

I. COUNTRY REFORM PROGRESS

Public financial management (PFM) and tax policy are key components of the reform strategy supported by the IMF-approved a 48-month Extended Fund Facility (EFF) for Ecuador, providing \$4 billion in access since May 2024. The program aims at stabilizing the economy, safeguarding dollarization, fiscal sustainability, social safety nets, financial resilience, and governance. The project, on its PFM module, aims at improving treasury management, budget execution control, arrears' control and fiscal risks management. Partial progress has been achieved in the first months of the project on Treasury planning and budget execution processes, while discussion on tax policy reform continues.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy
Key Progress in FY25: The team has been supporting the government to improve tax policy design through comments to reform proposals via the IMF area department. Next Steps: Support the government to strengthen their capacity to identify tax broadening measures through cost-benefit analysis of tax expenditures.
SM II: Spending Module II – Managing Public Finance
Key Progress in FY25: In the period August-September 2024, two missions focused on improving budget execution processes for investment, cash planning methodology and arrears' control strategy. An Excel based cash plan was prepared with an improved methodology, as well as a methodology for reducing budget rigidities related to earmarking of financing sources, and assistance to prepare an arrears' prevention and clearance strategy. Next Steps: The rest of the FY25 will focus on (i) the extension of 2024 budget to 2025 and associated financial planning; (ii) improving budget execution control and treasury processes; (iii) assisting on the implementation of the PFM Law on commitment control; and (iv) fiscal risks management (one HQ mission and short-term expert missions are planned until April 2025).

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	Capacity development (CD) activities have not started yet. During 2024 Annual Meetings, authorities expressed interest for support with a comprehensive evaluation of tax expenditures.

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 in the second part of the FY25.
Strengthened asset and liability management processes	2 Partially Achieved	A mission delivered on a methodology on 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.

Description	Rating	Mitigation Measures
Resource Adequacy		
N/A	N/A	N/A
Management and Technical Staff Support and Commitment		
RM I: Competing demands for key staff's attention might result in low engagement on tax policy measures	Low	Discuss with authorities to establish clear priorities
SM II: Competing demands for key staff's attention might result in low engagement on tax policy measures and PFM	Low	Discuss with authorities to establish clear priorities.
Other Risks		
N/A	N/A	N/A

V. PROJECT MANAGERS CONTACT INFORMATION

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