador started 2021 with financing requirements and an overall deficit.** The IMF projections (September 2021) of the country's 2021 financing needs are US$7.285 billion.[10] To bridge this gap, the government has US$2.44 billion from the IMF (divided into US$1.5 billion for disbursements from the current EFF and US$940 million from the issue of special drawing rights (SDRs) by the IMF on 23 August 2021. Of the remaining balance, the IDB is expected to contribute US$1.045 billion in the form of loans,[11] and US$473.16 million as guarantees.[12] In addition, the Development Bank of Latin America (CAF) is expected to contribute US$475 million, and the World Bank, US$923 million. The government also

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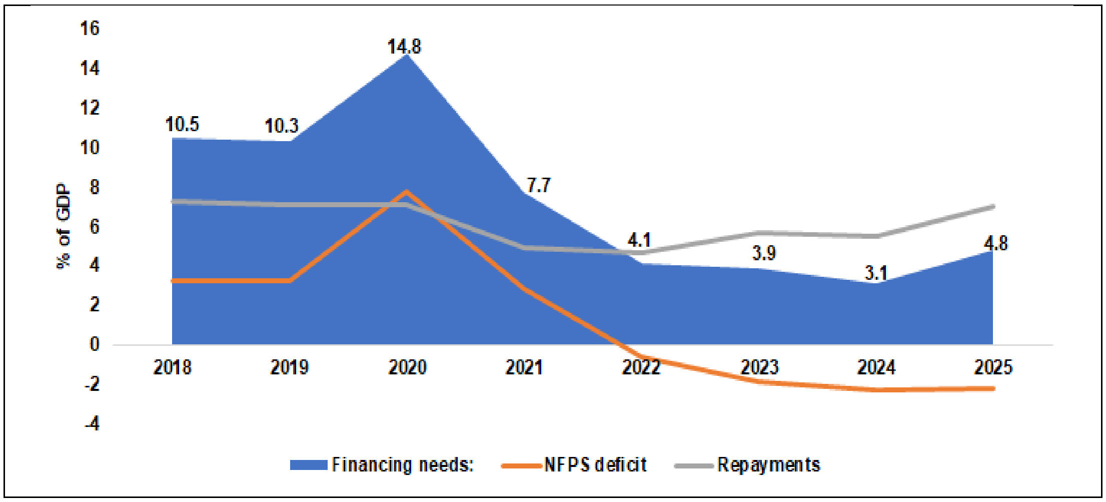
10 IMF 2021c, p. 45. Financing requirements will, however, be considerably lower because the projections for oil revenues were estimated with oil at US$37 per barrel and output of close to 400,000 barrels per day. This is an underestimate because the price of West Texas Intermediate rose in the first few months of the year to stabilize at over US$70 per barrel in June-July, while output exceeded 530,000 barrels a day.

11 In addition to this SDL, the operations are: Program for the Improvement of Tax and Customs Administration; Program for the Deployment of Digital Connectivity Infrastructure, both in preparation pending prioritization by the government; Program for Equity in Access to Justice and Rehabilitation (loan 5214/OC-EC) for US$45 million; Support for the Protection of Social Spending and Job Recovery (loan 5230/OC-EC) for US$200 million; and Support for Vulnerable Populations Affected by Coronavirus (loan 5312/OCC-EC) for US$300 million.

12 Program for Development and Economic Recovery in Ecuador (in preparation) for US$400 million; Support for Financing the Purchase of COVID-19 Vaccines (loan 5235/OC-EC) for US$63,161,940; and Produbanco Sustainable Bond (loan 5334/CA-EC) for US$10 million.

expects to draw on bilateral borrowing of US$300 million with China and to use US$300 million in funds from the Latin American Reserve Fund (FLAR). Additionally, on 11 June, the private Ecuadorian financial system covered an issue of US$803 million in treasury certificates (CETES) at an interest rate of around 2.25%. Multilateral loans are an important source of budgetary financing with a breakdown of contributions as shown in Table 2.

Figure 1. Nonfinancial public sector (NFPS) financing requirements (% of GDP)



Source: IMF 2020c.

Table 2. Multilateral sources of finance 2021 (budgetary support)

Source	Amount (US$ million)	Status
International Monetary Fund – EFF	1,500	Approved
IMF – SDR allocation[13]	940	Approved
Development Bank of Latin America (CAF)[14]	250	Approved
World Bank[15]	500	In preparation
IDB Special Development Lending (SDL)	500	In preparation
IDB Program for Development and Economic Recovery in Ecuador	400	In preparation
Latin American Reserve Fund (FLAR)	300	In preparation
Total	4,390	4.2% of GDP

Source: Staff calculations.

13 2021 General SDR Allocation.

14 Banco de Desarrollo de América Latina CAF aprueba US$250 millones para apoyar la reactivación económica de Ecuador.

15 Ecuador Third Inclusive and Sustainable Growth DPL.

1.11 **An overall deficit of 2.8% of GDP is forecast for 2021.** To reduce the fiscal deficit from 6% of GDP in 2020 to 2.8% in 2021, the IMF estimates that fiscal revenue will need to rise 1.3 pp this year. On the expenditure side, reductions of up to 3.7 pp of GDP are forecast, with the exception of social spending, which is forecast to increase by 0.3 pp. The sustainability of the fiscal accounts will depend on structural reforms: to the social security system, to reduce the treasury's contributions to the IESS, and to the tax system. The latter, agreed upon as a structural benchmark in the agreement with the IMF, aims to boost the tax take by 2.5 pp starting in 2022. These reforms would make it possible to achieve the objective of reducing the nonfinancial public sector (NFPS) deficit by 5.3 pp between 2019 and 2025, which, according to the IMF, would guarantee the sustainability of the public finances in line with the rules of the Public Finance and Planning Code (COPLAFIP).

1.12 **Another challenge is to bring about a recovery in net international reserves.** The IMF projects that net international reserves (reserves less IMF loans) fell 170% in 2020, from -US$2.903 billion to -US$7.848 billion. The net reserves deficit is expected to narrow to -US$1.178 billion in 2025. Meeting this objective will depend on the strength and stability of economic growth, the rate of return on external liabilities, and trade balance dynamics. Export sector performance will be key to meeting this objective, so, given the government's limited fiscal leeway, the success of policies put forward to make Ecuadorian export sector more productive and competitive will be pivotal. Vaccination targets also need to be met, insofar as the pace of domestic economic recovery will depend on how fast the Ecuadorian population gets vaccinated.

1.13 **The government has significantly expanded the coverage of the social safety net.** In response to the COVID-19 outbreak in Ecuador, Executive Decree 1022 of 27 March 2020 created the emergency family protection voucher (BPFE). The decree sought to provide economic support to beneficiary families, so they can meet their basic needs, and to alleviate the impacts of the declaration of the health emergency and nationwide state of public calamity due to the number of confirmed cases of COVID-19. The voucher made two US$60 payments in 2020. On 24 April 2020, its coverage was extended with a second phase comprising a single US$120 payment, reaching 950,002 beneficiaries. To meet the commitments made to the IMF, the authorities are continuing to expand the network of coverage, with Bank support,[16] to reach 80% of families in the three lowest income deciles through the human development voucher (BDH). The authorities are also making an effort to clean up the social assistance roster by excluding beneficiaries whose income is above the thresholds.

B. Program in effect with the IMF

1.14 The IMF program is an arrangement under the Extended Fund Facility, approved by the IMF Executive Board on 30 September 2020 for a total amount of US$6.5 billion with a duration of 27 months, until December 2022 (IMF, 2020b). Its

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[16] Support for Vulnerable Populations Affected by Coronavirus (loan 5312/OC-EC), approved by the Board of Executive Directors in 2021 for US$300 million.

objectives are to: (i) mitigate the crisis by protecting lives and livelihoods, and restore macroeconomic stability; and (ii) ensure the sustainability of public finances and strengthen domestic institutions to lay the foundations for strong, job-rich, and lasting growth that benefits all Ecuadorians.

1.15 The program is structured around fulfillment of quantitative performance criteria (QPCs), indicative targets, and structural benchmarks.[17] The criteria established at the start of the program are adjusted, when appropriate, by the IMF Executive Board during its reviews. In the first review, in December 2020, four quantitative performance indicators were set: (i) a maximum overall balance of the budgetary central government, including petroleum products (Hydrocarbon Deficit Financing Account (CFDD))[18] of -US$241 million in April 2021;[19] (ii) a floor of -US$47 million for the accumulation of NFPS deposits[20] at the central bank;[21] (iii) nonaccumulation of external payments arrears (zero accumulation); and (iv) no new lending to government from the central bank.

1.16 **Program development in 2021.** Three reviews were scheduled for 2021: 15 April (with an associated disbursement of US$400 million), 15 August (US$400 million) and 15 December (US$700 million). The April review was suspended as the structural benchmark of approving a reform to the Monetary and Financial Code (COMyF), also referred to as the law on the independence of the central bank,[22] had not been met on time. For this reason the second review took place jointly with the third in August 2021. This SDL is aligned with the quantitative performance criteria and indicative targets approved in the third review with a cutoff date of end-April 2021.

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17 If a country misses a QPC condition, the IMF Executive Board may approve a waiver if it is satisfied that the program will still succeed. This may be because the deviation was minor or temporary or because national authorities are taking corrective actions. Missed structural benchmarks and indicative targets do not require waivers but are assessed in the context of overall program performance (IMF Conditionality Factsheet).

18 The CFDD includes public resources from oil revenues less imports of petroleum products, the exchange of crude oil for products with state oil companies in other countries, local purchases of hydrocarbons and products or commodities produced in the country (fuels). The balances on this account are settled after the fiscal year-end, during the first quarter of the following year.

19 Defined as total central government and CFDD revenues less total expenditures. Revenues are recognized on a cash basis, and expenditures on an accrual basis (IMF 2020c, page 82).

20 Defined as central government, including the CFDD, autonomous decentralized governments, Social Security funds, nonfinancial state-owned enterprises, the Banco de Desarrollo del Ecuador, and accounts relating to payments to private operators for oil concessions. Does not include the Central Bank of Ecuador (BCE).

21 At the time of the combined second and third reviews, a figure of -US$55 million was recorded for this criterion. Given this slight deviation, the Ecuadorian government obtained a waiver from the IMF Executive Board on 29 September 2021, such that this criterion was considered to have been met. The Policy Letter and Policy Matrix therefore take the adjusted value.

22 Finally approved on 22 April 2021. See paragraph 1.9 above.

II. PROGRAM ELIGIBILITY CRITERIA

2.1 In view of the macroeconomic crisis Ecuador is facing, reflected in its limited access to external finance and unstable fiscal position, the country has requested emergency support from the Bank. In coordination with the IMF, and anchored in the EFF arrangement with Ecuador approved on 30 September 2020, the Bank's support will be delivered through this Special Development Lending (SDL) operation, to be disbursed in a sole tranche. The operation offers Ecuador budgetary support to restore macroeconomic stability, maintain its social programs, and finance new efforts to mitigate the effects of the crisis on the most vulnerable population segments.

2.2 The SDL category, established in the Proposal to Create a Special Development Lending Category (document AB-3134), approved by the Board of Governors on 30 June 2017 pursuant to Resolution AG-9/17, and the Special Development Lending Category Operational Guidelines (document GN-2031-17), is a budget support lending instrument for dealing with macroeconomic crises[23] and preserving economic and social progress in the countries of the region. The Republic of Ecuador meets the eligibility criteria for this loan (document AB-3134), inasmuch as it: (i) has been struck by a macroeconomic crisis (paragraph 1.1); and (ii) has an IMF-approved lending facility in place, in the form of the EFF approved on 30 September 2020 (paragraph 1.14). The operation amount (US$500 million) falls within the limit of 2% of the country's GDP or a maximum of US$500 million.[24]

2.3 The Policy Matrix for this program includes: (i) the four conditions set by the EFF as quantitative performance criteria for disbursement of the third tranche, which were met in April 2021 (see conditions I.a.i, I.a.ii, II.a.i, and II.a.ii of the Policy Matrix, Annex II); (ii) the four conditions set as indicative targets and met by the Government of Ecuador in April 2021 (see conditions I.b.i, I.b.ii, I.b.iii, and II.b.i of the Policy Matrix, Annex II); and (iii) the four measures that, as structural benchmarks, have been among the EFF conditions since the date of the last IMF review, i.e., Between January and August 2021 (see conditions I.c.i, I.c.ii., I.c.iii., and II.c.i. of the Policy Matrix, Annex II).[25] All SDL program policy conditions have

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[23] Defined as "a situation in which a country lacks or potentially lacks sufficient financing on affordable terms to meet its net international payments, such as paying imports or external debt redemptions, while maintaining prudent reserve buffers" (Section II, paragraph 2.1 of document GN-2031-17).

[24] Whichever amount is less. This is the limit of fresh funds per country (see paragraph 4.6 of document AB-3134).

[25] The first review of the program contained two additional structural benchmarks. The first was to "share with IMF staff an updated arrears' clearance strategy with the updated information on the stock of arrears as of end 2020 based on quarterly flows for central government and selected relevant entities of the NFPS in line with IMF technical assistance recommendations." This benchmark was not met, and the Ecuadorian government and the IMF agreed that it would be made a new structural benchmark for end-November 2021. Consequently, this condition is not part of the Policy Matrix for the disbursement of the third tranche of the EFF program approved by the IMF. The second structural benchmark was to "Undertake an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publish the results on a government website." The Ecuadorian government and the IMF agreed that this would be a prior action for disbursement of the fourth tranche of the EFF. Consequently, this condition is not part of the Policy Matrix for the disbursement of the third tranche of the EFF program approved by the IMF.

been met, are aligned with the EFF, and entail no additional transaction costs for the Government of Ecuador, since all means of verification for this program have been agreed upon and validated by the authorities and the Bank.

2.4 The Policy Matrix takes into account the following: (i) the Policy Letter sent by the Government of Ecuador to the Bank on 16 September 2021, and its supplement (official letter MEF-DM-2021-0019-0) dated 12 October 2021; (ii) the condition of adopting the four measures that, as quantitative indicators, allow the disbursement of the third tranche of the EFF; (iii) the indicative targets established in the IMF's EFF program for the third review; and (iv) the policy measures established as structural benchmarks by the IMF's EFF program, fulfilled by the Government of Ecuador between January and August 2021.

2.5 **The Bank's operational and technical work in the country.** Since 2019, when the previous crisis led to the first SDL operation with Ecuador,[26] the Bank has implemented an extensive program of technical and financial support in several areas, for a total amount of over US$1.2 billion in 2019, which includes investment loans to strengthen the public finances with the modernization of the Ministry of the Economy and Finance (MEF), the institutional strengthening of the apex agency for fiscal, tax, and state-owned enterprise policy and management,[27] and an investment loan to strengthen the tax and customs authority (in preparation), to stimulate the economy's competitiveness and ability to attract foreign investment;[28] financing for the modernization of several classes of infrastructure[29] (sanitation and water, electricity grid, and digital connectivity); an investment loan to increase the use of fixed and mobile broadband (now in preparation), and the energy matrix transition. Also very important, even before the pandemic, was the social sector, with support for the construction of housing for the vulnerable population,[30] immigrant populations,[31] justice and rehabilitation,[32] and sustainable agriculture.[33] The COVID-19 outbreak in early 2020 redirected the Bank's support towards safeguarding the productive fabric and employment,[34] support to cope with the health and social emergency,[35] and Support for Vulnerable Populations Affected by Coronavirus (loan 5312/OC-EC). In new approvals, 2020 represented nearly

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26 Loan 4771/OC-EC approved in 2019 for US$500 million.

27 Loan 4825/OC-EC approved in 2019 for US$300 million; loan 4812/OC-EC approved in 2019 for US$43 million; and loan 4845/OC-EC approved in 2019 for US$75 million.

28 Loan 4928/OC-EC, approved in 2019 for US$42 million; and loan 4754/OC-EC, approved in 2019 for US$12 million.

29 Loan 4759/OC-EC, approved in 2019 for US$87.1 million; loan 4989/OC-EC approved in 2020 for US$78.4 million; loan 4921/OC-EC, approved in 2019 for US$27.5 million; loan 5183/OC-EC, approved in 2020 for US$33 million; loan 4833/CH-EC approved in 2019 for US$8 million; and loan 5044/OC-EC, approved in 2020 for US$280 million.

30 Loan 4788/OC-EC, approved in 2019 for US$93.9 million.

31 Loan 4923/OC-EC, approved in 2019 for US$50 million.

32 Loan 5214/OC-EC, approved in 2021 for US$45 million.

33 Loan SP/OC-19-32-EC and loan SP/OC-19-33-EC, both approved in 2019 for US$1 million each.

34 Loan 5024/OC-EC, approved in 2020 for US$93.8 million.

35 Loan 5031/OC-EC, approved in 2020 for US$250 million; and loan 5230/OC-EC approved in 2021 for US$200 million.

US$750 million, which in 2021 will rise to over US$1.1 billion, including this operation.

2.6 **The Bank's experience in the region and lessons learned.** Since the approval of the SDL instrument in June 2017 by the Board of Governors, the Bank has processed nine operations for a total of US$2.1062 billion with an average of US$234 million per operation. The first instrument was approved in 2018 for Barbados (loan 4656/OC-BA), followed by Ecuador in 2019.[36] The COVID-19 crisis gave rise to five operations in 2020: El Salvador (loan 5036/OC-ES) (although this operation was subsequently canceled), Panama (loan 5055/OC-PN), Costa Rica (loan 5264/OC-CR) (pending parliamentary ratification), Dominican Republic (loan 5066/OC-DR), and Honduras (loan 5069/BL-HO). All the operations were approved within the framework of programs approved by the IMF, in accordance with the criteria set by the Bank for this instrument.

2.7 The lessons learned have been incorporated into the design of this present operation: (i) the SDL instrument is an effective vehicle for channeling budgetary support resources rapidly in crisis situations; (ii) its value-added is twofold: on the one hand it provides financial support, on the other it leverages the IMF program and adds a layer of technical support to help the government complete the measures agreed upon with the IMF; and (iii) it has the advantage of not adding further conditions on top of those agreed upon with the IMF.

2.8 **The Bank's additionality.** Through the fiscal sustainability and monetary stability objectives, the program will better enable Ecuador to make more efficient, equitable, and sustainable use of its resources, particularly financial resources. Through the objective of ensuring social protection and opening up fiscal space for the purchase of vaccines, the Bank's involvement will benefit Ecuador's social and health performance. The Bank has provided technical and financial support to the Government of Ecuador during the preparation phase of the SDL and the negotiations with the IMF on the continuity of the EFF, specifically with transactional funds from the operation. Similarly, with rapid response funds, a consulting firm will provide support and macroeconomic advisory services to the Office of the President of the Republic, to ensure compliance with the fiscal sustainability and monetary stability objectives.

2.9 **Coordination with other multilaterals.** Preparation of the operation was coordinated with the IMF and forms part of the government's projected borrowing with the IDB. It is considered an input to the IMF financial programming, which also includes financial transactions with the World Bank and the Development Bank of Latin America (CAF), which also coordinated on preparation of the operation (paragraph 1.10). Multilateral borrowing is helping the Republic of Ecuador meet its financing requirements in 2021 (estimated at US$7.285 billion).[37]

2.10 **Complementarity with other Bank operations.** The Bank is supporting the Republic of Ecuador with an active portfolio on fiscal topics that includes

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[36] Loan 4771/OC-EC, approved in 2019 for US$500 million.

[37] See paragraph 1.10 above for the details of the contribution by the IMF, IDB, and other lenders to meeting the budget deficit.

four investment programs, namely: the Program to Enhance Fiscal Capacity for Public Investment;[38] the State-owned Enterprise Reform Support Program (loan 4845/OC-EC); the Internal Revenue Service Improvement Program;[39] and the Financial Management Modernization Program (loan 4812/OC-EC). These operations have to do with Ecuador's fiscal sustainability, so this operation builds upon a clearly defined line of work between the Bank and the Government of Ecuador in recent years. The Bank has also provided significant technical and financial support in 2020 and 2021 to the fiscal policy reforms for sustainability through the Program to Support Improved Fiscal Management and Productive Development (loan 4825/OC-EC). This operation also strengthens the policies approved in that framework. In social protection, this operation complements the program of Support for Vulnerable Populations Affected by Coronavirus (loan 5312/OC-EC).

2.11 **Strategic alignment.** This program is consistent with the second Update to the Institutional Strategy 2020-2023 (document AB-3190-2), and strategically aligned with the objective of social inclusion and equality, by reducing the percentage of the population living in poverty and increasing coverage of subsidies to low-income families, as well as the crosscutting theme of institutional capacity and rule of law through the implementation of government capacity-building reforms, and, in particular, the measures included in the Policy Matrix to strengthen the transparency and integrity of public management (paragraphs 1.7, 1.8, and 1.9), by stepping up efforts to support the management of public finances via the planned review of public spending, the assessment of fiscal transparency, and evaluation of the management of public investment. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator, "countries with strengthened tax and expenditure policy and management." It is aligned with the fiscal management area of the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2), and consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), by promoting actions to strengthen medium-term fiscal sustainability. The program is aligned with the IDB Group Country Strategy with Ecuador 2018-2021 (document GN-2924) through the priority area of strengthening public finances, and the operation's expected outcomes are directly responsive to the strategic objectives of: (i) mitigating the risk associated with oil price volatility; and (ii) generating efficiencies and raising the quality of public expenditure. This operation is included in the Update to Annex III of the 2021 Operational Program Report (document GN-3034-2).

A. Objectives, components, and cost

2.12 **Program objective and description.** The general objective of the program is to stimulate economic recovery while preserving macroeconomic stability. The specific objectives are to: (i) ensure fiscal sustainability while safeguarding social safety nets; and (ii) strengthen money market stability. The program is aligned with the objectives of the IMF Extended Fund Facility (EFF) approved on 30 September

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[38] Loan 4670/OC-EC, approved in 2018 for US$50 million.

[39] Loan 3325/OC-EC, approved in 2014 for US$30 million.

2020, and the Policy Matrix is synchronized with the third review of the EFF, completed in August 2021 with an April 2021 cutoff date. The Special Development Lending (SDL) budget support will help meet short-term funding needs and support economic recovery, while providing resources to ensure social protection. The program is structured under the SDL category as a single operation to be disbursed in a sole tranche.

2.13 In accordance with the program's specific objectives, this SDL will finance two components:

2.14 **Component 1. Fiscal sustainability and social protection.** The objective of this component is to ensure fiscal sustainability and social protection. The conditions are:

I.a (i) The overall balance of the budgetary central government and the Hydrocarbon Deficit Financing Account (CFDD) has not fallen below -US$241 million (floor) as of end-April 2021; and (ii) nonaccumulation of external payments arrears (zero accumulation).

I.b (i) The nonoil balance of the NFPS (including fuel subsidies) has not fallen below -US$572 million (floor) as of end-April 2021; (ii) the overall balance of the NFPS (floor) has not fallen below -US$273 million as of end-April 2021; and (iii) the coverage of subsidies for low-income families has expanded from 62,240 families to 384,600 families by end-April 2021.

I.c (i) A medium-term debt management strategy has been prepared with IMF technical assistance and published, which: (a) assesses the cost and risk trade-offs of the different sources of public funding; and (b) establishes a policy agenda; (ii) the historical NFPS data have been corrected and published, including both above-the-line (overall budget outturn) and below-the-line (financing requirements), back to 2012; and (iii) a compilation guide has been prepared, in consultation with IMF technical assistance, and disseminated to data providers across the NFPS through a workshop.

2.15 **Component 2. Monetary stability.** The objective of this component is to ensure money market stability. The conditions are:

II.a (i) The accumulation of NFPS deposits at the Central Bank of Ecuador (BCE) has not fallen below -US$55 million (floor) as of end-April 2021;[40] and (ii) no new net credit to government by the BCE (zero accumulation).

II.b (i) The change in the stock of net international reserves has not fallen below -US$579 million (floor) as of end-April 2021.

II.c Evidence has been provided that the National Assembly enacted amendments to the BCE's legal framework (COMyF Law), prepared in consultation with IMF staff as committed to under the 2019 EFF, in line with the substantive elements and constitutional process described in point 16 of the economic and financial policy memorandum.

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[40] See footnote 21.

B. Key results indicators and program beneficiaries

2.16 **Results indicators.** The general objective of the operation will be measured via the economic growth rate, with a target of GDP growth of 1.3% in 2022, starting from a baseline of -9.5% in 2020. The achievement of specific objective 1 (ensure fiscal sustainability and social protection) will be measured by means of two indicators: (i) the primary fiscal balance as a percentage of GDP, with a target of 2.3%, starting from a baseline of -4.7% in 2020; and (ii) the percentage of low-income families that have received subsidies, with a target of 80% in 2022, starting from a baseline of 37% in 2020. The achievement of specific objective 2 (maintain monetary and financial stability) will be measured by means of the international reserves held by Ecuador, with a target of US$8.93 billion in 2022, starting from a baseline of US$5.66 billion in 2020.[41]

2.17 **Beneficiaries.** The program will directly benefit the Republic of Ecuador by helping to stabilize its macroeconomy in two ways: (i) obtaining fast-disbursing resources to finance short-term balance of payments needs, including the government's financing requirements; and (ii) providing a strategic framework to advance the program of structural fiscal reforms. The program will also benefit Ecuadorian citizens by directly benefiting the 322,360 families that will gain from the expansion of the coverage network of social programs to support the most vulnerable families (paragraph 2.14), and indirectly benefitting citizens in general, as the economic recovery will expand their opportunities to obtain high-quality, productive jobs.

III. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

3.1 This Special Development Lending (SDL) program will be financed with the Bank's Ordinary Capital (OC) resources and will be part of the Bank's regular lending program approved in the Long-term Financial Plan.[42] As such, it will not breach the lending envelope. The operation has been prepared in coordination with the Extended Fund Facility (EFF) approved by the IMF. The sole tranche structure and mechanisms for complementary financing with the IMF offer a flexible and effective way of supporting policy reforms and meeting the country's short-term financing needs. The SDL resources will be transferred to the government in a sole disbursement paid into the subaccount of the Treasury Single Account (CUT) at the BCE indicated by the Ministry of the Economy and Finance (MEF).

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[41] The EFF agreement promotes actions to curtail the BCE's financing of central government. BCE credit to government increases domestic debt assets, financed with public deposits. The government uses these funds for transfers and payments to increase households' final consumption and expand liquidity and private credit. This drives up imports, savings abroad, and use of cash, putting pressure on reserves. The artificial expansion of the BCE balance sheet breaks the proportionality between the growth rate of reserves and transactions with the rest of the world that is necessary to maintain dollarization. This is the rationale for using the reserves indicator as an indicator of fulfillment of specific objective 2.

[42] The Long-term Financing Plan is a planning and programming document that proposes annual allocations of financing. It was created to meet the requirements of the Ninth General Increase in the Resources of the Inter-American Development Bank in relation to the Income Management Model (IMM). The SDL operation does not breach the Bank's regular lending envelope or capital adequacy ratio.

3.2 The amount of this loan is US$500 million. The following factors were used in sizing the amount: (i) the size of the package of measures necessary to address the macroeconomic crisis; (ii) the government's financing gaps and short-term balance of payments; and (iii) the limit of fresh funds per borrowing member country per event (see paragraphs 3.3, and 4.1 of the SDL guidelines (document GN-2031-17)). This operation represents 6.86% of Ecuador's total central government financing requirements for 2021, estimated at US$7.285 billion, and 8.38% of its external borrowing for 2021.

B. Environmental and social safeguard risks

3.3 Under Directive B.13 of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703), no ex ante impact classification is required for this program. The operation supports the development of policies, regulations, management instruments, and other institutional strengthening actions, so no significant direct impacts on the environment or natural resources are envisaged.

C. Fiduciary risks

3.4 No fiduciary risks have been identified for this program. The loan proceeds will be disbursed directly into the Treasury Single Account (CUT), which the MEF will access to meet financing needs. The executing agency has the necessary financial management instruments and control systems for this purpose. The resources will be disbursed only when the conditions established in the loan contract have been satisfied.

D. Other risks

3.5 **Economic/financial environment risks.** Two high-level risks have been identified: the first is associated with the uncertainty surrounding the severity of the impact of COVID-19 on the global economy, and Ecuador's in particular. If the pandemic continues longer than expected, economic recovery could be delayed, which would adversely affect government revenues, and, consequently, deficit and debt levels. The second risk lies in the possible hardening of capital market terms (domestic and/or external), which could raise the cost of sovereign lending and delay the process of fiscal consolidation in a context where gross financing requirements remain high in the short-to-medium term. To mitigate these two risks, the Bank will monitor the macroeconomic context and maintain an ongoing dialogue with the authorities and the IMF, to provide the necessary technical foundation in a timely manner for identifying additional measures to regain fiscal sustainability.

3.6 **Political environment risks.** A high-level risk has been identified in relation to delays in legislative approval of the reforms necessary to meet the program objectives (see Annex II). Any such delay could jeopardize the spending adjustment and revenue increase, delaying the process of fiscal consolidation. To mitigate this risk, the Bank will continue to support dialogue among all stakeholders and provide technical support (paragraph 2.8) to achieve the necessary consensus around these policies.

IV. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

4.1 **Borrower and executing agency.** The borrower is the Republic of Ecuador. The executing agency will be the Ministry of the Economy and Finance (MEF), which will be responsible for: (i) providing evidence that the commitments for the disbursement of the loan, agreed upon by the government with the Bank, have been met; (ii) promoting measures to meet the objectives identified in the program; and (iii) compiling, maintaining, and providing the Bank with the necessary information, indicators, and parameters for monitoring and evaluation of the program outcomes.

4.2 **Special contractual conditions precedent to the sole disbursement. The sole disbursement of the loan proceeds will be subject to fulfillment of the policy conditions contained in the Policy Matrix (Annex II) and the Policy Letter and its supplement (official letter MEF-DM-2021-0019-0), and to fulfillment of the conditions contained in the loan contract.**

4.3 In order for the SDL operation to be eligible for disbursement, the IMF program needs to be disbursing. The Bank's financing will be transferred to the government in a sole disbursement paid into a bank account indicated by the MEF at the BCE.[43] Projected expenditures are in line with the areas of support envisaged for SDLs in the respective operational guidelines (document GN-2031-17).

B. Summary of arrangements for monitoring results

4.4 **Monitoring.** The borrower and the Bank will hold meetings of two types: regular meetings, on a six-monthly basis, and special meetings, when circumstances arise making them advisable, to monitor the conditions described in the Policy Matrix. The Bank will also maintain regular contact with the Ecuador IMF mission and take note of any IMF decisions affecting the EFF. The executing agency will compile and process all data necessary for program monitoring and evaluation. These data will be public in accordance with the IDB Access to Information Policy (document GN-1831-28). Consulting services engaged to verify Results Matrix and Policy Matrix indicators will be financed with IDB administrative funds.

4.5 **Evaluation.** Once the EFF program has concluded, the Bank will prepare a report assessing the attainment of the program objectives. To this end, all the agreed indicators and the extent to which their targets have been met will be reviewed. This report will be an input to an assessment of the overall effectiveness of the SDL instrument.

4.6 Additionally, the Bank and the Ecuadorian government will work together to assess the impact of subsidies on the potentially protected population.

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43 The disbursement of Bank financing for this operation will be synchronized with the IMF's EFF program. The IMF program must be disbursing in order for the operation to be eligible for disbursement.

4.7 **Policy Letter.** The Policy Letter sent by the Ecuadorian government on 16 September 2021, with its supplement (official letter MEF-DM-2021-0019-0) dated 12 October 2021, reiterating its commitment to the objectives of this operation, is aligned with the program's Policy Matrix (Annex II) and Results Matrix (Annex I).

RESULTS MATRIX

Project objective:	This specific objectives for this operation are to: (i) ensure fiscal sustainability while safeguarding social safety nets; and (ii) strengthen money market stability. Accomplishing these objectives will contribute to the general objective to stimulate economic recovery while preserving macroeconomic stability.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline 2020	Target 2022	Means of verification	Comments
General development objective: Stimulate economic recovery while preserving macroeconomic stability					
GDP growth	%	-9.5	1.3	IMF Article IV Report (2023)	The source of the baseline is IMF Country Report 20/325 (IMF 2020c), corresponding to the first compliance review under the Extended Fund Facility (EFF) with Ecuador. The EFF agreement with the IMF has a duration of 27 months, running from 30 September 2020, so targets have been set for 2022. The value of the targets corresponds to the IMF's projections for Ecuador, which reflect the policy actions to stabilize the country's public finances and macroeconomic situation.[1]

[1] This characterization of the value of the targets is applied to all indicators in the Results Matrix.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline 2020	Target 2022	Means of verification	Observations
Specific development objective 1: Ensure fiscal sustainability while safeguarding social safety nets					
Primary fiscal balance as a percentage of GDP[2]	%	-4.7	2.3	IMF Article IV Report (2023)	The source of the baseline is IMF Country Report 20/325 (IMF 2020c), corresponding to the first compliance review under the EFF with Ecuador.
Percentage of low-income families that have received subsidies	%	37	80	Report by the Ministry of Economic and Social Inclusion (MIES)	Social assistance coverage for low-income families for the purposes of the program is calculated as the total number of households in the bottom three deciles of the income distribution that benefit from at least one social assistance program. The identification of family units by cash transfer received and decile is performed by the MIES following the methodological note prepared by the IMF (2020c, page 45). Expansion of coverage must occur through one of the following social assistance programs: Human Development Voucher, Variable Human Development Voucher, Persons with Disabilities, Pensions for Older Adults, Mis Mejores Años [My Best Years], and Pensión Toda Una Vida [Whole Life Pension]. The level (size) of benefits of any cash transfer programs in the bottom three deciles of the income distribution should not be reduced (with respect to their level on 30 September 2020). IMF (2020c, page 92).
Specific development objective 2: Strengthen the stability of the money market					
International reserves (US$ million)[3]	US$ million	5,660	8,930	IMF Article IV Report (2023)	The source of the baseline is IMF Country Report 20/325 (IMF 2020c), corresponding to the first compliance review under the EFF with Ecuador.

2 Includes the Hydrocarbon Deficit Financing Account (CFDD).

3 This type of BCE credit to government increases domestic debt assets, financed with public deposits. The government uses these funds for transfers and payments to increase households' final consumption and expand liquidity and private credit. This drives up imports, savings abroad, and use of cash, putting pressure on reserves. The artificial expansion of the BCE balance sheet breaks the proportionality between the growth rate of reserves and transactions with the rest of the world that is necessary to maintain dollarization.

POLICY MATRIX[1]

Objective:	The general objective of the program is to stimulate economic recovery while preserving macroeconomic stability. The specific objectives are to: (i) ensure fiscal sustainability while safeguarding social safety nets; and (ii) maintain money market stability.

Components/Policy objectives	Conditions for the single operation to be disbursed in a sole tranche	Status of fulfillment of conditions[2]
Component 1. Fiscal sustainability and social protection		
Ensure fiscal sustainability and social protection	I.a (i) The overall balance of the budgetary central government and the Hydrocarbon Deficit Financing Account (CFDD)[3] has not fallen below -US$241 million (floor) as of end-April 2021; and (ii) nonaccumulation of external payments arrears (zero accumulation).	Fulfilled as of end-April 2021.
	I.b (i) The nonoil balance of the NFPS account (including fuel subsidies) has not fallen below -US$572 million (floor) as of end-April 2021; (ii) the overall balance of the NFPS account (floor) has not fallen below -US$273 million as of end-April 2021; and (iii) the coverage of subsidies for low-income families has expanded from 62,240 families to 384,600 families by end-April 2021.	Fulfilled as of end-April 2021.
	I.c (i) A medium term debt management strategy has been prepared with IMF technical assistance and published, which: (a) assesses the cost and risk trade-offs of the different sources of public funding; and (b) establishes a policy agenda; (ii) the historical NFPS data have been corrected and published, including both above-the-line (overall budget outturn) and below-the-line (financing requirements), back to 2012; and (iii) a compilation guide has been prepared, in consultation with IMF technical assistance, and disseminated to data providers across the NFPS through a workshop.	Fulfilled between January 2021 and August 2021.

1 The policy conditions in this matrix are consistent with the SDL program and fully aligned with the EFF program approved by the IMF Executive Board on 30 September 2020.

2 As of the date of this document, this information is merely indicative. The fulfillment of all disbursement conditions will be verified by the Bank at the time of the corresponding disbursement request by the borrower and promptly noted in the disbursement eligibility memorandum.

3 The Hydrocarbon Deficit Financing Account (CFDD) includes public resources from oil revenues that correspond to the value of the difference the Ministry of the Economy and Finance (MEF) requires to cover petroleum product imports, the exchange of crude oil products with state oil companies in other countries, local purchases of hydrocarbons and products or commodities produced in the country (fuels). This value must be stated in the national budget. The balances on this account are settled after the fiscal year-end, during the first quarter of the following year.

Components/Policy objectives	Conditions for the single operation to be disbursed in a sole tranche	Status of fulfillment of conditions[2]
Component 2. Monetary stability		
Ensure money market stability	II.a (i) The accumulation of NFPS deposits at the Central Bank of Ecuador (BCE) has not fallen below -US$55 million (floor) as of end-April 2021;[4] and (ii) no new net credit to government by the BCE (zero accumulation).	Fulfilled as of end-April 2021.
	II.b (i) The change in the stock of net international reserves has not fallen below -US$579 million (floor) as of end-April 2021.	Fulfilled as of end-April 2021.
	II.c (i) Evidence has been provided that the National Assembly enacted amendments to the BCE's legal framework (COMyF Law), prepared in consultation with IMF staff as committed to under the 2019 EFF, in line with the substantive elements and constitutional process described in point 16 of the economic and financial policy memorandum.	Fulfilled as of end-April 2021.

[4] Although the reference figure for this criterion was originally -US$47 million, the Ecuadorian government obtained a waiver from the IMF, such that the criterion was considered to have been met with the figure of -US$55 million. The Policy Matrix therefore takes the adjusted value.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/21

Ecuador. Loan ____/OC-EC to the Republic of Ecuador
Emergency Program for Macroeconomic
Sustainability and Social Protection

The Board of Executive Directors

RESOLVES:

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, for the purpose of granting it a financing to cooperate in the execution of the Emergency Program for Macroeconomic Sustainability and Social Protection. Such financing will be for the amount of up to US$500,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2021)

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