

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ECUADOR**

**PROGRAM FOR DEVELOPMENT AND ECONOMIC RECOVERY IN ECUADOR**

**PROGRAM 5421/OC-EC  
(EC-U0002)**

**MODIFICATION PROPOSAL**

This document was prepared by the project team consisting of: Joan Prats, Project Team Leader; Omar Villacorta, Alternate Project Team Leader; Juan Martínez Alvarez, Sebastián Vargas, Simón Fernandez, Ana Lozano, Cecilia Bernedo, Claudia Márquez, and Karina Azar (IFD/CMF); Wladimir Zanoni and Karina Calahorrano (CAN/CEC); Pilar Jimenez Arechaga (LEG/SGO); Ubaldo González (IFD/FMM); Oscar Mitnik (SPD/SDV); Alejandra Villota (INT/TIN); Giovanni Leo Frisari and Raul Delgado (CSD/CCS); Jeymar Bianchis and Tatiana Amador (IFD/IFD); Daniel Vieitez (VPC/VPC); André Delgado, Arturo Pita, and Laura Fan (FIN/TRY); Judith Morrison (SCL/GDI); and Pauline Henriquez (IFD/CTI).

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ABBREVIATIONS	
MEF	Ministry of Economy and Finance
MSME	Micro, small, and medium-sized enterprise
PBG	Policy-based guarantee
PBP	Programmatic policy-based loan
PCR	Project completion report

**PROJECT SUMMARY**  
**ECUADOR**  
**PROGRAM FOR DEVELOPMENT AND ECONOMIC RECOVERY IN ECUADOR**  
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**(EC-U0002)**  
**MODIFICATION PROPOSAL**

Financial Terms and Conditions				
<b>Borrower:</b>			<b>Flexible Financing Facility</b> <sup>(a)</sup>	
Republic of Ecuador			<b>Amortization period:</b>	20 years
<b>Executing agency:</b>			<b>Disbursement period:</b>	1 year
Ministry of Economy and Finance (MEF)			<b>Grace period:</b>	5.5 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	SOFR-based
<b>IDB (Ordinary Capital):</b>	400,000,000	100	<b>Credit fee:</b>	<sup>(c)</sup>
			<b>Inspection and supervision fee:</b>	<sup>(c)</sup>
			<b>Weighted average life:</b>	12.75 years
<b>Total:</b>	400,000,000	100	<b>Approval currency:</b>	U.S. dollar
Project at a Glance				
<p><b>Project description/objective:</b> The general development objective of the program is to facilitate an inclusive and sustainable economic reactivation in Ecuador. The specific development objectives are: (i) to strengthen the institutional and regulatory framework to improve the business climate and boost international trade; and (ii) to improve financial stability and access to finance.</p> <p>This operation is the first in a series of two technically linked but independently financed operations under the programmatic policy-based loan modality.</p>				
<p><b>Special contractual conditions precedent to the sole disbursement of the loan:</b> The sole disbursement of loan proceeds is contingent upon fulfillment by the borrower, to the Bank's satisfaction, of the policy reform conditions set out in the Policy Matrix, the <a href="#">Policy Letter</a>, and the other conditions established in the Loan Contract. The Policy Matrix would not be subject to modification (paragraph 3.11).</p>				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges</b> <sup>(d)</sup> :	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
<b>Crosscutting themes</b> <sup>(e)</sup> :	GE <input checked="" type="checkbox"/>	and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	and ES <input type="checkbox"/>
				IC <input checked="" type="checkbox"/>

<sup>(a)</sup> 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, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## **I. REQUEST BY THE GOVERNMENT OF ECUADOR TO MODIFY THE FINANCING INSTRUMENT FOR THE PROGRAM FOR DEVELOPMENT AND ECONOMIC RECOVERY IN ECUADOR**

### **A. Ecuador's request**

- 1.1 In Letter MEF-VGF-2022-0280-O, dated 31 August 2022 ([optional link 1](#)), the Republic of Ecuador made a request to the Bank to modify the Program for Development and Economic Recovery in Ecuador (EC-U0002) in order to convert the operation originally approved as a policy-based guarantee (PBG) to a programmatic policy-based loan (PBP). This modification would mean that the Bank's support for the policy reform program would be provided through a loan rather than a guarantee. The letter specifies two interconnected reasons for this request, namely: (i) the current liquidity needs arising from the unforeseen social events that occurred in the country during the first half of 2022; and (ii) the considerable difficulty that Ecuador is currently having in accessing international financial markets as a result of point (i), the country's internal circumstances, and external factors. The total financing amount, the policy reform program, with its corresponding Policy Matrix (Annex II), and the program objectives would remain unchanged.

## **II. BACKGROUND**

### **A. Program background**

- 2.1 **Purpose of modification.** The purpose of this document is to seek approval from the Bank's Board of Executive Directors to modify the financing instrument for the Program for Development and Economic Recovery in Ecuador ([5421/OC-EC](#)), hereinafter the "program." The Bank's Board of Executive Directors approved this operation on 1 December 2021.
- 2.2 **Objective.** The program's general development objective of facilitating an inclusive and sustainable economic reactivation of Ecuador remains unchanged. There are also no changes to the specific development objectives: (i) to strengthen the institutional and regulatory framework to improve the business climate and boost international trade; and (ii) to improve financial stability and access to finance.
- 2.3 The program is structured around the following three components: (i) Component 1, Macroeconomic stability; (ii) Component 2, Business climate and investment attraction; and (iii) Component 3, Improvements to financial regulations for productive development.
- 2.4 **Financing.** A guarantee of up to US\$400 million, financed from the Bank's Ordinary Capital, was approved. This amount will not be altered as a result of the change in instrument.

- 2.5 As stated in the originally approved Guarantee Proposal, this would be the first in a series of two technically linked but independently financed consecutive operations under the PBP modality. This remains unchanged.
- 2.6 The financing instrument to be used for the first operation was the PBG, which combined: (i) the issuance of a guarantee to back the payment obligations contracted by the Republic of Ecuador through a debt instrument; and (ii) support for a policy reform program that aims to improve the country's economic recovery and development. Once the country fulfilled the policy reforms agreed upon for the first operation in the Policy Matrix and met the other conditions to be provided for in the counter-guarantee contract, the Bank would issue the guarantee. Changing the instrument to a loan means that Ecuador's fulfillment of the policy reforms agreed upon in the Policy Matrix, which remain unchanged, would be a condition for disbursement under the respective loan contract.
- 2.7 **Borrower, executing agency, and beneficiaries.** For the modified operation, the borrower is the Republic of Ecuador and the executing agency is the Ministry of Economy and Finance (MEF). The execution mechanism remains unchanged. The program reforms will benefit the country as a whole by facilitating international trade and investment attraction, improving macroeconomic and financial stability, and increasing access to finance. The main program beneficiaries are therefore expected to continue to be companies that conduct business within the Ecuadorian economy.<sup>1</sup>

## **B. Progress on program components**

- 2.8 To date, all policy conditions set forth in the Policy Matrix have been met. However, the corresponding guarantee and counter-guarantee contracts have not been signed for the reasons that underlie this modification request (paragraphs 2.10 to 2.13).

## **C. Modification rationale**

- 2.9 One advantage of the guarantee instrument is that it mobilizes additional resources in international debt markets, which would have allowed the country to cover its fiscal needs in 2022-2023. At the time of the program's approval, various consultations held by the country with market participants validated the strategy of structuring the Bank's support as a guarantee, which would mobilize at least the IDB guarantee amount. Nevertheless, as mentioned earlier, two closely related key factors prompted the Republic of Ecuador to request the current modification.
- 2.10 Ecuador's internal social conflicts this year have caused significant economic losses for the country, estimated by the Central Bank to be close to US\$1 billion. In the wake of the national strike that took place in Ecuador, the government was forced to increase gasoline subsidies, which will amount to an estimated US\$3.345 billion in 2022, 43% higher than initially budgeted for the year

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<sup>1</sup> There are an estimated 882,766 companies in Ecuador, 99.5% of which are micro, small, and medium-sized enterprises (MSMEs). [National Statistics and Census Institute, 2019](#). According to estimates from the International Finance Corporation's 2017 MSME Finance Gap report, there are 100,000 formally established women-owned MSMEs in Ecuador.

(US\$1.9 billion). The Government of Ecuador was also forced to close various oil wells, which meant that production of 2.4 million barrels of oil ceased, resulting in an estimated loss of US\$256 million in export revenues. As a result, Ecuador's country risk again surpassed 1,500 basis points, compared with 869 basis points at the end of 2021. Consequently, this indicator has been fluctuating above 1,000 basis points to date. All of the foregoing significantly undermined the fiscal accounts as a result, increasing liquidity needs for 2022-2023.

- 2.11 At the same time, the effects of the internal conflicts on the country risk, combined with exogenous changes in international financial markets (associated with the start of Russia's invasion of Ukraine in February 2022 and the rate hikes initiated by the U.S. Federal Reserve in March 2022), have affected Ecuador's capacity to access capital markets in the short term to finance needs arising from the events described above (paragraph 2.10). The country's bond yield rate grew from an average of 10% in 2021 to a maximum of 17% in July 2022, and the expected average interest rate for the sovereign issuance that would be backed by the IDB guarantee doubled. In addition to Ecuador's specific situation, the capital markets of emerging countries are currently less attractive for issuances of this caliber given that developed markets, such as the United States, are offering better interest rates at this time.
- 2.12 In light of this and despite the fact that the Government of Ecuador sought to use the guarantee instrument to access financing in the capital market, the country considers it necessary to request an instrument change for this operation in order to obtain the required liquidity (paragraph 2.10) for 2022-2023 under the best possible financial conditions. This change applies to the instrument only, not to the commitment to the policy reform program associated with the operation.
- 2.13 The objectives, components, Policy Matrix, and impact and outcome indicators originally defined remain unchanged. The operation's original diagnostic assessment is considered to be valid, as the challenges tied to the need for an inclusive and sustainable economic reactivation, in general, the low levels of productivity, private investment, and exports, the barriers to private sector development, the necessary improvement of the business climate to foster trade and attract investment, and the required institutional and regulatory improvements for the financial sector, in particular, extend beyond the nine months that have elapsed since the operation's approval and the present modification proposal. Moreover, the internal events that occurred in 2022 and the worsening international financial conditions make the need for improvements in business climate and regulation for financial stability and access to financing more relevant.

#### **D. Strategic alignment**

- 2.14 The proposed modification does not alter the originally envisaged alignments. This program is consistent with the Second Update to the Institutional Strategy (document AB-3190-2) and strategically aligned with the development challenges of: (i) productivity and innovation, through support for reforms to improve the business climate for trade facilitation and investment attraction; and (ii) economic integration, through support for reforms that facilitate international trade by lowering tariffs and cutting red tape. The program is also aligned with the crosscutting themes of: (i) gender equity, by supporting a financial inclusion strategy that emphasizes



gender mainstreaming to bridge gender gaps in access to finance; and (ii) climate change, by developing a national climate change financing strategy that is aligned with the decarbonization pact. Given the policy measures (paragraphs 2.4(i) and (ii)) set forth under this first operation, climate financing was estimated to be 8.69% according to the [joint methodology of the multilateral development banks for tracking climate change finance](#). These resources contribute to the Bank's target for climate financing (30% of approvals by volume each year); and (iii) institutional capacity and rule of law, by supporting the strengthening of the country's regulatory framework and financial supervision, especially as relates to the measures to make the Central Bank of Ecuador more independent, the institutional transparency enhancements, and the creation of the independent external audit committee. The program is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) in that it helps develop more stable, better regulated financial markets with more effective oversight, as well as with the Integration and Trade Sector Framework Document (document GN-2715-11), in that it helps improve trade facilitation and investment attraction in the country. Likewise, the operation is aligned with the IDB Group Country Strategy with Ecuador 2022-2025 (document GN-3103-1) with the strategic objectives of: (i) strengthening regulatory frameworks that make private investment possible; (ii) improving access to financing; and (iii) reducing public management inefficiencies.<sup>2</sup>

### III. DESCRIPTION OF PROPOSED MODIFICATIONS

3.1 The program modifications requested by Ecuador are described below.

#### A. Financing instrument

3.2 Given the conditions outlined in the previous section (paragraphs 2.1 to 2.14), the proposed modification is to change the operation's instrument from a PBG to a PBP.

3.3 This entails the following changes to the original program conditions:

**Table 1. Program changes as a result of modifying the instrument from a PBG to a PBP**

Aspect	Original	Change
Instrument	PBG	PBP
Role of the IDB	Guarantor	Lender
Role of the Republic of Ecuador	Counter-guarantor and secured debtor	Borrower
Charges	Guarantee fee and standby fee	SOFR-based interest rate and commitment fee
Contracts to be signed	Guarantee contract and counter-guarantee contract	Loan agreement

<sup>2</sup> When it was originally approved, the operation was aligned with the IDB Group Country Strategy with Ecuador 2018-2021 (document GN-2924) through the strategic objectives of: (i) increasing the private share of investment in infrastructure and other public goods; (ii) boosting the contribution of private investment and productivity to economic growth; (iii) facilitating access to investment financing; and (iv) fostering access to export markets.

Aspect	Original	Change
Policy conditions	Conditions precedent to the issuance of the guarantee	Conditions precedent to the disbursement of the loan. The conditions remain unchanged.
Final program evaluation	Project completion report guidelines would not need to be followed	Project completion report guidelines would be followed

## **B. Operation size**

- 3.4 In accordance with Policy Based Loans: Guidelines for Preparation and Implementation (document CS-3633-2), the rationale for the programmatic modality is: (i) the medium and long term of the reforms addressed, as set out in the Policy Matrix and the borrower's policy letter; (ii) the complex and progressive nature of the reforms; (iii) the various timelines for reform implementation; (iv) the coordination between the institutions involved; (v) support for policy dialogue in the country; and (v) the follow-up required for reform implementation and monitoring and feedback on results.
- 3.5 This operation will receive US\$400 million in financing from regular Ordinary Capital resources, to be disbursed as a sole disbursement. This operation represents 8.4% of the public sector's financing needs (US\$4.721 billion) and 9.2% of Ecuador's external financing (US\$4.341 million) for 2022 and is consistent with the country's fiscal resource needs (paragraph 2.10).

## **C. Environmental and social risks**

- 3.6 Pursuant to Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (OP-703), PBPs do not require ex ante classification. The policy changes under the PBP components will have no significant direct impacts on the country's natural resources or environment. The program will not finance specific investment or infrastructure projects. Changing the proposed instrument from a PBG to a PBP will have no bearing on the policies, standards, management instruments, and other institutional strengthening actions planned, which is why the environmental and social risk classification remains low.

## **D. Fiduciary risks**

- 3.7 There are no fiduciary risks associated with the operation. The proceeds from this operation will be disbursed directly to the Treasury, which the MEF will access to cover the government's financing needs. The executing agency has the necessary financial management instruments and control systems for such purpose.

## **E. Other key issues and risks**

- 3.8 A medium-low financial economic risk was identified, consisting of the potential for a deterioration in the international financial economic environment and the national political environment to affect the government's priorities, introducing institutional changes that might impact completion of the programmatic series. This risk can be mitigated by the IDB in the form of support for dialogue with all actors involved and technical assistance for the government to achieve the consensus and progress

needed around program policies and objectives (see paragraph 3.9 for more details).

- 3.9 **Sustainability.** The measures implemented by the Government of Ecuador to achieve the reform commitments for a second operation are under development and in line with what is expected. The IDB team is holding broad, dynamic dialogue with the MEF authorities as well as the authorities of sector entities responsible for future reforms to mitigate any potential gaps or deviations. A technical cooperation proposal to provide operational support for this operation is also being prepared to finance key consulting assignments for the fulfillment of several reforms in the second tranche of Components 2 and 3. These are: (i) evaluations of the findings of the International Trade Committee and the functioning of the Public-Private Reactivation Committee; and (ii) the measures proposed to boost financing for women and the taxonomy that standardizes the climate finance categories.

#### **F. Implementation arrangements**

- 3.10 As stated, the borrower will be the Republic of Ecuador and the executing agency will be the MEF. The executing agency will be responsible for: (i) coordinating with the entities responsible for the actions set out in this operation in all relevant aspects; (ii) providing evidence that the programmatic policy actions were taken and any other program-related evidence that the Bank needs to approve the respective disbursement; and (iii) once the program disbursement has been secured, collecting the information from the performance indicators used to evaluate the program outcomes. The executing agency will use the institutional means available to it for effective coordination between public agencies related to the policy actions incorporated into this operation. It will also collaborate with the Bank on the necessary coordination with entities related to the measures part of this operation.
- 3.11 **Special contractual conditions precedent to the sole disbursement of the loan. The sole disbursement of loan proceeds is contingent upon fulfillment by the borrower, to the Bank's satisfaction, of the policy reform conditions set out in the Policy Matrix (Annex II), the [Policy Letter](#), and the other conditions established in the Loan Contract.** The Policy Matrix would not be subject to modification. These conditions are the same as those in the original program approval and are consistent with the new proposed instrument.

#### **G. Monitoring and evaluation**

- 3.12 The change to a PBP means that the final evaluation report for this programmatic series will be a project completion report (PCR). Although the evaluation questions, procedures, and methodologies considered for the final evaluation were described in the original [monitoring and evaluation plan](#), it was noted that the type of final report would not have to follow the PCR guidelines in effect because those guidelines were not required for a PBG. As a result of the modification proposed here, the final report will be prepared in accordance with the PCR guidelines.

#### **IV. RECOMMENDATION**

- 4.1 Based on the information and analysis presented in this document, it is recommended that the Bank's Board of Executive Directors approve, by short procedure, the proposed resolution attached to this document, pursuant to the provisions of paragraph 6 of document CS-3953-4 (List of matters to be considered by the Board via short procedure) and the provisions of paragraph 3.29(c) of the Regulations of the Board of Executive Directors (document DR-398-19). Approval of the proposed resolution attached to this document represents adoption of the following recommendation: to approve the proposed modification to operation 5421/OC-EC, Program for Development and Economic Recovery in Ecuador (EC-U0002), in accordance with the terms and conditions established in this document.

Development Effectiveness Matrix		
Summary		EC-U0002
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Economic Integration -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2924	(i) Strengthen the regulatory frameworks that facilitate private investment; (ii) Improve access to finance; and (iii) Reduce inefficiencies in public administration
Country Program Results Matrix	GN-3034-2	The intervention is included in the 2021 Operational Program
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Support to Economic Productivity and Employment in Latin America and the Caribbean in Response to the Economic Shock Caused by the COVID-19 Pandemic (ATN/OC-18036-RG); Support Institutional Strengthening for Competitiveness Strategy (ATN/OC-17361-EC); Strengthening Environmental, Social and Governance (ESG) capacity and ratings of Governments, Public Sector Financial Institutions (PSFIs) and State Owned Enterprises (SOEs) in Latin America and the Caribbean (ATN/OC-18243-RG); and Financial and Legal Structuring of New Thematic Financial Solutions in Latin America and the Caribbean (ATN/OC-17752-RG)

**Evaluability Assessment Note:**

This reformulation converts the original operation, a Policy Reform Support Guarantee (PBG) for US\$400 million, with support for a policy reform program (of two operations), into a Policy Support Program (PBP). This change does not affect the original assessment of the evaluability of the policy reform program, which maintains the general objective of promoting the sustainable and inclusive economic reactivation of Ecuador. The specific objectives of the operation remain unchanged and are: i) to strengthen the institutional and regulatory framework to improve the business climate and promote international trade; and (ii) improve financial stability and access to financing. The diagnosis is still appropriate, and the problems faced by the country are still present. The original project identified the country's low levels of productivity, private investment and exports as central problems. In terms of productivity, Ecuador showed in 2019 a total factor productivity of 42% compared to that of the United States, making it one of the lowest relative in the region (and explaining 90% of the GDP per capita gap in Ecuador relative to the United States). Regarding private investment, between 2006 and 2014 the contribution of private investment averaged 14%, below the contribution of comparable countries, and direct foreign investment was only 0.9% of GDP in 2019, well below the regional average. Regarding foreign trade, the country's exports of goods and services are dominated by the sale of oil and derivatives (34.5% of the total) and its contribution to GDP (22.5%) is lower than the regional average. Additionally, the project highlighted the need for a sustainable and inclusive post-COVID-19 crisis recovery that creates opportunities for more environmentally sustainable sectors and addresses gender gaps in financial inclusion. The country ranks 14th out of 21 in the LAC Climate Finance Group's Sustainable Finance Index. It also shows significant gender gaps in access to credit (although information on this topic is poorly developed or not available).

The vertical logic of the project is not modified by the change of instrument. The operation will promote four groups of reforms to strengthen the business climate and commercial regulation: (a) improvement of the institutional framework for economic reactivation and competitiveness; (b) Reduction of trade tariffs and simplification of procedures (c) Improvement of public-private collaboration to promote investment in the country; (d) Promotion of private sector development with an environmental focus. Additionally, it will promote three groups of reforms to advance stability and access to financing: (a) Strengthening governance for monetary and financial stability, (b) Prudential financial regulation for the orderly transition to a stable post-COVID-19 financial system; and (c) Expansion of access to financing and improvements to financial consumer protection.

The proposed result indicators have not changed and are reasonable and well specified. The monitoring and evaluation plan proposes to measure the key results before and after the series, with adequate sources of information. This type of evaluation does not allow empirical attribution of results.

## POLICY MATRIX

**Objective:** The general objective of the program is to facilitate an inclusive and sustainable economic reactivation in Ecuador. The specific objectives are to: (i) strengthen the institutional and regulatory framework to improve the business climate and boost international trade; and (ii) improve financial stability and access to finance.

Components/ Policy objectives	Policy actions, programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Indicative policy triggers, programmatic operation II
<b>Component I: Macroeconomic stability</b>			
A. Maintenance of an economic framework consistent with the program's objectives and the policy letter.	1.1 Maintenance of a macroeconomic context consistent with the program's objectives and the guidelines established in the policy letter.	Fulfilled	1.1 Maintenance of a macroeconomic context consistent with the program's objectives and the guidelines established in the policy letter.
<b>Component II: Business climate and investment attraction</b>			
A. Improvements to the institutional framework for economic reactivation and competitiveness.	2.1 Measures to create new agencies, or expand the mandates of existing agencies, to strengthen agency leadership and coordination efforts with a view to making the country more competitive at a time of economic reactivation: <ul style="list-style-type: none"> <li>(i) Approval of an executive decree that features the creation of a Public-Private Reactivation Committee that will decide on the priority actions the country needs to respond to the economic crisis resulting from the pandemic.</li> <li>(ii) Approval of an executive decree that modifies the mandate and membership of the Strategic Committee for Investment Promotion and Attraction (CEPAI).</li> <li>(iii) Approval of the executive decree with guidelines for the operational strengthening of the International Trade Committee (COMEX) and the Competitiveness, Innovation, and Entrepreneurship Council (CONEIN) as entities for planning and implementing competitiveness guidelines in the country.</li> </ul>	Fulfilled (2021, Q2)	2.1 (i) An evaluation of the Public-Private Reactivation Committee and the main measures instituted.  (ii) Development of a National Competitiveness Strategy that incorporates inputs from partner agencies in the public and private sectors (CEPAI, COMEX, and CONEIN).
B. Cuts to trade tariffs and elimination of red tape.	2.2 Measures designed to facilitate international trade and attract investment in the productive sector, through: <ul style="list-style-type: none"> <li>(i) Approval of a COMEX resolution to cut import tariffs under 667 headings of inputs, commodities, and capital assets required by the productive sector.</li> </ul>	Fulfilled (2021, Q2)	2.2 (i) An evaluation of the results of the reforms executed by COMEX and preparation of recommendations on possible new measures for lowering tariffs and cutting red tape. (ii) Development and implementation of a Plan for the Administrative Streamlining

Components/ Policy objectives	Policy actions, programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Indicative policy triggers, programmatic operation II
	<ul style="list-style-type: none"> <li>(ii) Approval of a COMEX resolution that cuts red tape by eliminating tariff subheadings from the list of products subject to the presentation of prior import control documents (DCPs), in order to facilitate, expedite, and enhance the transparency of management of trade operators.</li> <li>(iii) Approval of an executive decree that sets the rate of the tax on outward foreign currency remittances at zero percent (0%) for remittances or transfers of foreign currency made by international airlines authorized to operate in the country.</li> </ul>		of Export and Import Processes, including process automation and reduction of times and costs.
C. Improvements to public-private collaboration to promote investment in the country.	2.3 Approval of an executive decree establishing an ad honorem government council for public private partnerships (PPPs) and investment, which will advise the Office of the President on best practices for attracting, facilitating, boosting, formalizing, and retaining domestic and foreign investment.	Fulfilled (2021, Q3)	2.3 (i) Proposal to create a government agency or institution charged with promoting PPPs in the country. (ii) Evaluation and, if deemed appropriate, reform of the PPP design, approval, negotiation, and monitoring process. (iii) Development of robust methods for risk management and for generating value for money.
D. Promotion of private sector development with an environmental focus.	2.4 Measures to mobilize private investment in projects with positive environmental impacts: (i) Approval and publication of a National Climate Financing Strategy. (ii) Signing of a Pact for the Transition Toward Decarbonization.	Fulfilled (2021, Q3)	2.4 (i) Development of a proposed taxonomy that defines and standardizes climate financing. (ii) Development of a National Plan for the Transition Toward Decarbonization.

Components/ Policy objectives	Policy actions, programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Indicative policy triggers, programmatic operation II
<b>Component III: Improvements to financial regulations for productive development</b>			
A. Governance strengthening for financial and monetary stability.	<p>3.1 Approval of a reform law that aims to make the Central Bank of Ecuador (BCE) more independent and more transparent, with guidelines for:</p> <ul style="list-style-type: none"> <li>(i) Restoring the BCE's monetary autonomy by prohibiting the BCE from financing the central government and by selling shares in public banks held by the BCE to the MEF.</li> <li>(ii) Appointment of the members of the Monetary Policy and Regulation Board and of the Financial Policy and Regulation Board.</li> <li>(iii) Creation of an Independent External Audit Committee.</li> <li>(iv) Creation of the Regularization and Management Unit (UGR), which will assume responsibility for providing closure to entities from the 1999 crisis.</li> </ul>	Fulfilled (2021, Q2)	<p>3.1 (i) Strengthening of the BCE's Programming and Regulation Department with technical and procedures manuals and trainings.</p> <p>(ii) Preparation of a new charter for the BCE.</p> <p>(iii) Adoption of International Financial Reporting Standards.</p>
B. Prudential financial regulations for an orderly transition to a stable financial system in the post-COVID-19 world.	<p>3.2 Approval of regulations aimed at bolstering the balance sheets of financial institutions in the short term for a better transition to a post-COVID-19 world:</p> <ul style="list-style-type: none"> <li>(i) Approval of liquidity contingency plans and business continuity plans for banks.</li> <li>(ii) Approval of a temporary reform of asset quality ratings and provisioning for loans adversely affected by the pandemic.</li> </ul>	Fulfilled (2021, Q3)	3.2 Preparation of an annual report on financial system solvency with stress testing and internal capital adequacy assessments.
	<p>3.3 Approval of prudential regulations focused on risk oversight improvement measures that will prevent market distortions and promote competition and efficiency in the financial system:</p> <ul style="list-style-type: none"> <li>(i) Approval of reforms of credit rating segments for better credit allocation.</li> <li>(ii) Approval of a new risk-based supervision methodology for the banking and financial system.</li> </ul>	Fulfilled (2021, Q3)	<p>3.3 (i) Approval of reforms to the methodology for setting caps on lending rates based on the newly defined credit rating segments.</p> <p>(ii) Evaluation of the results of the new methodology for risk-based supervision for the financial system in a post-COVID-19 world.</p>



Components/ Policy objectives	Policy actions, programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Indicative policy triggers, programmatic operation II
C. Expanded access to finance and better protection for financial consumers.	<p>3.4 Measures to increase financial inclusion and protect financial consumers, with an emphasis on vulnerable and underserved groups:</p> <ul style="list-style-type: none"> <li>(i) Proposal for a National Financial Inclusion Strategy that identifies gaps in women's financial inclusion.</li> <li>(ii) Development of a gender diagnostic assessment for monitoring and supervision of institutions supervised by the Superintendency of Cooperative Associations and Low-income Groups (SEPS).</li> <li>(iii) Release of a virtual platform with financial inclusion bulletins for the cooperative association and low-income group sector, including gender-disaggregated data.</li> <li>(iv) Development of a proposed reform of the Innovation and Entrepreneurship Act to promote digital financial inclusion through the registration and regulation of crowdfunding platforms.</li> <li>(v) Approval of regulations to strengthen consumer protections through guidelines for effective practices for customer service, collections, claims management, and responsible business conduct grounded in relevance, inclusion, and usability.</li> </ul>	Fulfilled (2021, Q3)	<p>3.4 (i) Approval of a National Financial Inclusion Strategy by the Financial Policy and Regulation Board.</p> <p>(ii) Proposed roadmap to promote women's financial inclusion and correct gender financing gaps.</p> <p>(iii) Approval of rules and procedures for transparency in the publishing of gender-disaggregated data by institutions supervised by the SEPS.</p> <p>(iv) Diagnostic assessment of the country's fintech ecosystem.</p> <p>(v) Development of regulations for digital financial services, including crowdfunding.</p> <p>(vi) Technical and operational strengthening of the Consumer Rights Office.</p>

## RESULTS MATRIX

<b>Project objective:</b>	The specific objectives of the operation will be: (i) to strengthen the institutional and regulatory framework to improve the business climate and boost international trade; and (ii) to improve financial stability and access to finance. Achievement of these objectives will contribute to the general objective of facilitating an inclusive and sustainable economic reactivation in Ecuador.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
<b>General development objective: Facilitate an inclusive and sustainable economic reactivation in Ecuador</b>							
Annual average growth in GDP per capita	%	-0.5	2017-2019	2024-2026	2.5	IMF	The program should contribute to the country's economic recovery in the medium to long term, which will be reflected in the growth in GDP per capita. The baseline is the average growth over the 2017-2019 period. The target is average growth for the 2024-2026 period as projected by the International Monetary Fund (IMF) for 2026.
Women who obtained credit as a share of the total number of adults who obtained credit in the country	%	44.5	2019-2020	2026	46.3	Central Bank of Ecuador (BCE)	Pro-gender indicator. The project should help improve women's financial inclusion in Ecuador over the medium to long term. This indicator is calculated at the national financial system level using the central bank's financial inclusion bulletins. The baseline is the average for the 2019-2020 period.
<b>Milestone 1:</b> Women who received credit from credit unions as a share of the total number of adults who obtained credit from credit unions in the country	%	42.2	2019-2020	2026		BCE	Milestone: This milestone will be monitored for the purposes of monitoring variations in the gaps in women's financial inclusion in the credit union segment.
Ecuador's annual carbon dioxide (CO <sub>2</sub> ) emissions	Tons of CO <sub>2</sub>	71.6	2020	2026	67	Government of Ecuador: Nationally Determined Contribution (NDC)	Program reforms in the area of promoting investments with positive environmental impacts should have a positive impact on Ecuador's CO <sub>2</sub> emissions over the long term. The baseline and target values are estimates from the most recent NDC submitted by Ecuador as part of its commitments under the Paris Agreement. The value for the target year will be verified using the most recent NDC available at that time.

### SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
<b>Specific development objective 1: Strengthen the institutional and regulatory framework to improve the business climate and boost international trade</b>						
Sum total value of exports and imports as a percentage of GDP	%	43.3	2020	44.8	World Development Indicators (WDI)	The program reforms intended to enhance trade regulations should contribute to an increase in the country's international trade over the medium term, measured through the sum total of exports and imports as a share of GDP.
Ecuador's weighted average tariff rate	%	8.11	2019	7.89	WDI	This indicator is the average of the rates actually applied weighted by the share of goods imports for Ecuador. The project completion report will measure this indicator using data from the most recently published WDI if data for the year the project ends are not yet available.
Number of new public-private partnership (PPP) projects in the country reaching financial close	Number	0	2021	2	Ministry of Economy and Finance (MEF)	The program reforms designed to promote investments under PPPs should facilitate approval of new PPPs. The target is from internal projections throughout the project period. Financial close refers to the moment in which the project documents have been signed and all prerequisites for releasing the financing have been fulfilled.
<b>Specific development objective 2: Improve financial stability and access to finance</b>						
Regulatory capital to risk-weighted assets ratio	Ratio	17.3	2021	17.3	Superintendency of Banks of Ecuador (SBE)	This indicator measures system solvency and is calculated across all banks in Ecuador. It is one of the prudential indicators associated with regulations aimed at promoting financial system stability. Ecuador has good solvency levels compared to the South American average. Those levels should remain unchanged at project end.
Liquidity index (available funds over short-term deposits)	%	27.4	2015-2020	32.4	SBE	This indicator measures banking system liquidity. Program reforms should minimize system liquidity risks thereby improving this indicator and bringing it closer to the regional average. The baseline is the average for the 2015-2020 period.
Domestic credit to the private sector as a percentage of GDP	%	45	2019-2020	47.9	WDI	Program reforms designed to improve financial system operations and promote financial inclusion should contribute to an increase in credit to the private sector over the medium term. The baseline is the average for the 2019-2020 period.

## OUTPUTS

Indicator	Unit of measure	Baseline value	Baseline year	Project end (2021)	Means of verification	Responsible entity
<b>Component II: Business climate and investment attraction</b>						
2A: Improvements to the institutional framework for economic reactivation and competitiveness						
2.1.i Executive decree that features the creation of a Public-Private Reactivation Committee, approved	# of decrees approved	0	2021	1	Executive Decree 68 issued 9 June 2021	Office of the President
2.1.ii Executive decree that modifies the mandate and membership of the Strategic Committee for Investment Promotion and Attraction (CEPAI), approved	# of decrees approved	0	2021	1	Executive Decree 1,295 published in the Fourth Supplement to the Official Gazette of 25 May 2021.	Office of the President
2.1.iii Executive decree with guidelines for the operational strengthening of the International Trade Committee (COMEX) and the Competitiveness, Innovation, and Entrepreneurship Council (CONEIN), approved	# of decrees approved	0	2021	1	Executive Decree 68 issued 9 June 2021	Office of the President
2B: Cuts to trade tariffs and elimination of red tape						
2.2.i COMEX resolution to cut import tariffs under 667 headings of inputs, commodities, and capital assets required by the productive sector, approved	# of resolutions adopted	0	2021	1	COMEX Resolution 009 issued 9 July 2021	COMEX
2.2.ii COMEX resolution that cuts red tape by eliminating tariff subheadings from the list of products subject to the presentation of prior import control documents (DCPs), approved	# of resolutions adopted	0	2021	1	COMEX Resolution 010 issued 22 July 2021	COMEX
2.2.iii Executive decree that sets the rate of the tax on outward foreign currency remittances at zero percent (0%) for remittances or transfers of foreign currency made by international airlines authorized to operate in the country, approved	# of decrees approved	0	2021	1	Executive Decree 182 published in the Third Supplement to Official Gazette 543 of 22 September 2021	Office of the President
2C: Improvements to public-private collaboration to promote investment in the country						
2.3 Executive decree establishing an ad honorem government council for public-private partnerships (PPPs) and investment, approved	# of decrees approved	0	2021	1	Executive Decree 150 published in the Sixth Supplement to the Official Gazette of 10 August 2021	Office of the President
2D: Promotion of private sector development with an environmental focus						
2.4.i National Climate Financing Strategy, approved and published	# of strategies approved and published	0	2021	1	National Climate Financing Strategy document, published 23 February 2021	Ministry of Environment, Water, and the Ecological Transition (MAATE)

Indicator	Unit of measure	Baseline value	Baseline year	Project end (2021)	Means of verification	Responsible entity
2.4.ii Pact for the Transition Toward Decarbonization, signed	# of agreements signed	0	2021	1	Interagency agreement from 28 September 2021	MAATE
<b>Component III: Improvements to financial regulations for productive development</b>						
3A: Governance strengthening for financial and monetary stability						
3.1.i Reform law that aims to make the Central Bank of Ecuador (BCE) more independent and more transparent, with guidelines for restoring the BCE's monetary autonomy by prohibiting the BCE from financing the central government and by selling shares in public banks held by the BCE to the MEF, approved	# of laws approved	0	2021	1	Law Reforming the Monetary and Financial Code to Defend Dollarization, Supplement to Official Gazette 443, published 3 May 2021	National Assembly
3.1.ii Appointments of the members of the Monetary Policy and Regulation Board and of the Financial Policy and Regulation Board, approved	# of laws approved	0	2021	1	Appointment of the three members of the Monetary Policy and Regulation Board and the three members of the Financial Policy and Regulation Board, 12 October 2021	National Assembly
3.1.iii Independent External Audit Committee, created	# of committees created	0	2021	1	Law Reforming the Monetary and Financial Code to Defend Dollarization, Supplement to Official Gazette 443, published 3 May 2021	National Assembly
3.1.iv Regularization and Management Unit (UGR), which will assume responsibility for providing closure to entities from the 1999 crisis, created	# of units created	0	2021	1	Law Reforming the Monetary and Financial Code to Defend Dollarization, Supplement to Official Gazette 443, published 3 May 2021	National Assembly
3B: Prudential financial regulations for an orderly transition to a stable financial system in the post-COVID-19 world						
3.2.i Liquidity contingency plans and business continuity plans for banks, approved	# of plans approved	0	2021	1	Circular SB-INCSFPU-2021-0036-C from 3 February 2021 and Circular SB-INCSFPR-2021-0044-C from 9 February 2021	SBE

Indicator	Unit of measure	Baseline value	Baseline year	Project end (2021)	Means of verification	Responsible entity
3.2.ii Temporary reform of asset quality ratings and provisioning for loans adversely affected by the pandemic, approved	# of reforms approved	0	2021	1	Resolution 663-2021-F from 14 May 2021	Financial and Monetary Policy and Regulation Board
3.3.i Reforms of credit rating segments for better credit allocation, approved	# of reforms approved	0	2021	1	(a) Resolution 603-2020-F from 22 September 2020; (b) Resolution 644-2021-F from 30 January 2021; (c) Resolution SB-2021-04303 from 22 February 2021; and (d) Resolution 647-2021-F from 28 February 2021	Financial and Monetary Policy and Regulation Board
3.3.ii New risk-based supervision methodology for the banking and financial system, approved	# of methodologies approved	0	2021	1	Resolution SB-2021-0769 from 7 April 2021	SBE
3C: Expanded access to finance and better protection for financial consumers						
3.4.i Proposal for a National Financial Inclusion Strategy that identifies gaps in women's financial inclusion and specific actions to be taken, presented	# of proposals presented	0	2021	1	Official letter MEF-VGF-2020-1323-O, sent by the MEF to the Office of the President on 28 December 2020	MEF
3.4.ii Gender diagnostic assessment for monitoring and supervision of institutions supervised by the Superintendency of Cooperative Associations and Low-income Groups, (SEPS); developed <sup>1</sup>	# of diagnostic assessments performed	0	2021	1	National Resolution Mechanism and Strengthening Office Report SEPS-INFMR-2021-005 submitted to the Technical Superintendent on 18 May 2021	SEPS
3.4.iii Virtual platform with financial inclusion bulletins for the cooperative association and low-income group sector, including gender-disaggregated data, released	# of platforms released	0	2021	1	Virtual platform online and operational on the SEPS website <a href="http://www.seps.gob.ec">www.seps.gob.ec</a>	SEPS

<sup>1</sup> Pro-gender indicator.

Indicator	Unit of measure	Baseline value	Baseline year	Project end (2021)	Means of verification	Responsible entity
3.4.iv Proposed reform of the Innovation and Entrepreneurship Act to promote digital financial inclusion through the registration and regulation of crowdfunding platforms, developed	# of reform proposals developed	0	2021	1	Text of the Law Reforming the Innovation and Entrepreneurship Act for the Effective Implementation of Youth Entrepreneurship, as approved by the Plenary National Assembly	National Assembly
3.4.v Regulations to strengthen consumer protections through guidelines for effective practices for customer service, collections, claims management, and responsible business conduct grounded in relevance, inclusion, and usability, approved	# of regulations approved	0	2021	1	(a) Resolution SB-2020-0753 from 19 August 2020, which reforms the rules and regulations on consumer protections for banking and financial system institutions; and (b) Resolution SB-2021-01295 from 5 July 2021, which includes rules and regulations for monitoring unauthorized activities by individuals or corporations	SBE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Ecuador. Modification to the Program for Development and Economic  
Recovery in Ecuador No. 5421/OC-EC  
(Proposed Modification)

The Board of Executive Directors

RESOLVES:

1. To approve the modification to the Program for Equity in Access to Justice and Rehabilitation, in accordance with the terms and conditions established in document PR-4948-1.
2. 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 implement the modification to which reference is made in paragraph 1.

(Adopted on \_\_\_\_ 2022)