PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

SUSTAINABLE DEVELOPMENT AND BIODIVERSITY PROGRAM IN ECUADOR

(EC-U0005)

GUARANTEE PROPOSAL

This document was prepared by the project team consisting of: Joan Prats, Team Leader (IFD/CMF); Gregory Watson, Alternate Teaml Leader (CSD/CCS); Omar Villacorta, Isabelle Braly-Cartillier, Sebastián Vargas Macedo, María Eugenia Pereira, María Pía Zanetti, Cecilia Bernedo and Ana Lozano (IFD/CMF); Tatiana Amador (IFD/IFD); Juan Manuel Murguía, Santiago Bucaram (CSD/RND); Karina Calahorrano (CAN/CEC); Pilar Jiménez de Arechaga, Sara Vila (LEG/LEG); Max Silberberg and Arturo Pita (FIN/TRY); Oscar Alberto Mitnik (SPD/SDV); and Ubaldo González (IFD/FMM).

CONTENTS

PROGRAM SUMMARY

I. PROGRAM DESCRIPTION AND RESULTS MONITORING 1

A. Background, problem addressed, and rationale 1
B. Objectives, components, reform program, and cost 11
C. Key results indicators 12

II. FINANCING STRUCTURE AND MAIN RISKS 13

A. Financing instruments 13
B. Environmental and social safeguard risks 18
C. Fiduciary risks 18
D. Other key risks and issues 19

III. IMPLEMENTATION AND MANAGEMENT PLAN 19

A. Summary of implementation arrangements 19
B. Summary of arrangements for monitoring results 20

IV. POLICY LETTER 21

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Policy Matrix
Annex III	Results Matrix

LINKS	
Required	
1	Draft Policy Letter
2	Means of verification matrix
3	Monitoring and evaluation plan

OPTIONAL	
1	NFDC as a New Financial Instrument Discussion Paper
2	First Nationally Determined Contribution for the Paris Agreement under the United Nations Framework Convention on Climate Change – Government of Ecuador (2020)
3	Threats to Marine Biodiversity in the Galapagos Marine Reserve

ABBREVIATIONS	
DFC	U.S. International Development Finance Corporation
DFNC	Debt-for-nature conversion
DFNS	Debt-for-nature swap
EEZ	Exclusive Economic Zone
ESG	Environmental, social, and governance
ESPF	Environmental and Social Policy Framework
GMR	Galapagos Marine Reserve
IMF	International Monetary Fund
MATE	Ministry of the Environment, Water, and Ecological Transition
MEF	Ministry of Economy and Finances
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Co-operation and Development
PBG	Policy-based guarantee
SCG	Sovereign counterguarantee
SDG	Sustainable Development Goals
SPV	Special purpose vehicle
UNCEPA	United Nations Committee of Experts on Public Administration
WAL	Weighted average life

PROGRAM SUMMARY

ECUADOR
SUSTAINABLE DEVELOPMENT AND BIODIVERSITY PROGRAM IN ECUADOR
(EC-U0005)

Financial Terms and Conditions		
Guarantor:	**Flexible Financing Facility**	
Inter-American Development Bank (IDB)	**Maximum guarantee period:**	20 years
Issuer, guaranteed debtor, and counterguarantor:	**Weighted average life (WAL):**	12.75 yeas
Republic of Ecuador		
Executing agency:	**Guarantee fee:**	[b]
Ministry of Economy and Finance (MEF)	**Standby fee:**	[b] [c]
Secured creditors:	**Inspection and supervision fee:**	[b]
Creditor of the Republic of Ecuador under the Guaranteed Instrument	**Currency of approval:**	U.S. dollars
Secured obligations:		
Payment obligations to be contracted by the Republic of Ecuador under a sovereign bond and/or loan (the "Guaranteed Instrument")		
Instrument:		
Policy-based guarantee (PBG)		
Source:[a]	**Amount (US$):**	**%**
IDB (Ordinary Capital)	85,000,000	100
Total:	85,000,000	100

Project at a Glance

Program objective: The program's general development objective is to strengthen environmental sustainability in Ecuador. The specific development objectives are: (i) to strengthen the institutional framework for supporting sustainable finances and effective management of natural capital; and (ii) to improve the organization and operation of public financing for environmental and financial sustainability.

This operation is the first of two consecutive operations that are technically linked but financed separately under the programmatic policy-based loan modality.

Special contractual conditions precedent to issuance of the guarantee: The guarantee will be issued subject to the following conditions: (i) the counterguarantor has fulfilled the conditions summarized in the Policy Matrix (Annex II) and the Policy Letter; (ii) the Bank has negotiated and agrees with the terms of the guarantee contract; (iii) the Bank is satisfied with the structuring of the Guaranteed Instrument and associated documentation; and (iv) the Counterguarantee Agreement between the Bank and the Counterguarantor has entered into effect on terms acceptable to the Bank (see paragraph 2.10).

Exceptions to Bank policies: Two waivers are requested with respect to the Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations (document GN-2729-2), which establishes that: (i) IDB sovereign guarantees will not cover debt acceleration (see paragraph 2.12); and (ii) in the event of enforcement of the IDB's sovereign guarantee, the repayment period to be agreed upon between the Bank and the sovereign will be within the remaining weighted average life (WAL) of the Guaranteed Instrument (see paragraph 2.13).

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

[a] The U.S. International Development Finance Corporation (DFC) will provide political risk insurance to cover the debt instrument to be issued by the Republic of Ecuador. This will supplement the guarantee to be provided by the IDB, backing it and delivering greater financial benefits through: (i) credit rating enhancement for the debt to be obtained by Ecuador; and (ii) freeing of resources for Ecuador that can be allocated to the debt swap operation, thus improving the financial, economic, and environmental outcomes of the operation.

[b] The guarantee, standby, and inspection and supervision fees will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

[c] The standby fee will be equal to the credit fee for sovereign guaranteed loans and will begin to accrue on the effective date of the guarantee contract, calculated on the difference between the approved amount of the guarantee and its actual amount at any time.

[d] SI (Social Inclusion and Equity); PI (Productivity and Innovation); and IE (Economic Integration).

[e] GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROGRAM DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Macroeconomic context.** The Central Bank of Ecuador projects that Ecuador's GDP will grow 2.8% for 2022, but more recent estimates by the International Monetary Fund (IMF) and the World Bank put this figure at 2.9% and 3.7%, respectively. In May 2022, the IMF approved the fourth and fifth review of the credit program signed with Ecuador in 2020.[1] New policies to stabilize the public finances and make them transparent, the tax reform approved in December 2021, phasing out gasoline and diesel subsidies, and efficient management and coverage of COVID-19 vaccination[2] have made a positive contribution to the country's economic recovery from the pandemic. Between the first quarter of 2021 and the same period in 2022, tax revenue intake rose 28%, and unemployment fell from 5.4% to 5%. Public debt as a percentage of GDP declined from 58.6% in December 2021 to 55% in March 2022.

1.2 The country's economic conditions have benefited from exogenous factors such as higher oil prices and the recovery of demand from Ecuador's main trade partners. Both factors have led to increased oil exports (44%) and nonoil exports (34.7%). Nonoil exports were spurred by the significant position held by shrimp in the global spectrum of trade and by an increase in nontraditional exports such as mining. Nonetheless, Russia's war on Ukraine has eroded overseas banana sales (growth of 1.5% as of March 2022). According to IMF projections, from 2022 onwards, financing needs will decline as a percentage of GDP from 4.3% in 2022 to 3.6% in 2024.

1.3 **Recovery and Sustainable Development Goals in Ecuador.** Ecuador has ratified its commitment to the Sustainable Development Goals (SDGs) and aligned its public policy objectives with the 2030 Agenda.[3] The COVID-19 pandemic crisis has made it even more important to combine economic recovery with relevant sustainability goals, such as poverty reduction or job creation, and more necessary to showcase a country's assets, which in the case of Ecuador also means emphasizing its invaluable natural capital.[4] Effective management of natural capital is necessary, not only for achieving worthwhile SDGs linked to biodiversity and sustainability (such as protecting life under the sea and on land), but also for achieving economic and social recovery based on a more sustainable development model that leaves a smaller ecological footprint and makes

---

1 This review highlighted fiscal performance in the last two quarters of 2021. A new disbursement of US$1 billion is slated for June 2022.

2 As of June 2022, 87%, 84%, and 38% of the population over the age of five has been vaccinated with 1, 2, and 3 doses, respectively.

3 Government of Ecuador (2019). First Nationally Determined Contribution for the Paris Agreement under the United Nations Framework Convention on Climate Change; Government of Ecuador (2020). Voluntary National Review. Ecuador 2020.

4 Natural capital could be defined as the elements of nature that directly and indirectly produce value or benefits for people, including ecosystems, species, fresh water, land, minerals, air, and oceans, as well as natural processes and functions. United Nations Conference on Trade and Development (2014). Towards a Definition of Natural Capital.

environmental contributions that are global in scope. This requires environmental governance mechanisms intended to meet ambitious conservation commitments and to implement effective management models combined with efficient climate finance mechanisms.

1.4 **Natural capital and climate change in Ecuador.** Ecuador's natural capital is vast and distributed across its four geographic areas including the Galapagos Islands, the coast, the mountains, and the Amazon forest. It includes 91 types of land-based ecosystems and 21 marine and coastal ecosystems. Ecuador is among the top-17 most biodiverse countries in the world with the largest number of species per square kilometer. The Galapagos Marine Reserve spans 138,000 square kilometers comprised of 13 major islands and one protected marine area extending 40 miles off the coasts of the boundary islands of the archipelago. More than 2,900 species have been reported in the marine reserve ecosystem, and 25% of the marine organisms are endemic. Inhabiting the reserve are 24 species of marine mammals such as whales, dolphins, and sea lions, two of which are endemic.[5] Not only does this natural capital have incalculable intrinsic value but it is also a factor for important economic sectors in Ecuador such as tourism and fishing. Despite its value, the conservation of Ecuador's marine biodiversity is threatened by unsustainable practices in the harvesting, production, and consumption of marine and coastal hydrobiological species.

1.5 The ocean is a carbon sink that absorbs up to one quarter of all CO_2 emissions.[6] Protecting coastal ecosystems can support carbon capture when: (i) animals that play an important role in the carbon cycle are protected; (ii) fish populations grow based on effective management, increasing their role in carbon capture;[7] and (iii) limits on commercial fishing protect the carbon sequestered in marine sediments. Climate change has a direct impact on marine biodiversity and, together with unsustainable use of resources, constitutes one of the main threats to it. In addition, climate change is related to rising ocean temperatures and acidity levels, affecting the delicate balance for marine life. Extreme climate phenomena, such as erosion and floods, also exhaust natural habitats.[8,9] For example, in the Galapagos Islands, which constitute an autonomous ecological system and an ecoregion with a high level of endemism, an estimated 50% of vertebrate fauna are threatened in a scenario where conservation efforts are unsuccessful.[10] Climate change increases this risk, as a 1.4-degree Celsius rise in average temperature has been recorded between 1960 and 2010. If this trend continues,

---

5 Government of Ecuador. Galapagos Marine Reserve.

6 Callum, B., et al. Marine Reserves Can Mitigate and Promote Adaptation to Climate Change. Sala, Mayorga, et. al. Protecting the Global Ocean for Biodiversity, Food, and Climate.

7 This is a new area of investigation that requires additional research.

8 Ocean and Climate, (2016). Fact Sheets, second edition; and Gagern, A. (2020). A Primer on Climate Change and Marine Biodiversity. Our Shared Seas: Insights.

9 Thus, the impact of climate change on the intensity of variability in natural phenomena such as El Niño and La Niña unleash severe droughts and floods, causing significant environmental harm.

10 Government of Ecuador (2017). Op. cit.

Ecuador's temperature would rise by two degrees Celsius by the end of the century and could rise even more in regions like the Amazon and the Galapagos.[11]

1.6 Ecuador has incorporated ecosystem protection into its Nationally Determined Contribution (NDC),[12] which states that "ecosystems like the island region with the Galapagos Islands are highly fragile and consequently highly vulnerable to the expected impacts of climate change in the short, medium, and long term." The NDC also calls for "climate change adaptation projects financed with government resources, international cooperation funding, multilateral banks, bilateral cooperation resources, and blended financing (national and international funds) using innovative mechanisms to reduce the vulnerability of livelihoods, populations, and ecosystems."

1.7 **Threats to marine biodiversity in the Galapagos Marine Reserve.** The principal users of open waters surrounding the Galapagos Marine Reserve (GMR) are industrial tuna fishing operations (dominated by seiners and long-liners) and small-scale long-line fishing of large pelagic fish based in mainland Ecuador. Although coastal development and habitat degradation in this zone continue to imperil many of the endangered species in the region's open waters, the direct negative impact on the pelagic habitat within the Exclusive Economic Zone (EEZ) of the Galapagos Islands is largely associated with these fisheries. The main threats to marine biodiversity in the open waters of the Galapagos include:[13] the overcapacity of the purse seine tuna fleet, excessive and unreported shark fishing, excessive growth in the use of fish-aggregating devices in the open waters surrounding the Galapagos, unauthorized incursions of fishing boats in the GMR, the presence of foreign fishing boats in the EEZ and surrounding areas, the impact on marine fauna of strong weather variations linked to climate change, and challenges to enforcement of the law within the GMR among local users, as well as deficiencies in participatory management systems.

1.8 **Environmental governance.** Given the crosscutting nature of climate and sustainability policy, institutional capacity in the form of cooperation and collaboration among different ministries is crucial, as is partnership with the private sector and civil society. An enabling environment and sound institutional frameworks are thus needed, to improve climate and biodiversity governance. Environmental governance refers to the set of structures and processes related to making and implementing decisions related to the environment and natural capital.[14] This includes mechanisms to ensure compliance with and enforcement of environmental laws, as well as organizations and practices intended to improve specific environmental outcomes. According to the United Nations, effective governance for sustainable development means that public institutions must be based on the following key principles: efficacy, responsibility, and inclusion.[15] Since

---

[11] Government of Ecuador (2019). First Nationally Determined Contribution for the Paris Agreement under the United Nations Framework Convention on Climate Change.

[12] Ibid.

[13] For more details, see optional link 3.

[14] United Nations Environment Programme (2019). Environmental Rule of Law: First Global Report. United Nations Development Programme, Nairobi.

[15] United Nations Committee of Experts on Public Administration (UNCEPA) (2018). Principles of Effective Governance for Sustainable Development. UNCEPA: New York, USA.

policy related to the environment is a crosscutting issue involving cooperation and coordination among many organizations and individuals, a sufficient level of relevant capacity is necessary to deliver these strategies.[16] This requires, among other things, a lead agency, sufficient dedicated personnel, recognition of the environmental issue in the structure of organizations, and institutional arrangements for developing climate-related strategies.[17] In the case of biodiversity, it is crucial for countries to develop integrated approaches to preserving biodiversity, strengthen national strategies and action plans on biological diversity, effectively design their own goals and objectives, adequately value their natural assets for better conservation, and create financial mechanisms for the protection of national natural capital.

1.9 **Environmental governance for sustainable development.** Climate policy is a government priority that calls for the issue of biodiversity to be integrated into each of its different areas, particularly its importance for economic growth. The importance of these policy areas is reflected in Ecuador's first NDC[18] and National Biodiversity Strategy 2015-2030.[19] Ecuador has built up its environmental governance over time. A key milestone in this process was the creation of the GMR in 1998, seeking to expand conservation management of the archipelago's coastal areas and mitigate the impacts of a rapidly growing industrial fleet, while benefitting local small-scale fisheries in the islands.[20] Marine biodiversity preservation was recently supported through the implementation of such initiatives as Marine Commodities, the Interagency Agency of the Sea, and the action plans for mahi-mahi, shark, pompano, and small pelagic fish. Lastly, the new Hermandad Marine Reserve in the Galapagos was created in January 2022. This new protected area adds 60,000 square kilometers to the marine protection area of the Galapagos, where all fishing activity will be prohibited on 30,000 square kilometers, and longline fishing will be prohibited on the remaining 30,000 square kilometers.[21] Despite progress in establishing environmental commitments in the country, challenges persist for the implementation of those strategies, related to the identification of roles within the different levels of government; development of strategies for integration with the private sector; integration, coordination, and updating of the goals of the National Biodiversity Strategy within the government's current plan; and identification of mechanisms for financing the environmental pledges.[22]

1.10 The effort to be made toward these sustainability objectives requires financing for conservation activities that do not yield a clear private return in the short term. Currently, there is no clear institutional agreement to channel and effectively manage financing for marine biodiversity conservation activities in Ecuador, nor is

16 Willems, S., and K. Baumert (2003). Institutional Capacity and Climate Actions. Organisation for Economic Cooperation and Development (OECD).

17 Willems, S., and K. Baumert (2003). OECD.

18 Government of Ecuador (2019). Op. cit.

19 Ministry of the Environment of Ecuador (2016). National Biodiversity Strategy 2016-2030.

20 The law implemented restrictions on immigration, created an inspection and quarantine system to mitigate invasive species, and put a new institutional framework in place for ecosystem protection.

21 The objectives of this expansion include: (i) to conserve the marine/coastal species of the Galapagos that are facing new natural and man-made pressures; and (ii) to maintain the economic, social, and environmental sustainability of fishing activities in the Galapagos.

22 Government of Ecuador (2017). Op. cit.

there adequate financing for implementing the management plans for the reserve or for monitoring and surveillance of the reserve. Although there are various private funds and donors (such as the Charles Darwin Foundation, Re:Wild, and the Sustainable Environmental Investment Fund), each fund has its own approach, and adequate financing is difficult to ensure for extension of the reserve, transition of the fishing sector, and information and IT system needs, as well as the means for collaborating with the navy on monitoring. Establishing a new conservation fund[23] is a policy action that may help to meet these challenges for effective conservation. Achieving these objectives requires the noted improvements in the country's current institutional framework, but also the strengthening of fiscal and financial management, to expand capabilities and access to tools for addressing the environmental challenges.

1.11 **Establishing a conservation fund.** A major challenge for promoting sustainable natural capital conservation activities is establishing a vehicle for providing recurrent, long-term conservation financing.[24] Over the last 30 years, 40 countries have established conservation funds, which are legally independent institutions that provide nonreimbursable support for biodiversity conservation and sustainable development. In general, these funds do not carry out conservation activities directly. Rather, they raise and invest funds in a variety of sectors, before granting them again to the different stakeholders.[25] Governments are normally involved in the creation of conservation funds, and members of the public and private sectors may be included in their administration, but they are generally independent of a national government.[26] By bringing together different donors and sources of financing, conservation funds make a strategic contribution to the mobilization of resources for conservation and can thus provide transparent, responsible funding and allocations for long-term conservation initiatives and intersector collaboration and capacity development in the countries. To date, several different regional and national funds have been created in other countries, to better channel national and international financing for biodiversity.[27] However, there is currently no firm institutional arrangement established in Ecuador to effectively channel and administer financing for conservation efforts in the Galapagos Islands, so creation and capitalization of the new conservation fund will make it possible to focus on providing financing for environmental and sustainable development projects and programs in Ecuador, while effectively maintaining a track record of support for such activities with sound governance practices and promoting a blended financing approach for its capitalization and disbursement strategy.

[23] Resource allocation is essential for promoting sustainable action. In the case of biodiversity preservation, it has been demonstrated that establishing conservation funds can be an important institutional arrangement to provide financing mechanisms for long-term conservation initiatives and intersector collaboration and capacity-building in the countries. FiBraS (2020). Sustainable Finance. An Overview.

[24] Bladon, A., E. Y. Mohammed, and E. J. Milner-Gulland (2014). A Review of Conservation Trust Funds for Sustainable Marine Resources Management: Conditions for Success. International Institute for Environment and Development (IIED). Working paper. IIED, London.

[25] Blandon, A. et al. (2014). Op. cit.

[26] Ibid.

[27] Alpizar, F., et al. (2020). Mainstreaming of Natural Capital and Biodiversity into Planning and Decision-making: Cases from Latin America and the Caribbean. IDB monograph 823.

1.12 **Public finances for sustainability.** An important component of environmental governance relates to obtaining the financing required for sustainable activities in coordination with the government's general financing management strategy. Integrating environmental sustainability calls for government organizations to internalize key objectives in this area and develop sustainable financing tools and capabilities pertaining to the process of taking environmental, social, and governance (ESG) considerations fully into account when making financial decisions. A set of financial solutions is emerging to address these challenges, such as thematic bonds (green, social, blue, and others), sustainable lending products (ESG-based loans or green/sustainable loans)[28] or debt-for-nature conversion (DFNC).[29] Ecuador has taken a very important first step to access these markets by issuing the world's first social bond from a sovereign in January 2020. To continue extending its participation in this type of market successfully, a framework needs to be established for the issuance of thematic bonds in the country. In addition, the need to address the urgent sustainability challenges posed by climate change in Ecuador requires an integrated strategy to build a sound financial management framework and strengthen it to meet environmental challenges.[30] Examples include building the institutional capacity of the Public Credit Unit of the Ministry of Economy and Finance (MEF) and incorporating environmental sustainability objectives into its medium-term debt management strategy.

1.13 **Strengthening the debt management framework.** A country's debt management capacity is influenced by a combination of the quality of institutions, fiscal and monetary policies, and macroeconomic context. The breakdown of the debt (in terms of maturity, currency, or interest rates) is an important factor inducing or exacerbating the economic crisis. Although Ecuador is actively engaged in improving its debt management capabilities, recent assessments by the U.S. Treasury Department's Office of Technical Assistance reveal significant areas for improvement. The comparative institutional analysis shows that the operations of debt management offices in Ecuador could be improved significantly (the country has a rating of 18.5 out of 30 on the institutional strengthening index).[31] In particular, the country would benefit from a sequence of prioritized reforms in the short, medium, and long term.[32]

1.14 **Development of new borrowing strategies and instruments for environmental sustainability.** Given Ecuador's significant environmental challenges and resources, it is essential for debt managers to incorporate climate and sustainability

---

[28] FiBraS (2020). Op. cit.

[29] In a DFNC, the government agrees to transfer the savings obtained from a debt buyback to a local conservation fund that will use them to finance conservation projects in local currency, or to directly finance parks and protected areas.

[30] Gonguet, F., et al. (2021). Climate-Sensitive Management of Public Finances: "Green PFM". IMF-Staff Climate Notes.

[31] The index is based on Prats, J., and M. Chiara (2022). Debt Management Institutions in Latin America and the Caribbean: A Comparative Analysis.

[32] The reforms to be considered notably include the need to institute procedures for borrowing on domestic and external markets and to make resources stronger and more stable human through improvements in staff recruitment and retention, as well as better back-office management and operational risk management.

factors into debt management strategies.[33] An environmental approach requires that these strategies adapt their instruments to build strong frameworks for convincing investors that resources will be invested properly through credible execution mechanisms following sound monitoring and reporting standards.

1.15 Based on the new financial solutions for addressing environmental challenges, and for Ecuador to be able to expand its participation in such markets successfully, a framework needs to be established for the issuance of thematic bonds in the country, and innovative debt strategies need to be developed to promote sustainability and conservation. Strategies for debt management such as debt issues and buybacks must incorporate these principles, in order to increase transparency in the use of resources for environmental purposes, increase accountability, and expand the investor base for greater diversification and lower costs. As part of these strategies, DFNC represents an innovative financial approach that has the advantage of being fiscally neutral (does not raise the debt ceiling),[34] while providing additional financing for conservation activities. In transactions of this kind, the country uses financing obtained at very competitive rates to buy outstanding bonds that have higher costs, yielding savings on the bond interest rates and/or principal. These savings are directed into a conservation fund that manages the resources independently in coordination with the social and private sector under the commitments made by the government.

1.16 **Rationale and strategy.** The program as a whole will seek to contribute to the country's efforts to achieve sustainable development consistent with its commitments vis-à-vis the United Nations SDGs. The through-line of the programmatic series is strengthening environmental governance in Ecuador to better use the resources directed to sustainability and conservation, as well as to improve environmental targeting and make the management of public financing more robust. This first operation will seek to address the challenges to preserving marine biodiversity and institutional capacity for sustainability through support for a set of reforms with the following policy objectives: (i) expanding coverage and improving the management of protected areas; (ii) creating a conservation fund to finance sustainable activities, including the implementation and adoption of a system of productive good practices and sustainable policies for fishing activities in the Galapagos; and (iii) strengthening institutions for the management of environmental policy. The program will also address the challenges to debt management for sustainable finance through a set of reforms with the following objectives: (i) strengthening the institutional framework for debt management; and (ii) developing new debt instruments to strengthen sustainability. The second operation in the programmatic series is expected to go further in implementing the reforms of the first operation with special focus on the protection of land areas, particularly in the Amazon.

33 Gonguet, F., et al. (2021). Climate-Sensitive Management of Public Finances: "Green PFM". IMF-Staff Climate Notes.

34 The fundamental difference with a debt-for-nature swap (DFNS) is that, in such transactions, the country making the debt swap is in a state of financial stress and debt restructuring. It is common for these DFNS to be made in a context where the country has bilateral debts with developed countries and there is some level of debt cancellation.

1.17 **The Bank's experience in the sector and guarantee instrument.** The program design will benefit from the Bank's recent experience supporting the region's countries through guarantees for bond issues: (i) operation 4699/OC-EC, approving a US$300 million guarantee from the Bank that enabled the Republic of Ecuador to issue US$400 million in January 2020. This was the world's first social bond from a sovereign and received the Environmental Finance award for most innovative financial structure; (ii) operation 5484/OC-BH, approving a policy-based guarantee (PBG) whereby the Bank partially guaranteed the issuance of a sovereign bond in the Bahamas for US$385 million. The PBG was supported by a program of policies to promote the blue economy and marine preservation; and (iii) operation 5421/OC-EC, approved in December 2021, guaranteeing Ecuador's financial obligations for up to US$400 million through a PBG supporting reforms to promote Ecuador's sustainable and inclusive recovery. A guarantee operation was also approved in Barbados (5568/OC-BA) for economic and environmental development with a PBG to support a DFNC through a guarantee for up to US$100 million, complemented by a guarantee for up to US$50 million from The Nature Conservancy, based on a policy matrix that, like this operation, seeks to strengthen environmental and conservation governance and public debt management with a focus on sustainability.

1.18 This operation is underpinned by operations 4987/OC-BA (US$80 million, approved in 2020) and 5439/OC-BA (US$100 million, approved in 2021), which helped build a general framework for addressing the country's most significant challenges in key sectors such as planning, housing, water, and coastal management, while incorporating climate change considerations. This project will also benefit from the experience with operation 5276/OC-BH (US$140 million, approved in 2021) in The Bahamas, which has the objective of modernizing the institutional framework for better environmental resiliency by promoting a set of policies and reforms to modernize the institutional and regulatory framework for protecting the environment and natural resources in the country and develop the Blue Economy for better environmental resiliency.

1.19 Specifically, the Bank has experience through the Group of Latin American and Caribbean Debt Management Specialists (LAC Debt Group). Since 2006, this group has been providing technical assistance, generating knowledge, and sharing know-how with the debt offices of Latin America and the Caribbean, particularly in the areas of thematic bonds, institution-strengthening, and risk management. In addition, the Natural Capital Lab program focuses on putting economic value on the benefits of natural capital, mainstreaming biodiversity, and creating innovative lines of financing for conservation and restoration. In the area of fund creation, the Bank approved technical-cooperation operation ATN/OC-18428-CH (operational support), "Support to Chile's Efforts to Promote Innovation in the Biodiversity Agenda" (US$250,000, approved in 2021), which is generating experience in supporting and creating a new conservation fund in Chile, resulting in registration of the fund and a selection of fund governance documents that are being used as models for Ecuador's conservation fund. Lastly, the Bank has experience from the Galapagos Environmental Management Program (1274/OC-EC), which closed in 2006 for US$10.4 million and had the objective of reversing the process of environmental degradation of the Galapagos Islands, and specifically: (i) to support effective implementation of the management plan for the

Galapagos Marine Reserve, in order to help conserve the marine and coastal ecosystems and allow for the sustainable use of their resources; (ii) to complement efforts to reduce the introduction and spread of exotic species, pests, and diseases that threaten the archipelago's native biodiversity; (iii) to strengthen coordination capacity and develop the environmental management mechanisms of the responsible public agencies and the municipal governments of Galapagos; and (iv) to create the conditions for the Galapagos municipal governments to gain access to financing for environmentally-friendly services for potable water, sewers, and solid waste management.

1.20 **Lessons learned**. The program will benefit from experience in supporting sovereign bond issues in Ecuador (loans 4699/OC-EC, 5421/OC-EC) and The Bahamas (loan 5484/OC-BH) and lessons learned from those experiences, particularly the importance of: (i) rapid engagement and dialogue with the different stakeholders, to ensure effective structuring of the financial transaction; (ii) adaptation of the IDB's sovereign guaranteed instrument (in terms of guarantee coverage) to the financial needs of the country, to improve the anticipated mobilization of private sector funds (see paragraph 2.1); and (iii) the importance of strategic coordination and alignment between the fulfillment time frames of the policy matrix and those of the financial transaction (see paragraph 2.2). The operation will also draw on the lessons learned from the Natural Capital Lab program and the importance of promoting the creation of innovative lines of financing for conservation and restoration. Similarly, lessons learned from technical-cooperation operations ATN/OC-18428-CH and ATN/OC-18247-RG will be used with regard to the requirements necessary for the creation of funds and governance good practices for conservation funds. Lastly, consideration has been given to lessons learned from loan 1274/OC-EC and the importance of diversifying the sources of investment in monitoring systems, to avoid the high costs of such systems for programs of this kind (see paragraph 1.21).

1.21 **The IDB's value-added and technical additionality.** As described above (paragraphs 1.18 and 1.19), the Bank has prior experience with creating modern institutional and regulatory frameworks for addressing environmental challenges, with creating a conservation fund, as well as experience with an effective management plan for the GMR, all of which provides a benchmark and the technical and operational additionality of the Bank's participation. In addition, the Bank is preparing and will deliver technical assistance with the objective of supporting the process of creation of the conservation fund, building capacity for implementation of the management plan in the Galapagos Reserve, and supporting systems for monitoring and verification of the management plan.[35]

1.22 **Coordination with multilaterals.** The program is consistent with the IMF's Extended Fund Facility for Ecuador, which supports, inter alia, a series of policies intended to guarantee fiscal and debt sustainability in the country.[36] The program is

[35] A mechanism for donor and fund coordination will be created in the Galapagos, where priorities and target areas will be mapped, and a standing body will be identified for coordination between them and the national and local government.

[36] IMF (2022). Press Release 22/228; and IMF (2021). Ecuador: 2021 Article IV Consultation.

also coordinated with the activities of the Development Bank of Latin America in the area of technical cooperation for thematic and sustainability bonds.

1.23 **Parallel cofinancing: Coordination with other development agencies.** The U.S. Development Finance Corporation (DFC), a development finance agency of the U.S. government, will support the financial structure of the operation by providing political risk insurance for up to US$800 million, which, along with the IDB guarantee, will contribute to significantly lower costs for the financing to be obtained by the Republic of Ecuador (see paragraph 2.3 for more detail on the planned financial structure and paragraph 2.5 for more information on the form of interaction with the DFC). The DFC has extensive experience supporting DFNC operations with political risk insurance, having recently supported the transaction in Belize in 2021.[37]

1.24 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and strategically aligned with the development challenge of Productivity and Innovation, by improving the sustainable investment climate, and with crosscutting themes of: (i) climate change, by supporting institutional reforms to promote governance and the necessary investments for climate change resilience. According to the joint methodology of the multilateral development banks, the project is estimated to include 91% climate finance due to the planned actions with climate impact. These resources contribute to the IDB's climate finance target (30% of the volume of annual approvals); (ii) environmental sustainability, by contributing to sustainability objectives and the adoption of innovative financial instruments; and (iii) institutional capacity and rule of law, by strengthening the institutional frameworks and increased capacity for achieving goals in the context of the country's SDGs and improvement in the management of public debt. In addition, the program is aligned with the IDB's Vision 2025 "Reinvest in the Americas: A Decade of Opportunities" (document AB-3266) and the objective of working toward sustainable and inclusive economic growth. The program is also consistent with the IDB Group's Climate Change Action Plan 2021-2025 (document GN-2848-9) and the Climate Change Sector Framework Document (document GN-2835-8), by promoting actions to strengthen environmental and conservation governance and public debt management with a sustainability focus. Lastly, it is aligned with the IDB Group Country Strategy with Ecuador 2022-2025 (document GN-3103-1) and the strategic objectives of: (i) strengthening the regulatory frameworks that facilitate private investment; and (ii) reducing inefficiencies in public administration. Lastly, the operation is included in the Update to Annex III of the 2022 Operational Program Report (document GN-3087-2).

1.25 **Innovative aspects.** This operation proposes an innovative structure for use of the IDB guarantees instrument since it will be conducted: (i) in coordination with the political risk insurance provided by the DFC to improve the scale and terms of the debt to be obtained by Ecuador and, therefore, the scope of the financial and environmental outcomes expected from a DFNC in the country (see paragraph 1.23); and (ii) under a programmatic series intended to support the

[37] This transaction for US$553 million succeeded in reducing Belize's debt by more than 10% and expanding the country's protected marine area to 30% of the total. See IMF. 2022. Finance and Development. Belize Country Focus.

governance structure for managing the necessary resources to protect two of the planet's greatest natural assets, namely the Galapagos Islands in the first operation and the Amazon region in the second operation of the programmatic series (see paragraph 1.16).

B. Objectives, components, reform program, and cost

1.26 **Objectives.** The program's general development objective is to strengthen environmental sustainability in Ecuador. The specific development objectives are: (i) to strengthen the institutional framework for supporting sustainable finances and effective management of natural capital; and (ii) to improve the organization and operation of public financing for environmental and financial sustainability. The program has the following components:

1.27 **Component 1. Macroeconomic stability.** The objective of this component is to ensure a feasible macroeconomic context for execution of the operation. It seeks to provide a stable macroeconomic framework conducive to achievement of the program's objectives as established in the Policy Matrix and the Policy Letter.

1.28 The indicative policy trigger of the second operation will remain a stable macroeconomic framework conducive to achievement of the program's objectives as established in the Policy Matrix and the Policy Letter.

1.29 **Component 2. Environmental governance.** This component seeks to ensure correct and sustainable use of the resources of the DFNC. It focuses specifically on climate commitments, the conservation fund, and the institutional structure of the Ministry of the Environment, Water, and Ecological Transition (MATE). This component's policy actions will be directed to: (i) declaration of the area known as Hermandad (60,000 square kilometers), located in Ecuador's Exclusive Economic Zone, as a marine reserve; (ii) development and updating of the limits of the Galapagos Marine Reserve (GMR) via ministerial resolution; (iii) development of a GMR management plan following best practices and including (a) dialogue between the main economic and social stakeholders; and (b) implementation cost; (iv) validation of a conservation fund for protection of the GMR following best practices with regard to governance, ESG standards, and mandate; (v) approval of the conservation fund's draft operating regulations, including (a) a mechanism for allocation of funds; (b) mechanisms for appointing and changing directors; and (c) investment guidelines; and (vi) MATE and/or MEF training plan on conservation fund governance.

1.30 The indicative policy triggers of the second operation are: (i) development and approval of the limits of a new conservation plan for the Amazon region; (ii) evaluation of the GMR management plan following best practices and supervising the inclusion of (a) dialogue between the main economic and social stakeholders; and (b) implementation cost; (iii) creation by the MATE of a conservation fund for protection of the Amazon region; (iv) by MATE of operating guidelines for the conservation fund for protection of the Amazon region; and (v) development of a MATE institutional strengthening plan.

1.31 **Component 3. Improved financial regulation for sustainable development.** This component seeks to achieve effective financial management in the country in the future, emphasizing a medium-term debt management strategy that takes climate components into account and effective institutional operation of debt management offices. This component's policy actions will be directed to: (i) performance of a diagnostic assessment and definition of a sequence of prioritized reforms for institutional strengthening of the MEF's public credit unit; (ii) creation by the MEF of a Fiscal Risk Management Committee that addresses, inter alia, natural disasters and price volatility; (iii) definition of governmental coordination bodies for sustainable finances through the creation of an Institutional Financing and Thematic Monitoring Committee; (iv) creation by the MEF of regulations, including the applicable structure, for DFNC; (v) presentation by the MEF of a work plan for implementation of a framework for the issuance of green sovereign bonds; and (vi) development of the Guideline Classification System for Environmental/Climate Policy Expenditure, to be implemented on a mandatory basis by all Government General Budget entities for the purpose of providing transparency in the use of public resources for environmental/climate policies.

1.32 The indicative policy triggers of the second operation are: (i) implementation of the sequence of prioritized reforms for institutional strengthening of the MEF's public credit unit; (ii) evaluation by MEF letter of the operation of the Fiscal Risk Management Committee that addresses, inter alia, natural disasters and price volatility; (iii) approval by the MEF of the operating regulations of the Institutional Financing and Thematic Monitoring Committee; (iv) evaluation by the MEF of the strategic framework and procedures for DFNC; (v) preparation by the MEF of a DFNC strategy for protection of the Amazon region; (vi) approval by the MEF of a governance framework for the financing strategy with a framework for sustainable sovereign bonds; and (vii) implementation of the Guideline Classification System for Environmental/Climate Policy Expenditure for categorizing expenditures.

C. Key results indicators

1.33 The indicators used to measure the general development objective will be: (i) budget allocated for marine control of the GMR area as a percentage of necessary total budget; and (ii) average number of hammerhead shark sightings per dive. The results associated with the first specific development objective will be measured on the basis of: (i) budget allocated for marine control of the GMR area as a percentage of necessary total budget; (ii) environmental, social, and governance regulation index; and (iii) percentage of resources mobilized for the conservation fund that are allotted to finance conservation activities. The results associated with the second specific development objectives will be measured on the basis of: (i) index of institutional capacity of public debt offices; (ii) number of sustainable bonds issued under a new framework for thematic bonds; and (iii) amount mobilized for the conservation fund.

1.34 **Beneficiaries.** The main beneficiaries will be the population of the Galapagos Islands,[38] who will enjoy the benefits of the protected areas and low-carbon and resilient investments through the creation of an enabling environment for investments in natural capital and its restoration and protection, and the population

[38] Estimated at 25,244 inhabitants, according to the latest Population and Housing Census of the Galapagos, 2015.

of Ecuador in general,[39] who will benefit from a more sustainability-oriented debt management capacity.

1.35 **Economic evaluation.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects,[40] the findings of the review of evaluation practices and standards for policy-based loans by the Evaluation Cooperation Group (comprising the independent evaluation offices of the Multilateral Development Banks),[41] and as envisaged in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations), which indicates that including an analysis of efficiency in the use of financial resources would be unnecessary,[42] it was decided that economic analyses would not be conducted for these types of financing, as reported to the Bank's Board of Executive Directors. Considering the policy-based nature of this PBG, and that no underlying investments have been identified, this operation does not include an economic analysis. Accordingly, the economic analysis will not be considered for purposes of the evaluability score on the Development Effectiveness Matrix for this program.

II. Financing Structure and Main Risks

A. Financing instruments

2.1 **Financing modality.** As noted, the financial instrument to be used in this first operation is a policy-based grant (PBG).[43] This instrument allows a guarantee to be issued with a sovereign counterguarantee (SCG), once the county has met a series of policy conditions agreed upon with the sovereign. Thus, this PBG combines: (i) the granting of a guarantee to cover payment obligations of the Republic of Ecuador to be contracted under the Guaranteed Instrument; and (ii) support for a program of policy reforms intended to strengthen the institutional framework for improving financial and environmental sustainability in the country. Once the government completes the policy reforms agreed upon in the Policy Matrix for the first operation (Annex II), the Bank will issue the guarantee. The amount of the guarantee will be up to US$85 million, to be financed from the Bank's Ordinary Capital resources. The guarantee will seek to: (i) lower costs and lengthen the maturities of the guaranteed debt; and (ii) mobilize additional resources from international investors. This operation represents 1.8% of public

---

39 Estimated at 17.8 million in 2021. (World Bank).

40 Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to policy-based loans and programmatic policy-based loans."

41 Evaluation Cooperation Group, 2012.

42 According to the Evaluation Cooperation Group, programmatic policy-based loans should be evaluated based on relevance, effectiveness, and sustainability. Efficiency is not included as a criterion because policy-based loans are tied to a financial gap, regardless of the project's benefits.

43 This first operation is structured as a guarantee operation, as provided in document GN-2729-2 (Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations, paragraph 3.2), which allows for the structuring of policy-based loans, conceived as a sovereign guarantee that can be issued directly as the result of fulfillment of the policy reforms agreed upon between the country and the Bank, to cover commercial risk, credit risk, or political risk. In this case, the guarantee covers political risk.

sector financing needs (US$4.721 billion) and 1.9% of Ecuador's external financing (US$4.341 billion) for 2022.

2.2 **Objective of the guarantee.** The objective of the IDB guarantee is to facilitate, along with the coverage to be provided by the U.S. International Development Finance Corporation (DFC), a debt-for-nature conversion (DFNC) operation. This involves a buyback operation by Ecuador to replace more costly public debt with more economical financing, to be obtained with the IDB guarantee and the political risk insurance provided by the DFC.[44] This liability management exercise, on the part of the Government of Ecuador, will generate estimated savings of around US$110 million[45] for the public coffers because the cost of the guaranteed instrument will be less than the cost of the (unsecured) debt replaced that Ecuador currently has in circulation, which also lists with discounts of around 40%. A portion of the savings generated through this operation will be directed to financing the activities of the conservation fund (see paragraph 2.6).[46]

2.3 **Structure of the debt-for-nature conversion.** Ecuador will use the resources from the Guaranteed Instrument (which is expected to have favorable financial terms with the Bank's guarantee and the DFC coverage) to finance a buyback of more expensive market debt. The sequence of the planned financial structure, from the Bank's point of view, will be as follows: (i) Ecuador will satisfy the conditions of the Bank's Policy Matrix; (ii) simultaneously with the DFC's granting of political risk insurance, the Bank will issue a guarantee to cover the Guaranteed Instrument; (iii) the provider of financing under the Guaranteed Instrument and beneficiary of the Bank's guarantee and the DFC political risk insurance is expected to be a special purpose vehicle (SPV),[47] to be created by the financial institutions responsible for the financial structuring of the operation;[48] (iv) the country will use the resources from the Guaranteed Instrument to back an Ecuadorian debt swap operation on the market; and (v) Ecuador will channel the savings resulting from the buyback operation through the SPV to the conservation

---

[44] The IDB guarantee and the coverage provided by the DFC are parallel operations, dimensioned and structured according to each institution's own parameters in relation to Ecuador. Nonetheless, the two instruments serve the common purpose of covering part of the payment of the Republic of Ecuador's obligations with the VPE and thus improving the conditions for the debt substitution exercise (for more detail, see Figure 1).

[45] The savings of US$110 million corresponds to the US$85 million of the IDB guarantee. Since this will make an US$800 million operation feasible, total savings are estimated at US$1.037 billion. This calculation starts with the assumption that the bonds subject to buyback are obtained with a discount of 30% and mature in 2040, and the rate differential between the purchased bonds and the financing obtained to purchase them is 50 basis points. Logically, different market scenarios may occur at the time of the transaction, but the benefits are expected to be very significant.

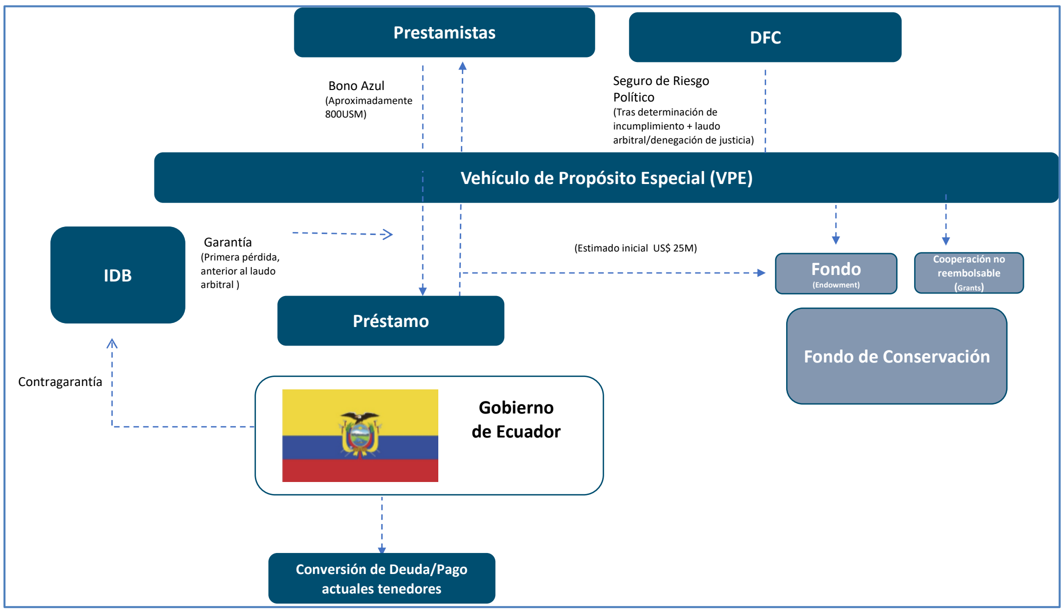
[46] This buyback is a sovereign liabilities management exercise, on the part of the Government of Ecuador, and in no way part of a debt restructuring exercise, which is for a purpose and in a context very different from a liabilities management operation. In a debt restructuring, the country negotiates with all its creditors as a group in the context of a fiscal sustainability problem. This operation follows the logic of the Program to Support Environmental and Economic Development in Barbados (loan 5568/OC-BA), which also supports a DFNC via an IDB sovereign guarantee. Both cases involve market interventions that do not affect the bulk of the country's indebtedness but develop a financing structure that makes a liabilities management operation viable for the purpose of generating savings for natural capital preservation.

[47] To be located in a jurisdiction acceptable to the IDB and that satisfies the IDB's transparency and integrity requirements.

[48] These are expected to be Credit Suisse (underwriter) and Oceans Finance (arranger).

fund. To provide the Guaranteed Instrument in favor of Ecuador, the SPV will obtain its financing by issuing a blue bond (or loan) for an amount initially estimated at US$800 million, equivalent to the coverage to be provided by the DFC. Initially, the SPV is expected to use these funds to: (a) endow the conservation fund initially with approximately US$25 million; and (b) issue the Guaranteed Instrument. See Figure 1 below for a visualization of the sequence of the financial structure.

Figure 1. General structure of the sovereign guaranteed operation in support of a DFNC in Ecuador[49]



Source: Prepared by the authors.

2.4 **Additionality of the IDB's sovereign guarantee.** The IDB's sovereign guarantee instrument has several advantages: (i) lower overall financing costs for Ecuador due to the IDB's AAA rating; (ii) possibility of a DFNC (with the proceeds of the Guaranteed Instrument) and its outcomes in terms of protected areas; (iii) promotion of the mobilization of international resources towards government financing; (iv) enhancement of the government's overall debt profile through lower borrowing costs and improved maturity compared to a non-guaranteed debt issue; and (v) technical capacity-building of the country in managing more sophisticated transactions such as guaranteed debt operations under thematic frameworks.

2.5 **Collaboration with the U.S. International Development Finance Corporation.** As mentioned above (see paragraph 2.3), the DFC will provide additional credit risk coverage for the operation through political risk insurance. The DFC coverage is triggered in the event of Ecuador's default on the Guaranteed Instrument and (i) an arbitration award decreeing that default has occurred; or (ii) a determination

49 The DFC's political risk insurance is triggered in two cases: (i) arbitration award; or (ii) denial of justice.

that justice has been denied.[50] This coverage will supplement the guarantee to be provided by the IDB, enhancing it and delivering greater financial benefits through: (i) credit rating enhancement for the debt to be obtained by the Government of Ecuador; and (ii) freeing of resources for the government that can be allocated to the DFNC operation, thus improving the financial, economic, and environmental outcomes of the operation. The DFC coverage is expected to operate chronologically after that of the IDB, since it requires an arbitration award or denial of justice declaration prior to being disbursed, whereas the IDB guarantee does not require this. The Bank's guarantee is triggered in the event of Ecuador's default on the Guaranteed Instrument, covering Ecuador's payment obligations under the Guaranteed Instrument and providing liquidity for the planned financial structure while the arbitration award is being processed or a denial of justice determination is being made, which would trigger the DFC insurance.

2.6 **Financial additionality of the IDB's sovereign guarantee.** Given the features of the DFC political risk insurance, it is important for the financial structure to continue covering the debt principal and/or interest during the period between a default and the arbitration award or denial of justice declaration. This coverage is key to ensuring that the debt obtains the best possible credit rating and, thus, the least possible cost for Ecuador. In the absence of the IDB guarantee, reserves would have to be established to provide coverage for this period prior to the arbitration award, so the IDB guarantee will free resources that can then be used for the DFNC, with the associated financial, economic, and environmental benefits. Compared to a scenario without a guarantee, the US$85 million guarantee is projected to deliver savings for the country of nearly US$110 million over the next 20 years.[51] Around 30% of these savings is expected to be deposited in the conservation fund during that period, yielding benefits for the country in terms of sustainability and conservation, while the rest will be fiscal savings.

2.7 **Terms and conditions of the guarantee: General considerations.** With the exception of the requested waivers (see paragraphs 2.12 and 2.13), the guarantee will comply with the Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations (document GN-2729-2) and its Operating Guidelines (document GN-2729-4), including the following provisions: (i) once issued, the guarantee will be irrevocable; (ii) the maximum guarantee period will be 20 years with a weighted average life (WAL) of up to 12.75 years; and (iii) the guarantee fee will be equal to the IDB sovereign guaranteed variable lending spread applicable to the maximum guarantee amount.

2.8 **Terms and conditions of the counterguarantee.** Prior to issuance of the guarantee, the Bank will sign a sovereign counterguarantee agreement with Ecuador. Among other points, this agreement will provide that, if the Bank has to make a payment under the guarantee, the amount paid will be reimbursed to the Bank within 180 days. From the date of payment by the Bank onwards, the total amount to be reimbursed will accrue interest at the same rate applicable to sovereign guaranteed loans from the Bank's Ordinary Capital and will be subject

---

50 When the guaranteed creditor is unable to access an arbitration proceeding to decree default. Both events (amenable arbitration award or denial of justice declaration) meet the definition of expropriation according to the DFC's terminology, which triggers the insurance coverage.

51 See footnote 45 op. cit. for calculation assumptions.

to applicable policies. The Bank and Ecuador may agree on a different payment profile. A default on repayment of the counterguarantee will be treated in the same way as delinquent sovereign-guaranteed loans.

2.9 **Noncompliance and remedies.** The Counterguarantee Agreement will provide that, when the Bank has made a determination of noncompliance with integrity requirements (existence of prohibited practices) in relation to the program, or in the event of noncompliance with the program agreed upon by the Bank or any other obligation provided in the Counterguarantee Agreement, the Bank may make an advance disbursement and deposit the amount of the guarantee with a third party for the benefit of the Guaranteed Creditor. This advance disbursement terminates the guarantee and triggers the sovereign's reimbursement obligations under the Counterguarantee Agreement (see footnote 43 of policy document GN-2729-2).

2.10 **Special contractual conditions precedent to issuance of the guarantee. The guarantee will be issued subject to the following conditions: (i) the counterguarantor has fulfilled the conditions summarized in the Policy Matrix (Annex II) and the Policy Letter; (ii) the Bank has negotiated and agrees with the terms of the guarantee contract; (iii) the Bank is satisfied with the structuring of the Guaranteed Instrument and associated documentation; and (iv) the Counterguarantee Agreement between the Bank and the Counterguarantor has entered into effect on terms acceptable to the Bank.** Fulfillment of these conditions is a requirement for the Bank to issue the guarantee, as a means to ensure due compliance with the operational aspects of the program and mitigate the fiduciary risks for the Bank.

2.11 **Structure of the guarantee.** The final structure of the guarantee will be based on market structure and conditions, so the tenor and amount of coverage of the definitive guarantee will not be known until closing of the operation. The transaction is expected to occur in the second half of 2022. The guaranteed coverage level will be structured so as to minimize the costs of resources for the government (and thereby increase associated conservation outcomes) and to mobilize other international investors with good credit ratings to increase the size of the transaction.

2.12 **Waivers of guarantee policy.** Two waivers are requested with respect to the Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations (document GN-2729-2). The first is a waiver of footnote 37, which establishes that IDB sovereign guarantees will not cover debt acceleration, meaning that, if the guaranteed debtor fails to meet its obligations, disbursements under the IDB guarantee would follow the original repayment schedule of the guaranteed financial instrument, regardless of its acceleration. If the IDB guarantee could be accelerated, this would strengthen the guarantee's structure vis-à-vis the market and would make it possible to substantially improve the financial terms of the bond issue for Ecuador.[52] Two risks associated with this waiver have been considered: (i) greater financial exposure, i.e., concentrated payments; and (ii) distortion of

[52] This waiver was requested and approved in 2021 in the Program for Development and Economic Recovery in Ecuador (loan 5421/OC-EC) and requested and approved in August 2022 by the Bank's Board of Executive Directors for the Program to Support Environmental and Economic Development in Barbados (loan 5568/OC-BA).

incentives. i.e., incentives to trigger the guarantee in order to obtain more beneficial repayment terms from the Bank. The risk of exposure is considered low because the amount of the guarantee transaction is not of a size that could affect the Bank's balance sheet. The risk of the distortion of incentives, also considered low, will be mitigated by a short repayment period to be included in the Counterguarantee Agreement entered into between the government and the IDB. Any payment made by the IDB under the guarantee must be reimbursed by the government within 180 days following the date of the guarantee payment, although the IDB may, at its sole discretion, agree to more flexible repayment terms.[53]

2.13 A waiver is also requested with respect to footnote 53 of guarantee policy document GN-2729-2, which establishes that "the repayment terms agreed between the Bank and the Sovereign will be within the tenor of the remaining WAL (after deducting the guarantee period from the original WAL), in consistency with the principle of financial neutrality between SCG guarantees and loans." Approval of this waiver would allow the IDB to offer a repayment period up to the maximum WAL of the instrument (12.75 years running from the date of the guarantee agreement).[54] The existing limit for repayment (remaining WAL of the guarantee, rather than 12.75 years) as established in the guarantee policy could become too restrictive when the tenor of the underlying debt instrument is shorter than 12.75 years (as anticipated in the case of the Guaranteed Instrument). The risk associated with this waiver also relates to the potential incentive noted above to default on the Guaranteed Instrument in order to access more favorable financing terms from the IDB. As with the first waiver, this risk will be managed by means of the Counterguarantee Agreement, which will dictate a short repayment period of 180 days. The IDB may offer a longer repayment period, but: (a) only at its sole discretion; and (b) within certain limits (maximum WAL of the instrument).[55]

B. Environmental and social safeguard risks

2.14 Pursuant to paragraph 2.3 of the Environmental and Social Policy Framework (ESPF) (document GN-2965-23), the ESPF applies only to investment loans, investment guarantees, and project-specific contributions. Since this operation is a PBG, there are no ESPF requirements, and the operation does not receive an environmental and social classification.

C. Fiduciary risks

2.15 No fiduciary risks associated with this operation have been identified. The executing agency has the necessary financial management and control systems for such purpose. The guarantee will be issued (together with and on the date of issue of the sovereign bond or loan contract, as applicable), once the conditions set out in the Counterguarantee Agreement have been met.

---

[53] According to Section 3.24 of the guarantee policy.

[54] This waiver was requested and approved in August 2022 for the Program to Support Environmental and Economic Development in Barbados (loan 5568/OC-BA).

[55] Idem.

D. Other key risks and issues

2.16 **Other risks.** Two medium-high risks were identified: (i) an institutional risk that, if government capacity to work on the program reforms in a timely manner is lacking, completing the reforms agreed upon in the policy reform program could be delayed, since they are conditions precedent to the issuance of the guarantee, which could delay the DFNC and reduce both the anticipated benefits provided by the liability management exercise and the resources available for the nature conservation activities. This is a risk that the IDB can mitigate by working closely with and supporting the government on the design and fulfillment of the most important conditions of the policy program and providing technical support through the technical/cooperation operation now in preparation (see paragraph 1.21); and (ii) an economic/financial risk that, as the country continues to experience the consequences of the pandemic and natural disasters, other unanticipated external shocks may arise. The government's priorities could change as a result, and institutional changes could be introduced that affect the achievement of the project's objectives. This is a risk that the IDB can mitigate by supporting dialogue among all stakeholders and providing technical support to the government to achieve the necessary consensus around these policies and program targets.

2.17 **Key issues: Sustainability.** The reform program supports country medium-term policies with a high impact on environmental sustainability and sustainability in the management of public finances. Moreover, the guarantee will contribute to establishing and funding a conservation fund with a mechanism for allocating positive flows of resources beyond the life of the operation.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The counterguarantor is the Republic of Ecuador. The Ministry of Economy and Finance (MEF) will act as the executing agency and will have the following responsibilities: (i) provide evidence that the policy commitments have been fulfilled, along with any other program-related evidence needed by the Bank to issue the guarantee; (ii) support the actions required for continuity in program implementation; and (iii) once the guarantee has been issued, gather information on the necessary performance indicators to evaluate program outcomes. In addition, the MEF, acting through a project coordination team, will ensure strategic coordination with the institutions involved in the different policy measures included in the program. This will be done through biweekly coordination meetings with each focal point of the relevant stakeholders.

3.2 **Coordination mechanisms.** The MEF will ensure strategic coordination with the institutions involved in the different policy measures included in the program. Regular coordination and monitoring meetings are planned between the MEF and all institutions involved, and with the Bank, in relation to implementation of the policy measures included in the program. In particular, the MEF will coordinate periodically with the Ministry of the Environment, Water, and Ecological Transition (MATE) through two key working groups of staff from both departments, who will meet regularly: (i) the debt management and financing group responsible for strengthening the public debt unit and its instruments, as well as the financial transaction for the debt-for-nature conversion (DFNC); and (ii) the environmental governance group responsible for performance of the actions related to protected area management and the establishment of conservation funds governance.

3.3 **Conservation fund.** The conservation fund will be a legally independent institution, the creation of which is supported by the program. It will be administered by a governing body that includes members of the government and civil society. The resources of the conservation fund will be administered independently and professionally and will be used to grant subsidies to support activities aligned with conservation activities through an annual subsidy program. These activities could include marine conservation, biodiversity preservation, improvements in waste management, introduction of sustainability practices in businesses associated with the blue/sustainable economy, and others. The conservation fund will be established as a 501(c)(3) nonprofit under U.S. law, registered to operate in Ecuador, and based in the Galapagos Islands. It will be a subsidy-granting institution, not an executing entity, and is intended to enable a reliable flow of financial resources in the long run to support environmental management, biodiversity conservation, and sustainable development initiatives in the Galapagos. The purpose of the conservation fund and financing priorities will be based on local conservation imperatives and will be articulated in its bylaws and other governing documents. The conservation fund's general objective will be to promote the maintenance and growth of natural capital of the Galapagos Islands by granting subsidies to nonprofit organizations, community organizations, government agencies, and the private sector for relevant environmental and sustainable development projects. The activities of eligible projects to be financed by the conservation fund include but are not limited to: biodiversity conservation and management; disaster reduction; sustainable development; climate adaptation and resilience; natural resource management; coastal area management; monitoring and control of protected marine, coastal, and land areas; waste management; sustainable livelihoods; creation of environmental standards and legislation (oil and gas regulation); green island transition; and others.

B. Summary of arrangements for monitoring results

3.4 **Monitoring.** Program monitoring will track fulfillment of the program's policy measures agreed upon as conditions (required link 2). In addition, the results of these reforms and policies will be monitored at the program level via the Results Matrix indicators (Annex III). Specific arrangements have been made to ensure evaluation of the tracking lines for all results (required link 3).

3.5 **Evaluation.** The proposed methodologies for the evaluation of programs are quantitative without causal attribution analysis. For all results indicators included in the program results framework, the evaluation of the effectiveness of reforms includes before-and-after comparisons. The findings of these evaluations will be included as part of the program final evaluation (required link 3).

IV. POLICY LETTER

4.1 The Policy Letter reiterates the government's commitment to the policy reform measures that Ecuador has agreed to implement to achieve the program objectives. Additionally, the Bank and the Government of Ecuador have agreed on a Policy Matrix (Annex II) that identifies the policy actions under this operation.

Development Effectiveness Matrix		
Summary	EC-U0005	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Productivity and Innovation -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-3103-1**	**(i) strengthen regulatory frameworks that enable private investment, and (ii) reduce inefficiencies in public management.**
Country Program Results Matrix	**GN-3087-2**	**The intervention is included in the 2022 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	**7.9**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**1.6**	
3.3 Results Matrix Quality	**3.8**	
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	**N.A.**	
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**	**The program has a TC in preparation whose objective is to support the process of creating the CF, strengthen the capacities to implement the management plan in the Galapagos Reserve, and support the monitoring and verification systems of the management plan**

Evaluability Assessment Note:

This project is structured as a Policy-Based Guarantee (PBG) for US$85mm, which will support the strengthening of environmental governance in Ecuador to improve the use of resources destined for sustainability and conservation, as well as environmental targeting and the robustness of public financing management. The general objective of the program is to strengthen environmental sustainability in Ecuador. The specific objectives of the first operation are: (i) to strengthen the institutional framework to support sustainable finance and proper management of natural capital; and (ii) improve the organization and operation of public financing for environmental and financial sustainability. The first operation supports a set of reforms associated with: (i) expansion of coverage and improvement of the management of protected areas; (ii) creation of a conservation fund (FC) to finance sustainable activities; (iii) strengthening of the institutional framework for the management of environmental policy; (iv) strengthening of the institutional framework for debt management; and (v) development of new debt instruments to strengthen sustainability.

The diagnosis presented is adequate and the proposed policy measures respond in general to the deficiencies and opportunities identified to achieve the objectives. The evidence presented throughout the project documentation validates the proposed interventions to achieve the objectives. The results matrix exhibits a vertical logic with results indicators that allow evaluating the fulfillment of the specific objectives.

The Monitoring Plan meets expectations for this type of loan. The Evaluation Plan includes details on the methodology that will be used to verify the achievement of each specific objective, that is, before and after comparisons. These types of comparisons do not allow empirical attribution of results.

POLICY MATRIX

Objective: The program's general development objective is to strengthen environmental sustainability in Ecuador. The specific development objectives are: (i) to strengthen the institutional framework for supporting sustainable finances and effective management of natural capital; and (ii) to improve the organization and operation of public financing for environmental and financial sustainability.

Components/ Policy objectives	Policy actions of the first operation	Fulfillment status of conditions of programmatic operation I[1]	Indicative policy triggers of the second operation
Component 1. Macroeconomic stability			
1.1 Macroeconomic stability	1.1.1 A stable macroeconomic framework conducive to achievement of the program's objectives as established in the Policy Matrix and the Policy Letter.	Fulfilled	1.1.1 A stable macroeconomic framework conducive to achievement of the program's objectives as established in the Policy Matrix and the Policy Letter.
Component 2. Environmental governance			
2.1 Expanded coverage and improved management of protected areas	2.1.1 Declaration of the area known as Hermandad (60,000 square kilometers), located in Ecuador's Exclusive Economic Zone, as a marine reserve.	Fulfilled (Q1, 2022)	
	2.1.2 Development and updating of the limits of the Galapagos Marine Reserve (GMR) via ministerial resolution.	Fulfilled (Q3, 2021 and Q2, 2022)	2.1.2 Development and approval of the limits of a new conservation plan for the Amazon region.
	2.1.3 Development of a GMR management plan following best practices and including (a) dialogue between the main economic and social stakeholders; and (b) implementation cost.	To be fulfilled (Q4, 2022)	2.1.3 Evaluation of the GMR management plan following best practices and supervising the inclusion of (a) dialogue between the main economic and social stakeholders; and (b) implementation cost.
2.2 Promotion of the creation of conservation funds to finance sustainable activities	2.2.1 Validation of a conservation fund for protection of the GMR following best practices with regard to governance, ESG standards, and mandate.	To be fulfilled (Q4, 2022)	2.2.1 Creation by MATE of a conservation fund for protection of the Amazon region.
	2.2.2 Approval of the conservation fund's draft operating regulations, including (a) a mechanism for allocation of funds; (b) mechanisms for appointing and changing directors; and (c) investment guidelines.	To be fulfilled (Q4, 2022)	2.2.2 Establishment by MATE of all operating guidelines for the conservation fund for protection of the Amazon region.

[1] This information is merely indicative as of the date of this document. As established in document GN-2729-2 (Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations), the macroeconomic policy-related requirements for approval of a policy-based guarantee (PBG) are substantially the same as the requirements for the approval of policy-based loans (PBLs), namely, a valid independent assessment of macroeconomic conditions (IAMC). Nonetheless, given the irrevocable nature of the guarantee instrument, the PBG will only require an IAMC as a condition precedent to the effectiveness of the guarantee and not prior to any disbursement by the Bank under the guarantee, should it be called. In addition, the effectiveness of the PBG will be subject to the counterguarantor's fulfillment of all the policy conditions indicated in the Policy Matrix.

Components/ Policy objectives	Policy actions of the first operation	Fulfillment status of conditions of programmatic operation I[1]	Indicative policy triggers of the second operation
2.3 Institutional strengthening for environmental policy management	2.3 MATE and/or MEF training plan on conservation fund governance.	To be fulfilled (Q4, 2022)	2.3 Development of a MATE institutional strengthening plan.
Component 3. Improved financial regulation for sustainable development			
3.1 Strengthening of the institutional framework for debt management	3.1.1 Performance of a diagnostic assessment and definition of a sequence of prioritized reforms for institutional strengthening of the MEF's public credit unit.	Fulfilled (Q3, 2021)	3.1.1 Implementation of the sequence of prioritized reforms for institutional strengthening of the MEF's public credit unit.
	3.1.2 Creation by the MEF of a Fiscal Risk Management Committee that addresses, inter alia, natural disasters and price volatility.	Fulfilled (Q2, 2022)	3.1.2 Evaluation by MEF letter of the operation of the Fiscal Risk Management Committee that addresses, inter alia, natural disasters and price volatility.
	3.1.3 Definition of governmental coordination bodies for sustainable finances through the creation of an Institutional Financing and Thematic Monitoring Committee.	Fulfilled (Q4, 2021)	3.1.3 Approval by the MEF of the operating regulations of the Institutional Financing and Thematic Monitoring Committee.
3.2 Development of a framework for generating new sustainable debt instruments	3.2.1 Creation by the MEF of regulations, including the applicable structure, for DFNC	To be fulfilled (Q4, 2022)	3.2.1 (a) Evaluation by the MEF of the strategic framework and procedures for DFNC. (b) Preparation by the MEF of a DFNC strategy for protection of the Amazon region.
	3.2.2 Presentation by the MEF of a work plan for implementation of a framework for the issuance of green sovereign bonds.	To be fulfilled (Q4, 2022)	3.2.2 Approval by the MEF of a governance framework for the financing strategy with a framework for green sovereign bonds.
	3.2.3 Development of the Guideline Classification System for Environmental/Climate Policy Expenditure, to be implemented on a mandatory basis by all Government General Budget entities for the purpose of providing transparency in the use of public resources for environmental/climate policies.	To be fulfilled (Q4, 2022)	3.2.3 Implementation of the Guideline Classification System for Environmental/Climate Policy Expenditure for categorizing expenditures.

RESULTS MATRIX

Project objective:	The specific development objectives are: (i) to strengthen the institutional framework for supporting sustainable finances and effective management of natural capital; and (ii) to improve the organization and operation of public financing for environmental and financial sustainability. The program's general development objective is to strengthen environmental sustainability in Ecuador.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective – Strengthen environmental sustainability in Ecuador							
Budget allocated for marine control of the Galapagos Marine Reserve (GMR) area as a percentage of necessary total budget.	%	42	2022	2028	80	WildAid Report on the Marine Protection System for the GMR	The specialized literature finds a positive relationship between activities for monitoring and supervision of protected areas and preservation of marine biodiversity, so strengthening marine control activities is important for achieving preservation goals. The report published by WildAid on the Marine Protection System for the GMR estimates the budget needed to implement an effective marine protection system in the Galapagos and compares it to the allocated budget. The debt-for-nature conversion (DFNC) and creation of the conservation fund are expected to contribute to narrowing the budgetary gap by mobilizing funds for monitoring and oversight of the GMR, since these activities are part of those to be financed by the fund (see main loan document, paragraph 3.3). Based on the projections in the WildAid study, in the target year the allocated budget is expected to reach 80% of what is needed. WildAid prepares updates of these reports that will be used to track changes in this indicator (for more detail see monitoring and evaluation plan and its Table 8). In addition, the monitoring and evaluation plan includes two *monitoring indicators* associated with this impact indicator: (i) annual average of monthly sightings of fishing boats in the GMR; and (ii) annual average of monthly interceptions and inspections of fishing boats in the GMR.

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
Average number of hammerhead shark sightings per dive.	Number	80.5	2019	2028	84.5	Scientific report of the Universidad San Francisco de Quito (USFQ)	The program actions are expected to contribute to protecting biodiversity in the reserve. This indicator in the GMR will measure change in sightings in the GMR of one of the most important species for marine biodiversity in the reserve. The baseline was calculated based on the average per dive estimated by a USFQ study based on data from *SharkCount*. This study will continue to be updated in years to come and provide the basis for measuring change in this indicator. An increase of 5% is regarded as significant progress during the relevant time span.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline value	Baseline year	End of project (2024)	Means of verification	Comments
Specific development objective 1 – Strengthen the institutional framework for supporting sustainable finances and effective management of natural capital						
Budget allocated for marine control of the GMR area as a percentage of necessary total budget.	%	42	2022	60	WildAid Report on the Marine Protection System for the GMR	The specialized literature finds a positive relationship between activities for monitoring and supervision of protected areas and preservation of marine biodiversity, so strengthening marine control activities is important for achieving preservation goals. The report published by WildAid on the Marine Protection System for the GMR estimates the budget needed to implement an effective marine protection system in the Galapagos and compares it to the allocated budget. The DFNC and creation of the conservation fund are expected to contribute to narrowing the budgetary gap by mobilizing funds for monitoring and oversight of the GMR, since these activities are part of those to be financed by the fund (see main loan document, paragraph 3.3). Based on the projections in the WildAid study, in the target year the allocated budget is expected to reach 80% of what is needed. WildAid prepares updates of these reports that will be used to track changes in this indicator (for more detail see monitoring and evaluation plan and its Table 8).
Environmental, social, and governance regulation index.	Index	-0.86	2020	-0.70	World Bank environmental, social and governance index	The program is expected to strengthen the organizational framework for sustainable finances and effective management of natural capital, while contributing to improve Ecuador's regulatory quality. This indicator captures perceptions of the government's ability to formulate and implement sound policies and regulations. The scores on this estimator are standardized based on the values in the total sample of countries. Higher values on this index indicate better levels of regulation. To avoid minimizing the effect of outliers, the indicator is measured based on a

Indicators	Unit of measure	Baseline value	Baseline year	End of project (2024)	Means of verification	Comments
						five-year average. The baseline thus is equal to the average of the last two years currently available, i.e., the period 2019-2020. Given the short program execution period, the indicator is expected to improve slightly such that it covers a smaller portion of the gap with comparable countries. The target thus is equal to the baseline plus 25% of the gap between the baseline and the 2019-2020 average of this index for the Andean countries (Colombia, Peru, Bolivia, and Ecuador, inclusive). At the end of the program, the indicator will be measured by averaging the last two years available (2023-2024) and compared with the original target.
Percentage of resources mobilized for the conservation fund that are allotted to finance conservation activities.	%	0	2022	75	Ministry of the Environment, Water, and Ecological Transition (MATE)	This indicator measures the percentage of total resources mobilized for the conservation fund in the target year that are allotted to finance conservation activities. The remaining percentage will be directed to capitalizing the conservation fund. Starting in the second year, this percentage is expected to remain constant until the end of the 20-year period of resource funding.
Specific development objective 2 – Improve the organization and operation of public financing for environmental and financial sustainability						
Index of institutional capacity of public debt offices.	Index	18.5	2022	24.1	IDB	This indicator assesses the institutional capacity of public debt offices based on governance and institutional capacity, coordination with macroeconomic policies, debt strategy and sustainability, management and resources, debt and operational risk management data, and borrowing procedures and related activities, assigning a normalized maximum score of 5 points to each area. The country receives its score, and a sequence of priority reforms is established based on the areas with room for improvement. The target value established is obtained based on a simulation of the score that would be obtained if all the identified high-priority reforms were implemented. These priority reforms are broader in scope than in the operation's Policy Matrix.
Number of sustainable bonds issued under a new framework for sustainable bonds.	Number	0	2022	1	MEF	The framework for sustainable bonds supported by the program is expected to be used as the basis for Ecuador's issuance of a sustainable bond.
Amount mobilized for the conservation fund.	US$ millions	0	2022	15.5	MEF	This indicator will measure the cumulative sum of funds mobilized for the conservation fund from 2022 onwards. It is projected that by July 2024 US$15.5 million will be mobilized for the conservation fund. A fraction of the funds will be allocated to finance projects, and another fraction will be allocated to reserves. The conservation fund is projected to receive a half-yearly flow of resources from the savings facilitated by the operation over a period of 20 years. At the end of that period, the conservation fund is projected to have received a cumulative flow of approximately US$293 million. This amount encompasses the estimated total derived

Indicators	Unit of measure	Baseline value	Baseline year	End of project (2024)	Means of verification	Comments
						from the conversion operation and not just the projected savings as a result of the IDB guarantee. (For more details, see the monitoring and evaluation plan and its Table 7).

OUTPUTS

Indicators	Unit of measure	Baseline value	Baseline year	End of project (2025)	Means of verification	Responsibility
Component 2 – Environmental governance						
2.1 Expanded coverage and improved management of protected areas						
2.1.1 Declaration of the area known as Hermandad (60,000 square kilometers), located in Ecuador's Exclusive Economic Zone, as a marine reserve.	# of areas declared	0	2022	1	Executive Decree 319 issued on 14 January 2022.	MATE
2.1.2 Development and updating of the limits of the Galapagos Marine Reserve (GMR) via ministerial resolution.	# of limits developed	0	2022	1	Ministerial Resolutions 041 and 065 issued on 1 October 2021 and 15 June 2022, respectively.	MATE
2.1.3 Development of a GMR management plan following best practices and including (a) dialogue between the main economic and social stakeholders; and (b) implementation cost.	# of plans developed	0	2022	1	MATE letter to the IDB including the approved management plan, agenda, list of participants in the dialogue event, and budget.	MATE
2.2 Promotion of the creation of conservation funds to finance sustainable activities						
2.2.1 Validation of a conservation fund for protection of the GMR following best practices with regard to governance, ESG standards, and mandate.	# of funds created	0	2022	1	MATE letter to the IDB stating approval for creation of the conservation fund.	MATE
2.2.2 Approval of the conservation fund's draft operating regulations, including (a) a mechanism for allocation of funds; (b) mechanisms for appointing and changing directors; and (c) investment guidelines.	# of regulations approved	0	2022	1	MATE letter to the IDB validating approval of the conservation fund's draft operating regulations.	MATE
2.3 Institution-strengthening for environmental policy management						
2.3.1 MATE and/or MEF training plan on conservation fund governance.	# of plans approved	0	2022	1	MATE and/or MEF training plan on conservation fund governance.	MATE

Indicators	Unit of measure	Baseline value	Baseline year	End of project (2025)	Means of verification	Responsibility
Component 3 – Improved financial regulation for sustainable development						
3.1 Strengthening of the institutional framework for debt management						
3.1.1 Performance of a diagnostic assessment and definition of a sequence of prioritized reforms for institutional strengthening of the MEF's public credit unit.	# of roadmaps developed	0	2022	1	MEF letter to the IDB submitting the diagnostic assessment document and the roadmap for improving the capabilities of the Public Financing Office.	MEF
3.1.2 Creation by the MEF of a Fiscal Risk Management Committee that addresses, inter alia, natural disasters and price volatility.	# of committees created	0	2022	1	Ministerial Resolution 0019 of 4 April 2022 creating the Fiscal Risk Management Committee.	MEF
3.1.3 Definition of governmental coordination bodies for sustainable finances through the creation of an Institutional Financing and Thematic Monitoring Committee.	# of entities defined	0	2022	1	MEF Ministerial Resolution 0097 of 15 October 2021 establishing the Institutional Financing and Thematic Monitoring Committee.	MEF
3.2 Development of a framework for generating new sustainable debt instruments						
3.2.1 Creation by the MEF of regulations, including the applicable structure, for DFNC.	# of regulations created	0	2022	1	Ministerial resolution on regulations for DFNC.	MEF
3.2.2 Presentation by the MEF of a work plan for implementation of a framework for the issuance of green sovereign bonds.	# of work plans presented	0	2022	1	MEF official letter to the IDB presenting the work plan for implementation of a framework for the issuance of green sovereign bonds.	MEF
3.2.3 Development of the Guideline Classification System for Environmental/Climate Policy Expenditure, to be implemented on a mandatory basis by all Government General Budget entities for the purpose of providing transparency in the use of public resources for environmental/climate policies.	# of classification systems developed	0	2022	1	Ministerial resolution for issuance of the Guideline Classification System for Environmental/ Climate Policy Expenditure for Government General Budget entities.	MEF

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Ecuador. Guarantee ____/OC-EC. Sustainable Development and Biodiversity Program in Ecuador

The Board of Executive Directors

RESOLVES:

That the acting President of the Bank, or such representative as she shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contracts as may be necessary for the purpose of granting a guarantee to support the financing and implementation of the Sustainable Development and Biodiversity Program in Ecuador, which will have the Republic of Ecuador as counterguarantor. The guarantee shall be for the amount of up to US$85,000,000, chargeable to the Bank's Ordinary Capital (OC) resources, on terms substantially as set forth in the Project Summary of the Guarantee Proposal.

(Adopted on ___ ____________ 2022)

LEG/SGO/CAN/EZSHARE-263631146-20213
EC-U0005