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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$200 MILLION

TO THE

REPUBLIC OF ECUADOR

FOR THE

Ecuador Disaster Risk Management Development Policy Financing with a Catastrophe Deferred Drawdown Option

October 30, 2025

Urban, Resilience and Land Practice Area
Latin America And Caribbean Region

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The Ministry of Economy and Finance (MEF)

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

Currency Unit

US$1.00

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ABBREVIATIONS AND ACRONYMS

BCA	Biocorredor Amazónico	MAE	Ministerio del Ambiente y Energía (Ministry of Environment and Energy)
Cat-DDO	Catastrophe Deferred Drawdown Option	MEF	Ministerio de Economía y Finanzas (Ministry of Economy and Finance)
CCA	Climate Change Adaptation	MEM	Ministerio de Energía y Minas (Ministry of Energy and Mines)
CCDR	Country Climate and Development Report	MFD	Maximizing Finance for Development
CERC	Contingent Emergency Response Component	MIDUVI	Ministerio de Desarrollo Urbano y Vivienda (Ministry of Urban Development and Housing)
COA	Organic Environmental Code	MSP	Ministerio de Salud Pública (Ministry of Public Health)
COE	Comité de Operaciones de Emergencia (Emergency Operations Committee)	MTOP	Ministerio de Transporte y Obras Públicas (Ministry of Transport and Public Works)
COMYF	Organic Monetary and Financial Code	NAP	National Adaptation Plan
COPLAFIP	Código Orgánico de Planificación y Finanzas Públicas	NDC	Nationally Determined Contributions
DPF	Development Policy Financing	NFPS	Non-Financial Public Sector
DRF	Disaster Risk Financing	NGOs	Non-Governmental Organizations
DRM	Disaster Risk Management	NPLs	Non-Performing Loans
EFF	Extended Fund Facility	PA	Prior Action
EIAs	Environmental Impact Assessments	PAs	Prior Actions
ENSO	El Niño/La Niña Southern Oscillation	PCE	Private Capital Enabled
EWS	Early Warning System	PDNA	Post-Disaster Needs Assessment
FSAP	Financial Sector Assessment Program	PDOTs	Development and Land Use Plans
GDP	Gross Domestic Product	PMA	Environmental Management Plan
GIZ	German Agency for International Cooperation	PPP	Purchasing Power Parity
GoE	Government of Ecuador	RRO	Rapid Response Option
GRS	Grievance Redress Service	SERCOP	Servicio Nacional de Contratación Pública (National Public Procurement Service)
Ha	Hectares	SIVE	Sistema Integrado de Vigilancia Epidemiológica (Comprehensive Epidemiological Surveillance System)
IDB	Inter-American Development Bank	SNAP	Sistema Nacional de Áreas Protegidas (National System of Protected Areas)
IEG	Independent Evaluation Group	SNGR	Secretaría Nacional de Gestión de Riesgos (National Secretariat for Risk Management)
IFIs	International Financial Institutions	SNDGR	Sistema Nacional Descentralizado de Gestión de Riesgos (National Decentralized Risk Management System)
ILO	International Labor Organization	SNP	Secretaría Nacional de Planificación (National Planning Secretariat)
IMF	International Monetary Fund	SOE	State-Owned Enterprise
IPF	Investment Project Financing	TA	Technical Assistance
IR	International Reserves	TSA	Treasury Single Account
MAATE	Ministerio del Ambiente, Agua y Transición Ecológica (Ministry of Environment, Water and Ecologic Transition)	VAT	Value Added Tax
		WB	World Bank

REPUBLIC OF ECUADOR

Ecuador Disaster Risk Management Development Policy Financing with a Cat-DDO (P510158)

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic
P510158	No

Proposed Development Objective(s)

To strengthen the Government of Ecuador's program to manage risks resulting from climate, disaster, and public health shocks by (i) enhancing institutional capacity and (ii) mainstreaming resilience and climate adaptation in selected sectors.

Organizations

Borrower:	Republic of Ecuador
Implementing Agency:	The Ministry of Economy and Finance (MEF)

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**200.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	200.00

PRACTICE AREA(S)

Practice Area (Lead)

Urban, Resilience and Land

Contributing Practice Areas

Energy & Extractives; Environment, Natural Resources & the Blue Economy; Health, Nutrition & Population; Macroeconomics, Trade and Investment

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk ● Substantial

RESULTS

Baseline	Closing Period
Pillar 1. Enhancing institutional capacity for resilience and climate adaptation	
Results indicator 2: Percentage of health facilities conducting municipal-level epidemiological surveillance integrated in the SIVE (Percentage)	
Sep/2025	Dec/2028
70	85
Results indicator 1: Number of municipalities that have developed comprehensive risk management plans that include at least two measures focused on women reviewed by the SNGR (Number)	
Sep/2025	Dec/2028
0	80
Results indicator 3: Number of municipalities that have updated PDOTs incorporating DRM and climate adaptation in line with the Technical Standard reviewed by the SNGR (Number)	
Sep/2025	Dec/2028
0	120
Pillar 2. Mainstreaming resilience and climate adaptation in selected sectors	

Results indicator 4: Estimated capacity of distributed private renewable energy projects up to 100 MW approved by the MAE (Megawatt)	
Sep/2025	Dec/2028
46	196
Results indicator 5: Hectares of terrestrial and aquatic areas under enhanced conservation and management (Hectare(Ha))	
Sep/2025	Dec/2028
0	1,000,000

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO ECUADOR

I. COUNTRY CONTEXT AND OPERATION SUMMARY

1. Ecuador has been navigating a complex fiscal and macroeconomic environment, compounded by an intensifying climate crisis, rising insecurity, and persistent structural challenges in reducing inequality. The severe drought that led to a National Emergency declaration in November 2024, the worst in over six decades, highlighted critical vulnerabilities in Ecuador's capacity to manage disasters. The drought triggered widespread energy shortages, as hydroelectric reservoirs supplying approximately 70 percent of the country's electricity dropped to critical levels, resulting in blackouts that had a profound economic impact, drove up poverty levels due to declining labor incomes in the service and agricultural sectors, and further strained vulnerable communities.[1] Fiscal pressures have intensified, reflecting the economic costs of the energy crisis, higher security expenditures amid escalating violence, and broader structural weaknesses. Climate change and natural hazards continue to pose significant risks, potentially reducing Gross Domestic Product (GDP) per capita by nearly 4 percentage points by 2050 and raising the poverty rate by 3.7 percent. It is estimated that Ecuador would need to invest more than 3.5 percent of its GDP annually in climate change mitigation and adaptation activities to adequately protect the country from the impacts of the climate crisis.[2]

2. Vulnerabilities in Ecuador's key sectors magnify the impacts of climate and disaster risks, leading to substantial economic losses and threatening the country's development trajectory. The most severe economic impacts are expected to result from damage to infrastructure, with firms estimated to lose over US$1 billion annually due to transport and power disruptions.[3] In parallel, weak regulatory enforcement combined with inadequate urban planning, has led to the proliferation of settlements in high-risk zones. As a result, 96 percent of the urban population lives in areas exposed to earthquakes, volcanic eruptions, and recurrent floods and landslides, particularly during El Niño/La Nina Southern Oscillation (ENSO) events, which affect mostly informal workers, specifically those self-employed.[4] Moreover, it is estimated that El Niño/La Nina can increase poverty between 0.8 to 1.7 percentage points.[5] Climate variability is also accelerating the spread of vector-borne and airborne diseases, placing additional pressure on an already overburdened health system.[6] These risks disproportionately affect vulnerable populations, particularly in the Amazon and coastal regions, which were severely impacted by the 2025 nationwide floods.[7]

3. Ecuador continues to face compounding risks from climate-related shocks, natural hazards, and public health threats. Past disasters have resulted in substantial economic losses. For example, the 2016 earthquake alone caused an estimated US$3.3 billion in reconstruction costs and US$515 million in losses to the productive sector.[8] A Post-Disaster Needs Assessment (PDNA) for COVID-19, conducted by the Government of Ecuador (GoE) in coordination with development partners, estimated total economic losses from March to May 2020 at US$6.4 billion, equivalent to 6 percent of GDP. In 2025, the country experienced 3,611 events, including landslides (42%), floods (37%), windstorms (4%), and

[1] The combined effects of energy shortages caused by climatic shocks and persistent criminal activity in certain regions have slowed Ecuador's economy. As a result, poverty increased by two percentage points, rising from 26% to 28%, while extreme poverty climbed from 10% in December 2023 to 13% in December 2024. Power outages of up to 14 hours a day caused industrial and commercial losses estimated at US$12 million per hour, with total industrial losses reaching as high as US$7.5 billion according to the Quito Chamber of Commerce.
[2] World Bank Group. (2024). Report No. 193430. Ecuador Country Climate and Development Report. http://hdl.handle.net/10986/42126
[3] IDB. (2021). Políticas climáticas en América Latina y el Caribe: Casos exitosos y desafíos en la lucha contra el cambio climático.
[4] Climate Change Knowledge Portal: Observed Climate Data, CRU. TS4.08 0.5-Degree, DOI: https://doi.org/10.57966/tw2k-9h36
[5] World Bank Group. (2025). Impulsando la Prosperidad: Evaluacion de la Pobreza y la Desigualdad en Ecuador.
[6] World Bank Group. (2025). Unlivable: Confronting Extreme Urban Heat in Latin America and the Caribbean. Washington, D.C.: World Bank Group.
[7] Over 144,650 people have been affected by the severe weather events, facing challenges such as displacement, loss of homes, and disruption of livelihoods.
[8] SENPLADES. (2016). https://www.planificacion.gob.ec/wp-content/uploads/downloads/2017/04/Evaluacion-de-los-Costos-de-Reconstruccion-Libro-Completo.pdf

other hazards, affecting 206,313 people, causing 50 deaths, and displacing 57,619 individuals.[9] These events damaged 71,903 houses, over 150 kilometers of roads, and 12,587.9 hectares of crops, while also disrupting critical infrastructure such as schools and health facilities, further straining public services and local economies. The impact of disasters is particularly acute at the local level, where municipal governments often lack the resources, tools, and institutional capacity to fulfill their growing mandates under Ecuador's decentralized risk management framework. Strengthening their preparedness and coordination is essential to building territorially anchored resilience. In addition, the COVID-19 pandemic exposed major weaknesses in Ecuador's health surveillance system, particularly in early detection, real-time data, and reporting at the local level. It highlighted the urgent need to modernize surveillance infrastructure and improve coordination across institutions. The country also remains highly exposed to climate-sensitive health risks such as dengue, yellow fever, and heat-related illnesses exacerbated by limited capacity for integrated monitoring and emergency response. These cascading shocks underscore the urgent need to strengthen Ecuador's institutional capacity for disaster risk management (DRM), climate adaptation, and public health resilience across all levels of government.

4. The enactment of Ecuador's first DRM Law and its implementing regulations in 2024 marked a historic milestone after more than a decade of policy development and institutional dialogue. The law establishes a binding, cross-sectoral framework that formalizes DRM mandates across sectoral ministries and subnational governments, aiming to improve disaster and climate resilience by addressing long-standing gaps in coordination, implementation, and institutional capacity. It also consolidates the shift from a reactive model to one centered on prevention, preparedness, and resilience building on reforms initiated with the creation of the National Secretariat for Risk Management (SNGR) in 2009. While the law provides a solid legal and institutional foundation, implementation remains challenging, particularly at the sectoral and local levels due to persistent capacity gaps and coordination issues. To address these, and building on the 2024 DRM Law, the GoE aims to strengthen a more coordinated, decentralized, and effective National Decentralized Risk Management System (SNDGR) by focusing in the short term on the development of key DRM policy instruments, including a National DRM Policy, a National Risk Reduction Plan, and a National Emergency Preparedness and Response Plan.

5. The proposed stand-alone US$200 million DRM Development Policy Financing (DPF) with a Catastrophe Deferred Drawdown Option (Cat-DDO), Ecuador's first Cat-DDO, will strengthen the GoE's program to manage risks resulting from climate, disaster, and public health shocks by (i) enhancing institutional capacity and (ii) mainstreaming resilience and climate adaptation in selected sectors. The selection of pillars and policy areas is grounded in robust analytical foundations including Ecuador's Country Climate and Development Report (CCDR),[10] identifying the vulnerable sectors outlined above, strong government demand, and the strengthened institutional framework established by the 2024 DRM Law. Leveraging this progress, reforms under Pillar 1 aim to enhance institutional capacity for resilience and climate adaptation by: (i) strengthening the DRM institutional coordination, (ii) strengthening the national health risk management capacity, and (iii) enhancing local governments' capacities for risk-informed territorial planning. Pillar 2 focuses on mainstreaming resilience and climate adaptation in selected sectors by: (i) enhancing resilience within the energy sector and (ii) bolstering the conservation and management of Ecuador's Amazon region for climate change adaptation (CCA). As Ecuador's first Cat-DDO operation, the policy matrix lays the foundation for sustained resilience-building by advancing critical institutional reforms across all levels of government and mainstreaming resilience and climate adaptation in critical sectors. By strengthening coordination under the SNDGR, the operation establishes a scalable policy platform for deeper engagement and longer-term outcomes.

[9] The data from the GoE as of June 20, 2025. Other hazards included structural collapses (6 %), erosion and subsidence (5%), mudflows (3 %), and less frequent events such as electrical storms and hail, each accounting for less than 2% of total incidents.
[10] World Bank Group. (2024). Report No. 193430. Ecuador Country Climate and Development Report. http://hdl.handle.net/10986/42126

6. The proposed operation plays a pivotal role in strengthening Ecuador's financial preparedness for disasters, serving as one of only two contingent financing instruments currently available to the GoE—the other being the US$400 million Inter-American Development Bank (IDB) Contingent Loan for Natural Disaster and Public Health Emergencies (EC-O0012).[11] Ecuador's disaster risk financing strategy can be structured into a layered architecture. The first layer includes regular budget allocations and emergency reserves. However, the country currently lacks a national disaster fund or pre-allocated budget. The second layer consists of contingent credit instruments, such as the proposed World Bank Cat-DDO and the IDB's EC-O0012, which provide rapid financing for moderate to high-impact events. The third layer, designed for less frequent and high-impact events, focuses on risk transfer instruments such as insurance and catastrophe bonds, which remain underdeveloped in Ecuador. In a context where Ecuador relies heavily on ex-post mechanisms such as emergency loans and budget reallocations, this Cat-DDO helps close a significant protection gap by providing rapid and reliable liquidity in the event of natural, climate-related, or public health shocks. In addition, the GoE is currently developing a National Disaster Risk Financing (DRF) Strategy with World Bank support, building on technical collaboration initiated in 2021.[12] The Cat-DDO directly contributes to this broader strategy by operationalizing risk-layered financing, supporting the adoption of contingency planning tools, and helping to mainstream risk considerations across key sectors and all levels of government. The operation is also designed to leverage the Rapid Response Option (RRO) to address imminent and compounding threats, including climate-related, geophysical, and epidemiological hazards.

II. MACROECONOMIC POLICY FRAMEWORK

7. Ecuador's macroeconomic framework is assessed as adequate. Growth is expected to converge to approximately 2.5 percent over the medium term compared to the 1.1 percent average recorded over the past decade, while inflation remains contained. Fiscal reforms have sharply narrowed the fiscal deficit in 2024, with further declines projected as consolidation proceeds and public debt continues its downward trajectory. Gross fiscal and external financing needs, which remain elevated, are supported by official lending. As policy credibility strengthens, sovereign spreads should ease, enabling a re-entry into international capital markets by 2026. Macroeconomic reform progress has been robust, with the IMF Executive Board completing the second review in mid-July and increasing total access from approximately US$4 billion to US$5 billion.[13] The current account surplus remains substantial, the financial sector is broadly resilient to adverse shocks, and the 25-year dollarization regime enjoys broad support as a key stabilizing anchor. Policy prudence is further reinforced by constrained access to external financing and institutional safeguards, including the 2021 prohibition on Central Bank financing to the public sector and the 2020 medium-term debt ceiling. Nevertheless, close monitoring is warranted given vulnerabilities to oil price volatility, global financial conditions, market access, and domestic risks.

A. Recent Economic Developments

8. Real GDP grew by 3.8 percent year-on-year in the first half of 2025, following a contraction of 2.0 percent last year.

[11] The objective of EC-O0012, approved on September 8, 2023, is to strengthen Ecuador's financial preparedness by providing rapid, stable, and cost-effective contingent financing to respond to severe disasters and public health emergencies. The operation consolidates and expands previous IDB loans, offering up to US$400 million—US$300 million for parametric disasters and US$100 million for unparameterized disasters and health emergencies. Disbursement is triggered by predefined hazard parameters or official emergency declarations, subject to compliance with IDB operational and policy conditions. The proposed duration is 5 years, but the coverage period or drawdown period (equivalent terms) can be extended for an additional five years at the Bank's discretion upon the borrower's request.

[12] World Bank Group. (2021). Estrategia de Gestión Financiera Ante El Riesgo de Desastres para Ecuador (Spanish). Washington, D.C. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/322961617112468381/estrategia-de-gesti This work was supported by the World Bank's technical assistance, financed by the Global Facility for Disaster Reduction and Recovery (GFDRR). However, this strategy was not formally adopted due to changes in the administration at the time.

[13] On October 9, Ecuador and the IMF reached a staff-level agreement on the third review of the Extended Fund Facility (EFF). Approval by the IMF Executive Board is expected for end-October, providing Ecuador with a US $600 million disbursement. The IMF noted that all quantitative performance criteria for end-August 2025 were met, reflecting strong program implementation and prudent macroeconomic management.

In 2024, GDP was negatively affected by severe energy shortages, elevated crime, and political uncertainties. In the first half of 2025, investment and private consumption were key drivers in revitalizing growth, as the improved availability of energy and the reduction of fiscal risks more than offset the uncertainty stemming from the general elections and the 47 percent increase in homicides. By sectors, agriculture led the expansion, followed by services and manufacturing.

9. Labor market dynamics explain poverty trends; however, low job quality persists, and as of 2024, over half of workers are informal resulting in nearly one-third of Ecuadorians in poverty and one in ten in extreme poverty. Economic growth has not translated into broad-based improvements in job quality, largely due to structural rigidities in the labor market such as high non-wage labor costs, strict hiring and dismissal regulations, and limited flexibility for firms. These constraints have resulted in a dual labor market, with a small segment of protected formal jobs and a large, expanding pool of informal and low-quality employment. In 2025-Q2, unemployment rose from 3.1 to 3.5 percent year-on-year, while informality increased from 53.5 to 54.5 percent, with almost 95 percent of formal businesses being small or micro underscoring persistent labor market challenges. Despite these structural weaknesses, labor income—the main determinant of household welfare, explaining over 75 percent of changes in poverty[14]—improved among the bottom four deciles, contributing to a 0.5 percentage point reduction in poverty (at US$8.3/day, 2021 PPP) to 32.2 percent in 2025. Inequality also declined, with the Gini coefficient falling from 45.6 to 44.4. Employment remains highly concentrated in low-productivity sectors such as agriculture, particularly in rural areas, while higher productivity sectors like construction and services continue to account for a relatively smaller share of total employment. Among the urban poor, most workers are engaged in unskilled services and construction (58 percent).

10. The external surplus widened in 2024, supporting reserve accumulation. The current account balance reached 5.7 percent of GDP, with the trade balance improving to 3.6 percent of GDP. Exports rose 7.8 percent, while imports fell 4.1 percent. Remittances increased amid expected tighter migration policies. External financing has been supported by official financing of over 3 billion (2.7 percent of GDP), lifting gross liquid reserves by US$2.4 billion to US$6.9 billion (end-2024), and to US$8.2 billion by August 2025. International reserves currently cover private banks' deposits at the Central Bank, which is mandated by legal requirements, and deposits by other financial intermediaries.[15] However, liquid international reserves are still below IMF's adequacy metrics as they stood at 43 percent of the ARA metric by end-2024.[16]

11. Inflation remained low. After averaging 1.6 percent in 2024, annual inflation declined to 0.8 percent by August 2025. Price declines were recorded in clothing and transportation, offset by increases in accommodation and health services, primarily. Inflation averaged 1.3 percent in the last decade and remained below 10 percent since the adoption of dollarization.

12. Ecuador made notable progress in reducing fiscal imbalances in 2024. The fiscal deficit fell from 3.4 percent of GDP in 2023 to 1.3 percent in 2024, driven by 4.7 percent real revenue growth and a 1.7 percent contraction in expenditures. Revenue measures—including a VAT increase, temporary taxes on large firms and banks, higher withholding taxation, increased capital outflow tax, and a tax amnesty—boosted intake. The VAT rate hike, from 12 to 15 percent, contributed about US$1.3 billion, helping lift total tax revenues by US$1.9 billion. Spending fell through the reduction of gasoline

[14] World Bank (2025) Impulsando la Prosperidad: Evaluación de la Pobreza y Desigualdad en Ecuador (Spanish). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099081325101538045

[15] Ecuador's Central Bank most significant liabilities consist of deposits from private banks, deposits from other financial intermediaries (including state-owned banks), deposits from private and state-owned non-financial entities, and obligations to international organizations. Also, there is minor amount of fractional money issued.

[16] The Assessing Reserve Adequacy (ARA) metric combines four sources of potential external pressure: exports, broad money (M2), short-term external debt and other liabilities (portfolio and non-residents deposits, equity flows).

subsidies (reflected in the line use of goods and services) and lower subnational investment. Accounts payable declined from US$1.4 billion to US$0.4 billion by end-2024.

13. Ecuador's sovereign risk markedly declined during the year. The sovereign risk indicator fell from 1,908 basis points in April 10—just before the second round of presidential elections—to 672 basis points by mid-September. The downward trend was driven by the continuation of the EFF program and measures implemented to improve public finances. Following the announcement of the removal of the diesel subsidy in September, protest arose, and the spread surged temporarily to over 850 basis points by mid-October. With the end of the strike led by indigenous groups, the indicator resumed its downward trend, and it stood at 738 bps by October 27, 2025.

14. The financial system is stable, although cooperative supervision needs strengthening. Credit to the private sector accelerated, with a year-over-year real expansion of 13 percent for businesses and 5 percent for households by July 2025, comparing favorably with the 8 percent and 4 percent growth recorded in December 2024. The liquidity ratio (available funds over short-term deposits) for private banks stands at 18.9 percent as of September 2025, down from 24.5 percent a year earlier.[17] For public institutions, it stands at 37.2 percent, also down from 44.1 percent a year earlier. The solvency ratio (capital over risk-weighted assets) was 13.9 percent for private banks and 34.6 percent for public banks by June 2025, above the 9 percent legal threshold. Return on equity was 12.0 percent for private banks and 14.3 percent for public banks. Also, the delinquency ratio was 3.2 percent in private banks and 14.6 percent for public banks. The 2023 Financial Sector Assessment Program (FSAP) found the system resilient, with credit and liquidity risks as key vulnerabilities. The non-performing loan ratio for cooperatives was 8.2 percent by August 2025, more than double its level in December 2022 (3.9 percent), although contagion to banks is assessed as limited and deposit insurance provides a buffer. However, given that cooperatives represent about a quarter of the total credit to the private sector, authorities are monitoring and acting on weak institutions.

B. Macroeconomic Outlook and Debt Sustainability

15. Growth is expected to converge to approximately 2.5 percent over the medium term, a notable increase compared to the 1.1 percent average recorded over the past decade. Following a downturn in 2024, GDP is projected to rebound by 3.2 percent this year, supported by improved energy supply due to better weather conditions and investments to expand power generation capacity.[18] Progress in restoring macroeconomic balances and improving security are expected to provide a more favorable environment for private investment, boosting growth in the medium-term. Further support to economic activity is expected to come from the reforms supported by the DPF, as they are expected to encourage private sector investment and participation in the mining and oil sectors, as well as promote investment through public-private partnerships. Also, the reform pipeline contains other efficiency-enhancing measures, such as realignment of interest rate caps, capital market development, simplification of business licensing, trade facilitation and customs modernization. These measures are also expected to have a positive impact on the investment climate, fostering growth and job creation, and offsetting the effects of fiscal consolidation. With more robust growth, poverty is projected to decline by 1.2 percentage points by 2027.

16. Inflation is expected to reach around 1 percent this year and to stabilize below 2 percent in the medium term. The

[17] Private banks account for 70 percent of the financial system's total portfolio, while state-owned banks (BanEcuador and Corporación Financiera Nacional) represent 3 percent.

[18] Although the fiscal adjustment is in principle contractionary, there are two factors that dilute this effect in 2025. First, GDP is rebounding from a recession in 2024 caused by a combination of energy scarcity, security concerns and political uncertainty. Energy is in good supply this year and political uncertainty, although still high, has decreased. Second, the adjustment lowers risks of fiscal source, which is a positive driver for private spending. The latter effect will also prevail in the medium term.

inflationary impact of higher diesel prices in 2025 is expected to be moderated, as compensatory measures contain the increase in urban and freight transportation costs. In 2026, a temporary increase in inflation is expected, both as a statistical effect of low prices from the previous year, a lagged effect of the diesel price increase, and the recovery of domestic demand. Going forward, inflation is expected to stabilize below 2 percent, as has been the case in recent years.

17. The external surplus is projected to narrow over the forecast period. Lower export prices, particularly for commodities, combined with a rebound in domestic demand and subsequent import growth, are expected to reduce the current account surplus. In the medium-term, the upward trend in the external demand of agro-industrial products will be partially offset by the decline in domestic oil production.[19] The expected reduction of the trade balance would be attenuated by the increase of remittances, which are expected to mark a record high in 2025. On the financing side, reduced fiscal risks would have a positive impact on financial inflows, leading to greater external public financing and foreign direct investment, supported by a more stable environment for growth. The accumulation of gross international reserves (GIR) will be favored by sustained current account surpluses, multilateral financing, the restoration of market access and ongoing fiscal consolidation. GIR are expected to end the year at around US$ 10 billion and would almost double this figure by 2028 given steady progress. The accumulation of reserves will generate confidence in the country's resilience to external shocks and provide stability to the financial system, generating a positive feedback loop between capital inflows and GIR, which will also reflect in adequacy metrics.

18. Fiscal consolidation is expected to continue, supported by the IMF program and the World Bank DPF series. The overall deficit is projected to slightly decline this year, to around 1.2 percent of GDP, and swing to a surplus by 2027 through a combination of revenue and expenditure measures.[20] On the revenue side, a VAT rate increase in 2024 would continue to yield additional resources (about US$300 million) in 2025. The government also introduced new fees on e-commerce, and a tax on undistributed profits. Additional reforms would include streamlining inefficient tax expenditures and revamping the fiscal framework of the mining sector. These measures are expected to generate an estimated US$600 million in 2025 and US$700 million annually in 2026-2027, offsetting the decline in oil revenues. As such, tax revenues are expected to increase 1.3 pp of GDP and non-tax revenues an additional 0.6 pp, for a total 1.9 pp expected increase in non-oil revenues in 2025-2028. Expenditure-side measures primarily target the ongoing phase-out of energy subsidies, which when combined with procurement and wage bill consolidation reforms are expected to generate savings of approximately US$1 billion in 2026 (0.7 percent of GDP).[21] [22] Taken together, these are projected to narrow the fiscal balance by 2.6 percentage points between 2025 and 2028, resulting in an overall surplus of 1.3 percent by 2028. However, if we consider that the projected fall in oil revenues amounts to 1.6 pp of GDP in the same period, it can be inferred that the net fiscal effort due to the consolidation program is expected to reach 4.2 percentage points of GDP.

19. Gross financing needs for the non-financial public sector remain elevated, estimated at approximately US$8.4 billion (6.4 percent of GDP) in 2025, with international financial institutions (IFIs) expected to provide more than half

[19] Although global trade policy might have a negative impact on export volumes, it is expected to be partially offset by demand shifts from major economies looking to diversify suppliers.
[20] A further reduction of the fiscal deficit in 2025 would be prevented by the fall in oil revenues, mainly due to supply restrictions. Thus, the reduction of fiscal expenditures (wage bill and procurement) and the increase of non-oil revenues, will be almost offset by an estimated fall in oil revenues of 0.9 percent of GDP. A slower decline in oil revenues is expected in the coming years.
[21] Fuel subsidies are reflected as use of good and services in Ecuador's government accounts, as they are the difference between the purchases and the distribution sale price. Narrowing this gap will reflect as a decline in procurement of oil-related goods.
[22] The stabilization program is also aimed at providing greater space for capital spending. Therefore, a slow, though steady, increase in this account is expected over the projection period, from 1.5% in 2025 to 2.2% in 2028. The current low level of capital spending reflects a tension between stabilizing fiscal accounts and promoting economic growth. Furthermore, it reflects the trend in recent decades toward increasing current spending, reducing the space for high-impact public investment.

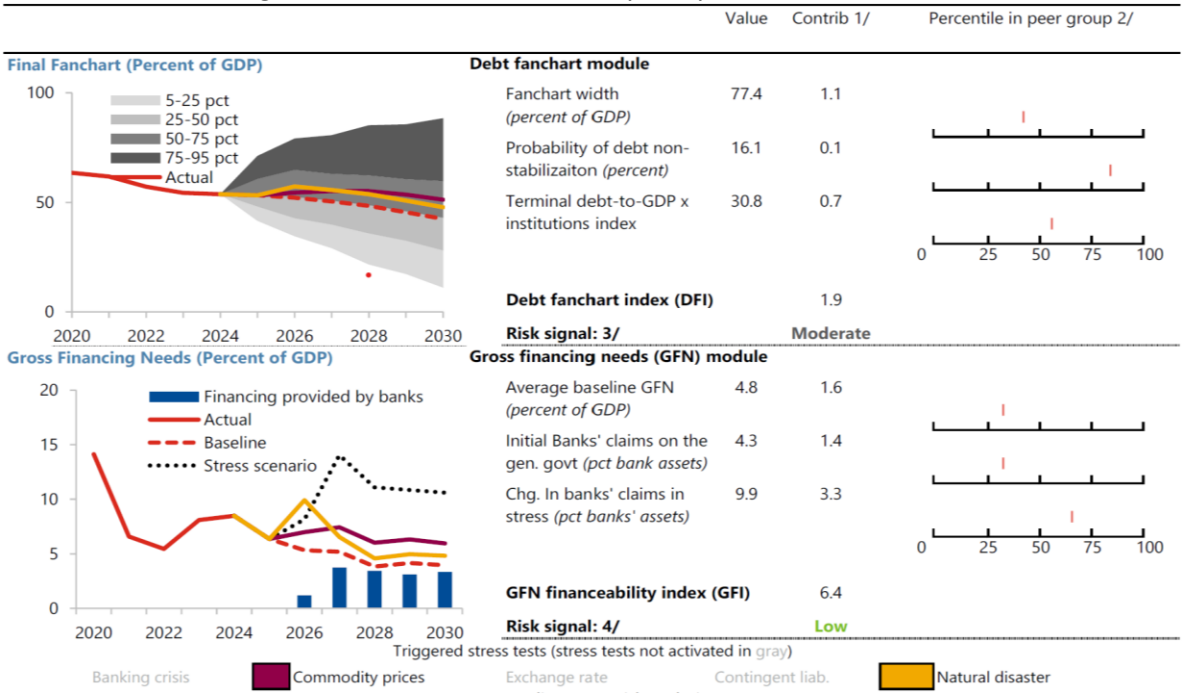
of the required funding. Ongoing fiscal consolidation is anticipated to gradually reduce these financing needs, which are projected to decline to US$5.5 billion (3.7 percent of GDP) by 2028. Furthermore, with progress in the program's implementation, a diversification of funding sources is expected. Thus, disbursements from bilateral sources are expected to exceed US$ 300 million this year and reach US$ 600 million in 2026, staying above US$ 500 million in 2027 and 2028. Also, under the EFF program, Ecuador is expected to regain market access by 2026, enabling the refinancing of approximately US$2.7 billion in bond rollovers due between 2026 and 2028. On the other hand, amortization pressures are expected to intensify in 2027, increasing by about US$1.2 billion, highlighting the critical importance of sustained fiscal adjustment to meet both domestic and external obligations. The successful management of public debt and the government's financial sustainability will depend on the continued implementation of the reform program and ample access to international capital markets.

20. Public debt is considered sustainable over the medium term, provided the reform program is successfully implemented. The fiscal and debt projections in the baseline scenario (Figure 1) assume the effective implementation of the fiscal reform plan supported by the EFF program and this operation. [23] Public debt is assessed as sustainable, but not with high probability. There is a 50 percent chance that the debt-to-GDP ratio will follow the baseline trajectory or fall below it and there is a 16 percent change that debt does not stabilize. The overall risk of sovereign stress is moderate, based on the moderate level of vulnerability for the medium-term and the large adjustment needs to ensure fiscal sustainability. If the fiscal reform plan is implemented as intended, the debt-to-GDP ratio is expected to continue declining over the medium term.

21. Stress-test scenarios underscore Ecuador's vulnerability to fluctuations in oil-related revenues. In the event of a commodity price shock, lower oil prices than those assumed in the baseline would reduce fiscal revenues and worsen the current account, causing public debt to remain above the baseline trajectory. This outcome underscores Ecuador's vulnerability to fluctuations in oil-related revenues. Without compensatory measures, the debt-to-GDP ratio could stabilize at elevated levels, delaying progress toward the legal debt target. Under the natural disaster shock scenario, lower economic growth and increased emergency spending are assumed. In this case, public debt would rise sharply in the short term due to reconstruction needs but would gradually converge toward the baseline as output recovers and fiscal consolidation resumes. Other downside risks to the debt outlook include uncertainty regarding external financing sources, the implementation capacity of the fiscal program, and fiscal outcomes arising from growth underperformance. These risks are mitigated by a large share of multilateral and bilateral debt, as well as the authorities' strong commitment to implementing fiscal reforms.

[23] October 2025 DSA; third review of the IMF Extended Fund Facility (EFF). As part of the IMF's third review of the EFF program, the mission conducted a public debt sustainability analysis using the Sovereign Risk and Debt Sustainability Framework (SRDSF), whose results are presented in the figure. The DSA under the SRDSF is based on a probabilistic forecast built from stochastic simulations based on past volatility on relevant variables: GDP growth, primary balance, interest rates on debt, exchange rates, commodity prices. The fiscal and debt projections in the baseline scenario assume the effective implementation of the fiscal reform plan supported by the EFF program to which the macroeconomic projections of the DPF program is aligned. While public debt is deemed sustainable under this scenario, the probability of achieving this outcome is moderate rather than high. Specifically, there is a 50 percent chance that the debt-to-GDP ratio will follow the baseline trajectory or fall below it. The analysis under the third review is not expected to change these conclusions as the baseline scenario is similar and the stochastic simulations of the variables are based on their past behavior.

Figure 1. IMF's debt sustainability analysis under the SRDSF



Source: IMF, Third Review Under the EFF, October 2025

22. The GoE continues to strengthen its debt management framework with support from IFIs and external financial advisors, aiming to enhance access to domestic and international capital markets for future financing needs. Following the loss of access to international capital markets and limited access to bilateral financing, Ecuador has primarily relied on IFI financing. To further strengthen its medium-term debt management, it is taking actions to access international capital markets and strengthen domestic capital market development, with WB support, allowing it to access markets and diversify credit sources. Technical assistance missions from the IMF and the World Bank in 2020 and 2022 contributed to the development of the updated Medium-Term Debt Management Strategy (MTDS) for 2024-2027, which was published in December 2024. The GoE is currently implementing recommendations to develop domestic capital markets following the delivery of the Local Currency Bond Market Diagnostic Report by IMF and World Bank in early 2025. Furthermore, in September 2025, the GoE engaged external financial advisory services to facilitate sovereign bond market issuance upon regaining market access and strengthening its liability management operations.

Table 1. Selected Economic and Financial Indicators

	2022	2023	2024	2025e	2026f	2027f	2028f
Annual percentage change, unless otherwise indicated							
National Accounts							
GDP at constant prices, percent 1/	5.9	2.0	-2.0	3.2	2.0	2.4	2.6
Consumption	5.2	3.8	-1.3	3.1	0.5	1.9	2.1
Investment	9.2	0.2	-3.8	6.5	8.9	5.8	4.9
Exports of goods and services	7.9	0.8	1.8	3.7	4.7	4.0	4.6
Imports of goods and services	9.5	0.6	1.7	5.7	5.7	5.3	5.0
Sectoral contribution to growth, percentage points							
Agriculture	0.0	0.2	0.2	0.5	0.2	0.2	0.2
Industry	1.5	-0.1	-1.0	0.9	0.4	0.5	0.6
Services	3.6	1.8	-0.9	1.8	1.4	1.8	1.8
Prices, Annual Percentage Change							
GDP deflator	2.3	2.3	5.0	1.4	1.2	1.7	1.5
Consumer prices (average)	3.5	2.2	1.6	1.1	2.8	1.5	1.5
Selected Monetary Accounts							
Banks' credit to the government	-7.1	-4.5	-9.5	17.5	12.4	11.0	10.0
Banks' credit to private sector	14.9	8.4	6.2	8.4	3.0	4.1	4.3
Broad money (M2)	7.5	6.7	4.8	4.7	3.2	4.1	4.2
External sector							
Goods exports	22.5	-4.7	10.2	-3.0	5.0	1.4	3.2
Goods imports	27.2	-4.0	-4.8	9.5	5.6	6.0	6.0
Terms of trade	-1.8	0.4	-1.0	-1.0	-1.2	0.3	0.8
Percent of GDP, unless otherwise indicated							
Current account	1.8	1.8	5.7	5.1	4.0	3.4	3.1
Foreign investment	0.8	0.4	0.3	0.6	0.9	1.1	1.3
Debt							
Public debt (external and domestic) 2/	57.2	54.3	53.8	53.0	51.9	50.1	48.1
External debt 3/	42.8	39.8	39.8	39.5	38.9	37.5	35.9
Public debt service	7.0	6.8	7.4	7.6	7.7	8.3	7.5
Fiscal Accounts							
Total revenue and grants 4/	38.7	36.0	36.8	36.4	36.7	36.8	37.0
Total expenditure and net lending	38.7	39.4	38.1	37.6	36.7	36.0	35.7
Overall fiscal balance (with grants)	0.0	-3.4	-1.3	-1.2	0.0	0.8	1.3
Memo Items							
GDP per capita (US$)	6,516	6,793	6,939	7,210	7,384	7,627	7,883
Gross reserves (US$ billion, EOP)	8.5	4.5	6.9	10.4	13.1	16.2	19.5
In months of next year's imports)	2.9	1.5	2.3	3.2	3.8	4.5	5.0
Nominal GDP (US$ billion)	116.1	121.1	124.7	130.5	134.7	140.2	146.1
Oil price, Brent (US$ per barrel) 5/	99.8	82.6	80.7	70.0	65.9	65.7	66.1

Sources: BCE, MEF, IMF, and staff estimates and projections.

Note: As of October 20, 2025. (1) Historical growth figures were changed as the authorities have recently rebased the national accounts. (2) The Non-Financial Public Sector (NFPS) debt includes the outstanding balance for advanced oil sales, treasury certificates, Central Bank loans, other liabilities, and domestic floating debt. (3) External debt includes public and private external debt. (4) The NFPS figures are based on the data released by the Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*, MEF), where SOEs' operations are recorded in each line and oil derivatives financing account (CFDD, *Cuenta de Financiamiento de Derivados Deficitarios*) as part of the oil revenues and the purchase of goods and services. In the previous DPF series, the SOE operative balance was registered as other revenue, the CFDD revenues were part of other revenues, and the CFDD expenditures were part of other expenditures. (5) Between 2021 and 2023, the average Brent has been US$13 higher than average Ecuador's crude oil export price as Ecuador mainly exports heavier and higher-sulfur crude oils, but the correlation between this to variables attained 0.97.

Table 2. Key Fiscal Indicators

Percent of GDP	2022	2023	2024	2025e	2026f	2027f	2028f
Revenues	38.7	36.0	36.8	36.4	36.7	36.8	37.0
Oil revenues /1	14.5	12.0	11.9	11.0	10.9	10.4	10.3
Tax revenues	18.6	17.4	18.5	19.2	19.3	19.6	19.8
Direct taxes	4.8	4.5	5.2	5.3	5.1	5.4	5.5
Indirect taxes	13.5	12.7	13.1	13.6	13.8	13.7	13.7
Taxes on goods and services	6.5	6.1	6.7	7.2	7.3	7.3	7.3
Taxes on international trade	2.0	1.6	1.5	1.6	1.7	1.7	1.7
Social contributions	5.0	5.0	4.9	4.8	4.8	4.7	4.7
Other taxes	0.2	0.2	0.2	0.3	0.4	0.5	0.6
Non-tax revenues	5.2	5.7	5.4	5.3	5.5	5.8	6.0
O.w.: interest	1.1	1.3	1.2	1.2	1.2	1.3	1.2
Grants	0.4	0.8	1.0	0.9	0.9	0.9	0.9
Expenditures	38.7	39.4	38.1	37.6	36.7	36.0	35.7
Expenses	36.7	37.7	36.6	36.1	34.9	33.9	33.5
Compensation of employees	10.5	10.7	10.5	10.2	10.0	9.7	9.4
Use of goods and services /2	14.3	13.9	12.8	12.2	11.3	10.9	10.7
Subsides and transfers	2.4	2.6	2.6	2.9	2.9	2.7	2.9
Social benefits	8.0	8.4	8.4	8.5	8.3	8.1	8.1
Interest payments	1.5	2.2	2.3	2.4	2.4	2.4	2.4
Capital expenditure	2.0	1.7	1.5	1.5	1.8	2.1	2.3
Overall balance (NFPS) /3	0.0	-3.4	-1.3	-1.2	0.0	0.8	1.3
Primary balance	0.4	-2.5	-0.2	-0.1	1.2	2.0	2.4
NFPS financing	0.0	3.4	1.3	1.2	0.0	-0.8	-1.3
External, net	1.7	0.0	1.8	1.5	0.5	0.2	-0.1
Domestic net	-1.7	3.4	-0.5	-0.3	-0.5	-1.0	-1.2

Sources: BCE, MEF, IMF, and staff estimates and projections.
Notes: 1/ Includes the general budget of the state oil revenues, the Oil Derivatives Financing Account (Cuenta de Financiamiento de Derivados Deficitarios, CFDD); it does not include oil SOE's operative revenues, which are included in non-tax revenues. 2/ The removal of diesel subsidies enacted on September 2025 will have an impact of 0.3 percent of GDP in 2025 and 0.8 percent in the following years. 3/ Based on data released by MEF, which includes SOE's operational balance as non-tax revenue.

Table 3. Public and Publicly Guaranteed Debt Stock and Debt Service

	Debt Stock (end of period)			Debt Service			
	2025P			2026P	2027P	2026P	2027P
	Million US$	% of total	% of GDP	Million US$		% of GDP	
Total PPG Debt	69,157	100.0	53.8	10,424	11,682	7.7	8.3
Domestic Debt	17,545	25.4	13.9	3,935	4,606	2.9	3.3
Treasury Bills	1,887	2.7	1.4	1,975	1,979	1.5	1.4
Medium and long-term debt	15,659	22.6	12.5	1,960	2,627	1.5	1.9
External Debt	51,612	74.6	39.9	6,489	7,077	4.8	5.0
Multilateral Creditors	28,700	41.5	22.3	3,657	4,436	2.7	3.2
Bilateral Creditors	3,320	4.8	2.6	676	562	0.5	0.4
Commercial Creditors	19,592	28.3	15.0	2,156	2,079	1.6	1.5

Sources: BCE, MEF, IMF, and staff estimates and projections.

Table 4. Non-Financial Public Sector financing requirements and sources

Million of US$, otherwise it is indicated	2022	2023	2024	2025e	2026f	2027f	2028f
Gross financing needs, percent of GDP	5.4	8.1	8.5	6.4	5.4	5.1	3.8
Gross financing needs	6,321	9,810	10,574	8,395	7,231	7,165	5,566
Fiscal deficit	-52	4,217	1,590	1,566	40	-1,152	-1,829
External debt amortizations	2,376	2,656	3,226	3,416	4,076	4,565	4,272
Domestic debt amortizations 1/	3,997	2,936	5,757	3,413	3,115	3,752	3,123
Financing sources	6,321	9,810	10,574	8,395	7,231	7,165	5,566
External debt disbursements	4,414	2,627	5,482	5,438	4,811	4,847	4,094
IMF	1,611	0	1,487	1,750	750	750	250
World Bank	1,328	700	908	1,050	400	400	400
IADB	846	594	1,179	800	550	550	250
CAF	414	285	385	450	450	450	450
Other - multilateral	0	2	308	575	717	200	0
Bilateral	196	256	196	313	600	540	540
Private sector	4	775	1,004	500	344	457	204
Others 2/	15	15	15	0	1,000	1,500	2,000
Domestic bonds	629	752	938	1,642	1,197	1,959	1,430
Treasury certificates	1,873	2,166	1,887	1,887	1,887	1,887	1,887
Changes in deposits and other financial assets	-595	4,933	2,827	-572	-664	-1,528	-1,845
Net arrears accumulation	0	0	0	0	0	0	0
Others and discrepancy	0	-668	-560	0	0	0	0

Sources: BCE, MEF, IMF, and staff estimates and projections.

Notes: (1) Includes clearance of other accounts payable. (2) Includes the issuance of Eurobonds.

Table 5. External Financing Needs and Sources

Millions of US$	2022	2023	2024	2025e	2026f	2027f	2028f
Financing Requirements	5,154	7,473	4,410	3,040	5,350	6,910	6,810
Current account deficit	-2,096	-2,217	-7,082	-6,652	-5,386	-4,714	-4,527
Public debt amortization	2,379	2,656	3,226	3,416	4,076	4,565	4,272
Private debt amortization	4,871	7,034	8,267	6,276	6,659	7,059	7,065
Available Financing	5,154	7,473	4,410	3,040	5,350	6,910	6,810
Foreign Direct Investment (net)	882	475	232	790	1,159	1,585	1,935
Portfolio investment (net)	-1,181	-2,156	-4,080	-2,654	-1,890	-1,029	-542
Other investment	1,323	3,310	3,775	2,856	3,890	4,509	4,528
Capital Grants	86	82	82	82	85	88	92
Debt disbursement (excl. IMF)	2,964	3,020	3,995	3,688	4,061	4,097	3,844
IMF credit (net)	1,611	0	1,487	1,750	750	750	250
Change in Reserves (- = Increase)	-568	4,284	-1,081	-3,471	-2,706	-3,090	-3,297
Errors & Omissions	38	-1,542	0	0	0	0	0

Sources: BCE, MEF, IMF, and staff estimates and projections.

23. Risks to the outlook are substantial. Domestically, natural hazards could affect both growth and fiscal outcomes, the energy sector remains exposed due to high reliance on hydropower and electricity imports, and an eventual resurgence of crime could dampen confidence and investment. Over the medium term, slower-than-envisioned fiscal consolidation or delays to structural reforms—such as in tax policy, subsidies, state-owned enterprises, procurement, and the energy sector—could weigh on growth and public finances. Externally, Ecuador remains sensitive to oil price volatility and to weaker-than-expected growth in key partners like the United States or China. A broader decline in commodity prices, rising trade uncertainty, or setbacks in regaining market access would complicate debt rollovers and financing plans.

C. IMF Relations

24. The IMF Board completed the third review of the 48-month EFF in October 2025. The augmentation raised total access from SDR 3 billion to SDR 3.75 billion (about US$5 billion). Of this, US$2.1 billion has already been disbursed, with the remainder expected by 2028. The EFF targets a consolidation of the non-oil primary balance including fuel subsidies (NOPB) of 6.6 pp of GDP in 2024–2028, to meet *Código Organico de Planificación y Finanzas Públicas* (Organic Code of Planning and Public Finance, COPLAFIP) debt targets. All end-December 2024 and end-April 2025 quantitative criteria and most indicative targets were met. The fourth review is planned for December. The IMF provides technical assistance (TA) in tax policy, fiscal transparency, debt management, and financial sector reform, complementing World Bank technical assistance on tax expenditures, fuel subsidy, SOE, procurement, customs, and energy sector reforms.

III. PROPOSED OPERATION

A. Link to Government Program, CPF, other WBG operations, and Corporate Priorities

25. Ecuador has a solid legal framework for disaster and health crisis management, including clear institutional roles, a formal disaster declaration mechanism that serves as the trigger, and mandated tools such as national and local DRM plans and a DRF strategy, all articulated in the 2024 DRM law and its regulations.[24] The country has strengthened its operational capacity for crisis preparedness through investments in risk reduction, early warning systems (EWS), and emergency coordination hubs.[25] The central government leads preparedness by setting risk management policies, coordinating national plans, and training institutions, while local governments develop local emergency response plans and activate Emergency Operations Committees (COEs). However, the country faces a significant financial protection gap, characterized by limited availability of pre-arranged financial instruments, low insurance penetration, and the absence of a risk-layered strategy to systematically manage disaster-related contingent liabilities. To address these weaknesses, the government is currently developing a DRF strategy with support from the World Bank, and this operation represents a critical step in strengthening Ecuador's financial preparedness for disasters. Another major weakness in Ecuador's crisis risk management framework was its weak DRM governance—particularly the lack of coordination between national and local governments, as well as between the SNGR and other sectoral ministries. The new DRM law and regulations aim to strengthen governance by decentralizing responsibilities across all levels of government and sectors. In addition, the Prior

[24] According to the IDB's 2024 update of the Disaster Risk Management Index (IGR), Ecuador improved its performance in key indicators related to emergency operations, planning, and institutional readiness. The 2024 update of the Governance and Public Policy Index for Disaster Risk Management (iGOPP) noted that preparedness, risk reduction, and risk identification are among the most developed components of Ecuador's DRM framework.

[25] Ecuador has significantly enhanced its EWSs by investing in advanced hazard monitoring technologies and expanding alert dissemination through digital sirens, cameras, and evacuation signage, supported by an IDB loan: Strengthening the Multi-Hazard National Early Warning System (EC-L1285) to bolster community readiness for floods, landslides, tsunamis, and volcanic eruptions. The government has also established emergency coordination hubs, such as the ECU-911 center, which integrates data, issues real-time warnings, and orchestrates multi-agency response activities. Additionally, local pilots such as Quito's flood-prone Caupicho district are implementing neighborhood-level EWS tailored to specific risks.

Actions (PAs) under the proposed operation aim to close institutional and operational gaps while enhancing Ecuador's overall DRM capacity.

26. Importance of maintaining ready-to-deploy financing mechanisms and ensuring strong inter-agency coordination to enable timely implementation has been highlighted through the Contingent Emergency Response Components (CERCs) activation under the Inclusive and Resilient Urban Housing Project (P180361). In response to a national energy crisis in 2024 triggered by prolonged drought, the GoE activated the CERC in January 2025 to finance emergency electricity bill subsidies. A total of US$36.45 million was reallocated to reimburse distribution companies for a 50 percent reduction in residential electricity bills, benefiting over five million residential users. This rapid mobilization of funds following the declaration of a state of emergency demonstrated the value of having pre-arranged contingent financing. Key lessons include the importance of maintaining ready-to-deploy financing mechanisms and ensuring strong inter-agency coordination to enable timely implementation. The experience also underscored that, while response systems are functional, they still require further strengthening to improve agility and effectiveness for future emergencies.

27. The proposed Cat-DDO builds on the progress and lessons learned from a series of DPF operations, Investment Project Financing (IPF), and non-lending TA activities. Previous DPF operations have shown that strong government ownership, political continuity, and complementary TA are critical to sustaining reforms, especially in decentralized sectors such as DRM and climate adaptation, where limited subnational capacity and fiscal shocks have posed challenges. Three key lessons from the World Bank's ongoing and past engagement have been integrated into the program design by: (i) providing targeted and continuous TAs in priority reform areas; (ii) building on strong analytical foundations, including the CCDR and previous DRM TA outcomes; and (iii) advancing the implementation and results of PAs through sustained World Bank sectoral engagement. Under (i), the World Bank team has been supporting SNGR in developing the National Disaster Risk Reduction Plan, which will enhance the implementation of PAs under Pillar 2 by mainstreaming resilience and climate adaptation in priority sectors and assisting the MEF in developing the DRF strategy to strengthen financial preparedness. For (ii), previous DRM TAs such as the development of the DRF strategy and DRM capacity assessments have laid the groundwork for the formulation and implementation of PAs under Pillar 1. Lastly, under (iii), a series of DPF operations in Ecuador have informed the design of PA4, while IPFs and TA activities have supported the analysis and formulation of all PAs. A detailed review is provided in Annex 4. Bibliography.

28. This operation reinforces the GoE's ongoing efforts to strengthen institutional, technical, and financial capacities for managing disaster and climate change risks. The proposed PAs were developed in close collaboration with the GoE and are aligned with existing policies and strategies, including the National Development Plan 2025-2029. Furthermore, the operation is fully aligned with the World Bank Group's Country Partnership Framework (CPF) for Ecuador's FY19–FY23,[26] which highlights efforts to strengthen DRM and environmental governance under the Results Area 3, Objective 6 - Improve resilience to disaster risks and climate change. The operation also builds on findings from Ecuador's CCDR, which underscores the need to increase climate resilience through institutional strengthening and targeted adaptation investments, particularly in vulnerable sectors such as infrastructure and urban development. In addition, PA1 will support local governments in the formulation and implementation of comprehensive risk management plans that integrate gender-differentiated measures into DRM planning. Furthermore, this operation aligns with the Maximizing Finance for Development (MFD) principles and supports private capital enabled (PCE). PA4 is identified as MFD-enabling through the increased participation of the private sector in energy generation. The PA4 results indicator—estimated capacity of

[26] The Ecuador CPF FY19–FY23 (Report No. 135374-EC) remains in effect through FY25 following the Performance and Learning Review (Report No. 175329-EC).

approved distributed private renewable energy projects up to 100 MW approved by the Ministry of Environment and Energy (MAE) —has been classified as a non-monetary PCE indicator.

29. This operation aligns with the Paris Agreement's goals on mitigation and adaptation. Based on the initial screening, the DPF reform program supports Ecuador's climate commitments, including its National Adaptation Plan (NAP)[27] and Second Nationally Determined Contributions (NDC).[28] The DPF also supports the key priorities from Ecuador's CCDR including strengthening the institutional framework in adaptation and resilience, and increase the resilience of the Land Use, Land-Use Change and Forestry (LULUCF) and Energy sectors. The PAs aim to strengthen the country's DRM and CCA capacity by enhancing the institutional capacity and integrating resilience and climate adaptation across critical sectors such as the environment, urban development, energy, and health. Regarding mitigation, none of the PAs included in the program are expected to cause a significant increase in greenhouse gas (GHG) emissions or create persistent barriers to a low-GHG transition. In terms of adaptation and resilience, climate hazards are unlikely to significantly affect the PAs' contributions to the PDO. A detailed review is provided in Annex 2.

30. Cat-DDO drawdown trigger. Funds may be drawn upon the declaration of a disaster or catastrophe to address an imminent or ongoing crisis caused by natural hazards or public health emergencies.[29] In Ecuador, there are two types of declarations defined in Ecuador's Organic Law for Comprehensive Disaster Risk Management (Article 65) as published in Official Register No. 488, dated January 30, 2024: (i) Emergency Declaration and (ii) Disaster Declaration. An Emergency Declaration allows territorial entities to quickly use their own resources to respond to and contain the event. A Disaster Declaration or Catastrophe is issued when the magnitude or severity of an adverse event surpasses the response capacity of the affected jurisdiction or institution, requiring coordinated support from higher levels of government and the mobilization of additional public funds and/or external support. In order to use the proposed operation as a second layer of Ecuador's layered risk financing architecture (contingent credit) that serves as fast-disbursing instruments for moderate to high-impact events, only a Disaster or Catastrophe Declaration, ("Declaratoria de Desastre o Catástrofe dada por el nivel nacional") issued at the national level, can serve as the valid legal trigger in accordance with the 2024 DRM Law and its related regulations and operational manuals.[30] Once a disaster or catastrophe has occurred, the impacts and needs are evaluated by the National Emergency Operations Committee (COE), which may recommend that the SNGR declare a disaster or catastrophe if necessary. Such a declaration must be issued by the SNGR or any governing body and published through an official resolution in the Official Register. The disaster or catastrophe declaration process in Ecuador, which lasts up to 90 days with the possibility of extension, serves as a vital strategy for managing the repercussions of disasters.

31. The disaster or catastrophe declaration enables coordinated action, efficient resource allocation, and active community participation, thereby reducing the adverse effects of disasters and fostering recovery and resilience among affected communities. The MEF operationalizes emergency budget responses by approving annual budgets, managing

[27] Ministerio del Ambiente, Agua y Transición Ecológica (MAATE). (2023). Plan Nacional de Adaptación al Cambio Climático del Ecuador (2022-2027). MAATE. Quito, Ecuador.
[28] MAATE. (2025). Segunda Contribución Determinada a Nivel Nacional de Ecuador al Acuerdo de París 2026–2035. https://www.ambiente.gob.ec
[29] Natural hazards include: (a) disasters of natural origin caused by geological phenomena (such as earthquakes, volcanic eruptions, tsunamis, and landslides) or hydrometeorological phenomena (such as floods, droughts, forest fires, tropical cyclones, landslides, and other events related to the El Niño or La Niña phenomena); and (b) public health emergencies, such as those caused by epidemics or pandemics, excluding any event that is political, technological, military, fiscal or security-related.
[30] The trigger is based on institutional judgment and inter-agency assessments, rather than fixed quantitative indicators, which is consistent with international practice for contingent operations. Under Ecuador's 2024 DRM Law and its regulations, a disaster or catastrophe declaration is issued when the magnitude or severity of an adverse event exceeds the response capacity of the affected jurisdiction or institution, requiring coordinated support from higher levels of government and the mobilization of additional public funds. Although no formal thresholds are defined, the decision is informed by technical evaluations led by the SNGR, in coordination with local COEs, based on damage and needs assessments.

fund distribution, implementing integrated financial management systems, and reallocating existing resources to address emergency priorities as needed. Funds allocated under the declaration are distributed by the MEF to relevant public agencies, based on their mandates, to finance necessary emergency procurements. These procurements are carried out through simplified procedures that prioritize urgency, eliminate unnecessary requirements, and enable a rapid and effective response. A provision allowing the extension of the response period ensures flexibility and adaptability to evolving conditions, maintaining effectiveness in addressing ongoing challenges. In addition, the GoE is planning to utilize the RRO through the Cat-DDO to further strengthen financial preparedness. Since the enactment of the new DRM law in January 2024, as of October 2025, the proposed trigger, Disaster or Catastrophe Declaration, has not been activated yet.[31]

B. Prior Actions, Triggers, Expected Results and Analytical Underpinnings

Pillar 1: Enhancing institutional capacity for resilience and climate adaptation

Prior Action # 1 (PA1). *To strengthen institutional capacity for resilience and climate adaptation, the Borrower has mandated: (i) the decentralization and integration of DRM at the local government level; and (ii) the SNGR to support local governments in the formulation and implementation of comprehensive risk management plans with gender-differentiated measures, through the Organic Law for Comprehensive Disaster Risk Management (DRM)*[32] *and its implementing regulation.*[33]

32. Rationale: While Ecuador's Constitution has included provisions for disaster risk management (DRM) since 2008, the absence of a comprehensive legal and regulatory framework has hindered effective coordination across all levels of government and limited the systematic integration of DRM particularly gender-differentiated measures at the local level.[34] Past events, including floods and landslides linked to ENSO phenomena, the 2016 earthquakes, volcanic activity alerts, droughts, wildfires, and the COVID-19 pandemic, have underscored the urgent need for a structured and legally binding framework that clearly defines roles, responsibilities, and institutional mechanisms for DRM at both national and local levels to strengthen the country's overall institutional capacity for risk governance and climate adaptation. These events have also revealed that women, especially those in rural areas, experience disproportionate impacts during disasters in Ecuador, which heightens their vulnerability and constrains their capacity to recover.[35] Accordingly, these experiences have highlighted not only the importance of decentralizing DRM functions to enable more responsive, context-specific, and sustainable risk management but also the need to ensure that the differentiated needs of women, men, and vulnerable groups are adequately addressed in local DRM planning and response. The lack of localized DRM plans incorporating gender-differentiated analysis has further increased exposure and vulnerability by limiting the inclusion of diverse perspectives and impeding the identification of specific risks faced by women, indigenous peoples, and other

[31] The SNGR has issued two national emergency declarations, defined in the 2024 DRM law: (i) in November 2024, in response to forest fires, water deficits, and drought; and (ii) in February 2025, in response to excessive rainfall. These declarations enabled the activation of emergency response mechanisms and resource mobilization. Ministerial Resolution SNGR-424-2024 https://www.gestionderiesgos.gob.ec/wp-content/uploads/downloads/2024/11/Resol.SNGR-424-2024.pdf Ministerial Resolution SNGR-050-2025 https://www.gestionderiesgos.gob.ec/wp-content/uploads/downloads/2025/02/RESOLUCION-No.-SNGR-050-2025.pdf

[32] Organic Law for Comprehensive Disaster Risk Management, published in the Official Register Supplement No. 488 published in the Official Gazette on January 30, 2024. Available at: https://www.asambleanacional.gob.ec/es/system/files/leyorg1.pdf

[33] General Regulation of the Organic Law for Comprehensive Disaster Risk Management, No. 394 dated September 18, 2024, published in the Official Gazette on September 18, 2024. Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiYjc4MjJiNWQtMTAyMS00ZmQzLTg1YTMtMDExMDdiYjM1NTI4LnBkZiJ9

[34] A gender-differentiated measure in DRM identifies and addresses the distinct vulnerabilities, needs, and capacities of women, men, and other gender groups throughout the DRM cycle. It ensures that policies and actions: (i) are informed by sex-disaggregated data and gender analysis;(ii) include targeted measures to reduce gender gaps in access to resources, services, and decision-making; and (iii) promote women's and marginalized groups' participation and leadership in DRM planning and implementation. This measure strengthens the inclusiveness, equity, and effectiveness of DRM interventions and supports the achievement of gender-responsive outcomes consistent with the World Bank Gender Tag methodology.

[35] In the 2016 Ecuador earthquake, shelters and informal accommodations did not account for women's specific needs, with layout, rules, and power dynamics limiting women's access and increasing risks of sexual and gender-based violence (SGBV). Thus, post-disaster recovery planning needs explicit protocols to ensure safety, privacy, and gender-based violence prevention in shelters and transitional housing. In addition, despite legal frameworks, Ecuador's DRM policies historically have not effectively incorporated gender equality or GBV mitigation in disasters. Legal reforms must be supported by operational guidelines, training, and monitoring to ensure gender integration is effectively implemented.

groups. Moreover, unclear mandates and overlapping competencies among municipal actors have undermined coordination and weakened DRM planning and implementation—particularly in ensuring equitable access to early warning systems, preparedness resources, and recovery support.[36]

33. Policy Content: The comprehensive DRM law and its regulation constitute Ecuador's first unified national regulatory framework that clearly defines the competencies, roles, and responsibilities of DRM actors. It addresses longstanding gaps in risk governance and marks a major policy shift toward decentralization and gender-differentiated DRM planning, which entails concrete actions to eliminate barriers that prevent priority attention groups from equitably accessing goods and services and from actively participating in DRM processes. The legal framework mandates that local governments assume primary responsibility for long-term risk planning, prevention, preparedness, response, and recovery—integrating these functions into local development planning to comprehensively manage disaster risks arising from natural and anthropic hazards. Within the National Decentralized Risk Management System (SNDGR), municipalities are now legally obligated to establish DRM units, develop comprehensive DRM plans, and adopt inclusive approaches that ensure the participation and protection of women, children, older persons, and people with disabilities, in accordance with the law's guiding principles of equality, inclusion, and differentiated approaches.[37]The implementing regulation reinforces these provisions by requiring municipalities to strengthen technical and operational capacity—through specialized DRM units, improved data and information systems, stakeholder engagement, and training programs—while ensuring that DRM instruments incorporate gender-differentiated risk assessments and responsive measures across all DRM phases. These reforms transform subnational governments from passive implementers into active leaders in inclusive risk governance, embedding DRM and gender equality as core functions of local development and territorial planning. Through this legal framework, Ecuador seeks to ensure the safety, resilience, and well-being of all people—with particular attention to women and vulnerable populations—and to strengthen equitable risk governance that contributes to social inclusion and resilience-building.[38]

34. Expected Results: The law and its implementing regulation will strengthen Ecuador's institutional capacity for DRM by promoting coordinated and decentralized risk governance with gender-differentiated measures at the local level. By 2028, with support from the National Secretariat for Risk Management (SNGR), at least 80 out of 222 municipalities (36%) are expected to develop comprehensive risk management plans that include at least two measures focused on women aligned with the DRM approach defined in the DRM Law (Art. 48) and reviewed by the SNGR.[39] These plans will cover all DRM phases—risk understanding, prevention, mitigation, preparedness, response, and recovery—through coordinated, multisectoral actions that integrate structural and non-structural measures, institutional roles, and climate adaptation

[36] Regional evidence shows few DRR policies in Latin America explicitly integrate gender or promote women's leadership—reducing the visibility of women's needs in preparedness investments and drills at local level. Ecuador's national 2024 report stresses the importance of gender-disaggregated data to design inclusive policies and EWS—indicating current data gaps that obscure women's needs in preparedness. Comisión Económica para América Latina y el Caribe (CEPAL). (2024). INFORME EXHAUSTIVO NACIONAL BEIJING+30. https://www.cepal.org/sites/default/files/static/files/ecuador_-_informe_nacional_2.pdf

[37] These obligations are further reinforced by Article 67 of the DRM Law, which mandates differentiated measures for priority attention groups during alerts and emergencies—including access to basic services, humanitarian assistance, safe shelter, culturally appropriate information, and mechanisms for participation by indigenous communities and other nationalities.

[38] The national DRM Law and its regulations indirectly support climate change mitigation by promoting improved land-use planning and preventing deforestation. Preserving watersheds and implementing other nature-based solutions for disaster risk reduction also contribute to carbon sequestration, thereby enhancing synergies between the country's DRM, climate change adaptation (CCA), and climate mitigation agendas within a coherent regulatory framework.

[39] After the SNGR's review of the municipalities' DRM plans to ensure alignment with the DRM law, the municipalities are responsible for formalizing the plans through a municipal agreement to enable their implementation. The DRM Law and its regulation legally mandate municipalities to implement these plans, while the SNGR is responsible for monitoring their progress. Regarding the gender aspects, verification sources may include municipal plans, SNGR review reports, training logs, shelter protocol documents, and post-disaster audits and surveys. The SNGR's technical review should verify whether municipalities include sex-disaggregated analysis, women's inclusion, GBV prevention and response, and monitoring indicators for gender equity.

priorities. The DRM plans must include at least two of the following measures: (i) integrating a diagnostic on access gaps related to gender differences (e.g., which women cannot receive alerts and why) into local DRM activities; (ii) including budgeted alternative modalities (e.g., non-digital and community-based alerts) and targeted outreach/training for women; and (iii) establishing safe protocols and procedures to prevent and respond to GBV for shelters and recovery support, including feedback and referral mechanisms. In addition, the DRM plans may incorporate other measures such as: (i) participation of women and vulnerable groups in DRM planning and decision-making; (ii) specific actions to address women's differentiated needs in early warning systems, emergency shelters, and livelihood recovery; and (iii) capacity building for municipal staff on DRM with gender-differentiated approaches.

Prior Action # 2 (PA2). *To strengthen national health risk management capacity, the Borrower has adopted the Technical Standard for the Comprehensive Epidemiological Surveillance System (SIVE) that mandates the Ministry of Public Health (MSP) to enhance Ecuador's epidemic surveillance system, through a Ministerial Agreement.*[40]

35. Rationale: Ecuador's Comprehensive Epidemiological Surveillance System (SIVE), established as a formal national surveillance system, was initiated in late 2001 and strengthened with the issuance of a procedural manual in 2013. SIVE aims to enhance the country's capacity for early detection, investigation, and response to health events by providing timely, high-quality epidemiological data to inform public health policies and interventions. While SIVE has served as the backbone of Ecuador's epidemiological surveillance infrastructure, the COVID-19 pandemic exposed critical weaknesses in the integration between national and subnational health information systems. This resulted in fragmented surveillance information and poor data quality, limiting real-time epidemiological decision-making, particularly in rural and vulnerable territories, including the Amazon and coastal areas. Another key limitation was weak inter-institutional coordination and poor integration between public and private health actors. These issues hindered an agile, evidence-based response and contributed to high excess mortality and overwhelmed health systems in several regions.[41] The World Bank's operations have also highlighted the need for integrated efforts in transparency, equity, and risk management during pandemic responses.[42] This experience has since prompted reforms to modernize and integrate surveillance systems as part of Ecuador's broader public health resilience agenda. In addition, both dengue and yellow fever have seen significant increases in Ecuador, underscoring the urgent need for enhanced surveillance, vector control measures, and preparedness to address these emerging climate-sensitive threats. The SIVE remains limited by a fragmented data platform and weak enforcement of mandatory reporting, with 30 percent of health facilities required to report data still not integrated.

36. Policy content: The Technical Standard for the SIVE serves as a comprehensive legal, technical, and operational framework for systematic epidemiological surveillance by strengthening mandatory disease reporting and guiding health professionals in surveillance subsystems. The standard also improves epidemiological surveillance through centralized data integration and strengthened inter-institutional coordination, delivering timely, accurate, and actionable information to support evidence-based decision-making and rapid outbreak response. The system contributes to national health security, supports compliance with international reporting obligations, and bolsters pandemic preparedness through a scalable and interoperable monitoring platform. Notably, SIVE includes the monitoring of climate-sensitive diseases (e.g., yellow fever, dengue), enabling early warning and response in alignment with the 2023 Ecuador's National Climate Change

[40] Ministerial Agreement No. 00001-2025 dated August 19, 2025, published in the Official Gazette on August 21, 2025 (Tercero Suplemento No. 107). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiN2M1YzIwODItMDhlMC00NDAyLTlhZGYtMDUxZmViNTkwZGE5LnBkZiJ9

[41] Ecuador endured one of the region's harshest COVID-19 waves—marked by overwhelmed health services, significant excess mortality, and deep economic and social disruption—but made notable progress in vaccination and partial recovery by 2022. Cities such as Guayaquil became international symbols of healthcare system collapse due to their limited capacity. By the time the World Health Organization declared the end of the pandemic on May 5, 2023, Ecuador had recorded more than 1 million confirmed cases and 36,019 deaths. Public expenditure to address the COVID-19 emergency in the period 2020-2021 was an estimated US$935.7 million.

[42] WBG- Ecuador COVID-19 Emergency Response and Vaccination Project (P173773), First Additional Financing (P176326), and Second Additional Financing (P178247).

Adaptation Plan, which emphasizes strengthening institutional capacity for climate-health surveillance. In light of the increasing frequency and severity of emergencies including yellow fever and dengue outbreaks, which highlight serious challenges in vector-borne disease control, SIVE establishes a structured framework for coordination, risk assessment, and continuity of essential health services. This reform enables the MSP to strengthen data-driven decision-making and clarify institutional roles and responsibilities across all administrative levels for proactive health risk management.

37. Expected results: By integrating disaster risk reduction and preparedness principles, Ecuador seeks to build a more resilient healthcare system capable of protecting public health in crisis situations that will be exacerbated by climate change. By 2028, Ecuador plans to increase the coverage of epidemiological surveillance conducted by health facilities at the municipal level from a baseline of 70 percent to 85 percent, strengthening proactive prevention, preparedness, and response capacities for health risk management. This expanded surveillance will support national adaptation goals by improving early warning systems and responses to health risks exacerbated by climate change.

Prior Action # 3 (PA3). *To strengthen local governments' capacity for risk-informed territorial planning, the Borrower has: (i) adopted the Technical Standard for the Formulation and Updating of Development and Land Use Plans (PDOTs), mandating the integration of climate and disaster risk considerations into local governments' updated PDOTs, through a Resolution[43]; and (ii) strengthened the complementarity and coordination between DRM and CCA within technical and public management instruments, through an Inter-Ministerial Agreement.[44]*

38. Rationale: Due to the lack of coordinated efforts to share localized hazard and risk data between SNGR and MAE, as well as among national and local governments, local governments continue to face persistent challenges in advancing risk-informed territorial planning. As a result, resilience and climate adaptation measures have not been systematically integrated or enforced in local development and land use plans, leading to inadequate consideration of risk in urban development. These gaps have contributed to the continued expansion of settlements in high-risk areas, increasing vulnerability, particularly in the face of growing climate-related hazards. Strengthening risk-informed territorial planning by enhancing the capacities of local governments is therefore essential to promoting safer, more resilient development and reducing long-term disaster and climate risks.

39. Policy content: The Technical Standard for the Formulation and Updating of Development and Land Use Plans (PDOTs) requires local governments to integrate climate- and risk-informed territorial planning, in line with the 2024 DRM Law, which mandates the decentralization of DRM across sectoral and territorial levels. The Standard mandates the assessment of natural and anthropogenic hazards, vulnerabilities, and climate risks including floods, droughts, landslides, and heat stress and the preparation of risk zoning maps to guide land use decisions. Based on these diagnostics, local governments are required to identify and prioritize concrete resilience and CCA measures to reduce exposure to current and future hazards, thereby reducing physical climate risks and enhancing the adaptive capacity of the country. To support implementation, the Standard establishes coordination mechanisms across all levels of government and updated PDOTs must be submitted to the National Secretariat for Planning (SNP) for approval, with technical inputs and review from the SNGR. Furthermore, an inter-ministerial agreement between SNGR and MAE has established a formal coordination mechanism to strengthen the synergy and integration between DRM and CCA. This agreement emphasizes the importance of aligning and harmonizing common concepts, approaches, and methodologies within both technical and public management frameworks. The initiative is applicable to all entities, institutions, agencies, and organizations that are part

[43] Resolution No. 018-CTUGS-2024, dated November 12, 2024 and published in the Official Gazette on June 20, 2025 (Tercer Suplemento Nº 64). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiMTJmYmYzMTctY2UyOS00NjBmLTg1MDgtZjkxM2JjMTJiNzgzLnBkZiJ9

[44] Inter-Ministerial Agreement No. MAATE-SNGR-2025-001, dated June 26, 2025, published in the Official Gazette on July 21, 2025 (Tercer Suplemento No. 85). Available at:https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiNzgxNWFiMmEtZjM4MC00ZWFiLTk4YjMtOWUyODE2MjU3ZmM3LnBkZiJ9

of the National Decentralized Risk Management System (SNDGR). This agreement will strengthen SNGR and MAE's climate related and geophysical hazard data collection platforms and improve data access for local governments, supporting risk-informed territorial planning.

40. Expected Results: These reforms aim to enhance and update territorial planning by incorporating disaster and climate risk considerations into the planning processes of local governments. This integration is anticipated to reduce long-term vulnerabilities and promote sustainable, climate-resilient urban development across the nation. By 2028, more than 120 out of 222 (54 percent) municipalities are expected to have updated PDOTs in line with the Technical Standard, incorporating risk-informed territorial planning and actionable resilience and CCA measures, reviewed by the SNGR. This process will be supported by improved access to hazard and risk data through enhanced coordination between SNGR and MAE. Major urban centers such as Quito, Guayaquil, and Cuenca possess advanced capacities and comprehensive data to develop hazard maps, which are instrumental for strategic territorial planning and decision-making. Medium and small municipalities benefit from support provided by the SNGR based on identified priorities to generate essential planning information. Furthermore, international collaboration, particularly through the German Agency for International Cooperation (GIZ), is spearheading innovative pilot projects in medium and small municipalities in four pilot cities including Manta, Chone, Riobamba, and Puyo while also promoting urban resilience tools.[45] These initiatives aim to refine and enhance strategic approaches for implementing this PA by incorporating valuable insights and lessons learned from the pilots.

Pillar 2: Mainstreaming resilience and climate adaptation in selected sectors

Prior Action # 4 (PA4). *To strengthen resilience in the energy sector, the Borrower has mandated the Ministry of Environment and Energy (MAE) to prioritize the diversification of the energy matrix, promote renewable energy, and incentivize private sector participation in energy generation to achieve a sustainable and resilient energy transition, through the Organic Law to Promote Private Initiative in Energy Generation.*[46]

41. Rationale: While hydropower remains Ecuador's primary source of electricity—accounting for approximately 70 percent of national generation—wind and solar contribute less than 2 percent, underscoring the country's heavy reliance on hydropower and its vulnerability to climate variability. This reinforces the urgency of diversifying the energy matrix. Financial constraints have limited the government's ability to diversify through public investment, while challenges in attracting private investment persist due to retail electricity tariffs that do not fully reflect costs, along with other institutional, regulatory, and market barriers. Ecuador's electricity market has long been dominated by state-owned enterprises, with regulatory restrictions limiting private sector participation in energy generation. Although the GoE has taken steps to encourage large-scale private renewable energy projects through policy reforms, existing legislation caps the size of distributed renewable generation systems at 10 MW. This limitation restricts industrial, commercial, and residential users from installing systems that could reduce reliance on the national grid and alleviate supply shortages—further hindering reliable electricity access and the country's energy transition.[47] During the 2024 energy crisis, Ecuador faced an electricity supply deficit of approximately 1,080 MW and underwent nationwide power rationing lasting 8 to 14

[45] The GIZ Resilient Cities (CiRes) program supports four pilot cities in Ecuador to integrate comprehensive risk management into urban planning by addressing both current and future climate and disaster risks. The program strengthens local capacities to assess, plan, and finance resilient infrastructure, while promoting coordination across national and municipal governments, civil society, and the private sector.

[46] Organic Law to Promote Private Initiative in Energy Generation, dated October 27, 2024, published in the Official Gazette on October 28, 2024 (Octavo Suplemento Nº 673). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiMmU3NjM1YTktZTRhOS00NDdmLWFmZDItYzY1NWQ3ZjdjMzU4LnBkZiJ9

[47] Previous DPF operations, including the Ecuador Green and Resilient Recovery and Ecuador Carbon-Conscious Fiscal and Growth DPFs, supported legal and regulatory reforms that enabled small-scale (under 10 MW) distributed renewable energy generation and encouraged private investment in the electricity sector. These reforms laid the groundwork for self-generation and self-consumption, primarily benefiting certain industrial and commercial users. In contrast, the new law supported under the Cat-DDO significantly expands the scope by allowing distributed renewable energy projects up to 100 MW to proceed without a lengthy public procurement process.

hours per day for several months, severely affecting the economy and population. To address the crisis, the country recently contracted 341 MW of additional thermal (fuel oil) generation, including 100 MW of emergency barge-based generation, an extremely costly measure with high environmental impacts. In addition, many industries and businesses had to rely on diesel generators to meet their energy needs. This experience highlighted the urgent need for climate-resilient, decentralized, and lower-emission energy alternatives.

42. Policy content: The law was enacted in response to Ecuador's most severe drought in over six decades, which triggered a major energy crisis in 2024, and highlights the urgent need to diversify the country's energy matrix to reduce vulnerability to climate-related disruptions. Expanding the geographic distribution of energy sources, as well as energy technologies, can enhance resilience not only to droughts but also to other hazards such as floods, landslides, and other climate shocks. The reform facilitates private sector participation and investment in distributed renewable energy generation and transitional fuels such as natural gas in line with international good practices as defined in the World Bank's Paris Alignment guidance, and aligned with Ecuador's NDCs and the National Climate Change Mitigation Plan (PLANMICC).[48] This is expected to reduce Ecuador's dependence on carbon-intensive and costly emergency measures, such as leasing or purchasing additional fuel oil and diesel generators and/or importing electricity from Colombia, thereby improving the financial sustainability of the electricity sector. These efforts also align with Ecuador's broader strategy for enhancing economic competitiveness and climate resilience. Key measures introduced under the law include: (i) Raising the cap on private renewable energy projects from 10 MW to 100 MW to accelerate the deployment of renewable and transitional energy sources[49] and (ii) Mandating a shift to lower-emission fuels, such as natural gas, for thermal power generation, supporting cleaner energy transitions. Given the limited scale of prospective natural gas projects and their role in exclusively replacing more polluting oil and diesel fuels, these measures align with the least-cost decarbonization modeling approach and are expected to lead to a net reduction in emissions. Therefore, the new law would support both mitigation aligned with the country's NDC and Paris Agreement commitments and enhanced resilience through adaptation to climate change, including El ENSO events and severe droughts.

43. Expected results: By fostering a more competitive and resilient electricity market, the law will support Ecuador's long-term energy transition and enhance the reliability of its power supply in the event of disasters. The reforms, aimed at scaling up distributed renewable energy and accelerated through private sector participation, can strengthen the resilience of Ecuador's energy system by diversifying supply sources, decentralizing generation to reduce vulnerability to major climate hazards, and enhancing the system's flexibility in responding to climate- and disaster-related disruptions. By 2028, Ecuador is expected to have at least 150 MW of additional distributed private renewable energy generation projects, with individual project capacities of up to 100 MW, approved by the MAE (an increase from 46 MW to 196 MW). The approval of final feasibility studies represents a crucial final step before the installation of these distributed renewable energy projects.

[48] Distributed renewable energy projects refer to systems that generate electricity close to the point of use, rather than at large, centralized facilities such as power plants. These systems are typically smaller in scale and can help increase energy access, enhance grid resilience, reduce transmission losses, and are often more suitable for remote or underserved areas—making them a priority in climate adaptation programs.

[49] Under the Law, natural gas is designated as a transitional fuel. Currently, its use in electricity generation in Ecuador is minimal, with diesel and fuel oil remaining the dominant sources. The Law covers both existing and new natural gas projects aimed at displacing more polluting fuels. Existing thermal power plants are required to develop transition plans that prioritize lower-impact technologies, including the potential use of natural gas and/or hybrid systems that combine thermal and renewable energy sources. The importation of natural gas is allowed for self-consumption and electricity generation, subject to forthcoming regulations by the competent authority. All projects must comply with environmental regulations and submit transition plans that support the adoption of lower-emission technologies.

***Prior Action #5 (PA5)**. To enhance the climate resilience of the Amazon region, the Borrower has: (i) adopted the management model for the Biocorredor Amazónico (BCA), which strengthens the conservation and sustainable management of the Amazon region and mandates the Ministry of Environment and Energy (MAE) to operationalize its implementation; and (ii) formalized the Amazonian Protected Areas Network (Red APA), coordinating efforts to manage risks, including climate-related hazards, through Ministerial Agreements.*[5051]

44. Rationale: The Amazon rainforest, covering around 12 million hectares in Ecuador, is a globally critical ecosystem that regulates rainfall and stabilizes climatic patterns, thereby reducing the frequency and severity of droughts, floods, landslides, and soil erosion.[52] However, these essential ecosystem services are increasingly at risk due to deforestation, illegal logging, and climate-exacerbated hazards (i.e., wildfires), which generate significant environmental, social, and economic impacts.[53] Strengthening the conservation and sustainable management of Ecuador's Amazon is therefore vital to safeguard its ecosystem services, which act as nature-based solutions such as green corridors that mitigate flood risks and natural firebreaks that help control wildfires. These functions are especially important for vulnerable Indigenous communities, who frequently face forest fires and floods that disrupt access to infrastructure and livelihoods. In 2024 alone, damages from wildfires in Ecuador were estimated at over US$350 million equivalent to 0.29 percent of GDP underscoring the urgent need for improved conservation management.[54]

45. Policy content: The adoption of the BCA and the formalization of the Red APA significantly strengthen conservation governance in Ecuador's Amazon region by expanding the coverage of conserved areas and enhancing sustainable management effectiveness.[55] These frameworks promote ecosystem- and nature-based solutions by restoring forests that serve as natural firebreaks, conserving riparian buffers to reduce flood risks, and promoting sustainable agroforestry systems in buffer zones to ease deforestation pressure. They also support wetland restoration to improve water regulation and the implementation of community-based early warning systems for forest fires and floods interventions that are especially critical for climate resilience and disaster risk reduction in Indigenous territories. The BCA provides a strategic landscape-level model to improve the management of 4.6 million hectares of existing protected areas and extend conservation measures to an additional 1.8 million hectares, including 18,000 kilometers of river systems. The Red APA, formalized through ministerial agreement, creates a coordinated network of 4.6 million hectares of existing protected areas and strengthens MAE's mandate to harmonize conservation and climate adaptation efforts through collaborative management, research, monitoring, funding, and sustainable development.

46. Expected results: The establishment of management models for the BCA and the Red APA advances Ecuador's climate adaptation priorities by expanding the conservation and management of the Amazon region and strengthening its governance, conservation, and sustainable use. By 2028, an additional 1 million hectares of terrestrial and aquatic areas will be under enhanced conservation and management.[56] For the purposes of this indicator, areas "under enhanced conservation and management" are those that (i) fall within the boundaries of the BCA or Red APA, (ii) are governed by officially approved management plans,[57] (iii) are monitored using performance indicators[58] established under the BCA and Red APA frameworks, and (iv) contribute to ecosystem functions that support climate adaptation and mitigation(e.g., natural firebreaks, flood buffers, forest carbon storage).

C. Consultations and Collaboration with Development Partners

[50] Ministerial Agreement No. MAATE-MAATE-2024-0069-A dated November 4, 2024, published in the Official Gazette on June 24, 2025 (Suplemento No. 66). Available at:https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiODFiYmZmNGMtM2RlYy00YmJhLTgwMTQtZWVmNzI0MWRjM2Y0LnBkZiJ9

[51] Ministerial Agreement No. MAATE-MAATE-2024-0068-A dated November 4, 2024, published in the Official Gazette on December 31, 2024 (Cuarto Suplemento Nº 714). Available at:

47. The objectives, pillars, PAs, and expected results of the operation have been defined in collaboration with key sectoral entities of the GoE through a consultation process led by the MEF and SNGR. The operation's task team maintained an ongoing dialogue throughout the preparation process with representatives from key line ministries, agencies, and sectoral entities including the SNGR, MSP, MAE, MTOP.[59] The PAs have undergone the GoE's established national consultation process, as part of their approval processes, in accordance with the Organic Law of Citizen Participation and Articles 57 and 71–74 of the Constitution. In Ecuador, citizen engagement is constitutionally guaranteed and legally regulated, ensuring that both legislative proposals and executive decrees undergo consultation mechanisms aligned with the type and content of the policy. Furthermore, they receive written endorsement from the ministries and agencies involved in their development and consultation. Relevant documents, including draft legislation, regulatory proposals, and discussion papers, are made available to the public. These documents are often published on government websites and distributed through other channels to reach a wide audience. In cases where draft laws or decrees may affect the collective rights of Indigenous Peoples and Nationalities or include environmental components, a free, prior and informed consultation process is mandatory before proceeding, pursuant to the Constitution and the standards of ILO Convention 169, to which Ecuador is a signatory.[60]

48. The DPF operation is part of the WBG's broader program of support for Ecuador and has benefited from close coordination with development partners, including IDB, the German Agency for International Cooperation (GIZ), the Japan International Cooperation Agency (JICA), and the United Nations Development Programme (UNDP), among others. Several of the PAs supported by this operation are informed by long-standing technical assistance from the World Bank and other international partners. The DPF is also complementary to other development partner initiatives, such as IDB's US$400 million contingency loan and GIZ's TA. A detailed review is provided in Annex 4: Bibliography.

IV. OTHER DESIGN AND APPRAISAL ISSUES

A. Poverty and Social Impacts

49. The poverty and social impacts of the policies supported by this operation are expected to be positive, with most

https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiNjRjOTc0Y2ItYTVmYi00MTczLThiNmMtOTVlOTNiMzM3YzJkLnBkZiJ9

[52] Three major hydrographic demarcations—Napo, Pastaza, and Santiago—account for 69.2% of the country's surface water and 60.7% of its groundwater.

[53] The preservation of the Ecuadorian Amazon is essential to the climate mitigation agenda, as this region serves as a powerful carbon sink, absorbing approximately 2.6 billion tons of CO_2 annually. Between 1990 and 2022, Ecuador lost over 2.4 million hectares of forest—representing 18% of its 1990 forest cover—with land-use change now accounting for 22% of national greenhouse gas emissions. This reform is therefore critical for both climate mitigation and adaptation.

[54] Conte Grand, M., & Borchers Arriagada, N. (2024). Consequences of the 2024 fires in Ecuador: A rapid valuation of damages. World Bank Group.

[55] The Red APA focuses on the legal designation and management of 4.6 million hectares of existing protected areas, while the BCA management model offers a broader conservation framework that strategically mobilizes climate financing for these areas and beyond.

[56] The surface area reported for each of these mechanisms will be based on the official layers published in the MAATE Interactive Map: http://ide.ambiente.gob.ec/mapainteractivo/

[57] Both the BCA and Red APA management plans are under development and are expected to be approved by the end of 2025.

[58] Monitoring will be conducted using key indicators from the BCA and Red APA frameworks, including improvements in Management Effectiveness Tracking Tool (METT) scores for Red APA. MAATE is in the process of developing performance indicators related to forest cover and connectivity, disaster frequency, and community resilience metrics for the BCA management plan.

[59] Through Executive Decree No. 94 of August 14, 2025, the former Ministry of Environment, Water, and Ecological Transition (MAATE) was merged into the Ministry of Energy and Mines (MEM) and renamed the "Ministry of Environment and Energy (MAE)." The Ministry of Transport and Public Works (MTOP) has assumed the functions of the Ministry of Urban Development and Housing (MIDUVI) and its related entities. MEF and SNGR have shared a new M&E sheet with the focal points of the new entities to ensure the continuity and enforcement of M&E for this operation.

[60] ILO Convention No. 169 concerning Indigenous and Tribal Peoples in Independent Countries (1989) is a legally binding international instrument that recognizes the rights of Indigenous Peoples, including the obligation to carry out free, prior, and informed consultation whenever legislative or administrative measures may affect them directly. Ecuador ratified this Convention in 1998.

benefits materializing in the medium to long term. PA1 aims to streamline the DRM/CCA framework, generating long-term gains in poverty reduction and equity. PA2's strengthened health surveillance system can reduce vulnerability and financial hardship for poor households by enabling early outbreak detection and rapid response. PA3's climate-informed planning initiatives can also deliver significant benefits to vulnerable populations. PA4 is anticipated to have positive medium- to long-term impacts by promoting energy generation projects through private investment, which can drive local development and job creation, both essential for poverty reduction. Finally, PA5's Amazon conservation efforts could have positive effects on poverty and equity in the long run.

B. Environmental, Forests, and other Natural Resources Aspects

50. Prior Actions supported by this operation are expected to have both significant positive and negative effects on Ecuador's environment, forests, or other natural resources. PA 5 is expected to yield significant positive environmental effects for forests, ecosystems, and biodiversity as it focuses on enhancing the management of the Red APA and establishing the BCA, extending the protection of protected areas and increasing funding for conservation efforts. PA 4 is expected to entail significant positive effects in terms of emission reduction by supporting the energy transition, though may also entail negative environmental effects if all downstream investments incentivized through the enactment of the law are not properly managed. While the energy transition reform supports cleaner energy alternatives, potential environmental risks include land use change, ecosystem disruption, and water stress from larger renewable projects, as well as air pollution and methane leakage from gas-fired power generation infrastructure. Ecuador's environmental legal framework contains all the key elements of globally recognized good practice to effectively manage the risks outlined above. The Organic Environmental Code and its Regulation regulate Environmental Impact Assessments (EIA) and Environmental Management Plan (PMA). Particularly, Article 179 of the COA mandates EIAs for medium or high-impact activities, such as thermal power plants using natural gas. Additionally, Article 174 of the COA and 422 of the COA Regulation establish that energy projects, including non-conventional renewable and energy transition projects, are subject to environmental authorization. Additionally, the Environmental Regulation for Electricity Activities (Agreement No. 003-2020) requires in Article 19 EIA for projects of more than 1 MW and provides specific guidance for managing environmental and social risks in both renewable and thermal electricity projects.

51. Despite Ecuador's strong legal framework, there are limitations regarding institutional oversight capacity. The MAE is responsible for issuing environmental permits. For the electricity sector, some environmental competencies have been recently transferred from former MAATE to the Agency for the Regulation and Control of Energy and Non-Renewable Natural Resources (ARCONEL), except in specific cases where former MAATE, now MAE, still retains jurisdiction.[61] MAE faces limitations regarding staff capacity, structured procedures, and standardized criteria for reviewing complex documents such as EIAs, resulting in delays. In addition, a recent assessment conducted by the World Bank, concluded that the institutional capacity to manage large scale projects is low and highlighted weak interinstitutional coordination.[62] Following the recent changes in the Ministry, the World Bank plans to support MAE in strengthening its institutional capacity, including environmental and social management. To strengthen ARCONEL capacity, the former MAATE had been providing training in environmental control and supervision; this function is now under the MAE.

C. PFM, Disbursement, and Auditing aspects

[61] MAATE accredited as Environmental Competent Authority (ACC) by Resolution. MAATE 2025 –0002-R of April 2025. In projects happening in Protected Areas, MAATE will keep jurisdiction.
[62] The World Bank Overview Assessment was published on the World Bank's external website, in August 2025.

52. Ecuador's Public Financial Management (PFM) framework is partially aligned with international best practices and is supported by a strong legal and regulatory foundation; however, implementation remains uneven. Policies and priorities are clearly articulated in the regulatory framework. The National Assembly approved the 2024 General Government Budget, which includes fiscal forecasts for 2024–2027 based on an economic budget classification, and it was published in the official register and on the MEF's website. The 2025 budget builds on this framework following the presidential transition. Budget execution for the central government is managed through the Treasury Single Account and the Integrated Financial Management System (IFMIS), known as e-SIGEF. Ecuador is gradually aligning with International Public Sector Accounting Standards (IPSAS), with partial compliance reflected in the 2021 financial statements published on the MEF's website. While regulations require the submission of financial statements to the *Contraloría General del Estado* (CGE), there is no formal deadline, and the CGE is not required to issue an opinion. The most recent audited financial statements for the nonfinancial public sector date from 2022. Despite ongoing PFM challenges in areas such as transparency, asset-liability management, fiscal discipline, and audit effectiveness, Ecuador has implemented a series of reforms since 2020 to strengthen fiscal frameworks, budget processes, and the integration of public investment operations into the annual budget. By 2024, the MEF had published the Medium-Term Fiscal Framework (MTFF) and the Medium-Term Debt Management Strategy (MTDS) and received IMF support for the implementation of an automated process for central government payments, including arrears.[63] Given these efforts, fiduciary risk in the PFM environment is considered moderate.

53. The foreign exchange (FOREX) control environment of the Central Bank of Ecuador (BCE) has undergone significant improvements. The BCE has enhanced transparency and accountability in FOREX management through various reforms, including amendments to the Organic Monetary and Financial Code (COMYF) to strengthen BCE's independence and governance, audit enhancements, and the implementation of International Financial Reporting Standards (IFRS). However, while BCE's internal control system is performing adequately, it still requires strengthening and complete IFRS adoption for proper financial reporting. Additionally, although the Audit Committee has a strong framework and qualified members, it faces critical operational challenges that need urgent resolution. BCE's 2024 financial statements were audited by an international audit firm in accordance with international standards, resulting in an unqualified opinion[64]; the statements are publicly available online. These measures help ensure effective control over resources, including World Bank funds, which flow through Ecuador's Treasury Single Account (TSA), with a moderate risk to the development objectives of this operation. This operation will follow the same funds flow and disbursement arrangements as previous DPFs. The World Bank will disburse the financing proceeds (in US dollars) into a bank account held by the BCE that forms part of Ecuador's official foreign exchange reserves. Upon receipt, the GoE will promptly transfer the funds to the TSA managed by the MEF. Within 30 days of the withdrawal from the loan account, the Borrower shall report to the Bank: (i) the exact amount received into the BCE-held bank account; (ii) the details of the account to which the equivalent financing proceeds were credited; and (iii) a record showing that an equivalent amount has been accounted for in the Borrower's budget management system.

54. Ecuador's public procurement is governed by the Organic Law of the National Public Procurement System, which promotes transparency and alignment with international standards. The law contains specific provisions for emergency response, ensuring timely procurement in the event of disasters. Since 2021, the Comptroller General's Office has overseen procurement processes through pertinence reports. Reforms introduced in 2022 addressed issues related to

[63] 2024 Article Iv Consultation and First Review Under the Extended Arrangement Under the Extended Fund Facility and Financing Assurances Review
[64] This is a technical term used in auditing. It represents the best outcome that can result from an auditor's review of an entity's financial statements. This type of opinion is also called a 'clean' opinion.

beneficial ownership and sustainable procurement, supported by a national strategy and tools provided by SERCOP (Servicio Nacional de Contratación Pública – National Public Procurement Service). The most recent reform, enacted on October 7, 2025, incorporated the principles of best value and mandatory electronic procurement. Under this reform, Ecuador's official public procurement IT platform is mandatory for both suppliers and contracting entities. The Public Procurement Portal must include information on all procurement modalities and serve as the sole platform for conducting electronic procurement procedures. The mandatory Compras Públicas (Public Purchases) platform guarantees public access to procurement information.[65] The central government, through the SNGR, establishes policies, coordinates plans, and provides training to institutions. In the event of emergencies, the SNGR procures humanitarian aid and temporary shelter supplies, and manages their distribution through strategic warehouses to meet the needs of local governments and affected populations. Additionally, under the Organic Code of Planning and Public Finance, public sector entities must disclose financial, budgetary, and management information to the public and submit it to the relevant oversight and control bodies, in accordance with the law. No major procurement risks are anticipated for this operation.

D. Monitoring, Evaluation, and Accountability

55. The MEF is responsible for implementing the program supported by the proposed operation. As the main implementing agency, the MEF will coordinate with other government agencies involved in the operation, which serve as the primary technical counterparts. Sectoral counterparts will share responsibility for executing the Policy Matrix and will report progress to the MEF. The SNGR will support sectoral teams to ensure that reform implementation aligns with DRM initiatives under the new DRM Law. Each sector has a monitoring and evaluation sheet that outlines the indicator's definition and objective, measurement methodology, data sources, annual targets, and the contact information of the focal person. This structure will facilitate MEF and SNGR's review of program progress in close coordination with the sectors. The GoE, through the MEF, will be responsible for providing written progress reports to the World Bank, consolidating the results achieved under the program.

56. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

V. SUMMARY OF RISKS AND MITIGATION

57. The overall risk rating is Substantial. Table 6 presents the risk ratings by category. The macroeconomic, institutional capacity for implementation and sustainability, and environment and social risk categories are rated as substantial. A description of these risks, along with their respective mitigation measures, is provided below.

[65] The Compras Públicas platform is an online system used for all public procurement processes. It allows contracting entities (public bodies) to announce their needs for goods and services, and enables suppliers (companies and individuals) to participate in tenders. Both contracting entities and suppliers must register on the platform, providing the necessary information for identification and data validation. The platform ensures that all interested parties can access information on public procurement processes. It also facilitates the monitoring of these processes, from the publication of the call to the execution of the contract.

58. The macroeconomic risks to the PDO are Substantial due to a combination of factors. Ecuador's recent history of political instability and governance challenges pose risks to the sustainability of the program and its outcomes. GDP growth and fiscal outcomes remain exposed to the negative impacts of natural hazards; potential power outages linked to hydropower dependency; rising crime; volatile oil prices; shifts in global economic growth; uncertain trade policies; and limited access to international capital markets, all of which could undermine reform outcomes. Although the GoE is committed to improving the fiscal balance and investment climate, the materialization of these risks could prevent the country from achieving its results indicator targets within the projected timeframe. Mitigation measures include strengthening DRM institutional and financial capacities and diversifying the energy matrix, both of which are supported by this operation.

59. Institutional capacity for implementation and sustainability risks are Substantial. The effective implementation of several prior actions depends on sustained, cross-sectoral coordination among ministries and agencies. Institutional fragmentation, overlapping mandates, and limited technical and operational capacity particularly at the subnational level have posed significant challenges to coordination between the MEF, the SNGR, and key sectoral ministries. The enactment of the 2024 DRM Law and its implementing regulation aim to address these structural challenges by clarifying mandates and strengthening institutional coordination mechanisms at both the sectoral and local levels. To mitigate these risks, the operation builds on prior actions that are grounded in sustained policy dialogue and technical assistance provided by the World Bank and other development partners (see Annex 4). In addition, the program includes measures to institutionalize reforms such as the formal adoption of interministerial protocols, data-sharing platforms, and operational guidelines, thereby enhancing implementation capacity and supporting long-term sustainability. The World Bank's continued technical assistance, including support for capacity building with the MEF and SNGR, will further reinforce implementation readiness. Moreover, the operation is closely coordinated with the IMF, IDB, and other development partners to leverage complementarities, align reform efforts, and ensure coordinated implementation support.

60. Environmental and social (ES) risks are Substantial due to Ecuador's limited environmental and social risk management capacities, particularly in relation to potential downstream investments arising primarily from PA4. Responsibilities for environmental management are shared between MAE and ARCONEL, the latter of which has recently assumed new environmental competencies related to the electricity sector. A key mitigation feature is Ecuador's strong legal framework, complemented by additional measures such as enhanced training programs on environmental impact assessments for MAE and ARCONEL personnel, one of the key findings of the recent World Bank Overview Assessment. Moreover, all energy generation projects must comply with the Reglamento Ambiental para Actividades Eléctricas (Executive Decree No. 1761), which requires the inclusion of contingency and risk management programs within their Environmental Management Plans (PMA). These provisions have been reinforced by Executive Decree No. 32 (15-06-2025), which mandates the Ministry to verify compliance with risk management standards in private-sector projects, and by ARCONEL Resolution 005/25, which requires environmental impact assessments to include detailed analysis of both environmental and project-related risks, along with specific mitigation measures. Although Ecuador is a signatory to ILO Convention 169, existing environmental consultation mechanisms do not fully align with its standards and offer only limited safeguards, which could lead to social issues. However, these risks can be mitigated through the effective application of the national consultation framework, aligned with international standards, including strengthened institutional capacity and early stakeholder engagement.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

ANNEX 1. Policy and Result Framework

Prior actions	Results		
Prior Actions	Indicator Name	Baseline	Target
Pillar 1. Enhancing institutional capacity for resilience and climate adaptation			
Prior Action #1. To strengthen institutional capacity for resilience and climate adaptation, the Borrower has mandated: (i) the decentralization and integration of DRM at the local government level; and (ii) the SNGR to support local governments in the formulation and implementation of comprehensive risk management plans with gender-differentiated measures, through the Organic Law for Comprehensive Disaster Risk Management (DRM) [66] and its implementing regulation.[67] Responsible entity: SNGR	Results indicator 1: Number of municipalities that have developed comprehensive risk management plans that include at least two measures focused on women aligned with the DRM Law and reviewed by the SNGR (Number)	0; [2025]	80; [2028]
Prior Action #2. To strengthen national health risk management capacity, the Borrower has adopted the Technical Standard for the Comprehensive Epidemiological Surveillance System (SIVE) that mandates the Ministry of Public Health (MSP) to enhance Ecuador's epidemic surveillance system, through a Ministerial Agreement.[68] Responsible entity: MSP	Results indicator 2: Percentage of health facilities conducting municipal-level epidemiological surveillance integrated in the SIVE (Percentage)	70%; [2025]	85%; [2028]
Prior Action #3. To strengthen local governments' capacity for risk-informed territorial planning, the Borrower has: (i) adopted the Technical Standard for the Formulation and Updating of Development and Land Use Plans (PDOTs),	Results indicator 3: Number of municipalities that have updated PDOTs incorporating DRM	0; [2025]	120; [2028]

[66] Organic Law for Comprehensive Disaster Risk Management, published in the Official Register Supplement No. 488 published in the Official Gazette on January 30, 2024. Available at: https://www.asambleanacional.gob.ec/es/system/files/leyorg1.pdf

[67] General Regulation of the Organic Law for Comprehensive Disaster Risk Management, No. 394 dated September 18, 2024, published in the Official Gazette on September 18, 2024. Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiYjc4MjJiNWQtMTAyMS00ZmQzLTg1YTMtMDExMDdiYjM1NTI4LnBkZiJ9

[68] Ministerial Agreement No. 00001-2025 dated August 19, 2025, published in the Official Gazette on August 21, 2025 (Tercero Suplemento No. 107). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiN2M1YzIwODItMDhlMC00NDAyLTlhZGYtMDUxZmViNTkwZGE5LnBkZiJ9

mandating the integration of climate and disaster risk considerations into local governments' updated PDOTs, through a Resolution[69] ; and (ii) strengthened the complementarity and coordination between DRM and CCA within technical and public management instruments, through an Inter-Ministerial Agreement.[70] Responsible entity: SNGR/MAE	and climate adaptation in line with the Technical Standard reviewed by the SNGR (Number)		
Pillar 2. Mainstreaming resilience and climate adaptation in selected sectors			
Prior Action #4. To strengthen resilience in the energy sector, the Borrower has mandated the Ministry of Environment and Energy (MAE) to prioritize the diversification of the energy matrix, promote renewable energy, and incentivize private sector participation in energy generation to achieve a sustainable and resilient energy transition, through the Organic Law to Promote Private Initiative in Energy Generation.[71] Responsable entity: MAE	Results indicator 4: Estimated capacity of distributed private renewable energy projects up to 100 MW approved by the MAE (MW)	46 MW; [2025]	196 MW; [2028]
Prior Action #5. To enhance the climate resilience of the Amazon region, the Borrower has: (i) adopted the management model for the Biocorredor Amazónico (BCA), which strengthens the conservation and sustainable management of the Amazon region and mandates the Ministry of Environment and Energy (MAE) to operationalize its implementation; and (ii) formalized the	Results indicator 5: Hectares of terrestrial and aquatic areas under enhanced conservation and management (Hectare (Ha))	0; [2025]	1,000,000; [2028]

[69] Resolution No. 018-CTUGS-2024, dated November 12, 2024 and published in the Official Gazette on June 20, 2025 (Tercer Suplemento Nº 64). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiMTJmYmYzMTctY2UyOS00NjBmLTg1MDgtZjkxM2JjMTJiNzgzLnBkZiJ9

[70] Inter-Ministerial Agreement No. MAATE-SNGR-2025-001, dated June 26, 2025, published in the Official Gazette on July 21, 2025 (Tercer Suplemento No. 85). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiNzgxNWFiMmEtZjM4MC00ZWFiLTk4YjMtOWUyODE2MjU3ZmM3LnBkZiJ9

[71] Organic Law to Promote Private Initiative in Energy Generation, dated October 27, 2024, published in the Official Gazette on October 28, 2024 (Octavo Suplemento Nº 673). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiMmU3NjM1YTktZTRhOS00NDdmLWFmZDItYzY1NWQ3ZjdjMzU4LnBkZiJ9

Amazonian Protected Areas Network (Red APA), coordinating efforts to manage risks, including climate-related hazards, through Ministerial Agreements.[727374] Responsible entity: MAE			

[72] Ministerial agreements in Ecuador are legally binding administrative instruments. They are issued by ministers within the scope of their authority to implement laws, regulations, or policies. Once published in the Official Register (Registro Oficial), these agreements acquire legal force and are enforceable by the issuing ministry and relevant public institutions.

[73] Ministerial Agreement No. MAATE-MAATE-2024-0069-A dated November 4, 2024, published in the Official Gazette on June 24, 2025 (Suplemento No. 66). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiODFiYmZmNGMtM2RlYy00YmJhLTgwMTQtZWVmNzI0MWRjM2Y0LnBkZiJ9

[74] Ministerial Agreement No. MAATE-MAATE-2024-0068-A dated November 4, 2024, published in the Official Gazette on December 31, 2024 (Cuarto Suplemento Nº 714). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiNjRjOTc0Y2ItYTVmYi00MTczLThiNmMtOTVlOTNiMzM3YzJkLnBkZiJ9

ANNEX 2. Paris Alignment Assessment

Program Development Objective(s): To strengthen the Government of Ecuador's program to manage risks resulting from climate, disaster, and public health shocks by (i) enhancing institutional capacity and (ii) mainstreaming resilience and climate adaptation in selected sectors.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	**Answer** Yes. Building on existing climate analysis, the operation aligns with the CCDR's key priorities by supporting the strengthening of the institutional framework in adaptation and resilience and promoting measures to enhance the climate resilience of the Land Use, Land-Use Change, and Forestry (LULUCF) and Energy sectors. This operation seeks to enhance the country's resilience to natural and climate-related hazards, including public health emergencies. This aligns with Ecuador's key climate strategies and commitments, particularly its Nationally Determined Contributions (NDC), by strengthening resilience. Ecuador's first NDC outlines specific emission reduction targets and sectoral actions in energy, forestry, and land use, addressing both mitigation and adaptation. The second NDC reaffirms the country's commitment to GHG reduction and climate adaptation, covering the implementation period from January 1, 2026, to December 31, 2035. The National Adaptation Plan (NAP) and NDC goals are designed with a long-term vision, reinforcing Ecuador's commitment to low-carbon development and climate resilience.
Mitigation goals: assessing and reducing the risks	
Pillar Objective: Pillar 1. Enhancing institutional capacity for resilience and climate adaptation	
Prior Action 1. To strengthen institutional capacity for resilience and climate adaptation, the Borrower has mandated: (i) the decentralization and integration of DRM at the local government level; and (ii) the SNGR to support local governments in the formulation and implementation of comprehensive risk management plans with gender-differentiated measures, through the Organic Law for Comprehensive DRM and its implementing regulation.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. None of the policy reforms included in the prior action contribute to an increase in GHG emissions. The reforms under PA1 focus on strengthening the DRM institutional framework and do not involve or promote actions or investments that could significantly increase GHG emissions.
Conclusion for PA1: PA1 is aligned with the Paris Agreement on mitigation.	
Prior Action 2. To strengthen national health risk management capacity, the Borrower has adopted the Technical Standard for the Comprehensive Epidemiological Surveillance System (SIVE) that mandates the Ministry of Public Health (MSP) to enhance Ecuador's epidemic surveillance system, through a Ministerial Agreement.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. The policy actions under PA2 do not involve or promote any activities that would result in a significant increase in GHG emissions. The adoption of the SIVE aims to improve proactive public health risk identification, reduction, preparedness and response capacities, particularly in the context of health risks elevated by climate change.

	These regulatory and planning instruments contribute to climate adaptation goals without generating emissions.
Conclusion for PA2: PA2 is aligned with the Paris Agreement on mitigation.	
Prior Action 3. To strengthen local governments' capacity for risk-informed territorial planning, the Borrower has: (i) adopted the Technical Standard for the Formulation and Updating of Development and Land Use Plans (PDOTs), mandating the integration of climate and disaster risk considerations into local governments' updated PDOTs, through a Resolution ; and (ii) strengthened the complementarity and coordination between DRM and CCA within technical and public management instruments, through an Inter-Ministerial Agreement.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. The policy reforms included in this prior action do not contribute to an increase in GHG emissions. PA3 promotes risk- and climate-informed territorial planning by mandating that local governments integrate DRM and CCA into their Development and Land Use Plans. These reforms do not involve or promote infrastructure development or land use changes that could significantly increase GHG emissions.
Conclusion for PA 3: PA3 is aligned with the Paris Agreement on mitigation.	
Pillar Objective: Pillar 2. Mainstreaming resilience and climate adaptation in selected sectors	
Prior Action 4: To strengthen resilience in the energy sector, the Borrower has mandated the Ministry of Environment and Energy (MAE) to prioritize the diversification of the energy matrix, promote renewable energy, and incentivize private sector participation in energy generation to achieve a sustainable and resilient energy transition, through the Organic Law to Promote Private Initiative in Energy Generation.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. The prior action will not lead to a significant increase in GHG emissions or a reduction in carbon sinks, as it focuses on diversifying the energy matrix by prioritizing clean and transitional energy sources. In particular, it encourages investment in renewable projects (solar, wind, biomass) and mentions energy transition technologies (such as natural gas) only as a lower-impact substitute for more polluting fuels (such as diesel and heavy fuel oil), in alignment with Ecuador's NDCs and the National Climate Change Mitigation Plan (PLANMICC).[75] Given the limited scale of prospective natural gas projects and their role in exclusively replacing more polluting oil and diesel fuels, these measures align with the least-cost decarbonization modeling approach and are expected to lead to a net reduction in emissions. The Organic Law to Promote Private Initiative in Energy Generation supports the development of renewable energy projects under a clear legal framework. By promoting private sector participation in energy generation, this action strengthens resilience in the energy sector while aligning with the country's NDC and Paris

[75] According to Ecuador's National Climate Change Mitigation Plan 2024–2070, the CC 2070 Scenario is structured around ambitious, yet realistic measures and goals tailored to the country's context. For example, oil exports are projected to decline starting in 2038, based on reserve data projections. As fossil fuel resources decrease, so too will dependence on them—highlighting the need to implement policies that promote the use of renewable resources and support investment in the development of alternative fuels. The potential of renewable energy will be harnessed to serve households, buildings, and the commercial and industrial sectors, providing a robust supply of low-emission electricity to consumers.

	Agreement commitments and Ecuador's climate adaptation and low-carbon development objectives.
Conclusion for PA4: PA4 is aligned with the Paris Agreement on mitigation.	
Prior Action 5: To enhance the climate resilience of the Amazon region, the Borrower has: (i) adopted the management model for the Biocorredor Amazónico (BCA), which strengthens the conservation and sustainable management of the Amazon region and mandates the Ministry of Environment and Energy (MAE) to operationalize its implementation; and (ii) formalized the Amazonian Protected Areas Network (Red APA), coordinating efforts to manage risks, including climate-related hazards, through Ministerial Agreements.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. None of the policy reforms included in the prior action contribute to an increase in GHG emissions. The reforms under PA5 aim to strengthen climate adaptation and ecosystem conservation in the Amazon region through institutional mechanisms such as BCA and Red APA. These reforms promote biodiversity protection, sustainable land use, and enhanced conservation efforts, none of which involve or promote activities that could significantly increase GHG emissions.
Conclusion for PA5: PA5 is aligned with the Paris Agreement on mitigation.	
Mitigation goals: All prior actions are aligned on mitigation	

Adaptation and resilience goals: assessing and managing the risks	
Pillar Objective: Pillar 1. Enhancing institutional capacity for resilience and climate adaptation	
Prior Action 1. To strengthen institutional capacity for resilience and climate adaptation, the Borrower has mandated: (i) the decentralization and integration of DRM at the local government level; and (ii) the SNGR to support local governments in the formulation and implementation of comprehensive risk management plans with gender-differentiated measures, through the Organic Law for Comprehensive DRM and its implementing regulation.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Climate hazards are unlikely to adversely impact the PA's contribution to the Development Objective. The approval of the Organic Law for Comprehensive DRM and its regulations strengthens Ecuador's DRM framework by establishing a more coordinated, decentralized, and effective Decentralized National Risk Management System. By promoting the inclusion and participation of diverse sectors and vulnerable groups in disaster risk prevention and response, this PA enhances institutional capacities and inter-agency coordination, ultimately improving resilience to climate-related hazards.
Conclusion for PA1: This prior action's development impact is not expected to be threatened by climate risks, as such, it can be considered aligned on adaptation.	
Prior Action 2. To strengthen national health risk management capacity, the Borrower has adopted the Technical Standard for the Comprehensive Epidemiological Surveillance System (SIVE) that mandates the Ministry of Public Health (MSP) to enhance Ecuador's epidemic surveillance system, through a Ministerial Agreement.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Climate hazards are unlikely to undermine the contribution of this prior action. On the contrary, the adoption of the SIVE Technical Standard enhances the health system's capacity to anticipate, monitor, and respond to climate-sensitive health risks, including vector-borne diseases and extreme weather-related health emergencies. By improving coordination and surveillance, the PA directly

	contributes to strengthening institutional resilience and protecting vulnerable populations from climate-related health risks.
Conclusion for PA2: This prior action's development impact is not expected to be threatened by climate risks, as such, it can be considered aligned on adaptation.	
Prior Action 3. To strengthen local governments' capacity for risk-informed territorial planning, the Borrower has: (i) adopted the Technical Standard for the Formulation and Updating of Development and Land Use Plans (PDOTs), mandating the integration of climate and disaster risk considerations into local governments' updated PDOTs, through a Resolution ; and (ii) strengthened the complementarity and coordination between DRM and CCA within technical and public management instruments, through an Inter-Ministerial Agreement.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Climate hazards are unlikely to negatively affect the contribution of this prior action to the Development Objective. The adoption of climate- and risk-informed territorial planning standards strengthens the capacity of local governments to anticipate and respond to climate-related hazards. By mandating the integration of DRM and CCA into land use planning and establishing a harmonized inter-institutional framework for DRM and CCA, this PA enhances territorial resilience and reduces the vulnerability of communities to climate hazards.
Conclusion for PA3: This prior action's development impact is not expected to be threatened by climate risks, as such, it can be considered aligned on adaptation.	
Pillar Objective: Pillar 2. Mainstreaming resilience and climate adaptation in selected sectors	
Prior Action 4: To strengthen resilience in the energy sector, the Borrower has mandated the Ministry of Environment and Energy (MAE) to prioritize the diversification of the energy matrix, promote renewable energy, and incentivize private sector participation in energy generation to achieve a sustainable and resilient energy transition, through the Organic Law to Promote Private Initiative in Energy Generation.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Climate hazards are unlikely to adversely affect the contribution of this prior action to the Development Objective. By promoting diversification of the energy matrix and prioritizing clean and transitional energy sources, the approved legal framework enhances the sector's capacity to respond to climate-related shocks. Expanding private sector participation in energy generation also supports investment in adaptive infrastructure and innovation. Moreover, all energy generation projects must comply with the Reglamento Ambiental para Actividades Eléctricas (Executive Decree No. 1761), which requires the inclusion of contingency and risk management programs within their Environmental Management Plans (PMA). These provisions have been reinforced by Executive Decree No. 32 (15-06-2025), which mandates the Ministry to verify compliance with risk management standards in private-sector projects, and by ARCONEL Resolution 005/25, which requires environmental impact assessments to include detailed analysis of both environmental and project-related risks, along with specific mitigation measures. This approach reduces reliance on fossil fuels and reinforces energy security and sustainability in the face of future climate risks, aligning the sector with national adaptation and resilience goals.
Conclusion for PA4: This prior action's development impact is not expected to be threatened by climate risks, as such, it can be considered aligned on adaptation.	

Prior Action 5: To enhance the climate resilience of the Amazon region, the Borrower has: (i) adopted the management model for the Biocorredor Amazónico (BCA), which strengthens the conservation and sustainable management of the Amazon region and mandates the Ministry of Environment and Energy (MAE) to operationalize its implementation; and (ii) formalized the Amazonian Protected Areas Network (Red APA), coordinating efforts to manage risks, including climate-related hazards, through Ministerial Agreements.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Climate hazards are unlikely to adversely affect the contribution of this prior action to the Development Objective. On the contrary, the establishment of the BCA management model and the formalization of the Red APA directly contribute to strengthening ecosystem-based climate adaptation in the Amazon region. By promoting coordinated conservation actions, enhancing forest fire monitoring, and supporting flood risk reduction, this PA helps increase the resilience of vulnerable ecosystems and communities to climate-related hazards.
Conclusion for PA5: This prior action's development impact is not expected to be threatened by climate risks, as such, it can be considered aligned on adaptation.	
Adaptation and resilience: The adaptation risks are minimal, and all prior actions are aligned with climate adaptation objectives.	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT: This operation aligns with the goals of the Paris Agreement (see table above for detailed discussion). The DPF reform program is consistent with the country's climate commitments including NDC and NAP and considers our climate analysis including CCDR. Regarding mitigation goals, all prior actions are not likely to cause a significant increase in GHG emissions or any persistent barriers to transition to low-GHG emissions. Therefore, all prior actions align with the mitigation goals. Regarding adaptation and resilience goals, risks from climate hazards are not likely to adversely affect the prior action and its contribution to the PDO for all prior actions.	

ANNEX 3. Operation Specific Annex

POVERTY AND SOCIAL IMPACT ANALYSIS

PILLAR 1: Enhancing institutional capacity for resilience and climate adaptation

1. **The policies supported under Prior Actions considered in Pillar 1 are not expected to impact poverty and inequality in the short term but are expected to reduce poverty in the medium, and long term.** PA1 is expected to have positive welfare impacts in the medium to long term by organizing and coordinating policies related to risk knowledge, forecasting, prevention, mitigation, emergency response, and recovery. Ecuador is highly vulnerable to natural and climate-induced hazards[76,77,78], including floods, earthquakes, landslides, and volcanic activity, which have caused significant economic losses and adverse impacts on poor and vulnerable households.[79] The poor and vulnerable populations, including indigenous communities, are more susceptible to climate shocks, with a positive correlation between poverty and the aftermath of climate-related shocks.[80] Moreover, labor income reductions from flooding and droughts between 2007 and 2023 have resulted in increases in poverty, impacting especially those in the primary and tertiary economic sectors and in rural areas. Additionally, Ecuador's social protection system excels in social registries but struggles with financing, payment mechanisms, early warning systems, and government leadership.[81] A robust DRM framework can mitigate these impacts by ensuring better preparedness and response mechanisms, thereby stabilizing the economy and reducing poverty. Effective DRM legislation can also provide targeted support to the poor and vulnerable, reducing their vulnerability and enhancing their resilience to natural disasters.

2. **Strengthening the health surveillance system for epidemics and establishing effective health risk management guidelines can significantly impact poverty and equity under PA2**. In the short term, early outbreak detection and rapid response can reduce vulnerability and economic burdens on low-income households, though initial implementation may require substantial investments and equitable resource allocation to avoid exacerbating existing disparities.[82] In 2020, provinces such as Guayas, Pichincha, and Manabí had the most health facilities, while Napo, Orellana, and Pastaza had the least, correlating with higher poverty rates. Thus, investing in quality health coverage is crucial.[83] In the medium term, a robust surveillance system can enhance health system resilience, improve intersectoral coordination, and reduce health emergency costs, benefiting vulnerable communities by mitigating the impact on labor productivity and family health spending.[84] Continued investment and equitable resource distribution are essential to prevent urban areas from monopolizing benefits. Long-term, a well-established risk surveillance and management system will contribute to public health protection, social and economic stability, lower mortality rates, improved quality of life, and sustained poverty

[76] Thinkhazard: https://thinkhazard.org/en/report/73-ecuador.
[77] INFORM. (2021). INFORM Risk Index 2022. https://drmkc.jrc.ec.europa.eu/inform-index. INFORM is a collaboration of the Inter-Agency Standing Committee Reference Group on Risk, Early Warning and Preparedness and the European Commission. The European Commission Joint Research Centre is the scientific lead of INFORM. See https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk.
[78] World Bank. (2020). People in harm's way: Flood exposure and poverty in 189 countries.
[79] See https://blogs.worldbank.org/latinamerica/ecuadors-innovative-disaster-risk-financing-strategy-essential-tool-responding.
[80] Canavire Bacarreza, Gustavo J.; Conconi, Adriana; Olivieri, Sergio; Serio, Monserrat. (2024). Understanding Vulnerability to Poverty and Natural Disasters in Latin America and the Caribbean. Policy Research Working Paper; 10825. Washington, DC: World Bank. http://hdl.handle.net/10986/41798 License: CC BY 3.0 IGO
[81] World Bank Group. (2025). Impulsando la Prosperidad: Evaluacion de la Pobreza y la Desigualdad en Ecuador.
[82] Quinn, S. C., & Kumar, S. (2014). Health inequalities and infectious disease epidemics: a challenge for global health security. Biosecurity and bioterrorism: biodefense strategy, practice, and science, 12(5), 263-273.
[83] https://hia.paho.org/es/perfiles-de-pais/ecuador#situation
[84] Kelman, I. (2015). Climate change and the Sendai framework for disaster risk reduction. International Journal of Disaster Risk Science, 6, 117-127.

reduction, provided universal access and up-to-date technologies and protocols are maintained. Yet, neglecting technological adaptation or regional equity could perpetuate or widen existing gaps.

3. **PA3 is expected to have minimal short-term welfare impacts but potential positive effects in the medium to long term.** Due to the norm plans must prioritize risk reduction and climate adaptation measures, including nature-based solutions and resilient infrastructure. Local governments are to develop long-term strategies for land use shifts, infrastructure upgrades, and improved disaster preparedness, focusing on sustainability and climate resilience. Expected outcomes include climate co-benefits, enhanced resilience, protection of critical infrastructure and vulnerable communities, and improved multi-level climate governance. Given the regional disparities in climate and natural hazard risks observed in Ecuador, targeted planning and policies are essential to address specific vulnerabilities, particularly in disadvantaged areas. Provided local governments, which have varying budgets and capacities, can effectively diagnose, plan and implement policies to build climate resilience, and at the same time protect vulnerable communities during their design and implementation, this prior action could have positive welfare effects in the future.

PILLAR 2: Mainstreaming resilience and climate adaptation in selected sectors

4. **Prior Actions supported under Pillar 2 are expected to directly affect poverty and inequality in the medium and long run. PA4 is not expected to have significant short-term distributional effects but could yield positive medium to long-term impacts.** Promoting energy generation projects through private investment can drive local development and job creation,[85] essential for poverty reduction. Legal stability clauses and preferential credit rates for the private sector foster investor confidence. Diversifying the energy matrix with clean sources can lower long-term energy costs, benefiting vulnerable populations.[86] While reducing subsidies may have minor distributional effects, it is necessary for the financial sustainability of the electric sector. The electricity subsidy has been progressive in relative terms, benefiting lower-income households more significantly. Modifying electricity prices is crucial for improving service quality but may require short-term compensation measures. Reliable, quality energy access is vital for economic growth and poverty reduction.[87] Ecuador has high electricity access,[88] though regional disparities exist. The electric sector faces challenges from droughts, growing demand, and inadequate investment. Higher quality electricity positively impacts income, investment, and women's empowerment, while outages harm productivity and welfare.[89,90,91]

5. **PA5 is not expected to have impacts on poverty and inequality in the short term. In the long run, increasing the conservation of the Amazon could have positive impacts on welfare.** For Ecuador, mitigation actions in the in the Amazon region are expected to reduce the poverty rate by 0.05 percentage points by 2050.[92] The overall poverty impact analysis indicates minimal effects, as it primarily considers GDP impacts on household incomes without evaluating food prices or

[85] Llanos, B., & Alexis, R. (2020). La generación de energía eléctrica para el desarrollo industrial en el Ecuador a partir del uso de las energías renovables.
[86] Ordoñez-Zuñiga, N. L., Mantilla-Ordóñez, J. C., Cusme-Mercado, L. G., Ordoñez-Valencia, M. L., & Sánchez-Charcopa, J. L. (2019). Perspectivas ambientales y económicas del uso de las energías renovables en Ecuador. Un análisis documental. Dominio de las Ciencias, 5(4), 232-244.
[87] Indrawati, S. M. (2015). What you need to know about energy and poverty. World Bank Blogs. July 28, 2015. https://blogs.worldbank.org/en/voices/what-you-need-know-about-energy-and-poverty
[88] INEC. (2023). Population Census 2022. https://www.censoecuador.gob.ec/resultados-censo/
[89] Wilcox, M. et al. (2015). Utilising Electricity Access for Poverty Reduction. Institute of Development Studies. https://www.ids.ac.uk/download.php?file=files/dmfile/UtilisingElectricityAccessforPovertyReduction-MainReport.pdf
[90] Anna T. Falentina, Budy P. Resosudarmo. (2019). The impact of blackouts on the performance of micro and small enterprises: Evidence from Indonesia. World Development, Volume 124, 104635, ISSN 0305-750X. DOI: https://doi.org/10.1016/j.worlddev.2019.104635.
[91] Abinet Tilahun Aweke, Ståle Navrud. (2022). Valuing energy poverty costs: Household welfare loss from electricity blackouts in developing countries. Energy Economics. Volume 109, 105943, ISSN 0140-9883. DOI: https://doi.org/10.1016/j.eneco.2022.105943.
[92] World Bank Group. (2024). Op cit.

consumption. The variability in cash transfer coverage among the poorest in the Amazon region, which is highly vulnerable to poverty, suggests that financial mechanisms, such as those included in the management model of the *Biocorredor Amazónico*, could be crucial in addressing these disparities and supporting poverty alleviation. However, additional analysis is needed to better understand under which conditions these types of operations could materialize positive welfare effects for the poorest populations, predominantly located in the Amazon region. For instance, in terms of protected areas evidence from the Peruvian Amazon suggests that appropriate funding is key. Yet the achievement of larger positive impacts on both biodiversity and human development is also influenced by other physical and socio-economic factors, such as baseline forest cover, poverty levels, proximity to towns, the presence of mining activities, etc.[93]

[93] Nakamura, K. (2022). The effectiveness of protected area funding for forest conservation and human development in the Peruvian amazon. Dissertation. Graduate College of the University of Illinois Urbana-Champaign https://www.ideals.illinois.edu/items/125317

ANNEX 4. Required Accompanying Documentation

Letter of Development Policy

REPÚBLICA DEL ECUADOR

Ministerio de Economía y Finanzas

Office No. MEF-DM-2025-0010-O
Quito, October 22, 2025

Mr. Ajay Banga
President of the World Bank Group
1818 H Street NW,
Washington, DC 20433

Dear Mr. Banga:

Subject: IBRD USD 200 million for a Development Policy Financing for Disaster Risk Management in Ecuador with a Catastrophe Deferred Drawdown Option (CAT-DDO) (P510158)

On behalf of the Government of Ecuador, I am pleased to submit this Development Policy Letter related to the International Bank for Reconstruction and Development (IBRD) credit agreement for the CAT-DDO operation, which supports our efforts to strengthen the country's capacity to manage risks arising from climate, disasters, and public health crises through (i) the enhancement of institutional capacity and (ii) the incorporation of climate resilience and adaptation in selected sectors.

This letter provides an overview of Ecuador's country context and the reforms undertaken as part of this program.

I. NATIONAL CONTEXT OF ECUADOR

Ecuador has faced a complex fiscal and macroeconomic environment, compounded by an intensifying climate crisis, rising insecurity, and persistent structural challenges in reducing inequality. The severe drought that led to the declaration of a national emergency in November 2024—the worst in more than six decades—highlighted critical vulnerabilities in Ecuador's disaster management capacity. The drought triggered widespread energy shortages, as hydroelectric reservoirs that supply approximately 70% of the country's electricity fell to critical levels, causing blackouts that had a profound economic impact, increased poverty levels, and further burdened vulnerable communities. Fiscal pressures have intensified, reflecting the economic costs of the energy crisis, increased security expenditures amid escalating violence, and broader structural deficiencies. Climate change and natural hazards continue to pose significant risks, potentially reducing Gross Domestic Product (GDP) per capita by nearly four percentage points by 2050 and raising the poverty rate by 3.7 percent. It is estimated that Ecuador would need to invest more than 3.5% of its GDP annually in climate change mitigation and adaptation activities to adequately protect the country from the impacts of the climate crisis[1].

[1] World Bank (2022). Ecuador: Country Climate and Development Report (CCDR). Available at: https://documents1.worldbank.org/curated/en/099853311222112203/pdf/P174758064299040bdcc089cec7d00a71.pdf

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EL NUEVO ECUADOR

Vulnerabilities in key sectors of Ecuador exacerbate the impacts of climate and disaster risks, resulting in substantial economic losses and threatening the country's development trajectory. The most severe economic impacts are expected to result from damage to infrastructure, with estimates that businesses lose more than USD 1 billion annually due to disruptions in transport and energy. At the same time, weak enforcement of standards, combined with inadequate urban planning, has led to the proliferation of settlements in high-risk areas. As a result, 96% of the urban population lives in areas exposed to earthquakes, volcanic eruptions, and recurrent floods and landslides, particularly during El Niño/La Niña–Southern Oscillation (ENSO) events. Climate variability also accelerates the spread of vector- and airborne diseases, increasing pressure on an already overburdened health system, with limited hospital capacity in the region (2 hospital beds per 1,000 inhabitants) and a shortage of medical personnel in Ecuador (2 doctors per 1,000 inhabitants)[2]. These risks disproportionately affect vulnerable populations, particularly in the Amazon and coastal regions, which were severely impacted by the national floods of 2025. Likewise, the agricultural sector, which employs 27% of the population and accounts for 42% of exports, is particularly vulnerable to climate-induced hazards that threaten food security and rural livelihoods. The Public Policy for the Agricultural Sector (2025-2034) is advancing its adoption, which seeks, among other things, to promote modern pressurized irrigation systems to increase water use efficiency and reduce vulnerability to droughts and floods. These actions strengthen climate resilience and enable farmers to maintain productivity in the face of the challenges posed by climate change.

Ecuador continues to face combined risks from climate-related crises, natural hazards, and public health threats. In 2025, the country experienced 3,611 disasters, including landslides (42%), floods (37%), windstorms (4%), and other hazards, which affected 206,313 people, resulted in 50 deaths, and displaced 57,619 people. These events damaged 71,903 homes, more than 150 kilometers of roads, and 12,587.9 hectares of crops, as well as critical infrastructure such as schools and health centers, placing further strain on public services and local economies. The impact of disasters is particularly severe at the local level, where municipal governments, responsible for first response and the provision of basic services, often lack the resources, tools, and institutional capacity to fulfill their growing mandates under Ecuador's decentralized Disaster Risk Management (DRM) framework. Strengthening their preparedness and coordination is essential to establishing a robust territorial resilience. Furthermore, the COVID-19 pandemic highlighted significant deficiencies in Ecuador's health surveillance system, particularly in early detection, real-time data collection, and local-level reporting. The urgent need to modernize surveillance infrastructure and improve institutional coordination was highlighted. The country also remains highly vulnerable to climate-sensitive health risks, such as dengue, yellow fever, and heat-related illnesses, which are exacerbated by limited integrated monitoring and emergency response capacity. These cascading shocks underscore the urgent need to strengthen Ecuador's institutional capacity for disaster risk management, climate adaptation, and public health resilience at all levels of government.

II. REFORMS ENVISAGED UNDER THIS PROGRAM

The proposed standalone Development Policy Financing (DPF) of USD 200 million for the mobilization of domestic resources with a Catastrophe Deferred Drawdown Option (CAT-DDO), Ecuador's first Cat-DDO, will strengthen the Government of Ecuador's program to manage risks

[2] OECD & World Bank. (2023). Health at a Glance: Latin America and the Caribbean 2023. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/04/health-at-a-glance-latin-america-and-the-caribbean-2023_7ba284d7/532b0e2d-en.pdf

arising from climate, disasters, and public health crises through (i) the enhancement of institutional capacity and (ii) the incorporation of climate resilience and adaptation in selected sectors. The selection of pillars and policy areas is based on robust analytics, including Ecuador's Country Climate and Development Report, which identifies the vulnerable sectors described above, strong government demand, and the reinforced institutional framework established by the 2024 DRM Law. Building on these advances, pillar one reforms aim to enhance institutional capacity for resilience and climate adaptation by: (i) strengthening institutional coordination of DRM, (ii) promoting conservation and management of Ecuador's Amazon region for climate adaptation, and (iii) improving local governments' capacities for risk-based territorial planning. Pillar 2 focuses on integrating climate resilience and adaptation in selected sectors by: (i) increasing resilience within the energy sector; and (ii) strengthening national health risk management capacity for climate resilience.

Pillar 1: Strengthening Institutional Capacity for Resilience and Climate Adaptation

Prior Action 1: *To strengthen institutional capacity for resilience and climate adaptation, the Borrower has mandated: (i) the decentralization and integration of DRM at the local government level; and (ii) the SNGR to support local governments in the formulation and implementation of comprehensive risk management plans with gender-differentiated measures, through the Organic Law for Comprehensive Disaster Risk Management (DRM)*[3] *and its implementing regulation.*[4]
Status: Completed

Past events—such as floods and landslides linked to ENSO events, the 2016 earthquake, volcanic activity alerts, droughts, forest fires, and the COVID-19 pandemic—have highlighted the urgent need for a structured and legally binding framework that clearly defines the roles, responsibilities, and institutional mechanisms for DRM at both national and local levels, to strengthen the country's overall institutional capacity for DRM. These events have also revealed that women, especially those in rural areas, experience disproportionate impacts during disasters in Ecuador, which heightens their vulnerability and constrains their capacity to recover. The comprehensive DRM law and its regulations constitute Ecuador's first national regulatory framework, unifying and clearly defining the competencies, functions, and responsibilities of actors involved in DRM. This addresses long-standing gaps in risk management and marks a significant policy shift toward DRM decentralization. It also addresses the gender-differentiated DRM planning, which entails concrete actions to eliminate barriers that prevent priority attention groups from equitably accessing goods and services and from actively participating in DRM processes. The legal framework requires local governments to assume primary responsibility for long-term risk planning, prevention, preparedness, response, and recovery, integrating these functions into local development to manage risks from both natural and man-made hazards comprehensively. By 2028, with support from the National Secretariat for Risk Management (SNGR), 80 out of 222 municipalities (36%) are expected to develop comprehensive risk management plans that include at least two measures focused on women, aligned with the DRM approach defined in the DRM Law (art. 48) and reviewed by SNGR. These plans

[3] Organic Law for Comprehensive Disaster Risk Management, published in the Official Register Supplement No. 488 published in the Official Gazette on January 30, 2024. Available at: https://www.asambleanacional.gob.ec/es/system/files/leyorg1.pdf
[4] General Regulation of the Organic Law for Comprehensive Disaster Risk Management, No. 394 dated September 18, 2024, published in the Official Gazette on September 18, 2024. Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiYjc4MjJiNWQtMTAyMS00ZmQzLTg1YTMtMDExMDdiYjM1NTI4LnBkZiJ9

will cover objectives and activities for all DRM phases (understanding, prevention, mitigation, preparedness, response, and recovery) through coordinated, multisectoral actions that integrate structural and non-structural measures, institutional functions, and climate change considerations, in line with national DRM policy instruments, including the national DRM policy, the national risk reduction plan, and the national emergency preparedness and response plan.

Prior Action 2: *To strengthen national health risk management capacity, the Borrower has adopted the Technical Standard for the Comprehensive Epidemiological Surveillance System (SIVE), which mandates the Ministry of Public Health (MSP) to enhance Ecuador's epidemic surveillance system through a Ministerial Agreement.*[5]

Status: Completed

Ecuador's Integrated Epidemiological Surveillance System (SIVE), established as the formal national surveillance system, began in late 2001 and was strengthened with the publication of a procedural manual in 2013. SIVE aims to improve the country's capacity for early detection, investigation, and response to health events by providing timely, high-quality epidemiological data to guide public health policies and interventions. While SIVE served as the backbone of Ecuador's epidemiological surveillance infrastructure, the COVID-19 pandemic revealed critical deficiencies in data quality, institutional coordination, and technological capacity. The SIVE technical standard[6] acts as a comprehensive legal, technical, and operational framework for systematic epidemiological surveillance, reinforcing mandatory disease reporting and guiding health professionals in surveillance subsystems. By integrating disaster risk reduction and preparedness principles, Ecuador aims to build a more resilient health system that can protect public health in crises exacerbated by climate change. By 2028, Ecuador plans to increase the coverage of epidemiological surveillance conducted by municipal-level health establishments from 70% to 85%, strengthening proactive prevention, preparedness, and response capacities for health risk management.

Prior Action 3: *To strengthen local governments' capacity for risk-informed territorial planning, the Borrower has: (i) adopted the Technical Standard for the Formulation and Updating of Development and Land Use Plans (PDOTs), mandating the integration of climate and disaster risk considerations into local governments' updated PDOTs, through a Resolution*[7]*; and (ii) strengthened the complementarity and coordination between DRM and CCA within technical and public management instruments, through an Inter-Ministerial Agreement.*[8]

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[5] Ministerial Agreement No. 00001-2025 dated August 19, 2025, published in the Official Gazette on August 21, 2025 (Third Supplement No. 107). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiN2M1YzIwODItMDhlMC00NDAyLTlhZGYtMDUxZmViNTkwZGE5LnBkZiJ9

[6] Ministerial Agreement MSP No. 00001-2025, through which the "Technical Standard of the Integrated Epidemiological Surveillance System" is approved and authorized for publication. Published in the Third Supplement No. 107 of the Official Gazette on August 21, 2025. Available at: https://www.salud.gob.ec/wp-content/uploads/2025/09/NORMA-TECNICA-DEL-SISTEMA-INTEGRADO-DE-VIGILANCIA-EPIDEMIOLOGICA-SIVE-2025.pdf

[7] Resolution No. 018-CTUGS-2024, dated November 12, 2024 and published in the Official Gazette on June 20, 2025 (Third Supplement Nº 64). Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiMTJmYmYzMTctY2UyOS00NjBmLTg1MDgtZjkxM2JjMTJiNzgzLnBkZiJ9

[8] Inter-Ministerial Agreement No. MAATE-SNGR-2025-001, dated June 26, 2025, published in the Official Gazette on July 21, 2025 (Third Supplement No. 85). Available at:

Status: Completed

The Technical Standard for the Formulation and Updating of Land Development and Use Plans (PDOT) requires local governments to integrate climate- and risk-based territorial planning, in line with the 2024 DRM Law, which mandates the decentralization of disaster risk management across sectoral and territorial levels. The standard requires the assessment of natural and anthropogenic hazards, vulnerabilities, and climate risks—including floods, droughts, landslides, and heat stress—and the preparation of risk zoning maps to guide land use decisions. Based on these diagnostics, local governments are required to identify and prioritize concrete resilience and climate adaptation measures to reduce exposure to current and future hazards, thereby reducing physical climate risks and enhancing the country's adaptive capacity. Additionally, through an interministerial agreement between SNGR and MAE[9], a formal coordination mechanism has been established to strengthen synergy and integration between disaster risk management and climate change adaptation. By 2028, 120 out of 222 municipalities (54%) are expected to have updated their PDOTs in accordance with the Technical Standard, incorporating risk-based territorial planning, resilience, and climate adaptation measures. This process will be supported by improved access to hazard and risk data through better coordination between SNGR and MAE.

Pillar 2: Integration of Resilience and Climate Adaptation in Selected Sectors

Prior Action 4: *To strengthen resilience in the energy sector, the Borrower has mandated the Ministry of Environment and Energy (MAE) to prioritize diversification of the energy matrix, promote renewable energy, and encourage private sector participation in energy generation to achieve a sustainable and resilient energy transition, through the Organic Law to Promote Private Initiative in Energy Generation.*[10]

Status: Completed

While hydropower remains Ecuador's primary source of electricity, accounting for approximately 70% of national generation, wind and solar energy contribute less than 2%, underscoring the country's significant reliance on hydropower and its vulnerability to climate variability. This underscores the urgent need to diversify its energy matrix. The Organic Law to Promote Private Initiative in Energy Generation was enacted in response to Ecuador's most severe drought in over six decades, which triggered a major energy crisis in 2024, highlighting the urgent need to diversify the country's energy matrix to reduce vulnerability to climate-related disruptions. Expanding the geographic distribution of energy sources and technologies can improve resilience not only to droughts but also to other hazards such as floods and landslides. The

https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiNzgxNWFiMmEtZjM4MC00ZWFiLTk4YjMtOWUyODE2MjU3ZmM3LnBkZiJ9

[9] Interministerial Agreement No. MAATE-SNGR-2025-001, signed on June 26, 2025. Published in the Third Supplement to Official Gazette No. 85 on July 21, 2025. Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiNzgxNWFiMmEtZjM4MC00ZWFiLTk4YjMtOWUyODE2MjU3ZmM3LnBkZiJ9

[10] Organic Law for the Promotion of Private Initiative in Energy Generation, enacted by the National Assembly and published in the Supplement to Official Gazette No. 673 on October 28, 2024. This law promotes private investment in clean and transitional energy sources, with the goal of diversifying Ecuador's energy matrix and ensuring reliable service. Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiMmU3NjM1YTktZTRhOS00NDdmLWFmZDItYzY1NWQ3ZjdjMzU4LnBkZiJ9

reform facilitates private sector participation and investment in distributed renewable energy generation and transition fuels such as natural gas. By fostering a more competitive and resilient electricity market, the law will support Ecuador's long-term energy transition and improve the reliability of its electricity supply in the event of disasters. Reforms aimed at expanding distributed renewable energy, accelerated through private sector participation, can enhance the resilience of Ecuador's energy system by diversifying supply sources, decentralizing generation to reduce vulnerability to prominent climate hazards, and improving the capacity for flexible responses to climate- and disaster-related disruptions. By 2028, Ecuador will have at least 150 MW of additional private distributed renewable energy generation projects of up to 100 MW approved by MAE (from 46 MW to 196 MW). Final viability approval represents a crucial final step before the installation of distributed renewable energy projects.

Prior Action 5: *To improve climate resilience in the Amazon region, the Borrower: (i) adopted the management model for the Amazon Biocorridor (BCA), which strengthens conservation and sustainable management of the Amazon region and mandates MAE to implement it; and (ii) formalized the Amazon Protected Areas Network (Red APA), coordinating efforts to manage risks, including climate-related hazards, through ministerial agreements.*[11][12]

Status: Completed

The adoption of the BCA and the formalization of the Red APA significantly strengthen conservation governance in Ecuador's Amazon region by expanding the coverage of conserved areas and improving the effectiveness of sustainable management. These frameworks promote ecosystem- and nature-based solutions through the restoration of forests that serve as natural firebreaks, conservation of riparian buffer zones to reduce flood risks, and promotion of sustainable agroforestry systems in buffer zones to alleviate deforestation pressure. The establishment of management models for the BCA and Red APA advances Ecuador's climate adaptation priorities by expanding conservation and management of the Amazon region and strengthening its governance, conservation, and sustainable use. By 2028, an additional 1 million hectares of terrestrial and aquatic areas will be subject to effective conservation and management. For the purposes of this indicator, areas "subject to effective conservation and management" are those that (i) are within the boundaries of the BCA or Red APA, (ii) are governed by officially approved management plans, (iii) are monitored using performance indicators established under the BCA and Red APA frameworks, and (iv) contribute to ecosystem functions that support climate adaptation and resilience (e.g., natural firebreaks, flood buffer zones, forest carbon storage).

Conclusion

Based on the provisions of this policy letter, we have reported on our economic situation and outlined our short- and medium-term public policy agenda to continue consolidating comprehensive Disaster Risk

[11] Ministerial Agreement No. MAATE-MAATE-2024-0069-A, issued on November 4, 2024, and published in the Supplement to Official Gazette No. 66 on June 24, 2025. Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiODFiYmZmNGMtM2RlYy00YmJhLTgwMTQtZWVmNzI0MWRjM2Y0LnBkZiJ9

[12] Ministerial Agreement No. MAATE-MAATE-2024-0068-A, signed on November 4, 2024. Published in the Fourth Supplement to Official Gazette No. 488 on December 31, 2024. Available at: https://esacc.corteconstitucional.gob.ec/storage/api/v1/10_DWL_FL/eyJjYXJwZXRhIjoicm8iLCJ1dWlkIjoiNjRjOTc0Y2ItYTVmYi00MTczLThiNmMtOTVlOTNiMzM3YzJkLnBkZiJ9

REPÚBLICA DEL ECUADOR

Ministerio de Economía y Finanzas

Management (DRM) at the national, sectoral, and subnational levels.

We take this opportunity to reiterate our recognition of the World Bank for its contributions to the country's development, which are fundamental and complementary in helping us achieve our strategic goals and sustainable development objectives.

Sincerely,

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EL NUEVO ECUADOR

Fund Relations Note

See the latest valid IMF press release for Ecuador: IMF (2025, October 29)."The IMF Executive Board Concludes Third Review of the Extended Fund Facility Arrangement for Ecuador": https://www.imf.org/en/News/Articles/2025/10/29/pr-25353-ecuador-the-imf-concludes-third-review-of-the-extended-fund-facility-arrangement

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