

OFFICIAL
DOCUMENTS

LOAN NUMBER IBRD 9453-EC
GCEF TF NUMBER TF0C0258

Financing Agreement

(Ecuador Second Green and Resilient Recovery DPF (EGARR DPF-2))

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between the REPUBLIC OF ECUADOR (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement).

WHEREAS:

(A) having satisfied itself as to the feasibility and priority of the Program designed to assist the government of Ecuador in its agenda to tackle selected structural challenges to foster inclusive, resilient, and low-carbon development;

(B) following an international effort to provide development support to countries most affected by refugees, funding from the Global Concessional Financing Facility was received by the Bank for purposes of providing concessionality to this Agreement;

(C) under the terms of a Financial Procedures Arrangement with the Trustee of the Global Concessional Financing Facility dated August 10, 2016, the Bank has agreed to provide a concessional contribution to the Borrower, endorsed by the Borrower’s MFA (the Concessional Portion of the Financing as hereinafter defined) as part of an integrated financing under the terms of this Agreement (the Financing as hereinafter defined); and

(D) furthermore, the Bank has decided to provide this Financing, without a direct link to specific expenditures or investments, on the basis of, *inter alia*: (i) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Borrower’s maintenance of an adequate macroeconomic policy framework.

NOW THEREFORE, the Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Bank agrees to provide financing to the Borrower in the amount of five hundred thirty million Dollars (\$530,000,000) (“Financing”), consisting of the following:

- (a) a loan in the amount of five hundred million Dollars (\$500,000,000) as such amount may be converted from time to time through a Currency Conversion (“Loan”); and
 - (b) a concessional contribution in an amount of thirty million Dollars (\$30,000,000) (“Concessional Portion of the Financing”).
- 2.02. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.04. The interest rate is the Reference Rate plus the Variable Spread¹ or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.05. The Borrower elects to apply the Automatic Rate Fixing Conversion to the Loan. Accordingly, without limitation upon the provisions of Article IV of the General Conditions and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal five hundred million Dollars (\$500,000,000) shall be converted from the initial Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.06. The Payment Dates are June 1 and December 1 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and the progress achieved in carrying out the Program;

¹ Only Variable Spread is available for regular DPLs (including DPLs with DDO features) due to FSL suspension effective April 1, 2021.

- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
- (c) without limitation upon paragraph (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Borrower's Minister of Economy and Finance.
- 6.02. For purposes of Section 10.01 of the General Conditions:
 - (a) The Borrower's address is:

Ministry of Economy and Finance
Av. Amazonas y Pereira, Plataforma Financiera
Quito, Ecuador
 - (b) the Borrower's Electronic Address is:

E-mail: documentosmef@finanzas.gob.ec
- 6.03. For purposes of Section 10.01 of the General Conditions:
 - (a) the Bank's address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Bank's Electronic Address is:

Facsimile: 1-202-477-6391

AGREED as of the Signature Date.

REPUBLIC OF ECUADOR

By 
Authorized Representative

Name: Jose E. Lora

Title: Subsecretario Financiero TEMA (E)

Date: 16-12-2022

By 
Authorized Representative

Name: JUAN CARLOS HOLGUIN

Title: MINISTER OF FOREIGN AFFAIR

Date: 16.12.2022

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By 
Authorized Representative

Name: Boris Weber

Title: Representante Residente

Date: 16.12.2022

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

- A. Tackle selected structural challenges to foster green growth, inclusion, and climate resilience**
1. To make Ecuador's tax system more progressive, transparent, and climate-friendly, the Borrower has enacted legislation which: (i) introduces measures to improve progressivity (*i.e.*, temporary wealth tax for 2022, reduction of income tax credits for the top income quintile) and define and identify beneficial owners; and (ii) eliminates the Special Consumption Tax for electric and hybrid vehicles, as evidenced respectively by (i) Articles 5-11, 40, 43, and 189 and (ii) Articles 60-61 of the *Ley Orgánica para el Desarrollo Económico y Sostenibilidad Fiscal Tras la Pandemia COVID-19*, as published in the Official Gazette (*Tercer Suplemento*) No. 587 on November 29, 2021.
 2. To better monitor and manage climate-change-related expenditures, the Borrower has expanded its budget tagging mechanisms to include climate change policy expenditures and made their use mandatory for all public sector entities in budget preparation from 2024 onward, as evidenced by Ministerial Agreement No. 0065 made by MEF on September 22, 2022 and published in Official Gazette (*Cuarto Suplemento*) No. 160 on September 30, 2022.
 3. To better manage fiscal risks due to climate and natural hazards, the Borrower has required the public sector entities involved in public-private partnership projects (PPPs) to use new guidelines for defining contingent government liabilities caused by climate and other climate-related disasters in designing, structuring, bidding, and contracting of PPPs, as evidenced by Ministerial Agreement No. 0018 issued by the MEF on April 4, 2022, as published in Official Gazette (*Tercer Suplemento*) No. 43 on April 14, 2022.
 4. To foster inclusion and social resilience to support vulnerable groups (victims of climate-related and other natural disasters, malnourished children, malnourished pregnant women, and migrants), including those exposed to climate-related threats, the Borrower has:
 - (i) created the Single Registry of Victims and provided for it to be supplied with information from the Social Registry of Ecuador, as a tool for identifying and supporting people at risk of natural disasters, such as vulnerable households headed by single women, as evidenced by a Tripartite Agreement among the Social Registry Unit, the National Risk Management and Emergencies Service, and the Ministry of Economic and Social Inclusion dated July 14, 2022, as published in Official Gazette (*Segundo Suplemento*) No. 156 on September 26, 2022;
 - (ii) issued "Guidelines in the framework of the implementation of 'Budget for Results' for the reduction of Chronic Child Malnutrition" for aligning the budget with the coverage goals of the prioritized package in Executive Decree 1211, as evidenced

by an Interinstitutional Agreement issued by the MEF and the Ecuador Grows Without Child Malnutrition Technical Secretariat on August 11, 2022 and published in Official Gazette (*Tercer Suplemento*) No. 154 on September 22, 2022; and

- (iii) (A) issued regulations for granting humanitarian visas, including for victims of human trafficking and natural disasters, and for declaring extraordinary migratory regularization processes and amnesties, as evidenced by Executive Decree No. 354, issued on February 18, 2022, as published in Official Gazette (*Tercer Suplemento*) No. 18 on March 10, 2022; and (B) granted a migratory amnesty and initiated a process for extraordinary migratory regularization of migratory status to Venezuelan migrants, as evidenced by Executive Decree No. 436 issued on June 1, 2022, as published in Official Gazette (*Tercer Suplemento*) No. 84 on June 15, 2022.

B. Strengthen low-carbon development

- 5. To facilitate private investment in non-conventional renewable energy, the Borrower has issued the regulation entitled “Economic and Tariff Regime for the provision of Electric Energy and General Public Lighting utility services” which establishes an order of priority of payments that prioritizes private electric generation, as evidenced by Resolution No. 033/21, issued by the Agency for Regulation and Control of Energy and Non-Renewable Natural Resources (ARCERNNR) on December 14, 2021, as published in Official Gazette No. 622 on January 20, 2022.
- 6. To improve energy efficiency in the economy’s productive sectors and reduce greenhouse gas (GHG) emissions, the Borrower has issued a regulation requiring public and private enterprises operating oil fields to take measures to reduce associated gas flaring, as evidenced by Ministerial Agreement No. MEM-MEM-2022-0047-AM made by the Ministry of Energy and Mines on September 24, 2022 and published in Official Gazette No. 175 on October 24, 2022.
- 7. To support tracking the contribution of GHG emissions reduction to its Nationally Determined Commitments, the Borrower has issued organization- and product-level guidelines and technical criteria for the implementation of the Ecuador Carbon Zero Program which establish a measurement, reporting and verification system for GHG mitigation in productive and service sectors of the economy, as evidenced by the following Ministerial Agreements issued by the Ministry of Environment, Water and Ecological Transition (MAATE): No. 2021-046, issued on October 18, 2021, as published in Official Gazette (*Suplemento*) No. 128 on August 17, 2022, and No. 2021-047, issued on October 18, 2021, as published in Official Gazette No. 129 on August 18, 2022.
- 8. To promote value-added production in rural landscapes, the Borrower has issued technical standards for the issuance of certificates of legal origin and voluntary certificates of good forestry practices, which are tools promoting deforestation-free forestry products, for example, as conditions for public contracting for wood purchases and obtaining lumber export licenses, as evidenced by Interministerial Agreement No. MAATE-MAG-2022-003 made by MAATE and the Ministry of Agriculture and Livestock on September 19, 2022, as published in Official Gazette (*Tercer Suplemento*) No. 177 on October 26, 2022.

9. To promote private sector financing for priority environmental conservation, restoration, remediation, and bioenterprise projects, including sustainable forest management projects, the Borrower has issued a regulation for the qualification of such projects the financing in which entitles the donor/investor to an additional 100% income tax deduction, and for the certification of the beneficiaries of those tax deductions, as evidenced by Ministerial Agreement No. MAATE-MAG-2022-113, issued by MAATE on October 21, 2022, as published in Official Gazette (*Segundo Suplemento*) No. 177 on October 26, 2022.

Section II. Availability of Financing Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in USD)	Amount of the Concessional Portion of the Financing Allocated (expressed in US\$)
(1) Single Withdrawal Tranche	500,000,000	30,000,000
TOTAL AMOUNT	500,000,000	30,000,000

- C. Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless: (a) each withdrawal is made on a *pari passu* basis and at a 94.34% to 5.66% ratio between the amount of the Loan allocated and the amount of the Concessional Portion of the Financing allocated; and (b) the Bank is satisfied: (i) with the Program being carried out by the Borrower; and (ii) with the adequacy of the Borrower's macroeconomic policy framework.
- D. Deposit of Financing Amounts.** The Borrower, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Bank: (a) the exact sum received into the accounts referred to in Section 2.03(a) of the General Conditions; (b) the details of the accounts to which the equivalent of the Financing proceeds will be credited; and (c) the record that an equivalent amount has been accounted for in the Borrower's budget management systems.
- E. Closing Date.** The Closing Date is December 15, 2023.

SCHEDULE 2

Disbursement-Linked Amortization Repayment Schedule – Level Repayment

1. Subject to the provisions of Section 3.03 of the General Conditions, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each June 1 and December 1, the first installment to be payable on the ninth (9th) Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the thirty-sixth (36th) Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment except for the last one shall be equal to one twenty-eighth ($1/28^{\text{th}}$) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.
2. If any one or more installments of principal of the Disbursed Amount would, pursuant to the provisions of paragraph 1 of this Schedule, be payable after June 1, 2041, the Borrower shall also pay on such date the aggregate amount of all such installments.
3. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.

APPENDIX

Section I. Definitions

1. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, December 21, 2020, April 1, 2021, and January 1, 2022), with the modifications set forth in Section II of this Appendix.
2. “Global Concessional Financing Facility” and “GCFF” each means the financing facility established with a focus on providing concessional financing to middle income countries most affected by the presence of large numbers of refugees, and referred to in the Preamble to this Agreement, as having contributed the Concessional Portion of the Financing for the Program.
3. “MEF” means *Ministerio de Economía y Finanzas*, the Borrower’s Ministry of Economy and Finance, or any successor thereto.
4. “Program” means: the program of objectives, policies, and actions designed by the Borrower and set forth or referred to in the letter electronically signed on October 27, 2022 from the Borrower, through its Minister of Economy and Finance, to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
5. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
6. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Wherever used throughout the General Conditions (including the Appendix) the term “Loan Agreement” and “loan agreement” are modified to read “Financing Agreement” and “financing agreement”, respectively; the terms “Loan Parties” and “Loan Party” are modified to read “Financing Parties” and “Financing Party” respectively; the term “Original Loan Currency” is modified to read “Original Financing Currency”; and the term “Substitute Loan Currency” is modified to read “Substitute Financing Currency”. Furthermore, wherever used in Sections 2.01 to 2.04, 2.06, 3.08(a), (b), and (d), 5.03 to

5.06, 7.01 to 7.03(a) to (d), 7.04(a), 7.05, 9.03(b), including the titles thereof, the term “Loan” is modified to read “Financing”; the term “Loan Account” is modified to read “Financing Account”; the term “Loan Currency” is modified to read “Financing Currency”; and the term “Unwithdrawn Loan Balance” is modified to read “Unwithdrawn Financing Balance”.

3. In the Appendix, Definitions, the following new paragraphs are inserted with the following definitions of “Concessional Portion of the Financing”, “Financing”, “Financing Account”, “Financing Currency”, and the remaining paragraphs are renumbered accordingly:

““Concessional Portion of the Financing” means the portion of the Financing provided to the Borrower on a non-reimbursable basis in the Financing Agreement.”

““Financing” means the financing provided for in the Financing Agreement.”

““Financing Account” means, collectively, the Loan Account and the account opened by the Bank in its books in the name of the Borrower to which the amount of the Concessional Portion of the Financing is credited.”

““Financing Currency” means the Currency or Currencies in which the Loan and Concessional Portion of the Financing are dominated.”

““Unwithdrawn Financing Balance” means the amount of the Financing remaining unwithdrawn from the Financing Account from time to time.”

4. In the Appendix, **Definitions**, wherever used in the following definitions of the terms “Borrower”; “Closing Date”; “Financing Agreement”; “Original Financing Currency”; “Program”; and “Substitute Financing Currency”, the terms “Loan” and “Loan Account” are modified to read “Financing” and “Financing Account”, respectively.