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STRATEGIC AGREEMENT BETWEEN ECUADOR AND THE IDB GROUP COUNTRY STRATEGY

2026 – 2030

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IDB Group

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ABBREVIATIONS

BCE	Banco Central del Ecuador (Central Bank of Ecuador)
CAN	Regional Country Department Andean Group: Bolivia, Colombia, Ecuador, Peru, and Venezuela
CCVP	Centro Cívico por la Vida y por la Paz (Civic Center for Life and Peace)
CDI	Country Diagnostics for Impact
CEC	Country Office in Ecuador
CGE	Contraloría General del Estado (Office of the Comptroller General)
CNCD	Chronic noncommunicable disease
DELTA	Development Effectiveness Learning, Tracking, and Assessment
EFF	Extended Fund Facility
EIB	European Investment Bank
ENEMDU	National Survey on Employment, Unemployment, and Underemployment
FCCV	Fragility, conflict, and criminal violence
FGE	Fiscalía General del Estado (Attorney General's Office)
GFCF	Gross fixed capital formation
IESS	Instituto Ecuatoriano de Seguridad Social (Ecuadorian Social Security Institute)
ISSFA	Instituto de Seguridad Social de las Fuerzas Armadas (Armed Forces Social Security Institute)
ISSPOL	Instituto de Seguridad Social de la Policía Nacional (National Police Social Security Institute)
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadística y Censos (National Statistics and Census Institute)
LAC	Latin America and the Caribbean
MDH	Ministry of Human Development
MSMEs	Micro, small, and medium-sized enterprises
NTCG	Normas Técnicas de Contabilidad Gubernamental (Ecuadorian government accounting technical standards)
OVE	Office of Evaluation and Oversight
PPP	Public-private partnership

SRI	Servicio de Rentas Internas (Ecuador's Internal Revenue Service)
UNDECOF	Unidad Nacional de Investigación de Delitos Contra el Sistema Financiero y Económico (National Financial and Economic Crimes Investigation Unit)
UNODC	United Nations Office on Drugs and Crime
XCPE	Extended Country Program Evaluation

INTRODUCTION

A NEW APPROACH FOR IMPACT

Ecuador's potential

A more favorable context, marked by recent progress in fiscal consolidation, by a dynamic nonoil export sector, by a build-up of international reserves, and by renewed access to international debt markets, opens a window of opportunity for Ecuador to establish a more sustainable and resilient growth model. These advances are laying the groundwork for a new development phase aimed at boosting private-investment-driven growth. In this scenario, the country can leverage its comparative advantages in sectors such as energy, agroindustry, manufacturing, mining, and tourism, with the potential to stimulate economic activity and create quality employment. This will require simultaneously strengthening the enabling conditions for investment, promoting human capital better aligned with productive sector requirements, and consolidating a more solid institutional and security environment that reduces transaction costs and fosters investor confidence.

New country strategy approach

The IDB Group Country Strategy with Ecuador 2026-2030 is aimed at maximizing the impact and effectiveness of IDB, IDB Invest, and IDB Lab support to contribute to sustained economic growth driven by private investment. The strategy is underpinned by the IDB Group's strategic selectivity framework and is aligned with the priorities identified in the Country Diagnostics for Impact (CDI), Ecuador's National Development Plan, the Ecuador 2040 Growth Agenda, and the lessons drawn from the Extended Country Program Evaluation (XCPE) prepared by the Office of Evaluation and Oversight (OVE). The selectivity framework includes an analysis of the IDB Group's strategic positioning, its cumulative operational experience in the country, and the main implementation risks, with a view to concentrating resources and capabilities in areas with the greatest impact, scalability, and sustainability potential. Under this approach, the country strategy adopts a programmatic logic that integrates financing, technical assistance, policy-based support, knowledge, and private capital mobilization, leveraging the complementarity between the IDB Group's public and private windows to simultaneously address the regulatory, financial, logistical, and institutional constraints on Ecuador's development.

Priority areas and expected impact

The main objective of the IDB Group's strategy with Ecuador for the 2026-2030 period is to promote economic growth by leveraging private investment, thereby generating quality employment, boosting productivity, and enhancing economic resilience. To achieve this objective, the strategy is built around three priority areas.

(1) Promoting private investment. Interventions in this area will be aimed at making the private sector more competitive and spurring investment by lowering regulatory barriers, reducing logistics costs, increasing physical and digital connectivity, and expanding access to productive financing, with an emphasis on micro, small, and medium-sized enterprises (MSMEs) and strategic sectors.[1] In addition, they will promote strengthening the energy system to ensure a secure and reliable energy supply as a prerequisite for productive expansion.

(2) Strengthening human capital. Interventions in this area will aim to boost labor productivity by developing skills in line with the demands of the productive sector, as well as to strengthen access to, and the quality of, key services affecting employability, including healthcare and water and sanitation. These actions will help to close structural gaps constraining effective workforce participation and income generation.

(3) Building institutional capacity. Interventions in this area will aim to improve fiscal management, public expenditure efficiency, and public policy quality as well as strengthen citizen security and governance, reducing transaction costs and creating more favorable conditions for investment and growth.

In addition, **in a crosscutting way,** the strategy will incorporate **actions aimed at expanding opportunities for vulnerable populations and enhancing resilience to climate risks and natural disasters**. The implementation of this strategy will rely on a programmatic approach that integrates financial instruments, technical cooperation, and knowledge generation, as well as on coordination between the IDB, IDB Invest, and IDB Lab to mobilize private investment and maximize the impact of the interventions.

Ecuador – IDB Group collaboration

In recent years, Ecuador and the IDB Group have deepened their relationship in key areas for the country's development. The IDB Group has been a strategic partner in supporting fiscal consolidation, institutional strengthening, financial system development, power sector expansion and resilience, provision of social services, and mobilization of financing for the private sector. In addition, the Bank has assisted the country in building a long-term vision by supporting the Ecuador 2040 Growth Agenda, contributing to the design of evidence-based public policies and to technical capacity-building through knowledge generation. In this process, the IDB Group has promoted innovative solutions in multiple areas, including debt management (in the form of swaps for public-interest projects), natural disaster resilience mechanisms, and the use of various financial instruments[2]—such as thematic bond issues in both the public and private sectors—in which Ecuador has performed an important role at the regional level. Recent experience shows that the IDB Group has succeeded in combining scale, knowledge, innovation, and financial as well as nonfinancial instruments to address both short-term needs and medium-term structural challenges. For the 2026-2030 country strategy period, the IDB Group is positioned to assist the country in this new stage, leveraging its leadership as one of Ecuador's main multilateral development lenders, its capacity to mobilize private investment, its presence in strategic sectors, and coordination between the IDB, IDB Invest, and IDB Lab. Through this IDB Group vision, the strategy will seek to capitalize on the country's advantages, strengthen the conditions for investment, and contribute to a more sustained, productive, and resilient growth.

1 The strategic economic sectors prioritized under this strategy are (i) agroindustry; (ii) manufacturing; (iii) mining; and (iv) tourism. These sectors were selected based on those identified by the Government of Ecuador in the Ecuador 2040 Growth Agenda. For further details, see Annex I. Results Matrix.

2 Refers to making combined or sequential use of existing IDB Group instruments, including investment loans, policy-based loans, guarantees, structured finance, and capital market solutions, to address specific constraints more effectively instead of creating new instruments.

I. BUILDING A NEW COUNTRY STRATEGY: CONTEXT AND APPROACH

A. CONTEXT AND OUTLOOK: CONSOLIDATE A PRIVATE-SECTOR-DRIVEN GROWTH MODEL

I.1 **Ecuador's economic path over the past decade has been marked by volatility, limited diversification, and persistent structural constraints.** Economic performance has been closely tied to the oil cycles, reflecting the structural weight of hydrocarbons in the country's economy. While nonoil exports have in recent years gained ground relative to oil exports, oil revenues have remained structurally high, accounting for approximately 11% of gross domestic product (GDP) and 30% of tax revenues,[3] accentuating the procyclical nature of the public finances and exposing the country to external shocks. Under a fully dollarized economy, where recourse to exchange rate adjustments is not available, this dependence enhances the importance of fiscal discipline, competitiveness, and external buffer accumulation as pillars of macroeconomic stability. Between 2015 and 2024, in an environment of high external vulnerability, the economy experienced a series of shocks, including fluctuations in commodity prices, the COVID-19 pandemic, an energy crisis, a decline in public security, and the occurrence of adverse natural events, resulting in weak and volatile economic growth. In 2024, real GDP contracted by 2%[4] under the weight of energy supply disruptions and weakened investment dynamics. Macroeconomic response capacity has also been impaired by structural rigidities in public spending: current expenditure represents approximately 80% of total expenditure,[5] limiting the room for making adjustments without compromising investment. As a result, public investment as a percentage of GDP has declined from two-digit levels early in the 2010s to less than 5% in recent years, weakening one of the traditional engines of growth.[6]

I.2 **Recent efforts at stabilization have improved macroeconomic conditions.** In 2024, the overall fiscal deficit narrowed to 1.3% of GDP in 2024 and the primary balance posted a surplus of 1.1% of GDP.[7] However, in 2025, the deficit widened again, to 2.9% of GDP, showing that fiscal consolidation continues to face significant pressures. Against this backdrop, the government has made strides in phasing down energy subsidies, particularly in the case of fuel, where expenditures were significantly reduced in the last year. The government has promoted a gradual phasedown differentiated by fuel type, enabling progress on fiscal sustainability in line with social and political constraints. According to the pro forma general State budget, the diesel subsidy phasedown will

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3 Based on the average for the last 10 years (2016-2025). Fiscal data were taken from: Ministry of Economy and Finance (2025). Fiscal Statistics; and Central Bank of Ecuador (BCE) (2025). Real Sector Statistics.

4 BCE (2025). Real Sector Statistics.

5 Average for the last 10 years (2016-2025), taken from the Ministry of Economy and Finance (2025). Fiscal Statistics.

6 This information is for public and private gross fixed capital formation (GFCF) and is taken from the BCE (2025). Real Sector Statistics.

7 This information is taken from fiscal statistics for the nonfinancial public sector reported by the Ministry of Economy and Finance (2025). Fiscal Statistics.

generate estimated savings of approximately US$1.000 billion by 2026,[8] reinforcing medium-term sustainability. At the same time, international reserves have risen to about US$10.000 billion as of year-end 2025, the highest level since dollarization, strengthening external liquidity buffers.[9] The Ecuadorian economy grew by 3.7% in 2025 and is projected to grow by 2.5% in 2026, with the growth rate stabilizing at around 3% in the medium term.[10] However, despite this stabilization, the country's growth potential remains constrained: total investment stands at close to 20% of GDP (20.57% on average between 2021 and 2025), below levels associated with sustained high-growth trajectories in emerging economies.[11] Private investment has not fully offset the structural decline in public investment, and foreign direct investment remains modest by comparison to regional peers despite having grown significantly, by 191%, in 2025. In short, stabilization has reduced short-term vulnerabilities but without altering the structurally low growth ceiling.

I.3 **Structural constraints on productivity remain significant.** Although the unemployment rate stood at 2.6% in December 2025, there are challenges in terms of employment quality.[12] Despite a 4.1 percentage-point increase in adequate employment[13] over the past year, there remains ample room to improve employment quality, considering that inadequate employment accounts for 59.9% of the labor market. In addition, there is a persistently significant gender gap: the adequate employment rate is 41.6% for men and 30.4% for women. Indigenous peoples and nations and Afro-descendants also experience persistent gaps, as only 18.1% and 34.2% of these two population groups, respectively, have adequate employment.[14] Moreover, real average employment income grew by just 3% between 2021 and 2025, evidencing stagnant productivity gains, and average income in rural areas remains significantly below the legal minimum wage, revealing persistent territorial disparities. While human capital results are comparable to regional averages,[15] labor productivity has stalled since 2015 and remains below the Latin American average.[16] These employment quality and productivity limitations contribute to the persistence of poverty and vulnerability, particularly in rural areas[17] and among historically excluded population groups, evidencing the need for a structural change that can lead to sustainable income and improve household wellbeing. At the same time, there are persistent gaps in access to water and

8 In 2025, government expenditure on imported fuel subsidies fell to US$752 million, compared to US$1.658 billion in 2024. Diesel accounted for the largest savings, as the diesel subsidy decreased from US$957 million to US$485 million after this subsidy was eliminated in September 2025. In the case of gasolines, the import account recorded a positive fiscal balance of US$267 million, associated with the removal of the subsidy on Extra and Ecopaís gasolines and the price band system implemented in June 2024. Central Bank of Ecuador (BCE). Monthly Statistical Information. Oil Statistics.

9 Information reported by the BCE (2025). Monetary and Financial Statistics.

10 Growth projections for 2026 and for the medium term were taken from the fifth review under the International Monetary Fund's Extended Fund Facility (EFF) in April 2026.

11 Average GFCF as a percentage of GDP in countries that have grown 3% or more between 2015 and 2019 is 26.4%. Authors' calculations based on United Nations Conference on Trade and Development (UNCTAD) statistics. https://unctad.org/statistics.

12 All labor market statistics were obtained from the National Statistics and Census Institute (INEC) (2025). National Survey on Employment, Unemployment, and Underemployment.

13 According to the INEC's definition. Adequate employment: refers to employed individuals who, during the referenced week, earn at least the minimum wage and (i) work 40 hours per week or more, regardless of their willingness and availability to work additional hours; or (ii) work fewer than 40 hours but are not willing to work additional hours.

14 INEC (2025). National Survey on Employment, Unemployment, and Underemployment.

15 Based on the World Bank Human Capital Index Plus (2025), which measures the human capital a child born today in a given country can be expected to accumulate over their entire working life assuming no changes in current health, education, and employment levels.

16 Labor productivity is measured as output per hour worked, as reported by the International Labor Organization (ILO) (2025). Productivity Statistics.

17 In 2025, nationwide poverty stood at 21.4%. When disaggregated by area of residence, rural poverty reached 37.6%, while urban poverty was 13.8%. National Statistics and Census Institute (2025). Poverty and Inequality Statistics.

sanitation[18] and in the quality of health services,[19] limiting human capital accumulation and effective workforce participation.

I.4 **These structural constraints are exacerbated by institutional weaknesses and a decline in public security.** Government effectiveness indicators stand below regional comparators,[20] reflecting unfavorable perceptions about the quality of public services, civil service performance, policy setting and implementation, and credibility of government decisions. These gaps result in difficulties in policy coordination, execution capacity, and reform continuity. At the same time, the steady increase in homicide rates[21] in recent years has eroded investor confidence and raised the cost of doing business, affecting both private investment and public expenditure efficiency.

I.5 **In this context, the CDI identifies four interrelated challenges that impede the country's development.** Fiscal rigidity and oil dependence undermine the economy's capacity to adapt to shocks. Low productivity and limited diversification constrain potential growth and quality job creation. Institutional gaps erode public policy effectiveness. The decline in public security introduces an additional layer of fragility with a direct effect on economic performance. These constraints do not operate in isolation, but are mutually reinforcing. Fiscal stabilization can expand policy room, but absent a productive transformation and institutional strengthening, growth will tend to converge to moderate rates that will not suffice to consolidate the public finances or close the income gaps. Similarly, human capital improvements will not lead to higher income without a more dynamic private sector.

I.6 **The current macroeconomic stability, reflected in fiscal consolidation, reserve accumulation, and renewed market access, opens a window of opportunity to tackle structural challenges**. The chance of attaining sustained growth leveraged by private capital will hinge on whether simultaneous progress is made on productivity, institutional capacity, diversification, and public security within a disciplined macroeconomic framework. To this end, the IDB Group will provide the country with financial and technical instruments that promote enabling conditions in the public sector and direct financing opportunities for private sector development.

B. KEY LESSONS FROM THE 2022-2025 COUNTRY STRATEGY

I.7 **The country strategy 2022–2025 was implemented in a complex macroeconomic and fiscal environment, marked by tighter public liquidity constraints, recurrent external shocks, and deteriorated investment conditions.** In this context, the IDB's share in sovereign financing was expanded largely in response to the fiscal constraint and limited access to other financing sources, positioning the Bank as a key partner in maintaining macroeconomic stability and addressing urgent public sector needs. In parallel, IDB Invest's participation declined in aggregate terms, particularly in long-term and infrastructure finance, reflecting an adverse private investment climate characterized by high risk levels, macroeconomic uncertainty, regulatory restrictions, and lower demand for large-scale bankable projects. Nevertheless, this aggregate trend coexisted with successful targeted interventions. IDB Invest was able to expand its support to segments with tighter financing constraints through innovative solutions in capital markets, liquidity instruments, and advisory services. Thus, while the context limited the total volume of private sector operations, the experience from the period shows that, by using the appropriate instruments, it is possible to sustain, and even deepen, the impact on specific private-sector segments. This underscores the

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[18] The gaps in water and sanitation services are discussed in greater detail in chapter II. The information was obtained from INEC (2022). Population and Housing Census.

[19] The gaps in health services are discussed in greater detail in chapter II. The information was obtained from the World Health Organization (2025). Statistics.

[20] Based on the government effectiveness variable reported by the World Bank (2024). World Governance Indicators. See chapter II for further details.

[21] Data on intentional homicides were obtained from the Observatorio Ecuatoriano de Crimen Organizado (Ecuadorian Observatory on Organized Crime) (2025) and the World Bank (2024). World Development Indicators.

importance of improving the enabling conditions for increased mobilization of private investment in the future.

LESSONS LEARNED

I.8 **The implementation of the previous country strategy yielded lessons learned that guided the design, and will guide the implementation, of the country strategy for 2026-2030.** The Extended Country Program Evaluation (XCPE) 2018–2025 prepared by the Bank's Office of Evaluation and Oversight (OVE) found that the IDB Group's support was highly relevant and timely, consistently in line with the country's priorities and able to adapt to a rapidly changing context marked by external shocks, fiscal constraints, and emerging crises. Specifically, the Bank's program was characterized by its capacity to respond to critical needs, including the COVID-19 pandemic and the decline in public security, without neglecting medium-term structural goals. Moreover, the IDB Group implemented a large-scale, diversified, and innovative program that incorporated financial and nonfinancial instruments, new execution modalities, and greater coordination with subnational actors, helping to expand the scope and effectiveness of the interventions. These actions enabled significant advances in key areas such as access to financing, strategic infrastructure, fiscal consolidation, and certain social services, leveraging the Bank's sector-specific experience and its ability to create solutions tailored to the Ecuadorian context. Along these lines, the evaluation also identified a set of lessons and opportunities for improvement, in terms of strategic selectivity, execution capacity, and sustainability, which have been considered and incorporated into this document in a crosscutting way.

I.9 **At the *strategic level*, the experience over the period confirms the importance of reinforcing the selectivity and programmatic approach of interventions.** While the IDB Group demonstrated flexibility and responsiveness in supporting the country under various circumstances, the increase in public sector approvals, coupled with fiscal constraints and limited execution capacity, revealed the need to calibrate the volume and pace of new operations as a function of fiscal space and actual implementation capacity. At the same time, market creation enabled IDB Invest, through debt capital market solutions, to expand its support into segments with highly restricted access to business financing. Specifically, thematic debt issuances by the private sector have strengthened the local securities market and diversified the financial product offerings. IDB Invest deployed strategic solutions, including liquidity expansion and business advisory services, in a highly uncertain environment for private investment. Going forward, these actions highlight the importance of consolidating the private sector as a driver of growth and more clearly defining the roles of, and synergies between, the IDB Group windows. In line with the OVE's XCPE, the new country strategy should more resolutely promote growth through the private sector, strengthen coordination between the IDB, IDB Invest, and IDB Lab, and use financial as well as nonfinancial instruments to spur private investment, especially long-term investment.

I.10 **At the *operational level*, the strategy period yielded clear lessons in terms of portfolio execution and management.** The Bank has used an innovative blend of instruments to address the country's needs. However, an accumulation of undisbursed balances and cancellations showed the need to strengthen the strategic selectivity of interventions, improve planning prior to their approval, and reinforce technical assistance to the executing agencies. Programming should be adaptive to changing macroeconomic and fiscal scenarios, incorporating forward-looking analyses aimed at mitigating implementation risks and rationalizing underperforming operations. Prioritizing programmatic interventions entailing adequate technical preparation and greater interinstitutional coordination will be key to maximizing outcomes and reducing implementation vulnerabilities.[22] At the same time, the experience of IDB Invest shows that the effectiveness of financial and thematic instruments depends on having committed clients, a robust design from the outset, and strategic partnerships that reinforce credibility and execution capacity. Clear results indicators, measurable targets, and aligned and well-documented reporting processes, along with

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22 Based on lessons learned from the XCPE, the strategy, as part of the results-based portfolio review, seeks to strengthen portfolio monitoring through early warning systems designed to anticipate disbursement deviations and mitigate execution risks.

systematic monitoring of portfolio performance, proved essential for identifying deviations at an early stage and adopting timely corrective measures. Furthermore, the provision of long-term financing instruments not available on the local market—such as subordinated debt or longer-term loans—helped to strengthen the capital base of financial institutions and expand credit toward underserved segments. In parallel, IDB Invest supported sectors with adaptive capacity through liquidity tools, market creation instruments, and targeted technical advisory services, and was thus able to sustain activity and preserve impact in highly volatile circumstances.

I.11 **At the *development effectiveness* level, the 2022–2025 strategy showed that, even in a restrictive environment, the IDB Group can generate high-impact results when interventions are well targeted and aligned with the country's priorities.** For example, the IDB's interventions helped enhance the continuity and reliability of the power system by adding more than 1,600 megavolt-amperes (MVA) to the transmission system and 154 MVA to distribution, benefiting more than 112,500 people. In the productive area, IDB Invest supported 198,893 MSMEs, including 68,998 women-led enterprises, and created more than 58,000 jobs in various sectors. IDB Lab promoted the development of value chains linked to Amazonian products and the bioeconomy. In the fiscal and institutional area, debt swaps for nature-related public-interest projects generated more than US$1.900 billion in fiscal savings and progress was made on macrofiscal and structural reforms that strengthened State capacity to withstand shocks. In the social area, IDB Group support helped to fully vaccinate 85% of the population against COVID-19, expand credit access for more than 85,000 vulnerable individuals (through IDB Invest), provide prenatal care to more than 555,000 women, and improve access to water and sanitation for more than 278,000 individuals. In addition, significant crosscutting results were achieved, such as the establishment of conservation funds in the amount of nearly US$900 million, emissions reduction of more than 263,000 annual tons of CO_2 equivalent (through IDB Invest projects), and adoption of regenerative agricultural practices. Together, these results demonstrate the capacity of the IDB Group to combine scale, innovation, and relevance, and confirm that sustained impact requires selective, programmatic interventions consistent with the country's institutional capacity.

I.12 **In short, the lessons from the 2022–2025 period point to the need for a more selective and programmatic country strategy that is closely aligned with the country's fiscal and execution constraints.** The new strategy incorporates these elements as part of a comprehensive vision of development, recognizing that bolstering macroeconomic discipline and institutional capacity constitutes a key foundation for sustaining growth over time. Within this framework, the IDB Group will aim its support at consolidating sustainable public finances, enhancing execution efficiency, and strengthening State capacity, while advancing an agenda to promote greater private-sector dynamism. The IDB will continue to assist the country through programming aligned with these priorities, while IDB Invest will deepen its role in mobilizing long-term financing and developing strategic sectors. In addition, the new country strategy will seek to reinforce the programmatic coordination of IDB Lab interventions with the country's strategic priorities, intensifying IDB Lab's role in identifying and piloting innovative solutions in underserved segments and facilitating their eventual scale-up through other IDB Group windows without undermining IDB Lab's operational autonomy. Under this IDB Group approach, the strategy positions private investment as an essential driver of growth, aiming interventions toward the goal of boosting productivity, economic diversification, and sustainability.

C. FOCUS ON SELECTIVITY FOR TANGIBLE IMPACT

WHY SELECTIVITY FOR IMPACT?

I.13 **The new country strategy is underpinned by the IDB Group's strategic selectivity framework**, which aims at concentrating resources and capabilities in areas with greater potential for impact, scalability, and sustainability. In a context marked by limited fiscal space, external volatility, and persistent structural challenges, selectivity becomes necessary for maximizing the IDB Group's contribution to Ecuador's economic growth and productive transformation. Thus, priority is given to interventions aligned with the binding constraints identified in the CDI and with national priorities, avoiding a fragmentation of efforts and bolstering risk management.

HOW DO WE SHARPEN OUR FOCUS?

I.14 Country diagnostics and alignment of priorities.[23] The selectivity exercise was based on the CDI, which had identified fiscal rigidity, low productivity and limited productive diversification, institutional gaps, and decline in public security as the main challenges. From this starting point, a joint analysis was conducted to assess alignment between the government priorities reflected in the National Development Plan, the Ecuador 2040 Growth Agenda, and the IDB Group's Institutional Strategy and regional initiatives. This analysis allowed delineating a limited set of strategic areas where national priorities, institutional mandate, and impact potential are aligned.

I.15 IDB Group strategic positioning.[24] The strategic positioning analysis confirms that the IDB Group is Ecuador's main multilateral development lender, accounting for about 18% of total external debt and close to 30% of multilateral debt. This position is the outcome of a sustained financing trajectory that combines scale, programmatic continuity, and sector diversity. Between 2018 and 2025, the Bank consolidated its leadership in sovereign-guaranteed operations, with a significant volume of approvals in key areas such as the fiscal front, financial system development, and the energy sector. This record of accomplishment has enabled it to maintain a prominent role with respect to other multilaterals, reflecting a consistent, long-term presence. In addition, the IDB stands out as the only multilateral development bank providing systematic investment support in areas such as citizen security and institutional strengthening, where its assistance has been continuous and strategic. At the same time, IDB Invest has established a position as the main international financial institution serving the country's private sector, with cumulative commitments over the 2018-2025 period in excess of US$1.500 billion in segments such as MSME financing, financial markets, and commerce, in addition to significant operations in manufacturing and productive chains. This support has mobilized financing for strategic sectors and strengthened credit access, particularly for small businesses. IDB Lab complements this architecture through targeted interventions in innovation and entrepreneurship, with approvals approaching US$11 million and primarily aimed at MSMEs, agriculture, and health, facilitating the incubation of innovative solutions and their potential scale-up. As a whole, the IDB Group's comparative advantage lies in its capacity to combine multiple financial instruments, coordinate public-private solutions (leveraging IDB, IDB Lab, and IDB Invest efforts), and operate in strategic sectors, while at the same time providing solid nonfinancial assistance in policy design, institutional strengthening, and coordination with strategic partners for resource mobilization.

I.16 Operational experience. A review of the IDB's operational experience confirms that the Bank maximizes its contribution in sectors where it combines track record, results, and scale. In this regard, its work in the energy sector stands out, showing a consistently solid performance in terms of both implementation and effectiveness, as well as a proven ability to generate systemic impact. On this basis, the Bank's performance has also been solid in financial markets and in citizen security, where it has established meaningful, sustained interventions over time. For the 2018–2025 period, the evidence shows that the results are more robust when operations are integrated into public planning, particularly into the Annual Investment Plan, at an early stage, and when they are backed by sound technical preparation, including timely development of bidding documents and terms of reference through specialized technical assistance. In addition, the experience suggests that simplifying implementation arrangements—avoiding coexecution except in scenarios of proven institutional capacity—helps to significantly enhance portfolio performance. In terms of effectiveness, projects achieve better results when monitoring and learning mechanisms are strengthened through results-based portfolio reviews and a more rigorous supervision of

[23] The methodological process used to select and prioritize policies under the country strategy is based on an initial set of policies identified in the CDI. A prioritization exercise was conducted on the basis of this input, combining technical and strategic criteria and taking into account each policy's potential contribution to the development objectives as well as its alignment with the national priorities established in the National Development Plan and the Ecuador 2040 Growth Agenda. This process identified those interventions most capable of creating impact and most consistent with the country's agenda. As a result, a limited number of policies were prioritized and subsequently organized into strategic categories, facilitating their integration into the logic of the country strategy.

[24] For further details on the role of the IDB Group in Ecuador in comparison to other international financial institutions, see link 6 – Strategic positioning analysis.

monitoring and evaluation systems. In a context of fiscal constraints, the evidence points to the importance of adopting a programmatic approach to scale up the impact of the interventions through an appropriate sequencing of instruments and operations. This scale-up can be accomplished through different mechanisms, including additional financing, successive operations, or the use of programmatic instruments such as conditional credit lines for investment projects. Selection of the most appropriate instrument will depend on the results that are sought, the macroeconomic conditions, and the institutional context, as well as on the execution capacity. In this regard, a programmatic approach is not limited to a specific instrument, but is instead based on a consistent articulation of interventions over time to address structural constraints and maximize impact. Lastly, to maximize results in sectors with high growth potential, such as financial markets and trade and investment, it is essential to boost the local presence of technical capacity, particularly in the form of sector specialists based in the country, to ensure a more responsive implementation, better adaptation to the institutional context, and greater sustainability of interventions. In the case of IDB Invest, the portfolio has performed well, even in an adverse environment, with an ex ante DELTA[25] score of 8.9, which is higher than the institutional average, and maximum additionality (10), reflecting an effective contribution beyond what the market offers. Moreover, 67% of the evaluated projects exceed the institutional impact targets, while 64% of operations in supervision show satisfactory scores or a positive trend. These results support selective expansion into high-potential sectors, including productive infrastructure, financial markets, fintech solutions, and corporate sector reinforcement, particularly manufacturing and agribusiness.

I.17 **Risk analysis.** Lastly, the selectivity framework incorporates a structured risk analysis across six dimensions that condition the implementation of the strategy. On the economic front, exposure to external shocks, especially commodity price volatility, can limit fiscal space and affect performance of the operations. This risk is mitigated through a prudent use of liquidity-enhancing instruments, continuous macroeconomic monitoring, and support to policy frameworks that strengthen fiscal sustainability. On the policy front, the challenges to sustaining and consolidating the programmatic agenda can affect market confidence. This risk is addressed through a continuous policy dialogue, technical support for priority reforms, and coordination with other partners. In the institutional and execution dimension, challenges in technical and coordination capacity can delay implementation. This calls for enhancing project preparation, intensifying supervision, and providing targeted technical assistance to the executing agencies. The presence of pockets of criminal violence and institutional fragility at the subnational level can affect territorial implementation and private-sector participation. This risk is addressed by integrating security and social cohesion considerations in a crosscutting way into the design and supervision of operations. In terms of natural disasters, high climatic and geophysical vulnerability can generate fiscal and operational impacts. Accordingly, resilient designs, contingent financing, and disaster risk management enhancement will be prioritized. Lastly, in terms of programming, constraints on certain instruments and portfolio composition could limit portfolio expansion. This risk is mitigated through greater diversification of financial instruments and clients, along with better medium-term portfolio planning. Given the changing nature of these risks, the IDB Group will systematically and periodically monitor them as part of its portfolio monitoring activity in order to enable dynamic adjustments in the planning and design of operations to ensure the continuity of the strategic objectives.

I.18 **Results of the strategic selectivity framework.** The selectivity framework helped identify the areas in which the IDB Group can generate the greatest transformational, sustainable, and feasible impact. In the public arena, the Bank will prioritize sectors in which it has both a comparative advantage and impact capacity, including energy, financial markets, and institutional strengthening with a focus on citizen security and fiscal management. In the private arena, IDB Invest will deepen long-term financing, promote investments in productive infrastructure, and reinforce the financial and capital markets, with special emphasis on MSME productivity and

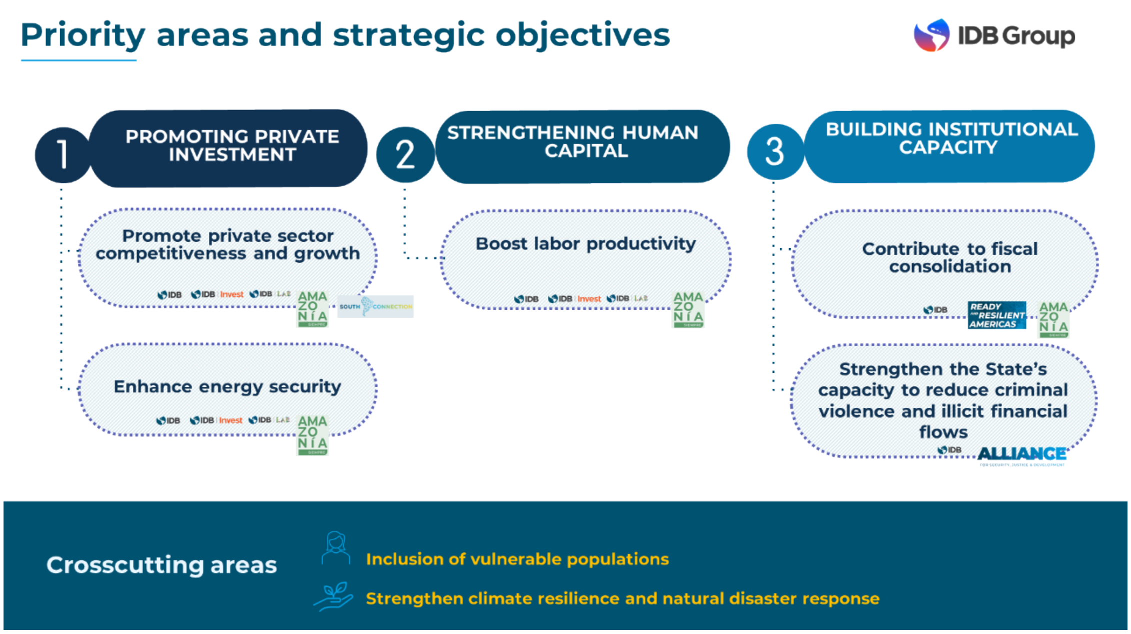
[25] DELTA is an IDB Invest tool that it uses to assess and monitor the development impact of its operations, including development and additionality results.

strategic sectors. IDB Lab will adopt a highly selective agenda, focused on private investment promotion. This approach will align the new country strategy with the structural constraints identified in the diagnostic assessment, harness the comparative advantages of the IDB Group, and mitigate risks through realistic and evidence-based programming.

II. PRIORITY AREAS AND EXPECTED RESULTS

II.1 **The objective of the 2026-2030 country strategy is to contribute to economic growth in Ecuador, primarily driven by dynamism in private sector activity.** Sustained growth is an essential condition for achieving a durable reduction in poverty and vulnerability. Under the IDB Group's strategic selectivity framework, the country strategy is built around three independent priority areas: **(i) promoting private investment; (ii) strengthening human capital; and (iii) building institutional capacity.** These areas operate under a complementarity approach to maximize the multiplier impact of the interventions. For example, strengthening human capital not only boosts labor productivity and competitiveness in the private sector, but also improves employability—especially for youth—by reducing risk factors associated with violence. In turn, this reinforces the effectiveness of public security and institutional governance policies, helping to consolidate a more favorable environment for productive investment. Complementarily, the ability to attract private investment is facilitated by a workforce whose skills are aligned with productive sector demands, as well as by stronger fiscal and governance institutions that, interacting with improvements in citizen security, reduce investor-perceived risks. In addition, the strategy incorporates crosscutting pillars aimed at expanding opportunities for vulnerable populations and bolstering climate resilience. By simultaneously acting on multiple constraints, the IDB Group seeks to promote efficient and fiscally sustainable institutions that enable investment, and trained human capital that takes advantage of the new economic opportunities. As a whole, this programmatic approach, coordinated among the IDB Group windows, seeks to accelerate economic growth through quality job creation, increased productivity, improved security, and institutional strengthening.

CHART 1. IDB GROUP PRIORITY AREAS AND STRATEGIC OBJECTIVES

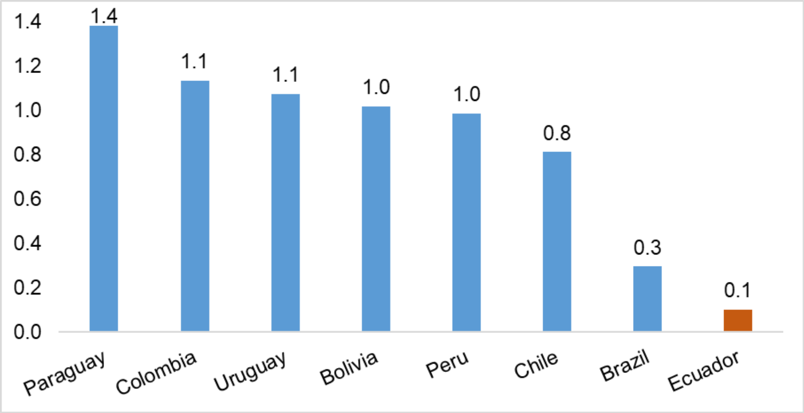


A. PRIORITY AREA 1: PROMOTING PRIVATE INVESTMENT

WHY IS IT IMPORTANT?

II.2 **Low investment levels limit Ecuador's economic growth, largely because the decline in public investment has not been offset by a sufficient increase in private investment.** From 2015 to 2024, Ecuador recorded one of the lowest per-capita growth rates in Latin America and the Caribbean (LAC), posting an annual average rate of 0.1% versus a regional peer average of 1.0%,[26] as shown in Figure 1. Despite recent progress,[27] the economy exhibits limited vitality, as reflected in indicators such as total factor productivity, which fell by 8% between 2016 and 2025.[28] The drop in oil revenue beginning in 2015 significantly reduced fiscal space and limited the State's ability to sustain a growth model historically underpinned by public investment. As a result, public investment declined sharply, from 12.9% of GDP in 2014 to approximately 4% of GDP in 2024.[29] As shown in Figure 2, the increase in private investment, which reached the equivalent of 15% of GDP in 2024,[30] was not sufficient to compensate for the dramatic fall in public investment. An indicator of this limited vitality is foreign direct investment, which between 2015 and 2024 averaged just 0.8% of GDP, a structurally low reading compared to the LAC average of 2.8%.[31] These dynamics reflect not only structural productivity and financing limitations, but also the impact of sovereign and political risks affecting risk-adjusted investment returns.[32]

FIGURE 1. AVERAGE REAL PER-CAPITA GDP GROWTH (2015-2024).



Source: International Monetary Fund

[26] Only Venezuela and Argentina had lower growth rates. Authors' calculations based on IMF data (October 2025). World Economic Outlook.

[27] Ecuador grew by 3.7% in 2025, while the simple regional average was 2.4%. IMF (April 2026). World Economic Outlook.

[28] The Conference Board (2026), Total Economy Database.

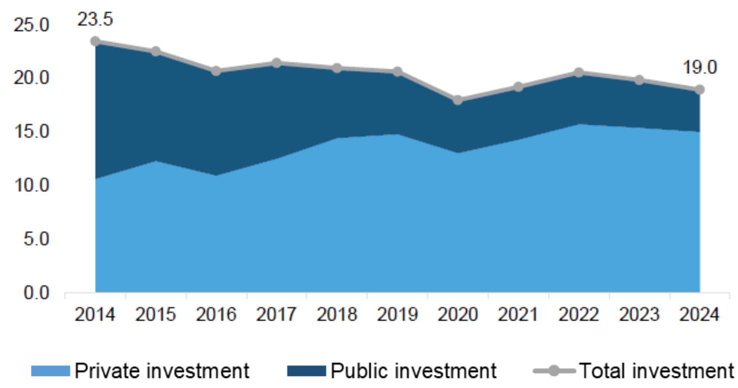
[29] BCE (2024), Gross Fixed Capital Formation Statistics.

[30] BCE (2024), Gross Fixed Capital Formation Statistics.

[31] UN Trade and Development (2024). Foreign Direct Investment (FDI) Statistics.

[32] The international evidence shows that factors such as regulatory stability, tariff framework credibility, contract enforcement, and public policy predictability are key determinants of private investment, particularly in capital-intensive sectors such as infrastructure and energy. Thus, private investment expansion does not occur automatically as a substitute for public investment, but instead critically hinges on the behavior of these risk factors. In the case of the energy sector, these factors become even more significant since sovereign risk is one of the main determinants of investment decisions. The viability of power generation, transmission, and distribution projects depend not only on technical and financial fundamentals but also on the perceived country risk, the stability of the regulatory frameworks, and the credibility of remuneration, tariff, and pricing structures.

FIGURE 2. INVESTMENT TREND (% OF GDP)



Source: Central Bank of Ecuador

II.3 **Regulatory and institutional costs limit private investment capacity to offset the drop in public investment.** International indicators show lags in key dimensions of the Ecuadorian business environment. The country ranks around the 47th percentile in the business entry dimension and close to the 26th percentile in both labor regulations and financial services.[33] These results reflect the persistence of regulatory and institutional frameworks that raise the costs of doing business and limit business dynamism, while management indicators show significant negative gaps in terms of regulatory impact on foreign direct investment (-92.4) and governmental regulatory burden (-63.1) in comparison to peer countries.[34] These high transaction costs disproportionately affect small and medium-sized businesses, limit their access to financing, and reduce incentives to expand productive investment in an economy in which the business community predominantly consists of low-productivity MSMEs. While MSMEs account for 94.8% of formal businesses[35]—approximately 168,000 enterprises—their share of total sales is only about 20%.[36] Among the aforementioned regulatory costs, labor market rigidities play a central role. High nonwage labor costs, particularly those associated with termination of employment, include statutory severance pay accruing over up to 25 years of service, along with pay in lieu of notice, significantly raising the expected hiring cost.[37] This is compounded by employers' rigidity and lack of awareness of the available types of employment contract[38] as well as by a relatively high minimum wage in relation to the wage structure of the economy. The labor costs associated with formal employment—including minimum wage and other, nonwage costs—place a significant

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33 World Bank (2025), B-Ready.

34 Internal analysis conducted by IDB Invest for the CDI.

35 Includes businesses recording sales and employment positions in the Ecuadorian Socia Security Institute (IESS) in 2025. Businesses conducting activities listed under the following sections: "Public administration and defense," "Education," Human healthcare activities," Household activities as employers; non-differentiated household activities as goods and services producers for own use," and "Activities of extraterritorial organizations and bodies," are not included in this segment.

36 INEC. (2024). Registro Estadístico de Empresas (Statistical Business Registry) (REEM). REEM is a statistical database fed by administrative records that describes Ecuador's business structure, including economic units reporting sales, employees enrolled in social security, tax returns (Ecuadorian Simplified Tax Regime (RISE) until 2021 and Simplified Regime for Entrepreneurs and Small-scale Businesses (RIMPE) since 2022), and since 2023, foreign trade transactions in valid economic activities. The data is shown disaggregated by sector and region. In 2023, the former Directorio de Empresas y Establecimientos (Business and Establishment Directory) (DIEE) was renamed REEM.

37 Alaimo, Altamirano Montoya, and Minaya (2026). Salaried Labor Costs in Latin America and the Caribbean: A Ten-year Update

38 According to open data from the Ministry of Labor (2025), while various types of employment contract exist in Ecuador, indefinite-term contracts account for approximately 66.9% of all employment contracts. This predominance is partly due to the fact that other types of employment contract tend to be more costly or are designed as temporary arrangements that eventually have to be converted to indefinite-term contracts. In addition, the regulatory framework limits hiring flexibility, since hourly work arrangements are prohibited under article 327 of the Constitution of Ecuador.

constraint on the hiring of workers.[39] This disincentivizes employment formalization and expansion, particularly in the case of smaller businesses. In addition, in strategic sectors with major comparative advantages—such as energy, mining, and hydrocarbons—the constitutional framework reserves a predominant role for the State in resource management and as a driver of investment. This restricts private-sector participation and limits capital mobilization due to legal uncertainty.[40] Not all sectors are affected by the same restrictions: in strategic and extractive activities, the costs are mainly attributable to regulatory and institutional frameworks that constrain private participation. In all other productive sectors, the barriers arise from frictions in the business environment—regulation, financing, logistics, and labor costs—that limit business expansion and formal job creation.

II.4 **In addition to regulatory barriers, logistical and connectivity costs—along with transportation system shortcomings—constrain competitiveness and private investment.** Logistics limitations pose a structural obstacle to private sector competitiveness by raising production costs and reducing the return on new productive investment. These limitations particularly affect transportation and foreign trade-intensive sectors—such as agroindustry, manufacturing, and tourism,[41]—where logistics costs directly influence investment viability. On average, these costs amount to 17.9% of sales revenue, and transportation is the main cost component, representing 40% of the total. This reflects limitations both in infrastructure and in operational efficiency and logistics management. Shortcomings in the transportation system—deteriorated roads, persistent port bottlenecks, limited intermodality due to rail underutilization, and urban transport congestion and fragmentation—raise freight transport costs and increase connectivity and last-mile costs and travel times. In urban mobility, congestion creates rising costs that undermine competitiveness: in Quito, approximately 70 hours per person per year are lost due to traffic, public transport remains fragmented and atomized, and the sector accounts for close to 50% of the city's greenhouse gas emissions.[42] These shortcomings are exacerbated by the sector's low levels of technology adoption, as less than 20% of companies use specialized logistics management systems, resulting in limited traceability and inefficient operational planning. In terms of international performance, Ecuador earns a score of 2.88 in the Logistics Performance Index, ranking 62nd out of 160 economies; additionally, Ecuador's time to export is approximately 40% longer than the LAC average, with a cost of more than US$560 per transaction, compared to an average of US$516.3 for the region and US$136.8 for the Organisation for Economic Cooperation and Development (OECD).[43] These gaps reflect not only limitations in logistics infrastructure—including ground transportation, ports, and associated services—but also weaknesses in management and digitalization of supply chains.

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[39] Based on the authors' calculations using data from the December 2025 National Survey on Employment, Unemployment, and Underemployment, prepared by INEC. The minimum wage in Ecuador, adjusted by employment benefits such as a 13th and 14th monthly salary, is approximately 20% higher than the average labor earnings in the economy. By contrast, in most of the countries in the region, the minimum wage is, on average, about 40% of the average labor earnings.

[40] Under the Constitution of Ecuador (2008), "[s]trategic sectors subject to exclusive State decision-making and control are those which due to their importance and size exert a decisive economic, social, political, or environmental influence and shall be aimed at a full development of rights and at the public interest. The following are considered strategic sectors: energy in all its forms, telecommunications, nonrenewable natural resources, hydrocarbon transportation and refining, biodiversity and genetic heritage, radio-frequency spectrum, water, and any others as determined by law."

[41] In the case of tourism, these limitations also affect the development of modalities with high inclusive potential, such as community tourism. Despite Ecuador's significant comparative advantages in this segment, indigenous peoples and nations continue to have limited participation in the formal tourism sector, accounting for just 8.3% of sector employment, which points to the persistence of barriers to their productive integration. These gaps constrain tourism's capacity to generate sustainable revenue in rural territories and limit the sector's contribution to local economic development. They are evidenced, for example, by the average labor income earned by indigenous populations, which is 30% lower than the national average. Internal Inter-American Development Bank study. "Turismo de alto valor: ¿un camino para los empleos verdes e inclusivos?" (RG-E1831). 2022-2023 & INEC (2025). Principales Resultados de la Encuesta Nacional de Empleo, Desempleo y Subempleo.

[42] INRIX Global traffic rankings (2025); C40 Cities (2022). Upgrading the Municipal Bus Fleet from Diesel to Electric.

[43] World Bank (2018). Doing Business. Economy Profile: Ecuador.

II.5 **Digital connectivity limitations exacerbate these challenges by constraining the adoption of logistics technologies and companies' integration into national and international markets.** Ecuador ranks 16th out of 26 countries in the Broadband Development Index, evidencing weaknesses in public policy and digital infrastructure deployment. While 4G coverage extends over 93.9% of the population, 5G deployment reaches a mere 10.5%, with a projected penetration of 40% by 2032, reflecting a gradual technology transition.[44] Digital connectivity gaps are particularly pronounced in rural and Amazonian areas, where less than 10% of households in provinces such as Orellana, Sucumbíos, and Zamora Chinchipe have internet access, limiting technology adoption and development of new productive activities.[45] In terms of access, the country has 102 mobile subscriptions and 17.2 fixed broadband subscriptions per 100 inhabitants,[46] showing progress in connectivity. At the same time, there is room for improvement in digital services quality, coverage, and affordability. Closing these gaps will require mobilizing significant investments in logistics infrastructure and connectivity, as well as strengthening the institutional frameworks that can facilitate private sector participation in their development.

II.6 **Access to productive financing is also costly for private economic activity.** Access to formal financing in Ecuador remains constrained by regulatory and institutional restrictions that disproportionately affect MSMEs and which, in the case of women, may be compounded by other barriers, such as a lack of credit history.[47] Ecuador has made progress in financial regulation by merging the Financial Policy and Regulation Board and the Monetary Policy and Regulation Board into a single Financial and Monetary Policy and Regulation Board, conceived as the financial sector's sole regulator and as a body designed to strengthen coordination and decision-making. However, the system still faces significant supervision and implementation challenges, particularly in the cooperative segment, where vulnerabilities associated with asset quality, capitalization, profitability, governance, timely loss recognition, and consistent application of prudential standards continue to exist. In addition, the regulatory framework continues to embody distortions that limit financial deepening. In particular, interest rate ceilings have led to credit rationing and adverse selection, especially in high-risk segments, prompting the authorities to reaffirm their commitment to move toward a methodology more in line with market conditions.[48] In this context, the central challenge facing Ecuador's financial system lies in the constraints on credit access. While private banks posted improved earnings in 2025, challenges persist in channeling financing toward households and businesses, especially in high-risk segments.[49] Thus, absent an intervention that reduces risk through guarantee arrangements or enhances efficiency through digitalization and fintech, the market will itself continue to exclude MSMEs, limiting economic growth.

II.7 **Limitations on access to long-term housing finance restrict economic growth and weaken a major driver of private investment.** These limitations arise from structural conditions in the financial system, associated with a maturity mismatch in private banks and high funding costs, reducing the supply of housing credit and excluding close to 80% of the population from formal financing options.[50] As a result, the housing market remains underdeveloped and the housing

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44 International Telecommunication Union (2024). Data Hub.

45 United States Agency for International Development (USAID) (2022). Report on digital connectivity and infrastructure in Ecuador.

46 International Telecommunication Union (2024). Data Hub.

47 In the case of women, these barriers are compounded by persistent economic gaps. Women's adequate employment rate was 30.4%, compared to 41.6% for men. These disparities are intensified in sectors such as tourism, where, while close to 60% of jobs are held by women, 47% of men have adequate employment, compared to only 24% of women. Similarly, men's average labor earnings were US$439.4, compared to US$339.5 for women. Moreover, women's unpaid labor rate is approximately 2.7 times higher than it is for men. These conditions can limit the ability to earn stable income, accumulate savings, and build a financial history, hindering access to formal credit. INEC (2025). National Survey on Employment, Unemployment, and Underemployment.

48 IMF (2025). Fifth review of the extended arrangement under the Extended Fund Facility for Ecuador.

49 As of November 2025, bank indicators show a partial recovery, with regulatory capital standing at 16.0%, nonperforming loans at 4.0%, return on assets at 2.1%, and return on equity at 12.7%. Accordingly, the core challenge appears to be more closely linked to credit access than to the system's aggregate profitability. IMF (2026). Fifth review of the extended arrangement under the Extended Fund Facility for Ecuador.

50 Inter-American Development Bank (IDB) (2025). Cadena de valor de la vivienda en Ecuador: estudio sectorial de vivienda en Ecuador.

deficit affects 46.2% of households (31.5% qualitatively and 14.7% quantitatively).[51] These constraints are exacerbated by interest rate disparities in financial instruments, as private banks lend at around 10.9%, versus 4.99% in subsidized segments.[52] In addition, in the home improvement segment, the regulatory requirement for mortgage collateral drives transactions outside of mortgage credit channels. Since construction has a powerful multiplier effect of 1.7 to 2.2 on GDP[53] and generates approximately 10% of the country's jobs,[54] the sector's stagnation drastically reduces the potential of housing as a driver of economic dynamism. All told, the constraints on access to housing finance arise from a combination of structural and market factors, including high informality levels, limited repayment capacity, unstable employment conditions, low financial education, high transaction costs, guarantee restrictions, insufficient supply of appropriate financial instruments, regulatory barriers, and the risk profile of the segments in question. These limitations reduce the effective demand for formal housing, restrict household equity formation, weaken productive linkages associated with construction, and limit the private sector's potential for contributing more dynamically to economic growth. In addition, the qualitative housing deficit negatively affects household resilience by perpetuating the presence of precarious homes – frequently located in areas with climate risk exposure – while restrictions on housing credit narrow the availability of resources to adapt homes to the growing climate risks.

II.8 **Power system gaps also constrain private investment and growth.**[55] High dependence on hydroelectric power generation increases the energy system's exposure to climate shocks and has led to recurrent power supply shortfalls, as evidenced during the 2023-2024 energy crises. In particular, the 2024 drought significantly reduced hydroelectric power generation and resulted in nationwide blackouts, laying bare the system's vulnerability to hydrological variability and the impact of natural hazards. In fact, the average share of hydropower generation was 69.35% over the 2015-2023 period, and it declined to 63.46% in 2024. At the same time, operational limitations affecting part of the power generation fleet—including technical issues in key plants such as Coca Codo Sinclair, which produces close to 29% of the country's power—and energy importing restrictions exacerbated the imbalance between supply and demand. In October 2024, the monthly power shortfall was estimated at approximately 500 gigawatt-hours (roughly 19% of demand), reflecting both structural capacity constraints and climate vulnerability. In the medium term, closing these gaps will require not only significantly expanding power generation capacity but also bolstering and expanding the transmission and distribution networks as well as improving regional integration to facilitate energy exchanges. This will entail mobilizing substantial investments, estimated at close to US$10.447 billion, in generation over the next decade and complementing these efforts with investments in transmission (US$1.748 billion) and distribution (US$6.283 billion),[56] while also reinforcing the regulatory framework to facilitate greater private sector participation in comprehensive development of the power system. At the same time, energy subsidies, especially those which distort price signals, affect fiscal sustainability and incentives for private investment in the sector. Gradually reducing and better targeting these subsidies (actions on which the government has been moving forward) will be essential for enhancing public expenditure efficiency, improving resource allocation, and creating more favorable conditions for investment in energy. Given this context, the strategy proposes interventions aimed at expanding and strengthening power generation, transmission, and distribution, boosting the system's resilience to climate shocks, and contributing to the financial sustainability of the sector. Energy

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51 INEC (2022). Population and Housing Census.

52 Superintendency of Banks of Ecuador & Asobanca (2025): Reporte Trimestral de Tasas de Interés y Operaciones Crediticias. Comparativa VIS/VIP vs. mercado comercial.

53 Economic Commission for Latin America and the Caribbean (ECLAC) and Consultora Multiplica (2025): Análisis de encadenamientos productivos y multiplicadores de inversión en la región andina.

54 IDB (2025): Guarantee Proposal for Financing Affordable Housing in Ecuador II. Report on employment structure and funding guarantees.

55 The following data are based on the document Selected Issues. Securing Electricity Sufficiency and Reliability. IMF, Ecuador: 2024 Article IV Consultation, December 2024.

56 Ministry of Environment and Energy (2023). Master Electricity Plan 2023-2032.

security is a prerequisite for attracting private investment and sustaining productive expansion in energy-intensive sectors. However, expansion of the supply—including support for renewable energy through new regulatory arrangements—should be accompanied by adequate management of its tariff and fiscal implications, since higher power generation costs can exacerbate pressures on a system whose costs are currently not being fully recovered through tariffs. In addition, reducing nontechnical losses is a priority in order to improve the sector's revenues, reduce financial pressures, and enhance operational efficiency. Accordingly, modernization of the power system should combine investments in infrastructure, climate resilience, tariff sustainability, loss reduction, and sector management improvements.

WHAT WE WILL DO

II.9 **The IDB Group will support private-sector-driven growth in Ecuador through** two strategic objectives: (i) promote private sector competitiveness and growth; and (ii) enhance energy security. To achieve the first of these objectives, the strategy proposes interventions to improve the regulatory framework and reduce barriers to investment, lower logistics costs, increase physical and digital connectivity, and expand productive financing for the private sector, including MSMEs. To achieve the second objective, the strategy proposes interventions to strengthen power generation, transmission, and distribution and bolster the power system's resilience to climate risks. These interventions articulate an integrated approach, recognizing that economic growth depends on interaction between solid institutions, qualified human capital, and private investment.

II.10 **To promote private sector competitiveness and growth, the IDB Group will continue to support initiatives aimed at simplifying investment procedures, enhancing regulatory transparency, and strengthening the institutional capacity of the governing bodies.** This will include strengthening regulatory frameworks, improving the quality and predictability of regulations, digitalizing administrative processes, and consolidating instruments such as the single investment window, with a view to reducing transaction costs and creating greater certainty for private investment. In addition, interventions will support the development of agro-industrial chains and companies in the manufacturing and consumer sectors, as well as promote innovation, technology adoption, and applied research in agriculture and the bioeconomy. These actions may be complemented by projects aimed at stimulating tourism as a platform for attracting private investment and for local development—such as revitalization of historic centers and urban environments, or strategies to boost the participation of women and indigenous peoples and nations in the sector—and at improving the business environment through instruments such as the single investment window. Along these lines, IDB Invest will support strengthening local input and service providers within strategic productive chains —including agribusiness and manufacturing—with a view to reducing financing gaps, reinforcing productive capacity, and decreasing reliance on imported inputs. This approach will allow supporting traditional industrial providers as well as developers of technological inputs and digital solutions, contributing to a more locally integrated and competitive private sector. In addition, productive internationalization aimed at linking foreign direct investment attraction, trade facilitation, and business capacity-building will be promoted to boost export diversification, productive sophistication, and greater integration into international markets.

II.11 **Special emphasis will be placed on the mining sector, one of the country's strategic sectors with the greatest comparative advantages.** The IDB Group will continue the expansion and modernization of the mining cadaster and will continue to support the government in enhancing legal certainty for mining investments, as well as in monitoring and enforcing the country's existing regulations and adopting best international practices. These actions may be complemented by financial engineering-based operations, such as investment guarantees, to insure investments against contract-nonperformance risks and mobilize more private capital toward the sector.

II.12 **To help reduce logistics costs and enhance mobility, the IDB Group will continue to support initiatives aimed at improving road connectivity and resilience to bolster productive inclusion of rural communities.** These actions will be coordinated with interventions aimed at mobilizing private investment—including public-private partnership (PPP) arrangements—to reinforce road infrastructure (construction, expansion, and operation and maintenance), expand port infrastructure capacity and productivity, consolidate strategic logistical corridors within the public road network, strengthen safe mobility, and promote public and private investment in integrated mass transit systems and fleet modernization and electrification in cities. These interventions may be complemented by operations designed to enhance the provision and sophistication of logistics services, including through demand coordination and aggregation mechanisms; foster technology adoption, such as digitalization, traceability, data analytics, and automation; promote multimodality to improve efficiency and sustainability; and build institutional capacity for project planning and structuring under quality and bankability standards, as well as generate and make use of logistics information for evidence-based decision-making. These are issues around which the IDB Group will encourage a dialogue during the strategy period.

II.13 **To help achieve the result of expanding digital connectivity and services, the IDB Group proposes an approach aimed at solidifying the implementation of the National Digital Infrastructure Plan.** Interventions will promote digital transformation of the public sector through development of the digital transformation and artificial intelligence framework. These actions will be complemented by promoting investments aimed at strengthening the country's digital and data infrastructure. The IDB Group will continue its work with the private sector to mobilize investment in the digital economy, including bolstering the telecommunications infrastructure (including through advanced broadband networks, towers, undersea cables, and data centers), supporting connectivity service providers wishing to expand their portfolios into riskier segments, and promoting business innovation and digitalization projects. In addition, the IDB Group will explore investments aimed at expanding connectivity in isolated or off-the-grid communities,[57] helping to improve the telecommunications infrastructure and facilitate the inclusion of territories that have limited access to digital services.

II.14 **The IDB Group will continue to strengthen the financial system in order to expand productive financing for the private sector,** MSMEs included, through direct lending to businesses and financing provided via financial intermediaries and public second-tier banks, as well as by facilitating access to financing for women and vulnerable populations. Current operations support an expansion of productive credit, which encompasses working capital, bioeconomy, foreign trade, and energy transition financing, as well as financing mechanisms that help to develop the mortgage market and reduce the housing deficit. These operations will be complemented by initiatives designed to strengthen government banks, boost capital market development, and improve financial regulation and supervision frameworks, including digital tools for risk management and payment systems enhancement. Expanding and deepening IDB Invest participation in this area will require moving forward on regulatory reforms to bolster liquidity management in the financial system in line with international standards, and advancing on a review and gradual reduction of distortions. In addition, it will require institutionally strengthening the savings and loan cooperatives and moving forward on reforms aimed at mobilizing long-term resources, such as enhancement of the pension system and development of vehicles to channel institutional savings toward productive investments. In the securities market, it will be essential to modernize the legal and regulatory framework, simplify the issuance processes (including private issues), regulate instruments such as thematic bonds, and bolster the secondary market. Complementarily, interventions will support institutionally strengthening the popular and solidarity-based financial sector, which comprises savings and loan cooperatives and mutual savings associations, to enhance their management, supervision, and governance capacity as well as their ability to provide adequate financial services to households and productive units with limited

[57] Communities or territories not connected to conventional infrastructure networks, particularly electricity and telecommunications networks.

access to the traditional financial system. Over the strategy period, IDB Invest will pursue new transactions aimed at expanding access to financing for the development of housing solutions that mobilize private investment in affordable housing. IDB Invest will promote an agenda designed to mobilize long-term investment and expand financial inclusion by introducing innovative financial instruments, fintech solutions, cofinancing arrangements with the private sector, and partial credit guarantee mechanisms to unlock capital and catalyze financing for productive sectors. IDB Lab will reinforce its reimbursable financing offerings through equity participation and strategic financing, focusing on the development of innovative solutions, early-stage business models, and expansion of markets that facilitate financial inclusion and creation of new investment opportunities.[58]

II.15 **Building on its programmatic approach in the energy sector, the IDB Group will continue to support the objective of ensuring energy security.** The IDB Group will assist in reinforcing national energy security through initiatives aimed at expanding power generation capacity, diversifying energy sources, and strengthening the resilience of the power system, thereby helping to protect productive activities against climate factors. Current operations include financing for investments in power generation and energy efficiency in companies, development of wind and solar projects, and promotion of platforms that facilitate private sector participation in the energy infrastructure. These actions are complemented by technical assistance to incorporate climate change analysis into sector planning, develop sustainable financing instruments, and strengthen the power generation, transmission, and distribution systems. In addition, regulatory framework improvements are promoted to facilitate private investment in power generation and distribution, create incentives and greater regulatory transparency to attract private capital, entailing reforms to boost the credibility of tariff frameworks and price signals, and mobilize resources for large investments in the sector through financial instruments and guarantees. Over the strategy period, IDB Invest will pursue new transactions to finance power generation and energy storage projects with private participation, and the IDB will promote additional investments in power generation and transmission and strengthen demand management to contribute to a more secure and sustainable energy system. This will be made possible by continuous coordination work by the IDB Group, aimed at ensuring the financial sustainability and bankability of contractual arrangements.

II.16 **The IDB Group will continue to support these reforms through a programmatic approach** that combines different financial and nonfinancial instruments, including policy-based loans, guarantees, technical cooperation, and knowledge products. These interventions will be aimed at consolidating advances in key areas for economic growth, building the State's institutional capacity, and promoting more favorable conditions for the development of Ecuador's private sector.

II.17 **Interventions will be complemented by actions aimed at mobilizing private investment and strengthening the enabling conditions for productive development through coordination among the different IDB Group windows**. The Bank's sovereign-guaranteed operations will help to enhance regulatory frameworks, structure projects, and support the development of PPP ecosystems, while IDB Invest will support structuring and financing investments in strategic sectors such as energy, logistics infrastructure, digital connectivity, housing, and financial markets. These actions will be complemented by upstream work, knowledge generation, and technical cooperation aimed at improving contractual frameworks, developing financial taxonomies, and preparing investment projects. In addition, the Bank will coordinate with multilateral and bilateral partners and climate funds to mobilize additional resources designed to enhance competitiveness and expand private investment opportunities in the country. Interventions in this priority area are part of a programmatic approach that links IDB Group action with regional programs and corporate initiatives. Specifically, the interventions are aligned with LAC Crece in removing restrictions on private investment and strengthening productive infrastructure and financial markets; with

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58 The Global Entrepreneurship and Technology (GET) Forum 2026, which will take place in Ecuador, reflects IDB Lab's commitment to strengthening the entrepreneurship and innovation ecosystems by operating as a regional platform to connect talent, capital, and knowledge and drive innovative solutions with scalable impact potential in Latin America and the Caribbean.

South Connection in developing logistics corridors, digital connectivity, and foreign investment attraction; with the Alliance for Security, Justice, and Development in improving the business climate and reducing investment risks; with Ready and Resilient Americas in strengthening the resilience of key infrastructure; and with Amazonia Forever in promoting the bioeconomy and sustainable investment. Together, these initiatives expand the scale and consistency of interventions aimed at enhancing competitiveness and mobilizing private investment.

EXPECTED RESULTS

Enhance the regulatory framework and lower barriers to investment in strategic sectors: The IDB Group will support strengthening private sector competitiveness by financing companies and productive chains, promoting innovation and applied research, and improving the business climate to attract foreign investment, including policy-based support to enhance labor market flexibility.

Reduce logistics costs in strategic areas: The IDB Group will drive the strengthening of the transport and connectivity infrastructure through investments in logistics infrastructure and mobility.

Expand digital connectivity and services: The IDB Group will promote the strengthening of digital infrastructure and digital transformation through connectivity development (including rural connectivity), digitalization of public services, and technology adoption by the private sector.

Expand productive financing for the private sector: The IDB Group will support strengthening the financial system to expand access to productive credit, especially for MSMEs, through financial intermediaries, second-tier banks, and capital market development, while also promoting long-term resource mobilization toward direct productive investments, financial inclusion, and housing finance.

Bolster power generation, transmission, and distribution: The IDB Group will help to develop these three sector components by fostering private sector participation in energy infrastructure projects.

Enhance the power system's resilience to climate shocks: The IDB Group will back initiatives aimed at mitigating these impacts by strengthening energy planning, incorporating climate change analysis into infrastructure development, and promoting sustainable financing instruments for the sector.

B. PRIORITY AREA 2: STRENGTHENING HUMAN CAPITAL

WHY IS IT IMPORTANT?

II.18 **Human capital development is a core determinant of economic growth, directly affecting labor productivity, innovation capacity, and formal job creation.** This process is dependent on multiple factors throughout the life cycle, including skills accumulation, the health of the population, and the basic conditions that make human development possible. In the case of Ecuador, despite various constraints that affect human capital development, the IDB Group, under a strategic selectivity approach and in line with its positioning, operational experience, and knowledge generation in the country, focuses its support on three key areas of opportunity with a high potential for driving growth in the short and medium term. First, a persistent mismatch between the skills provided by the educational and job training system and those demanded by companies reduces employability and limits productive sector expansion. Second, challenges in chronic disease prevention and treatment constrain effective worker participation in the labor market. Third, gaps in access to basic services such as water and sanitation adversely affect human capital accumulation and workforce productivity. Together, these factors reduce the returns on human capital investment and act as a structural drag on economic growth. Given this scenario, developing socioemotional skills is essential in order not only to improve employability and facilitate labor market integration, but to mitigate risks associated with violence and exclusion, particularly among youth, reinforcing the complementarity between the human capital agenda and the security improvement objectives that will be discussed below.

II.19 **To sustainably boost economic growth, Ecuador requires a highly productive workforce whose skills are aligned with the requirements of the private sector.** However, labor productivity has remained stagnant over the last decade, limiting both economic expansion and formal employment creation. The country's Human Capital Index score stands at 0.59, which means that a child born today would achieve only 59% of his productive potential under current conditions.[59] In addition, 41% of employers are unable to fill vacancies due to a lack of prior experience or of technical, socioemotional, or literacy skills.[60] Reflecting this structural weakness, output per hour worked has since 2015 persistently fallen short of the regional average, which exceeds Ecuador's by 37% (as of 2025). This reveals critical inefficiencies in the allocation of resources and in the functioning of the labor market, as illustrated in Figure 3. The determinant of this stagnation is a structural skills mismatch: more than 40% of workers exhibit an educational mismatch,[61] and employment in science, technology, engineering, and mathematics stands at just 4%,[62] constraining innovation and highlighting failures in the structuring of training offerings. This evidence reveals a structural misalignment between the competencies provided by the educational and vocational system and the skills required by companies, which reduces employability and limits the private sector's capacity to expand. In addition, information asymmetries and lack of skills signaling increase transaction costs and discourage formal employment.[63] Furthermore, weaknesses in labor market institutions[64] constrain efficient talent allocation and talent absorption into higher-productivity activities. Together, these factors create an occupational structure concentrated in low-efficiency sectors such as agriculture (30% of employment and 89% of informal employment) and commerce (17% of employment and 57% of informal employment), which also account for 47.7% of women's workforce participation.[65] These dynamics have boosted aggregate informality[66] from 40% in 2014 to close to 60% in recent years, as shown in Figure 4.

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59 World Bank (2020). Human Capital Index.

60 IDB (2025). Skills demand survey 2024.

61 Working age population that has not completed secondary education. INEC (2025). National Survey on Employment, Unemployment, and Underemployment.

62 International Labour Organization (ILO) (2026). ILOSTAT.

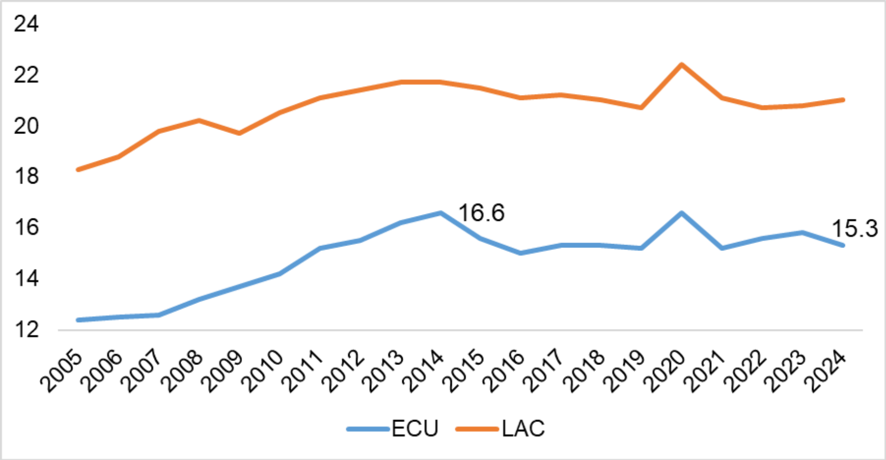
63 World Bank (2018). Overcoming Information Asymmetry in Job Search: The Power of a Reference Letter.

64 Labor market institutions include employment intermediation mechanisms, training, and active labor market policies.

65 INEC (2025). National Survey on Employment, Unemployment, and Underemployment.

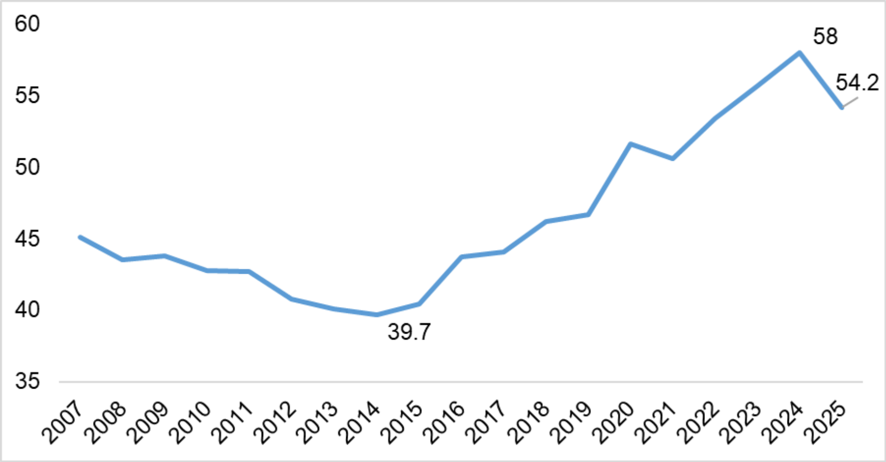
66 As defined by INEC, a person is deemed to work in the informal sector of they work in productive units of fewer than 100 workers who lack a Single Taxpayer Registration number.

FIGURE 3. LABOR PRODUCTIVITY (OUTPUT PER HOUR WORKED)



Source: International Labour Organization

FIGURE 4. PERCENTAGE OF WORKERS IN THE INFORMAL SECTOR



Source: National Statistics and Census Institute

II.20 **Improving worker productivity also requires making preventive and early detection healthcare and timely treatment more effective and accessible, particularly at the primary care level**. Effective primary care helps reduce disease progression and avoid complications that, unless treated promptly, can lead to chronic conditions entailing higher human and economic costs. This requires not only expanding the coverage of healthcare services but also ensuring their effectiveness, understood as the system's ability to provide affordable, timely, and quality services that improve the health of the population. The evidence shows that, in addition to their health implications, noncommunicable diseases reduce labor productivity by increasing absenteeism, accelerating premature mortality, and limiting effective participation in the labor market.[67] This occurs especially when there are persistent limitations in chronic disease prevention, early detection, and timely treatment.[68] In Ecuador, the likelihood of dying from diseases of this type stands at approximately 13.2% for individuals 30 to 70 years of age, exceeding the likelihood in some comparable countries in the region, such as Peru (12.3%) and Colombia (10.3%).[69] Cardiovascular diseases, cancer, and diabetes account for a rising share of the country's disease burden. In the case of women, ischemic heart disease and diabetes are respectively the leading and second leading causes of death.[70] These trends reflect persistent challenges in the coverage and quality of preventive and primary care services, challenges that amplify the effects of these diseases on quality of life, labor productivity, and healthcare system sustainability.[71] In addition, prevention, early diagnosis, and treatment of chronic diseases is a strategy for achieving fiscal sustainability in the healthcare sector.

II.21 **Improving the coverage and quality of water and sanitation services is essential for boosting labor productivity in Ecuador.** Current limitations in these services increase exposure to preventable diseases and undermine human capital accumulation, disproportionately affecting rural areas.[72] At present, the country exhibits pronounced territorial gaps: while piped water supply coverage stands at 94.9% in urban areas, one of every two rural households lacks safe drinking water access.[73] Furthermore, sanitation management faces major challenges, as close to 69% of wastewater is discharged untreated and only 31.1% of domestic wastewater receives safe treatment.[74] These gaps not only impact public health and the environment, but act as a direct drag on productivity due to time lost on water collection activities and increase in morbidity. Worldwide empirical evidence confirms that closing these gaps significantly boosts workforce participation—with particularly positive effects on women's employment[75]—hours worked, and

67 Worldwide rigorous causal empirical evidence demonstrates that improving worker productivity requires effective prevention and treatment of noncommunicable diseases. Key studies using strict causal identification methods (PSM-DID, quasi-experimental designs, and randomized control trials (RCTs)) show that noncommunicable diseases cause significant declines in workforce participation, hours worked, income, and productivity (via absenteeism and presenteeism). See especially: Zhao et al. (2023), Humanities and Social Sciences Communications 10, 476 (PSM-DID in China: 19.2% causal reduction in labor income); Kumara and Samaratunge (2018), Economics & Human Biology 31, 40-53 (quasi-experimental evidence in Sri Lanka); Chaker et al. (2015), European Journal of Epidemiology 30(5), 357-395 (systematic global review of 126 studies); Lavaysse et al. (2022), Journal of Occupational and Environmental Medicine 64(8) (first RCT showing that digital treatment of diabetes improves productivity and reduces presenteesim); and Tarro et al. (2020) (meta-analysis of RCTs on preventive labor interventions). For macroeconomic impacts, see the calibrated models of Bloom, D. E., Cafiero, E. T., Jané-Llopis, E., Abrahams-Gessel, S., Bloom, L. R., Fathima, S., Feigl, A. B., Gaziano, T., Mowafi, M., Pandya, A., Prettner, K., Rosenberg, L., Seligman, B., Stein, A. Z., & Weinstein, C. (2011). The global economic burden of non-communicable diseases. World Economic Forum.; and World Health Organization (EPIC model-- World Health Organization. (2011). Scaling up action against noncommunicable diseases: how much will it cost?).

68 These gaps are more pronounced among indigenous populations, where more than 80% lack health insurance, limiting timely access to chronic disease prevention, diagnosis, and treatment services, magnifying the impact of these diseases on labor productivity and deepening structural gaps in human capital. INEC (2025). National Survey on Employment, Unemployment, and Underemployment.

69 Information obtained from the World Health Organization (2025). Statistics.

70 INEC (2024). General Mortality Statistics Registry.

71 World Bank (2024). Integrating Noncommunicable Disease Management into Primary Health Care: An Anthology of Country Cases.

72 Balza et Al. (2024). Infrastructure Services and Early Childhood Development in Latin America and the Caribbean: Water, Sanitation, and Garbage Collection. Inter-American Development Bank Group Working Paper Series.

73 Observatorio para América Latina y el Caribe de Agua y Saneamiento (Water and Sanitation Observatory for Latin America and the Caribbean) (OLAS) (2023). OLAS Data.

74 World Health Organization and UN-Habitat (2021). Progress on wastewater treatment: global status and acceleration needs for Sustainable Development Goal indicator 6.3.1.

75 In Ecuador, women devote an average of 28.7 hours per week to unpaid work activities, compared to 11.4 hours devoted by men. Information obtained from: INEC (2025). Household Unpaid Work Satellite Accounts.

income levels.[76] Therefore, investment in water and sanitation infrastructure should be deemed a driver of economic growth inasmuch as it aims to optimize the use of time and improve the health conditions of the workforce. It is worth noting that scenarios in which water and sanitation delivery is intermittent or insufficient constrain the potential of sectors such as tourism and associated services, limiting productive diversification and the ability to take advantage of economic opportunities.

WHAT WE WILL DO

II.22 **The IDB Group seeks to strengthen human capital so as to enhance its contribution to economic growth** through the strategic objective of boosting labor productivity. Actions will be aimed at improving employability and directly supporting job creation in the private sector, improving the coverage and quality of primary health care, and expanding access to water and sanitation services.

II.23 **To improve employability, the IDB Group will continue to support initiatives aimed at developing skills in line with the needs of the productive sector and strengthening the mechanisms for labor market integration.** Combining knowledge products, technical cooperation, and investment, the IDB Group has helped to generate evidence, support policy design, and move forward on reforms—particularly at the secondary regulatory level—aimed at enhancing the relevance of workforce training and the functioning of the labor market. Under the new strategy, this support will be maintained through a programmatic approach that integrates these instruments in a complementary way, with a view to deepening reforms and scaling up effective interventions. Knowledge products and technical assistance will remain key to informing and supporting policy changes, which may eventually be backed by policy-based support operations at both the crosscutting and sectoral levels, including analyses of women's and men's labor market participation. In the operational arena, interventions include job training and skill certification programs and preparation of sector studies aimed at adjusting the training offerings to meet labor market demand in strategic sectors. These actions are complemented by strengthening the labor intermediation system through a new digital platform, as well as by developing or updating competency assessment profiles, frameworks, and mechanisms in line with the needs of the productive sector and implementing pilot dual training initiatives, digital skills training, and labor market integration programs in coordination with the private sector. Complementarily, IDB Invest will help to preserve existing jobs and create new formal job opportunities by supporting private companies, particularly in the manufacturing, commerce and distribution, logistics, and productive infrastructure development sectors. In addition, the IDB Group will support new initiatives aimed at expanding vocational education and dual training, strengthen workforce training institutions, promote on-the-job training, and facilitate the transition into employment for youth and other population groups facing high barriers to access, particularly in sectors with high growth potential such as energy, tourism, and agribusiness.

II.24 **The IDB Group will continue to support the Government of Ecuador in strengthening human capital** through interventions aimed at reinforcing the relevance of the education and workforce training sectors and their alignment with the needs of the productive sector in priority areas. In this regard, support will be focused on working in coordination across the Bank's different sectors with universities and with training and certification operators on technical and vocational training issues and on improving students' transition into the labor market. Complementarily, the IDB Group will explore supporting efficiency reforms in education spending that can lead to more

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[76] Worldwide rigorous causal empirical evidence demonstrates that gaps in the provision of water and sanitation services also adversely affect employment productivity, mainly through loss of productive time (water collection and search for sanitation) and increase in morbidity. Key studies using strict causal identification methods (DiD with staggered rollout, IV with fixed effects, PSM, and RCT) show that closing these gaps significantly boosts workforce participation (especially for women), hours worked, and earnings. See especially: Wang and Shen (2022), World Development 158, 105992 (China: +0.25–0.43 hours/day worked); Sedai (2021), "Who Benefits from Piped Water in the House? Empirical Evidence from a Gendered Analysis in India" (India: +11.3–19.5 pp in women's employment and +17.5% in earnings); Meeks (2017), Journal of Human Resources 52(4), 1119-1153 (Kyrgyzstan: reallocation of ~1 hour/day to agricultural work); Devoto et al. (2012), American Economic Journal: Economic Policy 4(4), 68-99 (RCT in Morocco).

effective investments in human capital (e.g., education management information system, automated optimal teacher staffing, and enrollment cleansing) and at the same time contribute to other strategic objectives set out in this document, such as generating savings and freeing up fiscal space.

II.25 **To help improve the coverage and quality of primary healthcare, the IDB Group will continue to support investments aimed at upgrading the equipment at health facilities, strengthening the primary level of care, and modernizing the sector's information systems.** Current interventions include procurement of medical equipment for healthcare centers and hospitals, development of digital tools to improve clinical and management decision-making, and healthcare staff training, with an emphasis on the prevention and care of priority problems such as malnutrition and chronic diseases, taking due account of their effect on women and indigenous peoples and nations. In addition, IDB Invest has been supporting hospital infrastructure and specialized services through private investments. Complementarily, the IDB Group will promote new initiatives aimed at improving management of the healthcare system, including reforms to transition toward results-based management models, digital transformation of the sector, and institutional capacity-building to promote private participation arrangements in hospital infrastructure and equipment and in pharmaceutical logistics.

II.26 **In terms of improving access to drinking water and sanitation, the IDB Group supports the country through investments aimed at expanding and strengthening the water supply systems, enhancing water and waste management, and strengthening the climate resilience of services.** Current interventions include projects to improve the coverage and quality of drinking water in cities such as Quito, Portoviejo, and Cuenca, as well as financing provided through the Development Bank of Ecuador B.P. for local water and sanitation projects that include boosting women's participation. These actions are complemented by solid waste management initiatives and nature-based solutions to protect water sources and ensure a sustainable water supply. The IDB Group will also support new initiatives aimed at enhancing water security, improving wastewater treatment, promoting climate-resilient solutions, fostering the circular economy, and structuring environmental and solid waste management projects with private sector participation. IDB Invest will provide support in structuring projects with PPP arrangements, particularly in operation and maintenance and in wastewater treatment. To achieve this, the IDB Group will coordinate with other multilateral organizations, aiming to strengthen municipal utilities so they can access financing and, gradually, tap capital markets.

II.27 **The interventions envisaged in this priority area will be complemented by public-private coordination mechanisms** aimed at enhancing the delivery of social services to boost labor productivity. Specifically, the IDB Group will promote collaboration arrangements with the productive sector for workforce skills development in line with the sector's needs, strengthening the links between training institutions, companies, and the productive sector. In addition, the IDB Group will encourage private-sector participation in the provision and upgrading of healthcare and water and sanitation services, harnessing private sector knowledge, experience, and technological innovation to help expand coverage and enhance efficiency in the delivery of these services. These actions will be supported by technical assistance and partnerships with bilateral organizations and international finance institutions to mobilize additional financing and broaden the impact of interventions in key social sectors. Moreover, they are aligned with IDB Group initiatives such as LAC Crece in strengthening skills and competencies that foster labor productivity and better integration into the productive sector; Amazonia Forever in improving access to, and the quality of, health, water, and sanitation services, especially in Amazonian territories and among vulnerable populations; Ready and Resilient Americas in incorporating resilience criteria into the provision of infrastructure and key social services; and the Alliance for Security, Justice, and Development in helping to create more secure and inclusive environments for human capital accumulation. Together, these initiatives reinforce the programmatic nature of priority area 2 by increasing the scale, consistency, and sustainability of interventions aimed at strengthening human capital and labor productivity.

EXPECTED RESULTS

Improve employability: The IDB Group will support training, labor competency certification, and technical education strengthening programs to improve labor market integration and align skills with the demands of the productive sector.

Improve primary healthcare coverage and quality: The IDB Group will bolster primary health care through investments in equipment for chronic noncommunicable diseases, strengthening of the primary level of care, and improvements in health system management.

Improve access to drinking water and sanitation services: The IDB Group will promote expanded access to water and sanitation through investments in infrastructure, wastewater management, and climate-resilient solutions.

C. PRIORITY AREA 3: BUILDING INSTITUTIONAL CAPACITY

WHY IS IT IMPORTANT?

II.28 **This priority area addresses institutional limitations that raise investment costs and constrain economic growth.** Global causal evidence shows that solid government institutions, ensuring legal certainty, contract enforcement, and delivery of public goods, reduce transaction costs, boost investment, and promote economic growth.[77] In Ecuador, institutional strengthening faces critical challenges, including limited governmental effectiveness and shortcomings in the provision of public goods. This is compounded by an accelerated decline in citizen security driven by the expansion of organized crime, evidencing persistent challenges in preventing and prosecuting crimes, particularly those linked to illicit financial flows. These constraints erode the confidence of economic agents, raise operational costs for businesses, and reduce the effectiveness of public expenditure and private investment, reinforcing the need to strengthen the State's institutional capacity as an enabling condition for sustained growth.[78]

II.29 **Governance weaknesses affect the investment climate and the State's effectiveness, constraining both fiscal management and the capacity to provide basic goods.** In 2024, the World Bank's governance indicators show negative values in critical areas such as regulatory quality (-0.6), control of corruption (-0.8), rule of law (-1.0), and political stability (-0.7). These results reflect limitations in the State's capacity to design and implement public policies consistently and provide quality public goods, directly affecting public trust in institutions and the predictability of the economic environment.[79]

II.30 **Transparency and accountability gaps reduce spending efficiency and increase capture risks, affecting fiscal sustainability and trust in institutions.** The Open Budget Index shows improvements in recent decades, from 23.1 in 2008 to 48 in 2023; however, it remains below the regional average of 54, evidencing gaps in budget transparency and citizen control of public

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77 See especially: Acemoglu, Johnson, and Robinson (2001), AER; Acemoglu and Johnson (2005), JPE; Nunn (2007), QJE; Chemin (2020), REStat.

78 International Monetary Fund (2024). Violent Crime and Insecurity in Latin America and the Caribbean: A Macroeconomic Perspective.

79 World Bank (2024). Worldwide Governance Indicators.

expenditure.[80] Similarly, the Corruption Perceptions Index stood at 33 points in 2025, below the continent's average of 42, pointing to persistent challenges in strengthening institutional integrity and reducing the costs associated with corruption risks.[81]

II.31 **The quality of public finance management influences expenditure efficiency and thus the State's capacity to sustain growth through investment and effective provision of public goods.** In Ecuador, fiscal management and intergovernmental coordination gaps constrain expenditure planning, execution, and monitoring. The room for reallocating resources toward capital expenditure is limited by pressures and rigidities, including fuel and electricity subsidies (which are being phased down effectively, but continue to entail costs) and cash transfers. The latter are managed by the Ministry of Human Development (MDH), and in the 2026 pro forma budget amount to US$1,638,920,000 (3.54% of the 2026 general State budget), reducing the fiscal margin available for productive public investment.[82] In Ecuador, the tax system combines (i) a high volume of tax expenditure, estimated by Ecuador's Internal Revenue Service (SRI) at US$6,607,350,000 in 2024 (5.3% of GDP; 38.5% of tax revenue collection administered by the revenue authority),[83] and (ii) design elements that introduce behavioral distortions and collection inefficiencies (such as bunching around tax regime thresholds). Taken together, this suggests there is room to enhance the system's efficiency and simplicity by reviewing exemptions and preferential treatment as well as by reducing distortions associated with thresholds and discontinuities (notches) in the tax regimes.[84] Given this context, strengthening fiscal management, including coordination among different government levels, and improving expenditure quality have been recognized as priorities under the current Extended Fund Facility (EFF) arrangement with the IMF. In a scenario in which subnational governments heavily rely on transfers and have limited fiscal autonomy, shortcomings in intergovernmental coordination and in subnational expenditure planning, execution, and monitoring capacity reduce the impact of public financial resources on local economic activity.[85]

II.32 **Efficiency and transparency in public procurement are a direct determinant of expenditure productivity and, given the scale involved, have significant macroeconomic implications for growth.** In 2024, public procurement totaled US$7.9963 billion, equivalent to 24% of the general State budget and 6.5% of GDP, which shows that marginal improvements in efficiency and control can translate into fiscal savings and increased capacity to finance public goods.[86] In addition, the IMF (in its reviews under the EFF arrangements with the country) has repeatedly emphasized that strengthening the public procurement system—including the approval of a new law and steps to modernize the system—is important for enhancing transparency, improving expenditure control, and mitigating vulnerability to corruption.[87] Evidence from official audits also shows that irregularities and overpricing have been identified in specific processes, pointing to integrity and efficiency risks that, given the scale of public procurement, can affect the productivity of public expenditure.[88] Thus, enhancing the efficiency of the public procurement systems—by strengthening traceability, controls, and competition in procurement processes—is aimed at boosting expenditure efficiency, reinforcing trust, and improving State capacity to provide public goods more effectively.

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80 International Budget Partnership (2023). Open Budget Survey.

81 Transparency International (2025). Corruption Perceptions Index

82 Ministry of Economy and Finance (2025). Revenue and Expenditure Justification - 2026 Pro Forma General State Budget.

83 SRI (2024). Tax Expenditure Manual.

84 Zanoni, W. et al. (2024). Irrational Bunching? Tax Regimes, Brackets, and Taxpayer Behaviors

85 Sanchez-Aragon, L., Sánchez, G., & Zanoni, W. (2025). Stimulating Local Economies through Central Transfers: A Natural Experiment from Ecuador

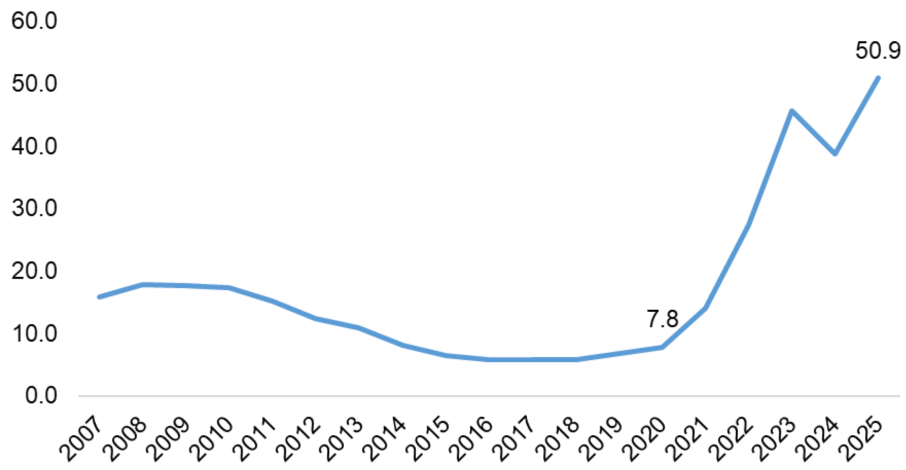
86 National Public Procurement Service (2024). Accountability Report.

87 IMF (2025). Fourth Review of the Extended Arrangement under the Extended Fund Facility.

88 Office of the Comptroller General (CGE) (2026). Public Oversight Report.

II.33 **The recent decline in citizen security is one of the main challenges to the country's social stability and economic performance.** The homicide rate increased by approximately 551% between 2020 and 2025, reaching around 51 homicides per 100,000 inhabitants in 2025, as shown in Figure 5. This is one of the highest levels in Latin America. The violence is highly geographically concentrated, with six cantons accounting for close to 49% of the country's homicides and more than 80% of firearm homicides. At the same time, kidnappings rose by 390% and extorsion by more than 1,000% between 2020 and 2023, illustrating the rapid expansion of criminal economies and the growing pressure exerted by organized crime on households and businesses.[89] In addition, intimate partner violence against women stands at 42.8%, and in social settings at 32.6%, with some characteristics worsening in recent years due to the difficult public security situation in the country.[90] This exponential rise in violence has interacted with a preexisting institutional fragility in certain areas of the country, creating a context in which these dynamics reinforce one another and result in pockets where fragility, conflict, and criminal violence (FCCV) prevail.

FIGURE 5. INTENTIONAL HOMICIDES PER 100,000 INHABITANTS



Source: World Bank, Ministry of Interior

II.34 **The rise in crime generates significant economic costs and undermines market functioning.** The effects of organized crime are disproportionately concentrated in certain subnational pockets—mainly on the coastal strip (Esmeraldas, Guayas, and Los Ríos) and in specific areas of Amazonia—where an overlap of illicit economies, limited government presence, and territorial control by criminal groups magnifies the economic costs of crime.[91] These territories exhibit high extortion victimization levels, with cases in which up to 70% of the population reports having been a victim, creating an environment of heavy economic pressure on shops and businesses.[92] Recent studies estimate that the economic costs of crime, including direct losses and indirect effects on economic activity, can total approximately 3% of GDP, with particularly significant impacts on

[89] United Nations Office on Drugs and Crime (UNODC) (2023). Global Study on Homicide.

[90] INEC (2019). National Survey on Family Ties and Gender-based Violence against Women.

[91] Link 9.

[92] IDB (2024). Annex 8. Alignment with the FCCV Framework. PREVIC Program, Ecuador (EC-L1294) document.

sectors such as commerce, tourism, and logistics.[93] These dynamics reduce investment, increase transaction costs, and favor an expansion of illicit financial flows and asset laundering activities.[94]

II.35 **Limited institutional capacity to investigate, prosecute, and recover territorial control compounds these effects.** In 2023, the homicide clearance rate was a mere 7%, well below the Latin American average estimated at close to 23% and the global average of close to 50%, reflecting significant shortcomings in criminal investigation, institutional coordination, and intelligence systems.[95] This result is consistent with the FCCV diagnostic assessment, which identifies structural weaknesses in institutional resilience—particularly in the judicial system, territorial control, and governance—that limit the State's capacity to contain the expansion of organized crime. This is compounded by an expenditure allocation for security of close to 2% of GDP, primarily concentrated on policing functions, with the judicial and penitentiary system receiving a substantially smaller share of resources. In addition, precarious migration registration and control systems constrain coordination among government entities and erode the effectiveness of citizen security policies.[96] These institutional limitations hinder the State's response to increasingly sophisticated criminal organizations.[97]

II.36 **International indicators also reflect a decline in institutional resilience to organized crime.** Between 2021 and 2023, Ecuador dropped from 43rd to 190th place on the Global Organized Crime Index. At the same time, indicators of resilience to organized crime exhibited setbacks in dimensions related to prevention, territorial control, and institutional coordination.[98] In addition, illicit economies such as illegal mining, estimated to generate US$3 billion in annual revenue,[99] entail significant fiscal losses, with estimates of close to US$100 million per year in tax revenue foregone in the gold mining sector, partly due to limited control and traceability capacity.[100]

II.37 **Together, institutional weaknesses and declining public security create a more challenging environment for investment and economic growth.** These limitations affect investor confidence, increase the cost of doing business, and reduce the effectiveness of public policies. Strengthening the State's institutional capacity, improving citizen security, and combating illicit financial flows will be essential for restoring trust in institutions, improving the investment climate, and creating enabling conditions for sustained economic growth.

II.38 **Addressing these institutional challenges is also essential for advancing the objectives of priority area 1 under this strategy, aimed at promoting private investment and competitiveness.** A more solid institutional framework, with greater legal certainty, lower crime rates, and greater State effectiveness in providing public goods will help reduce investors' perceived risks, facilitate business activity, and boost the development of the private sector as a driver of economic growth.

WHAT WE WILL DO

II.39 **The IDB Group will help to build institutional capacity** through two strategic objectives: (i) contribute to fiscal consolidation; and (ii) strengthen the State's capacity to reduce criminal violence and illicit financial flows. To achieve the first of these objectives, the strategy proposes interventions to enhance national and subnational fiscal management and improve the efficiency of public procurement management systems. To achieve the second objective, the strategy

93 IMF (2024). Crime and its Macroeconomic Impact in Ecuador.

94 IMF (2024). Crime and its Macroeconomic Impact in Ecuador.

95 IDB (2024). Annex 8. Alignment with the FCCV Framework. PREVIC Program, Ecuador (EC-L1294) document.

96 UNODC (2023). Study on illicit financial flows associated with smuggling of migrants and trafficking in persons from GLO.ACT partner countries to Europe; and UNODC (2011). Handbook on the crime prevention guidelines. Making them work.

97 International Monetary Fund. (2024). Crime and its Macroeconomic Impact in Ecuador.

98 Global Organized Crime Index (2025).

99 See link 9.

100 Author's calculations using information from: SRI (2024). Revenue Collection Statistics; and BCE (2025). External Sector Statistics.

proposes interventions to bolster migration control systems, strengthen the mechanisms for asset laundering prevention and investigation, and strengthen the mechanisms to prevent recruitment into criminal activity.

II.40 **To enhance fiscal management at the national and subnational levels, the IDB Group will continue to support the country through financing, technical assistance, and development of innovative financial instruments.** Current interventions include support for tax administration management to optimize revenue collection and reduce tax expenditure; strengthening of the government's fiscal management capacity; and assistance in implementing sustainable financing instruments such as thematic bonds and debt swaps. In addition, the Bank supports contingent financing arrangements and risk management tools designed to protect fiscal stability from natural disasters, as well as strengthening of early warning and emergency response systems. Through the Flexible Financing Facility (FFF)[101] or independent derivative instruments, the Bank offers tools to reinforce resilient management of the public debt and mitigate financial vulnerabilities, risks associated with oil price volatility, and impacts of natural and climate disasters. Complementarily, the IDB Group will continue to support efficiency improvements in subnational fiscal management and management of national public investment systems. In addition, the CAsA (capacity-building, advisory services, and asset management) program facilitates institutional support to governments and official entities. It provides a platform to develop treasury management, financial risk management, and investment governance capacity. In this regard, the work currently underway with the Central Bank of Ecuador (BCE) is aimed at strengthening the institutional framework for international reserves management, aligning it with international standards and the country's macrofinancial priorities.

II.41 **To strengthen public management and expenditure efficiency, the IDB Group will continue to provide support through initiatives aimed at improving interoperability between State institutions, digitalizing processes, and bolstering public procurement and control systems.** Current interventions seek to optimize the performance of public institutions, bolster the national public procurement system, improve the quality of expenditure, and reduce judicial backlog, in coordination with reforms promoted jointly with international organizations. Complementarily, the IDB Group plans to support new investments to modernize key public-sector financial management and payments systems with a view to making the public management and procurement processes more efficient, transparent, and better integrated.

II.42 **In terms of building capacity to prevent and combat criminal violence and illicit financial flows, the IDB Group will continue to support the country by developing interoperable border control systems, reinforcing institutional coordination, and improving mechanisms for organized crime prevention and control**. Current interventions include implementation of biometric systems for border entry and exit control, integration of regional databases, and strengthening of migration alerts to prevent crimes such as human trafficking. Complementarily, the IDB Group plans to support new initiatives aimed at boosting efforts to prevent child and adolescent recruitment by criminal organizations, including actions to prevent violence against women, improve the capacity of the justice system to combat organized financial crime, and reinforce asset laundering prevention systems.

II.43 **Under priority area 3, FCCV in Ecuador is approached through analytical work performed by the Bank to identify pockets at the subnational levels,** underpinning the diagnostic assessment that identifies the areas where these pockets are concentrated.[102] This analysis is

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[101] The country may benefit from a strategic approach through the use of the FFF's financial instruments and standalone derivative instruments, which also provides the benefit of the IDB's AAA credit rating. This approach not only maximizes access to favorable financial conditions but also provides support and assistance in managing these tools. While use of the FFF does not require an International Swaps and Derivatives Association (ISDA) agreement, the Bank also offers the possibility of signing ISDA agreements to execute standalone derivatives in order to manage debt exposure not associated with Bank financing for the government and/or the BCE.

[102] The IDB Group conducted a pilot territorial analysis to identify and characterize subnational pockets of fragility, conflict, and criminal violence. This effort is part of a broader institutional initiative to develop a methodology that can be replicated across the region and helps to better understand these dynamics and guide the IDB Group's strategic proposal and local targeting of interventions.

complemented by the knowledge derived from the IDB Group's operational experience in the security and criminal violence area, leveraging the progress made in interventions in the country—including investment operations, policy-based loans, and technical cooperation projects. This blended approach has enabled the Bank to conduct robust territorial studies to understand the spatial dynamics of violence and illicit economies, identifying geographic concentrations of FCCV, typically in coastal regions, metropolitan areas, and strategic transportation corridors. In addition, this effort is integrated with other trend-mapping analyses of State performance, criminality, and violence at a subregional level, strengthening the Bank's programmatic approach and guiding interventions toward territories where institutional fragility and the presence of organized crime generate greater risks.[103]

II.44 **The actions envisaged in this priority area will be complemented by initiatives aimed at strengthening economic governance and State capacity** through coordination with multilateral and bilateral partners and specialized agencies. The IDB Group will work in coordination with international financial institutions to ensure consistency between the supported reforms and other macroeconomic stability and institutional strengthening agendas, including coordination with the IMF's EFF arrangement. In addition, the IDB Group will promote cooperation with international organizations and specialized agencies to build State capacity in areas such as fiscal management, public administration modernization, and organized crime prevention, including building capacity to combat asset laundering and other illicit economies. This coordination will boost the impact of interventions aimed at consolidating more effective and resilient institutions. In addition, interventions in this area are part of a programmatic approach that integrates IDB Group action with regional programs and corporate initiatives. Under this approach, this strategic area is aligned with the Alliance for Security, Justice, and Development in building institutional capacity in security, organized crime prevention, and combating illicit economies; with LAC Crece in strengthening regulatory frameworks, economic governance, and State capacity to support growth; and with Ready and Resilient Americas in enhancing institutional resilience and risk management, including natural disaster risks. Together, these initiatives reinforce the programmatic nature of this priority area by expanding the scale, consistency, and sustainability of interventions aimed at consolidating more effective and resilient institutions.

EXPECTED RESULTS

Strengthen national and subnational fiscal management. The IDB Group will support strengthening fiscal management through improvements in tax administration, sustainable financing instruments, and mechanisms for financial protection against disasters, while also promoting public investment planning.

Enhance the efficiency of public procurement management systems. The IDB Group will drive public management modernization through system interoperability, strengthening of the public procurement system, and efficiency and transparency enhancement in the use of public resources.

Bolster migration control systems. The IDB Group will promote strengthening of migration control through the development of interoperable systems, implementation of biometric systems, database integration, and improvement of migration alerts.

[103] See link 9

Strengthen the mechanisms for asset laundering prevention and investigation. The IDB Group will support strengthening asset laundering prevention systems and capacity-building to combat organized financial crime.

Strengthen the mechanisms to prevent recruitment into criminal activity. The IDB Group will back initiatives aimed at preventing adolescent recruitment by criminal organizations.

D. CROSSCUTTING PILLARS

WHY ARE THEY IMPORTANT?

II.45 **Inclusion of vulnerable populations.** The strategy adopts inclusion of vulnerable populations as a crosscutting pillar, recognizing that closing gaps in access to the labor market, productive opportunities, healthcare, and water and sanitation for women, youth, indigenous peoples and nations, Afro-descendants, populations in human mobility situations, rural populations, and persons with disabilities[104] is not only an ethical imperative but a strategic requirement for economic growth in Ecuador. By helping to mitigate the vulnerabilities affecting these groups, the IDB Group aims to turn equity into a productivity multiplier. By incorporating inclusion as a crosscutting pillar, it seeks to transform equity into a competitive advantage. This approach is expected to strengthen the business ecosystem—dominated by MSMEs—so as to better harness the currently untapped human potential, generate quality employment, and contribute to a sustained reduction in poverty, thereby ensuring growth that, by definition, is more productive, resilient, and sustainable.

II.46 **Climate resilience and natural disaster response.** Strengthening resilience through investment in critical infrastructure and through improvements in the capacity to respond to and manage the financial risks of natural disasters constitutes a crosscutting pillar under this strategy, addressing Ecuador's high exposure to climate-related and geological risks and their growing impacts on the country's infrastructure, output, livelihoods, and natural capital. The diagnostic assessment shows that occurrences such as droughts, floods, landslides, geological phenomena, and El Niño-related events repeatedly affect key sectors of the economy, including energy, transportation, agriculture, and basic services, as well as strategic ecosystems and critical ecosystem services, leading to economic losses, fiscal pressure, and increased vulnerability for the more exposed populations and territories. This translates into an expected annual loss on the order of US$1.2 billion, one of the highest among borrowing countries, equivalent to 90% of Ecuador's public investment effort, which is the highest percentage in the region.[105] At the same time, the transition to low-carbon, resilient production models compatible with ecosystem conservation, restoration, or sustainable use is an opportunity to spur new investment, strengthen competitiveness, and promote sustainable development. In this scenario, integrating green and climate solutions into the strategy

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[104] With regard to labor market gaps, the adequate employment rate is significantly lower for certain population groups, standing at merely 30.4% for women, 18.5% for individuals self-identifying as indigenous, and 37% for the Afro-Ecuadorian population. These inequalities are also reflected in access to basic services. In the case of access to safe water, only 43.8% of the indigenous population and 54.4% of the Afro-Ecuadorian population has this service, evidencing major lags in both groups. In addition, 69.4% of the indigenous population has basic sanitation, compared to a national average that is 16 percentage points higher. At the same time, 49,745 individuals nationwide receive the Joaquín Gallegos Lara cash transfer, distributed to caregivers for persons with severe disabilities, catastrophic or rare diseases, or HIV/AIDS, and 26,720 persons with disabilities per year receive care at 885 service units through the Ministry of Human Development. Caregivers under these modalities currently have no access to training and certification processes, limiting their recognition as workers and their social recognition, and affecting their performance and career growth. INEC (2025). National Survey on Employment, Unemployment, and Underemployment. INEC (2018). Agua, saneamiento e higiene: Medición de los ODS en Ecuador. MDH (2025). Status report on care services for persons with disabilities. MDH (2026). Statistical Information on Bonuses and Pensions.

[105] Information obtained from: IDB (2026). Ecuador Risk Profile, LEC Curve.

serves not only to reduce risks and protect productive capital, but also to strengthen management and sustainable use of the natural capital as a key asset, guiding investments and reforms toward a more resilient, sustainable, and inclusive growth trajectory. Thus, the strategy incorporates this crosscutting pillar to assist in ensuring that the investments, policies, and programs supported by the IDB Group contribute to both adaptation and resilience to geological, climate-related, and environmental degradation risks by promoting a transition to a low-carbon economy that recognizes the role of biodiversity and ecosystems in reducing disaster risk and in strengthening long-term resilience, in line with Ecuador's international commitments.

HOW WE WILL DO IT

II.47 **The IDB Group will incorporate inclusion of vulnerable populations into its operations in Ecuador in a crosscutting way, promoting equal opportunity with a gender, diversity, and interculturality focus.** In priority area 1, aimed at promoting private sector competitiveness and growth, the IDB Group will act to expand access to financing for women-led MSMEs by strengthening financial institutions and by using gender-focused instruments. In addition, interventions will support gender mainstreaming in the tourism sector by strengthening sector policies designed to expand and improve women's participation, as well as by working with tourism companies and community tourism enterprises led by indigenous peoples with a view to enhancing their service offerings and technical capacity. In priority area 2, focused on strengthening human capital, the IDB Group will promote the diagnostic assessment and design of interventions to address labor market gaps affecting women, youth, and people in human mobility situations, including people self-identifying as indigenous or Afro-Ecuadorian. It will also continue to provide support in the form of knowledge products to strengthen bilingual intercultural education. In addition, the IDB Group will support access to health services for women, indigenous peoples and nations, Afro-descendants, and rural populations, as well as promote training and certification for caregivers of persons with disabilities.[106] Lastly, it will promote an expansion of water and sanitation coverage while incorporating women's specific needs and fostering their participation in managing these services. In priority area 3, aimed at building institutional capacity, the IDB Group will implement projects for children and youth to prevent violence through the development of socioemotional skills at Civic Centers for Life and Peace (CCVP), and will enhance the provision of services at the Centros Violeta (Violet Centers) while consolidating the Registro Único de Violencia (Unified Violence Registry), thereby helping to improve the global response to violence and protect vulnerable populations.

II.48 **The IDB Group will enhance resilience and response to natural disasters.** In priority area 1, it will support making the road sector and energy sector more resilient to the impact of natural hazards, including through nature-based solutions, helping to improve the conditions for competitiveness and private investment. Both of these sectors are among the country's adaptation priorities under its Nationally Determined Contribution and National Climate Change Adaptation Plan. In the case of the road sector, the IDB Group has experience in analyzing and including risk management criteria in public investment design and in reinforcing and climate-proofing the existing infrastructure.[107] Various financial instruments will be made available to reduce the energy sector's fiscal vulnerability to the impact of climate risks, along with analysis platforms to improve the management of disaster risks associated with the sector. These actions will be complemented by the Bank's support for channeling concessional climate funds aimed at driving the transition to low-carbon industries, with a green employment and social inclusion lens. In addition, the FFF's climate-resilient debt clauses can enable immediate access to resources to respond to emergencies and mitigate the liquidity risk. In the agricultural sector, the Bank will foster climate and regenerative innovation, ecosystem restoration, sustainable soil management, and smart

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[106] A total of 503,976 persons with disabilities are registered as such nationwide, 26.3% of whom are older adults with chronic healthcare needs.

[107] One example of the Bank's work with the road sector is the Blue Spot Analysis initiative in the Dominican Republic and Central American countries, aimed at informing and prioritizing investment in strengthening critical sections of the road system.

agriculture through institutional strengthening and intermediation of credit resources with special emphasis on rural MSMEs (in partnership with the Development Bank of Ecuador). In priority area 2, the Bank will support improvements in access to basic water and sanitation services from a basin management perspective through quality criteria designed to make these services resilient to the impact of natural hazards and environmental degradation stemming from anthropogenic activities. This will be accomplished by including risk management and climate-change adaptation criteria in the design of infrastructure, as well as by integrating risk-sensitive territorial planning criteria, so as to avoid increasing exposure to these natural phenomena by expanding the service offerings. Similarly, the Bank will support Ecuador to ensure that, in promoting access to long-term private housing finance, resilient designs (including green infrastructure solutions) are incorporated to withstand disaster effects. Other specific actions in this priority area include an integrated approach combining risk-reduction measures and proper and sustainable water resource and waste management, as well as continued support for a curriculum reform and development of a roadmap for a sustainable development education policy. In priority area 3, the Bank will support institutional strengthening objectives related to national and subnational fiscal management by improving financial management of disaster risks at both the central government and decentralized autonomous government levels. At the central government level, the Bank will support decision-making aimed at investment in risk reduction through the use of innovative metrics and tools, such as RiskHUB. At the decentralized autonomous government level, the Bank will support the Development Bank of Ecuador’s efforts to strengthen and reinforce its subnational contingent credit line offering. The Bank will seek to complement these actions by providing technical assistance and knowledge through continued work on multihazard early warning systems to build institutional capacity in the area of response preparedness.

III. HOW WE WILL DO IT

A. PROGRAMMATIC APPROACH

III.1 **The country strategy adopts a programmatic approach aimed at maximizing the impact of IDB Group interventions on economic growth in Ecuador.** This approach integrates financial instruments,[108] technical cooperation, policy-based support, and knowledge generation so that the various interventions reinforce one another to achieve the results of the strategic objectives. Unlike approaches centered on isolated instruments, this approach organizes interventions as coherent sequences aimed at removing specific constraints on growth and mobilizing private investment. The IDB Group recognizes that private investment mobilization does not automatically replace public investment but instead hinges on reducing sovereign and political risks that affect the risk-adjusted returns on projects. Thus, the IDB Group's programmatic approach directly addresses the factors that limit private investment. First, policy-based support helps to strengthen regulatory stability while improving the transparency and reinforcing the credibility of institutional frameworks. Second, the IDB Group's financial instruments—including guarantees, structured finance, and IDB Invest participation—help to mitigate investor-perceived risks and facilitate project viability, particularly in capital-intensive sectors such as energy and infrastructure, where perceived sovereign risk is a key determinant of investment. In **priority area 1**, this approach manifests in a coordinated sequence of reforms and instruments aimed at removing constraints on private investment and mobilizing capital toward strategic sectors. The IDB Group's recent experience in the power sector illustrates this model: a combination of investment loans, policy-based loans, and technical cooperation operations resulted in stronger regulatory frameworks and institutional capacity, enabling private sector participation. On this basis, the Bank approved a sovereign investment guarantee aimed at mitigating risks associated with meeting payment obligations in the power sector, while IDB Invest complemented this effort through the structuring and financing of private-sector projects, translating reforms into viable transactions. Interventions in this area are aligned with regional IDB Group initiatives—including LAC Crece, South Connection, Alliance for Security, Justice, and Development, Ready and Resilient Americas, and Amazonia Forever—making it possible to expand the scale, consistency, and sustainability of interventions aimed at strengthening competitiveness and mobilizing private capital. In **priority area 2**, the programmatic approach integrates interventions in skills, healthcare, and water and sanitation through a combination of sovereign financing, technical cooperation, knowledge generation, and policy-based support, incorporating private sector participation to comprehensively address the constraints that limit human capital accumulation and labor productivity. This includes public-private partnership (PPP) arrangements for the development of employment skills and provision of social services, supported by regulatory reforms, institutional strengthening, and financial structuring to enable these types of arrangements and other contracting models. In **priority area 3**, the programmatic approach combines sovereign financing, technical cooperation, knowledge generation, and policy-based support, integrating IDB and IDB Invest instruments to strengthen institutional capacity and mobilize private investment. This includes the use of financial engineering solutions, guarantees, and innovative mechanisms

[108] Integrating financial instruments into the strategy's programmatic approach consists of strategically combining various IDB Group financial instruments and modalities, including results-based loans.

designed to reduce risks,[109] improve private sector liquidity, and facilitate access to financing, while bolstering regulatory and institutional frameworks. In the three priority areas, technical cooperation operations, knowledge products, and upstream work will support project preparation, regulatory reforms, and institutional strengthening, while investment operations and private sector instruments will mobilize resources to expand productive investment, strengthen human capital, and improve State capacity. The three priority areas are closely interrelated and their impact depends on their coordinated implementation. Specifically, the interventions aimed at strengthening human capital (priority area 2) are essential for reducing risk factors associated with violence and crime, especially among youth, in turn reinforcing the effectiveness of interventions in security and institutional strengthening (priority area 3). At the same time, improving security and institutional capacity helps to create a more favorable climate for investment and growth (priority area 1), thereby closing a positive interaction between human capital, security, and productive development. The programmatic articulation among priority areas converges on a common purpose: promoting inclusive economic growth leading to sustained reductions in poverty by simultaneously addressing constraints on human capital, security, and economic opportunity.

B. SYNERGIES

III.2 **In priority area 1, the synergies within the IDB Group are focused on mobilizing private investment and strengthening the enabling environment for its expansion**. This will be achieved by combining policy-based support, financial instruments, technical cooperation, dialogue, and knowledge work with the private sector. Thus, the Bank's sovereign operations will help to drive regulatory, institutional, and transparency reforms designed to reduce transaction costs and boost incentives for private investment in strategic sectors (III.12 and III.13). Interventions will support the adoption of best contractual and governance practices in PPPs at the national level and will reinforce the technical, financial, and management capacity of decentralized autonomous governments to execute partnerships of this type, primarily in water and sanitation, transportation, health, and education (III.12). These reforms facilitate IDB Invest participation, which plays a central role in mobilizing private capital through project financing and structuring, as well as by helping companies to improve their financial management and adopt standards and taxonomies designed to expand their access to financing. In addition, IDB Invest's operational experience with companies and markets creates demonstration effects that help identify reform opportunities and strengthen the IDB-led public policy dialogue. This interaction between reforms, financing, and business innovation enables more effective private sector participation in policy dialogue, facilitates the implementation of new reports, and expands investment opportunities in areas such as energy infrastructure, financial markets, logistics, digital connectivity, and housing.

III.3 **Energy.** In the energy sector, IDB Group synergies are aimed at aligning regulatory reforms, project structuring, and financial instruments to mobilize private investment in power generation, transmission, and distribution (III.9, III.11, and III.13). The IDB supports strengthening regulatory frameworks to facilitate private investment (III.12). In addition, the Bank is expected to support the country by means of financial instruments for efficient management of energy commodity price risks. In addition, IDB Invest will help to structure and finance renewable energy projects. These actions are complemented by upstream work aimed at improving the design of bidding processes and institutional frameworks to enable private investment in the sector.

III.4 **Competitiveness.** In competitiveness, synergies are aimed at strengthening the ecosystem under this modality and aligning trade, logistical, and financing policies to boost strategic export sectors. The IDB Group will combine institutional support to structure PPP projects with IDB Invest financing for tourism infrastructure, services, and assets as well as for digital infrastructure

[109] Including economic, institutional, political, fragility and criminal violence, and climate or natural disaster risks to the extent they are capable of affecting liquidity, investor confidence, project bankability, implementation of operations, and private transaction performance.

development (III.11 and III.12). These actions are complemented by upstream activities aimed at improving contractual frameworks and risk allocation arrangements, and by an expansion of preferential trade agreements that provide for mutual recognition of sanitary and phytosanitary measures.

III.5 **Financial markets.** In financial markets, synergies are aimed at aligning financial system reforms with IDB Group instruments to expand productive financing and mobilize private capital (III.11). The IDB will support reforms to deepen the financial markets, while IDB Invest will promote financing for MSMEs and housing, digital finance solutions, and capital market development, including thematic bonds. This effort will be complemented by upstream work to develop green and social taxonomies (III.12).

III.6 **Housing.** In housing, synergies are aimed at promoting financing mechanisms that can mobilize private investment and expand the supply of affordable housing. The IDB will support regulatory reforms and project structuring, while IDB Invest will help with financing and market solutions (III.11). Upstream work will enhance the conditions for private sector participation in sustainable housing development, including affordable housing.

III.7 **In priority areas 2 and 3, the synergies within the IDB Group are upstream in nature.** In **priority area 2**, they will take the form of collaboration between the public and private sectors to bolster the provision of social services and enhance human capital training. Specifically, the IDB Group will promote public-private coordination mechanisms to develop employment skills aligned with labor market demands, facilitating a better linkage between training institutions, companies, and the productive sector. The PPP model will also be explored for the provision and improvement of healthcare services. In water and sanitation, private sector participation will be boosted through regulatory reforms, institutional strengthening, financial structuring to enable PPPs and other contracting models, knowledge generation, and technical cooperation, with a view to enhancing service sustainability, efficiency, and coverage (III.12). In **priority area 3**, synergies will take the form of an alignment between sovereign and non-sovereign financial instruments to mobilize private investment in strategic sectors. Specifically, the IDB Group will promote the use of financial engineering to optimize liability management and catalyze private sector participation, including the design of guarantee arrangements to reduce perceived risk and facilitate access to financing in priority sectors (III.9 and III.11). In addition, mechanisms for enhancing private-sector liquidity and investment capacity will be explored, including operations to facilitate management of public sector obligations to private providers, with a view to freeing up capital, improving fiscal sustainability, and spurring economic activity. These actions will be complemented by strengthening the institutional and regulatory framework to enable broader private-sector participation in infrastructure, healthcare, and other critical areas, promoting sustainable and scalable financial solutions (III.11 and III.12).

C. IDENTIFYING REFORMS

III.8 **The IDB Group will continue to provide specialized support and promote technical dialogue and knowledge generation around public policy reform agendas in key areas for the country's development.** These areas fall within the aforementioned programmatic approach of IDB Group interventions and are aimed at strengthening the enabling conditions for economic growth. They have been prioritized on the basis of four main criteria: (a) degree of maturity of the dialogue with national authorities; (b) significance of the reforms in boosting economic growth and private investment; (c) robustness of the diagnostic assessment set out in the CDI and the available evidence on their potential impact in creating favorable conditions for productive development; and (d) alignment with the priorities established under the country's Ecuador 2040 Growth Agenda. Based on these criteria, the following have been identified as priority areas for reform, sequenced by level of dialogue maturity and significance for achieving the objective of boosting Ecuador's economic growth: (i) fiscal framework; (ii) security and fight against illicit financial flows; (iii) financial and capital markets; (iv) trade and investment facilitation; and (v) labor reform. In these areas, the IDB Group will continue to promote nonreimbursable technical cooperation operations, systematic transfer of knowledge and regional good practices, and ongoing evaluation and support for implementation of the institutional modernization and reform processes advanced by the national authorities.

III.9 **Fiscal sustainability** is a priority component of institutional capacity-building, given its central role as an enabling condition for macroeconomic stability, spending efficiency, and creation of private investment space. Thus, the IDB Group will focus its support on consolidating fiscal reforms aimed at improving expenditure quality and sustainability in the medium term through a programmatic approach that integrates technical cooperation and knowledge products as well as policy-based support. This agenda will be implemented at the intersection of fiscal and productive policy, through three lines of action. First, optimization of investment incentives through technical support to the Ministry of Economy and Finance in reforming the investment contract framework, so as to transition to a system that ensures legal stability and links incentives to measurable productive investment outcomes, promoting greater transparency and efficiency in tax expenditure. Second, strengthening strategic fiscal management through continued support for the Medium-term Fiscal Framework and implementation of a green taxonomy that aligns the budget with climate and biodiversity objectives. Third, reforms aimed at enhancing tax system efficiency and fiscal resilience, including actions to optimize expenditure management at the subnational level and strengthen the capacity to respond to shocks, especially natural disasters.

III.10 **Policy-based support in the area of security** is a priority component of institutional capacity-building, given its significant role in reducing transaction costs, improving the investment environment, and containing risks associated with fragility, conflict, and criminal violence. Thus, the IDB Group's support will be aimed at strengthening the State's capacity to address criminal violence and illicit economies through a programmatic approach that integrates technical cooperation, knowledge generation, and policy-based support. Interventions will be built around three lines of action. First, reforms aimed at preventing child and adolescent recruitment into criminal organizations, bolstering institutional protective capacity. Second, bolstering police integration and cooperation to tackle the new challenges of organized crime, promoting greater operational coordination and effectiveness. Third, actions aimed at combating illicit economies, including reinforcing the mechanisms to address asset laundering, promote asset forfeiture, and reduce illegal mining.

III.11 **The Bank will promote support for developing and deepening the financial and capital markets** as a priority area for expanding access to productive financing and sustaining private-investment-led growth, in line with the priorities established under the Ecuador 2040 Growth Agenda. Thus, the IDB Group's interventions will be aimed at strengthening the functioning and depth of the financial system through a programmatic approach that integrates technical cooperation, knowledge generation, and policy-based support. Actions will be built around five main lines. First, development of financial instruments designed to expand credit access, especially for productive enterprises. Second, strengthening of innovation and entrepreneurship financing ecosystems, including development of venture capital and private equity. Third, improvements in the institutional and operational framework for business financing by integrating innovation financing policies and simplifying currently fragmented administrative procedures. Fourth, promotion of long-term financial instruments and capital market deepening so as to expand the available sources of funds and enhance their efficiency. This includes thematic bond development and upstream work aimed at developing green and social taxonomies to drive the adoption of standards that can broaden credit access for companies and investment projects. It also includes support for regulatory reforms and structuring of projects to mobilize private investment and expand the supply of affordable housing.

III.12 **To promote competitiveness and motivate private investment, reforms will be implemented with the aim of facilitating trade and investment** as a key factor in reducing transaction costs and strengthening the business environment. Thus, the IDB Group will direct its support toward bolstering the trade- and investment promotion-related regulatory and institutional framework through a programmatic approach that integrates technical cooperation, knowledge generation, and policy-based support. Interventions will be built around three lines of action. First, development of regulatory frameworks and institutional integration aimed at strengthening single trade and investment windows. Second, support for institutional coordination among foreign-trade-related entities—including customs authorities, ministries, and promotion agencies—in order to enhance policy alignment and effectiveness. At the same time, strengthening of the PPP ecosystem will be promoted through institutional support for project structuring and implementation of activities aimed at improving contractual frameworks—prioritizing technical assistance for decentralized autonomous governments—and risk allocation arrangements. Third, simplification of administrative and regulatory procedures to reduce transaction costs for businesses, along with institutional strengthening of currently fragmented export promotion policies, including actions aimed at expanding preferential trade agreements and promoting mutual recognition of sanitary and phytosanitary measures.

III.13 **In terms of support for reforms in strategic sectors,** the strategy will prioritize strengthening the regulatory framework and mechanisms for private sector participation, emphasizing the power and mining sectors in view of their importance for energy security, investment mobilization, and productive growth. Thus, the IDB Group will direct its support through a programmatic approach that integrates technical cooperation, knowledge generation, and policy-based support. Interventions will be built around two main lines of action. First, in the power sector, strengthening the regulatory framework and private-sector participation mechanisms to expand generation capacity, diversify the energy mix, and enhance the system's resilience to climate shocks, so as to mobilize private investment in power generation, transmission, and distribution, contributing to energy security and to risk reduction for productive activities. Second, in the mining sector, ongoing support for consolidating regulatory frameworks and institutional capacity to sustainably harness the mineral resources potential, by bolstering governance, improving the licensing processes, and promoting environmental and social standards to facilitate responsible development of investments.

III.14 **Promotion of labor reforms will be prioritized as a key component for strengthening competitiveness and lowering barriers to private investment,** in line with the areas of action identified by the Ecuador 2040 Growth Agenda. Thus, the IDB Group will direct its support for strengthening the regulatory and institutional framework for the labor market through a programmatic approach that integrates technical cooperation, knowledge generation, and policy-based support. Interventions will be built around three lines of action. First, support for a reform of labor regulations and for the development of secondary regulations aimed at reducing wage and nonwage labor costs. Second, promotion of greater labor market flexibility and adaptation through strengthening of specific contract modalities, insurance coverage for specific worker groups—such as platform workers—and progressive social security contributions for low-income workers. Third, knowledge generation and technical assistance to improve the labor framework, including an assessment of alternatives for optimizing hiring and dismissal costs, enhancing regulatory clarity, simplifying administrative procedures, and strengthening job training mechanisms, while maintaining an appropriate balance with the protection of labor rights.

D. IDB GROUP REGIONAL FLAGSHIP PROGRAMS

III.15 **The country strategy is closely aligned with LAC Crece.** The policies identified are aimed at removing the structural constraints that prevent private investment from becoming the main driver of growth. Three fronts are key to that agenda: (i) regulatory and institutional reforms to reduce transaction costs and enhance investment certainty; (ii) expansion of logistical, digital, and energy infrastructure to boost productivity and returns on new investments; and (iii) financial deepening and productive credit expansion, especially for MSMEs, to correct market failures, including intermediation failures. This combination is consistent with the IDB Group's view that the region needs a structural reform agenda to foster growth in private investment and productivity. It is similarly consistent with the role of IDB Invest in mobilizing resources through the private sector to leverage the enabling factors for economic growth. At the same time, it highlights the idea that in a context of reduced fiscal space, growth requires creating the conditions for private investment to complement and partially replace public investment, especially in infrastructure and strategic sectors.

III.16 **South Connection**. The private investment promotion policies and market solution priorities described in paragraphs II.9 to II.17 are strategically aligned with the South Connection initiative in addressing the bottlenecks that limit Ecuador's integration into global markets. Specifically, interventions aimed at modernizing port infrastructure and consolidating strategic logistics corridors (II.12) are essential for the physical integration promoted by the initiative. In addition, the forward-looking approach to the National Digital Infrastructure Plan (II.13) and the strengthening of energy security (II.15) ensure the necessary enabling conditions for the private sector to operate with competitive costs within an integrated regional ecosystem. Lastly, the search for legal certainty and the use of guarantees (II.11) to mobilize capital in strategic sectors such as mining and energy reinforce South Connection's objective of transforming the region into an attractive and reliable destination for long-term foreign direct investment. Similarly, the strategy will explore partnerships with the Andean Community, of which Ecuador is a member country, particularly in areas such as regulatory convergence, trade facilitation, system interoperability, logistics integration, and public policy coordination at the subregional level.

III.17 **Alliance for Security, Justice, and Development.** The connection between private investment promotion policies and the Alliance for Security, Justice, and Development (alliance) is inherently enabling, inasmuch as security is understood to be an indispensable prerequisite for achieving competitiveness and growth objectives. Specifically, interventions aimed at logistics modernization (II.12) and digital connectivity (II.13) are directly dependent on a secure environment that protects physical assets and supply chains from organized crime, thus reducing the indirect costs (insurance and surveillance) that are now a drag on profitability. In addition, strengthening legal certainty and transparency (II.10 and II.11) under the alliance serves as a country-risk mitigant, helping to attract the private capital needed to close the gap left by public investment. Ultimately, the alliance provides sustainability to the business environment (II.2) by combating unfair competition and asset laundering, ensuring that business dynamism and MSME expansion develop in a formal and transparent market, subject to the rule of law.

III.18 **Ready and Resilient Americas.** The proposed country strategy with Ecuador is comprehensively aligned with the IDB Group program Ready and Resilient Americas, helping to integrate disaster risk into the fiscal frameworks and decision-making, creating enabling conditions for private investment, and positioning Ecuador as a competitive and resilient destination. Through its three pillars (enhancing resilience, strengthening response preparedness, and financial protection against disasters), the program fully contributes to the strategy, providing tools and financial instruments to enhance the resilience of the road and energy sectors (priority lines II. 12 and II.15), promoting quality and resilient access to basic services (priority line II.21), and strengthening the institutional capacity of the central government and decentralized autonomous governments for managing their financial vulnerability to the effects of natural disasters (priority lines II.41 and II.42). The architecture of the Ready and Resilient Americas program enables the Bank to provide comprehensive and concrete support for operationalizing the crosscutting resilience and risk management pillar proposed by the country strategy, using knowledge, tools, and instruments that are integrated with and reinforce those of the other crosscutting pillar (inclusion of vulnerable populations), in a country that is highly exposed to natural disasters.

III.19 **Amazonia Forever.** The proposed country strategy is comprehensively aligned with the Amazonia Forever platform, which is aimed at transforming regional development under a sustainable and resilient model. This model fosters development of resilient infrastructure, protection and conservation of strategic ecosystems for climate and biodiversity, and promotion of a culturally grounded bioeconomy, in close coordination with the territory's communities. In addition, it seeks to ensure the financial sustainability of interventions in the region. This alignment is achieved by channeling funds through second-tier banks (II.11) to promote bioeconomy businesses, assisting in the deployment of sustainable financial instruments such as bonds and debt swaps (II.44), supporting bioenterprises, and strengthening the communities and their governance. It is complemented by the deployment of IDB Invest conservation bonds that leverage projects in the region under environmental performance targets. At the same time, development of resilient infrastructure, such as through strategic investments in water and sanitation (II.21), mining (II.11), and power generation (II.15), is implemented under rigorous criteria that include natural capital valuation, climate resilience, and compliance with environmental and social safeguards. This integration allows private-sector growth in Amazonia to move beyond extractivism, transforming the biome's biodiversity into a strategic asset that ensures the country's sustainable growth and green competitiveness.

III.20 **IDB CLIMA.** Ecuador faces significant gaps in mobilizing climate finance at the required scale in a context in which climate change impacts could reach up to 4% of GDP by 2050 and where investment needs for a resilient, low-carbon transition are substantial, totaling approximately 3.5% of GDP in mitigation and adaptation investments.[110] Despite significant strides in institutional strengthening—such as the 2023 establishment of a sovereign green bond framework aligned with international principles, enabling future public issuances of climate debt—Ecuador has yet to issue a sovereign green bond effectively and the green instruments market is still in its early stages. In 2025, green finance accounted for merely 3.8% of total issuances, while having grown in comparison to 2021.[111] Given this scenario, the IDB CLIMA pilot program provides a critical opportunity for institutional capacity-building at the country level. This program uses IDB investment loans to reward actors investing in the capacity needed to support the ministries of economy and finance in the structuring, issuance, and achievement of targets for thematic debt products. Specifically, the rewards are directed at investments in systems and capabilities that help to identify investment portfolios with a positive environmental impact, develop regulatory frameworks, and build impact measurement, reporting, and verification systems. This helps in closing structural development gaps, using thematic debt markets and their most preferential rates to increase the flows allocated to investments that deliver infrastructure and sustainable growth in Ecuador.

E. FRAGILITY, CONFLICT, AND CRIMINAL VIOLENCE (FCCV)[112]

III.21 **As part of preparing the country strategy, the IDB Group analyzed the FCCV-related dynamics and challenges.** In recent years, Ecuador has experienced a significant decline in security, as illustrated by the accelerated rise in the homicide rate per 100,000 inhabitants, which went from 7.8 in 2020 to 50.9 in 2025, placing the country among the most heavily affected in the region and evidencing persistent citizen security challenges. In certain territories, factors such as limited institutional presence, gaps in delivery of public services, existence of illicit economies, and lack of economic opportunities have helped create conditions that facilitate the expansion and consolidation of criminal networks. In these contexts, criminal violence not only represents a public security problem but also undermines governance, economic activity, and the wellbeing of the population. This phenomenon is highly geographically concentrated, occurring particularly in densely populated cities and in areas linked to logistics corridors and illicit economies in provinces such as Esmeraldas, Guayas, and Los Ríos.

III.22 **Under the country strategy, the IDB Group will continue to support the government through a programmatic approach aimed at building institutional capacity, providing additional support for project implementation in areas with high crime levels.** This approach uses a combination of investment operations, policy-based support, technical cooperation projects, and knowledge generation to prevent and combat criminal violence and illicit financial markets and flows. Similarly, the Bank will introduce adjustments in its procurement policies to mitigate operational risks associated with projects implemented in whole or in part in FCCV pockets. In addition, the Bank will implement measures to (i) promote the participation of private-sector suppliers in higher-risk territories; (ii) monitor operational risks through early warning systems; (iii) strengthen security-related interinstitutional coordination with national counterparts; and (iv) design monitoring

[110] World Bank. (2024). Report No. 193430. Ecuador Country Climate and Development Report.

[111] Primicias (2025), Las finanzas verdes, un sector en expansión en Ecuador pero con desafíos por superar.

[112] Link 9.

mechanisms adapted to contexts where physical presence on the ground may be restricted due to security concerns. This approach will direct interventions toward critical areas where criminal violence and the presence of illicit economies generate greater risks for investment, productive activity, and provision of public services.

F. STRATEGIC PARTNERSHIPS

III.23 **Through strategic partnerships,** the IDB Group strengthens the impact of its program, mobilizing additional financing, complementing technical capacity, and coordinating actions with bilateral and multilateral partners, climate funds, and the private sector. These partnerships broaden the reach of Bank interventions, facilitate the implementation of reforms, and mobilize investments toward strategic projects, including through the use of concessional resources and blended finance arrangements. In line with the programmatic approach adopted by this strategy, partnerships will be linked to the three priority areas through operational collaborations—including cofinancing, technical assistance, and thematic coordination—to reinforce the impact of IDB Group support.

III.24 **Priority area 1.** Promoting private investment and competitiveness. In this priority area, the IDB Group will coordinate with international financial institutions, bilateral partners, and climate funds to mobilize private investment and strengthen the enabling conditions for productive development, supporting investments in productive financing, infrastructure, logistics, and energy transition. Climate finance mechanisms such as the Green Climate Fund (GCF) and Clean Technology Fund (CTF) may support operations related to electromobility, bioeconomy, and climate investment, including initiatives in Amazonia. In addition, partnerships with institutions such as the European Investment Bank (EIB), the Japan International Cooperation Agency (JICA), and other bilateral partners will help to mobilize financing and technical cooperation for strategic projects in energy infrastructure, logistics, and connectivity. At the same time, IDB Invest will promote partnerships with private sector actors, including financial institutions, development agencies with experience in private sector cofinancing, asset managers, and international organizations, to channel investment and cofinancing in strategic sectors. This may include leveraging instruments and initiatives such as the Canada Climate Fund (C2F) for thematic issuances and the Women Entrepreneurs Finance Initiative (We-Fi), which supports women entrepreneurs, as well as collaboration with entities such as FinDev Canada and JICA. Similarly, the IDB Group will coordinate with strategic partners, including the governments of Canada and South Korea, to support initiatives aimed at strengthening the investment environment and enhancing institutional modernization of key entities, helping to boost competitiveness and improve the business climate.

III.25 **Priority area 2.** Strengthening human capital. In this priority area, the IDB Group will coordinate with bilateral partners, international financial institutions, and climate funds to improve the provision of key basic services and strengthen labor productivity, mobilizing financing and technical cooperation in sectors such as water and sanitation, healthcare, employment, and skills development. Partnerships with entities such as Agencia Española de Cooperación Internacional para el Desarrollo (Spanish Agency for International Development Cooperation) (AECID), the EIB, and climate funds will support investments aimed at enhancing water security and making the water and sanitation infrastructure more resilient, especially in vulnerable regions such as Amazonia. In addition, coordination with the World Bank and the Development Bank of Latin America and the Caribbean (CAF) will help promote complementarity between institutions in social sectors such as education and social protection, where these organizations have a significant presence in the country. The Bank will advance coordination with the Office of the United Nations High Commissioner for Refugees (UNHCR) in skills training, employment intermediation, and labor market inclusion for populations in situations of human mobility. At the same time, in partnership with the Pan-American Health Organization, the Bank will promote implementation of the Pan-American Highway for Digital Health as well as other initiatives in the sector.

III.26 Priority area 3. Building institutional capacity. In this priority area, the IDB Group will coordinate with bilateral and multilateral partners to strengthen State capacity in key areas such as fiscal management, security, and combating illicit financial flows. The Bank will work closely with international financial institutions, including the World Bank and the IMF, to ensure programmatic alignment of the reforms supported by policy-based loans and investment operations, in line with Ecuador's EFF arrangement and the country's macroeconomic and sustainable growth priorities. The IDB Group's support for reforms in partnership with other financial institutions is aimed at supporting measures to enhance fiscal sustainability, public spending efficiency, and regulatory environment quality. This includes support for measures that promote streamlining and better targeting of subsidies, as well as strengthening institutional frameworks to reduce distortions and improve price signals. In addition, the Bank will continue to cooperate with international organizations and specialized agencies, including United States government instrumentalities and United Nations agencies such as the United Nations Development Programme and UNODC, to strengthen institutional capacity in crime prevention and the fight against organized crime and illicit economies. At the same time, partnerships with development partners, including the Agence Française de Développement (French Development Agency (AFD), will help support initiatives aimed at institutional strengthening and at building State capacity in security and governance.

IV. CONSIDERATIONS FOR IMPLEMENTATION AND CAPACITY-BUILDING

A. KNOWLEDGE

IV.1 **The IDB Group will place special emphasis on deepening its knowledge agenda to align it with the strategy's programmatic approach.** Knowledge products will be aimed at generating solid diagnostic assessments to identify actual gaps and intervention needs, document effective public policy practices, and evaluate the impact of reforms and investments. This work will be underpinned by a continuous analysis of the country's macroeconomic, institutional, and sectoral context. In addition, the knowledge agenda will help to close information gaps through technical cooperation operations as part of the strategy's operational support package. Complementarily, the IDB Group will prioritize certain innovative projects that, while not directly aligned with the central themes of the strategy, generate relevant knowledge to support economic growth.

IV.2 **Prioritized knowledge products under priority area 1** are aimed at generating evidence to identify and remove constraints on private investment, enhance productivity, and guide reforms, policies, and investments that strengthen competitiveness. Specifically, the Bank will support assessments of the impact of regulatory reforms and incentives on business productivity, as well as studies on the potential of strategic sectors. It will also carry out infrastructure and connectivity analyses, including project cost-benefit analyses, and help develop a national logistics plan. In the financial arena, the agenda will include diagnostic assessments of credit access for MSMEs and studies on interest-rate setting and credit segmentation in Ecuador. Lastly, the Bank will promote analyses on the energy transition and on the productivity impact of an expansion of the country's power transmission network.

IV.3 **Prioritized knowledge products under priority area 2** are aimed at generating evidence to strengthen human capital, enhance employability, and expand access to basic services with direct influence on labor productivity. Specifically, the Bank will support analyses on the skills mismatch in the labor market, assessments of the impact of technical and vocational education and training on employability and productivity, and studies on incentives for employment formalization and on dual training and skills certification policies. In addition, studies will be conducted on sustainable urban development, territorial planning, and access to basic services, including evaluations of affordable housing policies.

IV.4 **Knowledge products under priority area 3** are aimed at strengthening State capacity and improving governance conditions that influence fiscal sustainability, public spending efficiency, and security. Specifically, the Bank will support tax elasticity and fiscal stability analyses; expenditure efficiency assessments at both the central and subnational government levels; and fiscal impact analyses of interventions such as the introduction of best practices in administrative and public procurement management systems. In addition, research will be conducted on the relationship between security and economic development, including impact assessments of crime prevention strategies and analyses of the role of criminal violence in the performance of certain economic activities, such as mining. Territorial analyses will be conducted on violence and crime, based on subnational data.

IV.5 **The Bank's crosscutting and regional knowledge agendas will continue to be advanced.** These agendas include impact assessments of subnational and regional government programs; analyses of public policy outcomes in terms of productivity, inclusion, and territorial development;

and comparisons between Ecuador and peer countries in terms of macroeconomic and socioeconomic indicators. Unobserved determinants of market access gaps for vulnerable populations will continue to be studied, along with the impact of mining on the region.

B. MONITORING AND EVALUATION CAPACITY

IV.6 **Ecuador has a solid regulatory framework** for planning, budget, and evaluation processes, based on the 2008 Constitution and the Organic Code of Planning and Public Finance. However, there are major challenges in implementing this framework, including weak coordination between planning, budget, and results monitoring; uneven capacity of government entities to develop institutional and operational plans aligned with the National Development Plan; and limited use of evidence in decision-making. In addition, the interoperability of information systems used for planning and financial management is low, hindering integrated monitoring of budget execution and of physical progress in government programs and projects.

IV.7 **In this context, the IDB Group can support strengthening the monitoring and evaluation system through technical assistance aimed at enhancing coordination between the planning, budget, and results monitoring functions.** Opportunities include strengthening the institutional capacity to develop institutional and operational plans aligned with government priorities, improving the methodologies for linking government interventions to National Development Plan targets and indicators, and supporting the interoperability of information systems. In addition, the Bank may support the development of analytical tools—including the use of artificial intelligence—to improve the design and monitoring of investment projects, reinforce the monitoring of presidential priorities, and promote greater use of performance information in public policy decision-making.

C. COUNTRY FIDUCIARY SYSTEMS

IV.8 **Country fiduciary systems.** For fiduciary management and supervision of sovereign-guaranteed loan operations executed by the Government of Ecuador, the Bank makes use of the national budget, treasury, accounting, and reporting subsystems. To advertise procurement opportunities, it uses the government-managed information subsystem of Ecuador's public procurement system (SOCE). For over a decade, the IDB Group has assisted the country in progressively strengthening its country systems. During this strategy period, the Bank plans to build on this work by supporting actions aimed at further strengthening the State's institutional capacity and closing the gaps in the country financial management, procurement, and government control systems. In addition, the Bank will continue to enhance the quality, transparency, and timeliness of information generated for public management purposes. These actions are designed to enhance the public expenditure and accountability processes and optimize fiduciary management, which in turn will promote effective performance of Bank-financed operations, in line with government priorities.

IV.9 **Within this context, strategic actions will focus on:** (i) strengthening the regulatory framework for public financial management and external control, including updating the Ecuadorian government accounting technical standards (NTCG), in line with International Public Sector Accounting Standards (IPSAS), and updating the technical regulations of the Office of the Comptroller General (CGE), as part of the programs supported by the Bank; (ii) keeping the current integrated financial information system operational, while preparing diagnostic assessments and preliminary technical designs to identify alternatives for modernizing or potentially replacing the system to ensure long-term efficiency, reliability, and interoperability; (iii) building institutional capacity through mechanisms for cooperation and knowledge transfer in public finance, external control, and procurement; (iv) supporting the processes of national public procurement system reform and strengthening as part of Bank-supported operations and programs, interinstitutional coordination to close gaps with international standards, and progressive introduction of value-for-money procurement practices; and (v) updating the public financial management diagnostic assessments and the MAPS public procurement diagnostic assessment.

D. EMERGENCY RESPONSE

IV.10 **The country strategy aims to strengthen the capacity for a comprehensive response to potential emergencies arising from natural disasters, climate shocks, and public health events.** Ecuador is one of the world's 15 countries with the highest exposure to natural hazards, with close to 96% of its population living in seismic, volcanic, or flood-prone areas. Between 1970 and 2022, there were 91 recorded disasters affecting more than 4.6 million people and causing losses in excess of US$10 billion. The 7.8-magnitude earthquake of April 2016 required emergency public expenditure of US$362.6 million and resulted in damage equivalent to 3.3% of GDP. This structural vulnerability entails significant contingent liabilities for public finances and represents a permanent risk factor for macroeconomic stability and the wellbeing of the population. Given this scenario, the interventions envisaged under the strategy's three priority areas are aimed at strengthening the country's social, economic, and institutional preparedness and resilience, and are complemented by the IDB Group's rapid-response financial and nonfinancial mechanisms.

IV.11 **Priority area 1—promoting private investment—contributes to long-term resilience through multiple channels**. Firstly, strengthening the power system and diversifying the energy mix will reduce the country's exposure to extreme droughts such as the one that occurred in 2023-2024, which led to national blackouts and seriously impacted productive activities. A more robust energy system is essential for sustaining State and private sector response to any emergency. Secondly, improving the regulatory framework strengthens the resilience of businesses by increasing their capacity to resist and recover from adverse events. Specifically, support for access to productive financing for MSMEs, including the use of instruments such as guarantees channeled through financial intermediaries, will enable businesses to remain in operation in the event of economic shocks or catastrophes, acting as a key protection mechanism for recovery. Thirdly, logistics cost reductions and investments in road and port connectivity will facilitate the arrival of aid and restoration of supply chains in emergency scenarios, both being critical elements of immediate response and post-disaster recovery.

IV.12 **Priority area 2—strengthening human capital—reduces the population's vulnerability to emergencies by improving essential social services.** Actions to expand access to water and sanitation in cities such as Quito, Portoviejo, and Cuenca, as well as investment in wastewater treatment infrastructure, are dual-purpose interventions: they improve normal living conditions while at the same time preventing outbreaks of water-borne diseases that tend to worsen after floods and earthquakes. Strengthening primary healthcare—with an emphasis on equipment, information systems, and management—will ease pressure on hospitals and enhance the health system's capacity to respond to large-scale emergencies.

IV.13 **Priority area 3—building institutional capacity—has a direct impact on disaster risk management and emergency response.** Through its fiscal consolidation and State capacity-strengthening objectives, this priority area helps to build the institutional and financial architecture needed to enable Ecuador to absorb and recover from shocks without compromising either fiscal sustainability or the delivery of public goods and services. In the fiscal area, the IDB Group supports bolstering financial management of disaster risks at the national and subnational levels by developing fiscal protection mechanisms, including contingent financing channeled through financial intermediaries, as well as sustainable financing instruments such as thematic bonds and debt-for-nature swaps. Strengthening early warning systems, enhancing public spending efficiency, and modernizing public procurement systems expand the fiscal space available to respond to emergencies and streamline resource execution in crisis situations. At the same time, improving institutional capacity in terms of citizen security and interinstitutional coordination strengthens the State's resilience in managing multihazard scenarios, where criminal violence can interfere with the natural disaster response.

IV.14 **In addition to supporting structural resilience through the three priority areas, the IDB Group has financial instruments specifically designed to respond quickly to emergencies.** The most important of these is the US$400 million loan from the IDB Contingent Credit Facility, which provides Ecuador with immediate access to financing upon the occurrence of natural disasters or public health crises, obviating the need to start a new negotiation process. This instrument has proven effective in the past: following the 2016 earthquake, Ecuador mobilized US$160 million to fund emergency relief, contributing decisively to the State's response in the initial post-disaster months. Complementarily, the IDB may support the country through an integrated, staggered set of instruments designed to strengthen natural disaster preparedness and response.

E. RISK ASSESSMENT

IV.15 **The strategy identifies a number of risks and mitigation measures that may affect implementation of the IDB Group program in Ecuador.** These risks fall into five main categories: economic, institutional and execution, fragility and criminal violence, political, and natural disaster and climate change risks.

IV.16 **Economic risks.** The Ecuadorian economy is highly exposed to external shocks, particularly commodity and oil price volatility. This can affect financial conditions, the fiscal space available for public investment, the country's capacity to implement investment projects, private sector risk appetite, and business performance. In addition, heavy dependence on primary commodities—which account for around 71.5% of current account revenues—exacerbates the country's vulnerability to changes in international markets. Mitigation measures include maintaining a macroeconomic dialogue with the authorities under the IMF program; supporting improvements to the fiscal and public financial management frameworks; and promoting financial instruments that help to sustain fiscal consolidation. They additionally include mobilizing private investment, particularly in sectors that contribute to the economy's diversification; assessing public-private risk management instruments; and maintaining a continuous dialogue with IDB Invest clients to better understand their environment and needs.

IV.17 **Institutional and execution risks.** Institutional weaknesses, budgetary constraints, and uneven capacity of executing agencies may affect the preparation and execution of operations by extending implementation timeframes and reducing the effectiveness of projects. In the Bank's current portfolio, the most common risks arise from the execution environment, particularly in the political, institutional, and economic and financial areas. To mitigate these risks, the Bank will strengthen the preparation and supervision of operations, provide targeted technical assistance to executing agencies, and continuously monitor the portfolio to anticipate and manage operational risks. The selection of investment financing modalities[113] will take into account institutional and execution risks to ensure that projects are designed in keeping with the capacity and track record of the various sectors. In addition, the Bank will work with the government on developing early warning indicators to enable timely identification of disparities between the disbursements provided for in the programming of operations and the actually executed disbursements. This monitoring, to be performed as part of the results-based portfolio review, will make it possible to anticipate execution bottlenecks, improve portfolio management, and reduce the risk of delays affecting project performance and timely delivery of the public goods associated with the Bank's investments. Institutional and execution risks could also affect the universe of bankable projects potentially eligible for IDB Invest support, as well as the performance of portfolio transactions. To mitigate these risks, IDB Invest closely monitors portfolio projects during supervision and assists

[113] The available investment financing modalities are: Multiple Works Financing (GOM); Global Credit Resources (GCR); Results-based Loans (LBR); Projects Preparation, Execution, and Evaluation Facility (PROPEF); Deferred Drawdown Option (DDO); Investment Guarantee (GUA); Contingent Credit Facility (CCF); and Post-emergency Financing (PEF). Unified Investment Lending Policy (document GN-3247-15)

clients through tools such as advisory services designed to boost the likelihood of an intervention's success.

IV.18 **Fragility, conflict, and criminal violence (FCCV).** The rise in insecurity and organized crime poses a significant risk to project execution, private sector participation in the economy, and economic performance. The violence and institutional weakening associated with criminal networks can affect social stability, community security, and the investment climate. Mitigation measures include integrating an FCCV lens into the design and supervision of operations, bolstering the work with local communities and authorities, and coordinating with national and international partners on security and prevention initiatives. Operations executed in whole or in part in territories identified as FCCV pockets will be subject to review under the mechanisms established in the Operational Guidelines for Implementation of the Framework to Support Populations in Situations of Fragility, Conflict, and Criminal Violence (document GN-3199-3). In addition, the Bank recognizes the existence of residual risks that cannot be fully mitigated and must be continuously reassessed.

IV.19 **Political risks.** Political fragmentation and governance challenges can influence the continuity of structural reforms and affect investor confidence. Political uncertainty has historically limited sustained implementation of public policies and economic reforms. However, recent years have shown signs of greater relative stability in the political and institutional environment, as reflected in improved perceptions of country risk in financial markets and in more favorable access conditions for external financing. This presents an opportunity to move forward on priority reforms to the extent that agreements that strengthen public policy predictability and regulatory framework credibility are consolidated. This context also shows a convergence of views on the need to promote economic growth as the central pillar of the development agenda, with the backing of various economic actors and the productive sector, which helps to create more favorable conditions for advancing reforms aimed at boosting investment. As mitigation measures, the IDB Group will maintain a continuous dialogue with the authorities and key actors, encourage building a technical consensus around the priority reforms, and support the implementation processes through technical assistance and knowledge generation, thereby helping to strengthen institutional stability and the investment environment.

IV.20 **Natural disaster, environmental degradation, and climate change risks.** Ecuador is highly vulnerable to climatic and geophysical risks, including floods, droughts, landslides, and phenomena associated with climate change. These events can affect infrastructure, reduce fiscal space, and create significant impacts on economic activity and social conditions. They can also affect the performance of IDB operations and IDB Invest transactions. Mitigation measures include strengthening disaster risk management, support for climate resilience policies, incorporation of resilience criteria into project design, and use of contingent financial instruments enabling a timely response to extreme events. Climate change is one of the main drivers of environmental degradation in Ecuador; in turn, environmental degradation contributes to higher carbon emissions, reduced carbon sequestration by forests and soils, and a decline in the country's resilience to natural disasters. Other key drivers of environmental degradation include deforestation and soil-use change, expansion of legal and illegal mining, oil-related pollution, and inadequate waste management, leading to strategic ecosystem loss and to water and soil contamination and threatening high-biodiversity areas such as Amazonia, Galapagos, and Yasuní, as well as local communities.

IV.21 **Taken together, these risks can affect the pace of strategy implementation and the IDB Group's ability to expand its operational program in the country.** Given the dynamic nature of these factors and the inherent limitations in mitigating them, the strategy incorporates continuous monitoring and adaptive management mechanisms enabling timely adjustments to operations in response to changes in the economic, institutional, or climatic environment. In addition, in the event of substantive changes in the country's priorities, the midterm review will serve as a key opportunity for assessing potential realignments of the strategic objectives, as well as of the programming and portfolio, to adapt the IDB Group interventions to the changing context.

ANNEX I – RESULTS MATRIX

TABLE A1. RESULTS MATRIX

Government priority	Priority area	Strategic objective	Expected result	Indicator	Baseline	Source
Economic, productive, and employment pillar. Objective 5: Boost national output and foreign investment in key sectors of the economy through technological innovation and sustainable practices	1. Promoting private investment	Promote private sector competitiveness and growth	Improve the regulatory framework and reduce barriers to investment in strategic sectors*	Regulatory quality index[114]	-0.6 (2024)	Worldwide Governance Indicators (World Bank)
				Private investment amount (GFCF) in strategic sectors[115]	US$7.467 billion (2023)	Banco Central del Ecuador (National accounts)
			Reduce logistics costs in strategic areas[116]	Perceptions index of customs and trade regulations not being a constraint	0.77 (2025)	Business Ready (World Bank)
				Perceptions index of transportation not being a constraint	0.22 (2025)	
			Expand connectivity and digital services	Percentage of the population under a 5G mobile network	10.5% (2024)	International Telecommunication Union
			Expand financing to the private sector	Total annual volume of outstanding credit operations in the productive segment[117]	US$26.784 billion (2025)	Banco Central del Ecuador (Monetary and financial sector) Bolsa de Valores de Quito (Issuances)
				Total annual volume of outstanding credit operations in the real estate, public-interest housing, and social housing segments	US$1.503 billion (2025)	
				Total annual volume of outstanding credit operations in the productive segment aimed at SMEs	US$3.495 billion (2025)	
				Volume of public issuances in the securities market	US$1.460 billion (2025)	
		Enhance energy security	Strengthen power generation, transmission, and distribution	Installed power capacity	9,442 MW (2025)	Panorama Eléctrico (ARCONEL)
				Power transformation capacity[118]	16,203 MVA (2025)	

[114] From the government's strategic planning standpoint, the Ecuador 2040 Growth Agenda has prioritized these sectors and the Bank will support reforms and structural changes and leverage public and private investment. The expectation is that the change in total investment in the economy will be driven by these four sectors, which account for 40% of private investment.

[115] Based on the sum total of private GFCF in the following sectors: A: agriculture, forestry, and fisheries. B: mining and quarrying. C: manufacturing industries. I: accommodation and food service activities.

[116] Strategic areas in logistics were defined as those in which the IDB Group will focus its interventions. They include customs, trade regulations aimed at facilitating trade, improvements in logistics services, mobility infrastructure, and coordination and demand aggregation mechanisms through logistics hubs.

[117] Author's indicator calculations using information from the database of outstanding operation amounts. Productive credit comprises the corporate, business, and SME market segments. The housing segment comprises the real estate, social housing, and public-interest housing subsegments.

[118] Maximum amount of electric power that transformers in the system's substations are equipped to handle.

Government priority	Priority area	Strategic objective	Expected result	Indicator	Baseline	Source
			Enhance the power system's resilience to climate shocks	Electricity generation mix diversification index[119]	0.472 (2025)	Estadística anual y multianual del sector eléctrico ecuatoriano (ARCONEL)
Social pillar. Objective 1: Improve the social wellbeing and quality of life of the population, ensuring effective enjoyment of rights and a reduction in inequalities Economic productive, and employment pillar. Objective 4: Promote economic development that creates quality employment and	2. Strengthening human capital	Boost labor productivity by improving access to basic services and training	Increase employability	Women contributors to social security as a percentage of all employed women[120] Individuals aged 18 to 29 who contribute to social security, as a percentage of all employed individuals aged 18 to 29[121]	29.22% (2025) 24.19% (2025)	Encuesta Nacional de Empleo, Desempleo y Subempleo (INEC)
			Improve primary healthcare coverage and quality	Avoidable CNCD hospitalizations as a percentage of total public-sector hospital discharges[122]	35.6% (2024)	Estadísticas de Egresos Hospitalarios (INEC)
			Improve access to drinking water and sanitation services	Percentage of homes with drinking water coverage in targeted cantons[123] Percentage of homes with sewer coverage in targeted cantons[124]	66.2%[126] (2024) 46.4%[127] (2024)	Boletín Estadístico (Agencia de Regulación y Control del Agua (Water Regulation and Control Agency))

119 Measures degree of electricity generation diversification by type of source. Defined as 1 − HHI, where HHI is the sum of the squares of each technology's share of total generation. Higher values indicate greater diversification and lower dependence on a dominant source. The indicator takes values from 0 to 1.

120 Percentage of employed women who contribute to the IESS (general, voluntary, and rural social security programs), ISSFA, or ISSPOL social security systems (ENEMDU variable p61b1).

121 Percentage of individuals aged 18 to 29 who contribute to the IESS (general, voluntary, and rural social security programs), ISSFA, or ISSPOL social security systems (ENEMDU variable p61b1).

122 Calculation methodology: 1. Identification of ambulatory care-sensitive conditions (ACSCs) (Castro Vargas & Bauhoff., 2025): The list of ACSCs proposed by Alfradique et al., 2009, based on CIE-10 codes, is used as a benchmark to identify avoidable hospitalizations. 2. Classification of hospitals by cause. All discharges with main diagnoses matching the CIE-10 codes defined as ACSCs are identified. 3. CNCD selection. Out of the full set of ACSCs, conditions classified as CNCDs according to the Global Burden of Disease are selected, using the CIE-10 codes. 4. Indicator calculation. The indicator is the coefficient of total CNCD-associated ACSC discharges (numerator) divided by total ACSC hospital discharges in the public sector (denominator), expressed as a percentage.

123 The value is calculated as the weighted average of drinking water coverage in the targeted cantons, using the number of housing units in each canton as the weighting factor. To this end, the coverage percentage in each canton is multiplied by the respective number of housing units, yielding the estimated number of housing units with access to the service; these values are subsequently aggregated and divided by the total number of housing units in the targeted cantons. The information on the number of housing units is taken from the INEC Population and Housing Census (2022).

126 For the baseline calculation, the following municipios were considered: Portoviejo and Chone, where the IDB has active projects.

124 The value is calculated as the weighted average of sewer service coverage in the targeted cantons, using the number of housing units in each canton as the weighting factor. To this end, the coverage percentage in each canton is multiplied by the respective number of housing units, yielding the estimated number of housing units with access to the service; these values are subsequently aggregated and divided by the total number of housing units in the targeted cantons. The information on the number of housing units is taken from the INEC Population and Housing Census (2022).

125 The value is calculated as the weighted average of water service continuity in the targeted cantons, using the number of housing units in each canton as the weighting factor. To this end, the coverage percentage in each canton is multiplied by the respective number of housing units, yielding the estimated number of housing units with access to the service; these values are subsequently aggregated and divided by the total number of housing units in the targeted cantons. The information on the number of housing units is taken from the INEC Population and Housing Census (2022).

127 For the baseline calculation, the following municipios were considered: Portoviejo, Macas, Sucre, Flavio Alfaro, and Huaquillas, where the IDB has active projects.

Government priority	Priority area	Strategic objective	Expected result	Indicator	Baseline	Source
sustainable, inclusive, and equitable public finances						
Institutional pillar. Objective 8: Strengthen public institutions in an efficient, transparent, and participatory manner	3. Building institutional capacity			Percentage of homes with water service continuity in targeted cantons [125]	92.5%[128] (2025)	Empresa Pública Metropolitana de Agua Potable y Saneamiento (EPMAPS)
		Contribute to fiscal consolidation	Strengthen national and subnational fiscal management	Nonfinancial public sector primary fiscal balance[129]	US$-691 million (2025)	Estadísticas Fiscales (Ministry of Economy and Finance)
			Enhance the efficiency of public procurement management systems	Annual savings in public procurement	US$503 million (2024)	Informe de Rendición de Cuentas (National Public Procurement Service)
		Strengthen the State's capacity to reduce criminal violence and illicit financial flows	Strengthen migration control systems	Percentage of border control points (whether migration support service units or migration control units) that use the biometric verification system	0% (2024)	Administrative records (Migration Undersecretariat)
			Strengthen asset laundering prevention and investigation mechanisms	Cumulative number of asset forfeiture proceedings initiated without a criminal conviction[130]	9 (2025)	UNDECOF and FGE reports
				Recovery of illicit financial assets[131]	13.5 (2024)	FGE. Research Department
			Strengthen the mechanisms to prevent recruitment into criminal activity	Number of children and adolescents assessed through CCVPs to measure their risk of recruitment[132]	0 (2024)	CCVP management reports (Ministry of Interior)

Note: Matrix symbols:

- An asterisk "*" denotes the strategic sectors prioritized in this country strategy, namely, mining, agroindustry, tourism, and manufacturing. These sectors were selected on the basis of those identified by the government under the Ecuador 2040 Growth Agenda, which include (i) mining, (ii) hydrocarbons, (iii) agriculture, (iv) agroindustry, (v) tourism, (vi) manufacturing, and (vii) power. The power sector is treated as an independent strategic objective in view of its significance for the Ecuadorian economy and the Bank's solid positioning in this area. By contrast, the hydrocarbon sector is not prioritized under the strategy, while agriculture is addressed through its linkage with agroindustry.

Source: Prepared by the authors.

128 For the baseline calculation, the following municipios were considered: Quito, where the IDB has active projects.

129 The indicator operates at the national level due to the absence of disaggregated subnational fiscal information. In the knowledge area, we have highlighted the importance of supporting the statistical methodology for assessing subnational fiscal management, and we will support analyses aimed at understanding the effects of legislative reforms and initiatives to enhance the efficiency of subnational public finances.

130 The monitoring, evaluation, and learning plan under IDB operation FIPREVIC II (EC-L1330) included a data sheet with the indicator description and calculation methodology.

131 The monitoring, evaluation, and learning plan under IDB operation FIPREVIC II (EC-L1330) included a data sheet with the indicator description and calculation methodology.

132 Total number of children and adolescents who enter CCVPs and are assessed for recruitment risk using the standard form.

ANNEX II – PORTFOLIO ALIGNMENT AND INDICATIVE PROGRAM 2026

TABLE A2. IDB PORTFOLIO ALIGNMENT AND INDICATIVE PROGRAM 2026-2027

Strategic area	Strategic objective	Portfolio alignment	Indicative program 2026-2027
Promoting private investment	Promote private-sector competitiveness and growth	EC-J0007, EC-L1243, EC-L1245, EC-L1261, EC-L1268, EC-L1279, EC-L1281, EC-L1286, EC-L1289, EC-L1290, EC-L1295, EC-L1302, EC-L1303, EC-U0001, EC-U0006, EC-U0010 IDB Invest: 11598-04; 11762-06; 11949-07; 12457-02; 12493-01; 12493-02; 12511-01; 12789-02; 13655-01; 13943-01; 14015-01; 14183-01; 14215-01; 14466-01; 14674-01; 14919-01; 15071-01; 15404-01; 15624-01; EC-L1024; EC-X1013; 12279-02 IDB Lab: EC-G1020, EC-T1619, EC-T1535, EC-T1536, EC-G1012, EC-G1005, EC-T1496	- Productive Internationalization Program in Ecuador (EC-L1347) - Quito Metro Extension to La Ofelia (EC-L1307) - Development of the EPN Science Park for Innovation and Linkage with the Productive Sector (EC-L1346) - Program to Enhance Macrofiscal Stability and Help Drive Growth in Ecuador II (EC-L1350)
	Enhance energy security	EC-L1147, EC-L1223, EC-L1231, EC-L1257, EC-L1300, EC-L1306, EC-U0006, RG-L1140 IDB Lab: EC-G1012, EC-T1577, EC-G1016	- Support for a Secure, Reliable, and Resilient Energy Supply in Ecuador II (EC-LXXX)
Strengthening human capital	Boost labor productivity by improving access to basic services and training	EC-J0006, EC-J0008, EC-L1236, EC-L1242, EC-L1248, EC-L1250, EC-L1258, EC-L1261, EC-L1283, EC-L1284, EC-L1297, EC-L1308 IDB Invest: 12177-01; EC-L1159, 14888-01; 11949-07 IDB Lab: EC-T1581, EC-G1017, EC-T1578, EC-L1291	- Youth in Action (EC-L1313) - Program for Sustainable Development through Child Nutrition Improvement in Ecuador (EC-U0008) - IDB CLIMA - Water Security Program (EC-L1318)
Building institutional capacity	Contribute to fiscal consolidation	EC-L1227, EC-L1230, EC-L1249, EC-L1251, EC-L1253, EC-L1304, EC-L1305, EC-U0005, EC-U0007	- Contingent Lines Program for Strengthening Decentralized Autonomous Governments' Resilience to Disasters (EC-L1320) - Program to Enhance Macrofiscal Stability and Help Drive Growth in Ecuador II (EC-L1350)
	Strengthen the State's capacity to reduce criminal violence and financial flows	EC-J0009, EC-L1264, EC-L1294, EC-L1298	- Institution-Strengthening Program to Prevent and Respond to Violence in Ecuador II (FI-PREVIC II) (EC-L1330) - Strengthening of the Public Defender's Office for Quality Improvement in the Delivery of Justice and Defense with Dignity (EC-L1312)
No alignment		EC-L1235, EC-L1285, EC-L1311[133] IDB Invest: 14944-01 IDB Lab: EC-L1299	

Source: Prepared by the authors.

[133] Operations aligned with the crosscutting pillars: inclusion of vulnerable populations (EC-L1235) and climate resilience and natural disaster response (EC-L1285, EC-L1311).

ANNEX III – COUNTRY SYSTEMS MATRIX

TABLE A3. COUNTRY SYSTEMS MATRIX

Strategic objective	Expected result	Indicator	Unit of measure	Baseline	Baseline year	Main objective	Timeframe
Increase the use of country systems	Increase the use of the procurement subsystem	Active portfolio using the shopping system	Percentage of the portfolio	2%	2025	40%	End of country strategy period
		Active portfolio using the partial national competitive bidding (NCB) subsystem	Percentage of the portfolio	2%	2025	40%	End of country strategy period
		Active portfolio using the advanced NCB subsystem	Percentage of the portfolio	2%	2025	40%	End of country strategy period
Strengthen country systems	Updating of NTCG in line with IPSAS	NTCG updated and aligned with IPSAS	NTCG updated and aligned with IPSAS	0	2025	1	End of country strategy period
	Updating of CGE technical regulations	Technical regulations updated	Technical regulations updated	0	2025	1	End of country strategy period
	New reverse auction tools	Reverse electronic auction bidding documents updated to improve value for money	Bidding documents updated	0	2025	1	End of country strategy period
Improve the operational efficiency of the IDB portfolio	Keep the current integrated financial information system operational and produce a diagnostic assessment and preliminary technical design identifying alternatives for modernizing or potentially replacing the system to ensure long-term efficiency, reliability, and interoperability	Comprehensive diagnostic assessment and preliminary technical design prepared and validated	Technical document approved	0	2025	1	End of country strategy period
	New official government procurement system in operation	System in operation	Software tool updated	0	2025	1	End of country strategy period
	The CGE has better sustainable knowledge on public procurement for infrastructure projects	CGE specialists trained	Number of specialists	0	2025	40	End of country strategy period

Source: Prepared by the authors. For details and acronym descriptions, see link 2 under this strategy

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ANNEX IV – ESTIMATED LENDING FRAMEWORK

This Estimated Lending Framework Annex provides an indicative description of the sovereign-guaranteed financing volume that the Inter-American Bank (IDB) could make available to Ecuador during the 2026–2030 period in support of the country strategy's implementation. This framework is based on the recent history of the financial relationship between Ecuador and the IDB, the strategic priorities identified in the strategy, the Bank's operational capacity, and an analysis of the country's macroeconomic, fiscal, and debt sustainability context. On this basis, the Bank's sovereign-guaranteed financing over the 2026–2030 period could range, in terms of approvals, from approximately US$4.249 billion to US$5.773 billion[134] under low and high scenarios, respectively. These amounts are subject to the country's demand, the trend in macroeconomic and fiscal conditions, and the Bank's internal programming and approval processes.

IDB Invest estimates that its support for Ecuador will total approximately US$2.000 billion over the country strategy period. This amount reflects IDB Invest's ambition in the country for the coming years, which is based on higher expected demand, higher levels of available capital after IDB Invest's recent capital increase, a stronger programmatic approach due to implementation of the institutional matrix within IDB Invest, greater alignment and synergies with the public sector in originating transactions, and implementation of IDB Invest's New Vision and Business Model promoting greater risk appetite and additional mobilization of third party resources. The realization of this ambition is also subject to factors external to IDB Invest, the most significant of which are described in the risks section of this document. This framework is complemented by support from IDB Lab, which will be aimed at promoting private-sector-led economic growth through productive financing and capital mobilization.

[134] The financing scenarios assume a demand for free-disbursement operations in line with the support provided over the 2022-2025 period, and are aligned with the needs established under the IMF Extended Fund Facility arrangement.

TABLE A4. ESTIMATED LENDING FRAMEWORK

US$ million	Country strategy 2022-2025				
	2022	2023	2024	2025	TOTAL
Approvals	844	928	1,646	1,853	5,271
Disbursements	849	687	1,264	784	3,584
Repayment (principal)	338	327	310	603	1,579
Net capital flows	511	360	954	181	2,006
Interest and fees	214	297	347	395	1,252
Net cash flow	297	63	607	-214	753
IDB debt	7.670	8.030	8.985	9.168	
IDB debt/Multilateral debt	31.5%	31.6%	31.6%	29.6%	
IDB debt/Total external debt	15.9%	16.8%	18.2%	17.7%	
IDB debt/Total debt	12.0%	13.1%	14.4%	14.0%	

US$ million	Country strategy 2026-2030											
	2026		2027		2028		2029		2030		TOTAL	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Approvals	845	1,389	775	926	740	876	1,064	1,322	824	1,060	4,249	5,773
Disbursements	766	931	835	878	786	837	804	867	932	1,016	4,123	5,092
Repayment (principal)	695	695	893	893	844	844	682	682	747	747	3,862	3,861
Net capital flows	71	236	-58	-15	-58	-7	122	185	185	269	261	1,231
Interest and fees	390	390	380	380	356	356	329	329	302	302	1,757	1,757
Net cash flow	-319	409	-438	-395	-415	-363	-208	-144	-117	-33	-1,497	-526
IDB debt	9.238	9.403	9.180	9.388	9.122	9.381	9.243	9.566	9.428	9.835		
IDB debt/Multilateral debt	29.6%	30.1%	29.2%	29.9%	29.1%	30.0%	29.6%	30.7%	30.8%	32.1%		
IDB debt/Total external debt	17.6%	18.0%	17.4%	17.8%	17.4%	17.9%	17.7%	18.3%	18.4%	19.2%		
IDB debt/Total debt	13.2%	13.4%	13.1%	13.4%	13.0%	13.3%	13.3%	13.7%	13.9%	14.5%		

Source: IDB team calculations and projections.

TABLE A5. INVENTORY OF COUNTRY STRATEGY PROJECTS FOR 2026-2027

(US$ MILLION)

	2026		2027	
Instrument	**Low**	**High**	**Low**	**High**
Investment loans	345	438.5	275.4	426.4
Policy-based loans	0	450	500	500
Special development loans	500	500	0	0

Source: IDB team calculations and projections.

ANNEX V – DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: ECUADOR

STRATEGIC ALIGNMENT
Refers to the extent to which the country strategy's design and objectives are consistent with the country's development challenges and the government's priorities.

EFFECTIVENESS
This measures whether the country strategy is likely to achieve its objectives by examining three dimensions: (i) diagnostic quality underpinning the Bank's action in each area of work; (ii) results matrix quality for the strategy; (iii) country systems use and strengthening.

Effectiveness dimensions	
I. Country diagnosis – Country Diagnostics for Impact (CDI)	Yes/No
- The CDI clearly identifies the main development challenges prioritized in the country strategy	Yes
- The main development challenges presented in the CDI are based on empirical evidence	Yes
II. Priority area diagnostics of the country strategy's** priority areas	%
- Identifies the main constraints and challenges in the priority area	100%
- Identifies the main factors or causes contributing to specific constraints and challenges	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected results are clearly defined	100%
- The expected objectives and results are directly related to the main constraints identified in the diagnostic assessment	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines.	100%
IV. Vertical logic	
- The country strategy** has vertical logic	Yes

* The results matrix comprises indicators that are meaningful to, and capture progress toward, the expected results. The expected results stem from the strategic objectives.

** The country strategy includes the CDI

Country strategy diagnostic assessment: A comprehensive diagnostic assessment of the country's challenges is provided as part of the IDB Group Country Strategy with Ecuador 2026–2030. The diagnostic assessment is based on empirical evidence and analytical work, building on the Country Diagnostic for Impact (CDI), the national development plans, and prior evaluative evidence. Through a dialogue with the country's authorities and relevant actors, the strategy focuses on three main development challenges: (i) low productivity and limited private investment in a context of fiscal constraints; (ii) human capital gaps affecting employability and access to quality services; and (iii) institutional weaknesses limiting the effectiveness of policies, fiscal management, and security conditions. The diagnostic assessment clearly identifies and quantifies the main constraints affecting each priority area. It highlights key underlying factors, including regulatory and logistical barriers to investment, limited access to productive financing, connectivity and infrastructure gaps, deficiencies in the provision of services, and institutional and governance challenges. Based on this evidence, the strategy proposes targeted policy actions aligned with the Bank's strategic objectives, focused on enhancing the enabling environment for private investment, improving human capital outcomes, and strengthening institutional capacity and fiscal sustainability. Results matrix: The section in the results matrix that refers to the new strategic area includes 5 strategic objectives for Bank action, 14 expected results, and 24 indicators to measure progress.100% of the strategic objectives are clearly specified.100 % of the expected results are clearly specified. 100% of the country strategy's objectives are directly related to the main constraints identified in the diagnostic assessment.100% of the indicators used are SMART.100% of the indicators have baselines. Country systems: Fiduciary supervision relies on the country systems, including the public financial management systems, which encompass the budget, treasury, accounting, and external audit functions, as well as the public procurement system. These systems provide the institutional framework for implementing and monitoring the operations supported under the strategy, complemented by technical assessments and fiduciary notes referenced in the strategy documents. The country strategy has vertical logic.

RISKS. *The main risks to implementation of the country strategy are: (i) macroeconomic risks, including exposure to external shocks and fiscal constraints; (ii) environmental, climate, and social risks, particularly given the country's vulnerability to natural disasters; and (iii) execution and institutional capacity risks. The strategy identifies mitigation and monitoring measures for each of these risks, including strengthening project preparation, continuous policy dialogue, greater technical assistance, and systematic monitoring frameworks to ensure adaptive implementation.*

Source: Prepared by the authors.