

I. COUNTRY REFORM PROGRESS

During 2024, total gross tax revenue reached 16.6 percent of GDP, representing a 23 percent increase compared to 2023. The improvement was primarily driven by the increase in the VAT rate (13 to 15), and transitory measures. Fiscal consolidation efforts need to continue on both revenue and expenditures sides. These efforts will be supported by reforms to strengthen public financial management (PFM) and tax policy with support from the IMF's Fiscal Affairs Department (FAD).

Ecuador continues to make progress on PFM and tax policy reforms in the areas related to this project. Budget execution processes are gradually improving using methodologies in Excel for cash planning and preparing an arrears prevention and clearance strategy requested by the IMF supported program.

Elections in February-April 2025 led to the postponement of a planned HQ capacity development (CD) mission on budget and treasury processes to next fiscal year.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: Although CD activities have not yet commenced, the team has actively contributed to the policy dialogue on tax reform. This has included supporting the IMF's Western Hemisphere Department (WHD) in reviewing government-proposed policy measures and providing recommendations within the context of the IMF program.

Previous Progress: The team has supported the government in enhancing tax policy design by providing feedback on reform proposals through WHD. However, planned support to strengthen the government's capacity to identify tax base-broadening measures—specifically through cost-benefit analysis of tax expenditures—did not materialize.

Next Steps: During the April 2025 Spring Meetings, the authorities identified a review of the mining sector's taxation as their top CD priority.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY25: Two missions (August-September 2024) provided CD on improving investment budget execution processes, cash planning methodology and arrears strategy. The missions helped prepare an Excel-based cash plan with an improved methodology, and a methodology for reducing earmarking of financing sources that create budget rigidities. Also, they helped prepare an arrears prevention and clearance strategy. Work has continued in these areas supported by the IMF self-funding in the next months of FY25. Its recommendations will seek implementation from this GPFP project.

Next Steps: A HQ mission is planned for early FY26 on improving the link between budget and treasury processes, such as commitment control, and an action plan on arrears. Support to implement the program benchmarks on budget, treasury and fiscal risks will be provided through STX missions under this project and another HQ mission may be delivered in FY26 or phased out to FY27, according to the needs of the authorities.

III. LOGICAL FRAMEWORK

Country – Ecuador		
RM I: Objective - Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 1
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	1 Not Achieved	CD activities have not started yet. The team has been supporting WHD on reviewing the policy measures proposed by the government in the context of the IMF program. During the 2025 IMF-World Bank Spring Meetings, the authorities have requested a review of the taxation of the mining sector, activity that will be delivered in FY26
SM II: Objective - Strengthened Budget Management - PBM		Rating - 2
Outcome	Rating	Narrative
Strengthened identification, monitoring, and management of fiscal risks	2 Partially Achieved	Discussions with the newly created Fiscal Risks unit have started, and the project will deliver on fiscal risks mainly in FY26-27.
Strengthened asset and liability management processes	2 Partially Achieved	A mission delivered a methodology for revenue and expenditure forecast on cash basis and helped coordination among departments to prepare the treasury financial plan. In the remainder of the fiscal year, other assistance is planned on the financial plan and better linkage to budget preparation and execution.
Strengthened budget execution and control processes	2 Partially Achieved	The project started with a mission on improving budget execution processes by eliminating rigidities on the financing source alignment that may improve investment spending execution. It also assisted on the arrears' strategy. Next steps will include implementation of the PFM Law on budget quotas and enhanced budget preparation, execution and treasury operations.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
N/A	N/A	N/A
Political Support		
RM I: Increased political instability and security concerns could make passing critical legislation more uncertain	Medium	Closely work with the IMF's Resident Representative to monitor the political environment and timely identify risks. Maintain regular high-level meetings in parallel to the engagement with senior management and technical staff to keep momentum for reforms. Support the government with stakeholders' consultations.
RM I: Elections in February 2025 may prompt delays in politically sensitive reforms	Low	Consult with IMF country team to assist authorities in recognizing the relevance of reforms and preparing policy options before the elections. Renew contact with the new authorities after elections and prepare a visit.
SM II: Elections in February 2025 may prompt delays in politically sensitive reforms.	Medium	Consult with IMF country team to assist authorities in recognizing the relevance of reforms and preparing policy options before the elections. Renew contact with the new authorities after elections and prepare a visit.
Management and Technical Staff Support and Commitment		
SM II: Competing demands for key staff's attention might result in low engagement on tax policy measures	Low	Discuss with authorities to establish clear priorities and coordinate with the IMF's area department and resident representative.
Resource Adequacy		
N/A	N/A	N/A
Other Risks		
N/A	N/A	N/A

V. PROJECT MANAGERS CONTACT INFORMATION

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