

ANNEX 4.1

**Loan application
justification base on the
current market of the
Ecuadorian Financial System**

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The financial and economic evaluation concludes that the Conolophus project is reasonably feasible. Despite these results, even under favorable conditions, financing from the GCF is necessary, which plays a central role in changing the patterns of energy consumption and production in Galapagos.

Under current conditions (economic context and financial market in Ecuador), without the concessionality of the GCF, a credit market would not be found that can satisfy the demand for such a project.

In the following points, the financial market conditions of Ecuador, especially the Galapagos Islands, and the current economic context of the country are presented, which serve as an argument to demonstrate the need for GCF financing.

OVERVIEW OF THE BANKING SYSTEM

According to the Ecuadorian Bank Association, by the end of November 2020, the total Assets of private banks grew by 0.1% with respect to October. The liabilities grew 0.1% in the same period. The balance of assets and liabilities was USD 46,713 million and USD 41,595 million, respectively; this meant an annual growth of 8.9% and 9.8% for each of them. The equity reached a balance of USD 4,913 million, which marked an annual variation of 10.7%.

The income account registered an annual variation annual rate of -2.1%, while the expense account grew 6.4%. Finally, the net profit, discounting taxes and benefits of law accounted for USD 205 million, compared to USD560 million as of November 2019.

Table1: Main Accounts

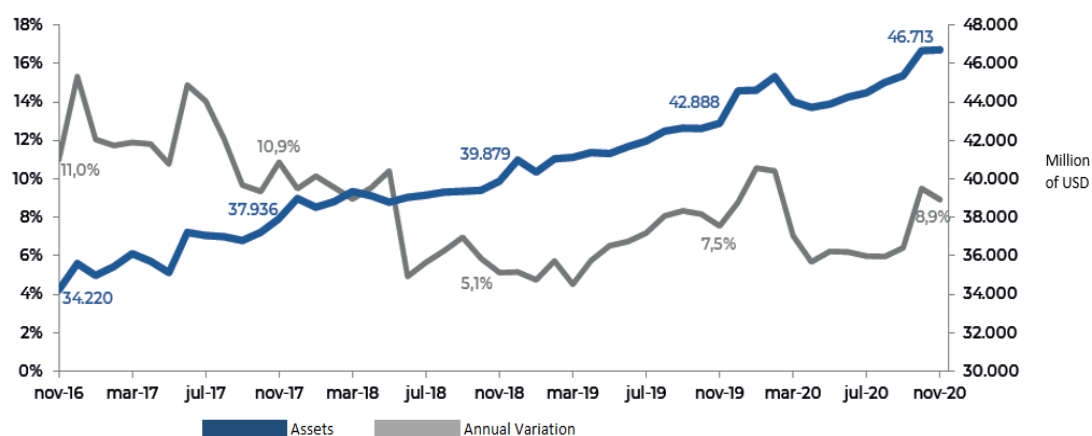
Main Accounts						
(in million of dollars)						
	nov-19	dic-19	oct-20	nov-20	Monthly variation	Annual variation
Total Assets	42.888	44.583	46.665	46.713	0,10%	8,90%
Total Liabilities	37.889	39.536	41.542	41.595	0,10%	9,80%
Equity	4.438	5.047	4.933	4.913	-0,40%	10,70%
Income	4.596	5.060	4.110	4.499	0,00%	-2,10%
Expenses	4.036	4.444	3.920	4.294	0,00%	6,40%
Profit	560	616	191	205	0,00%	63,40%
Source: ASOBANCA						

At the end of November 2020, the total assets reached a cumulative balance of USD 46,713 million, in contrast to what was obtained in November 2019, when the account

reached USD 42,888 million. In annual terms, this account grew 8.9%. Monthly, this item grew 0.1% compared to October. In annual terms, there was absolute growth for USD 3,825 million.

Assets

Chart 1: Assets evolution

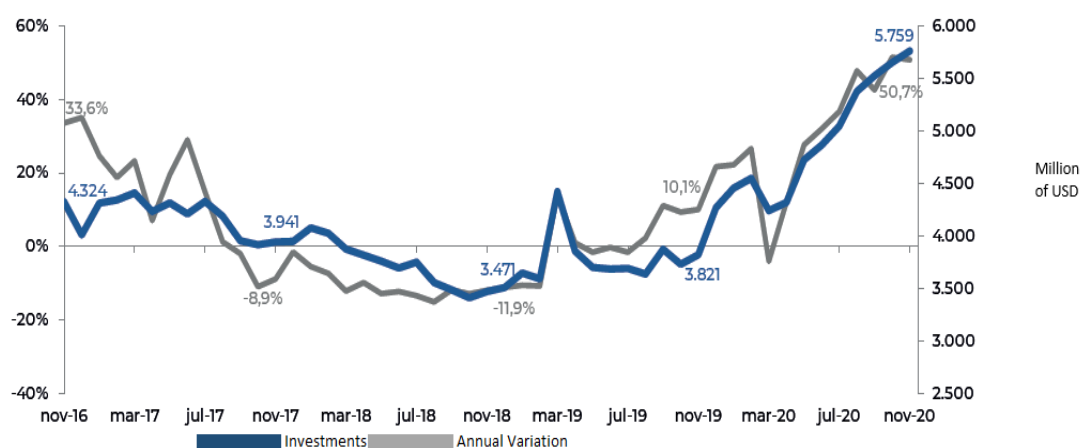


Source: ASOBANCA

At the end of November, the investment account registered a balance of USD 5,759 million, which grew 1.9% compared to October. In annual terms, it grew by 50.7%. This meant an additional USD 1,938 million.

Investments

Chart 2: Investments evolution



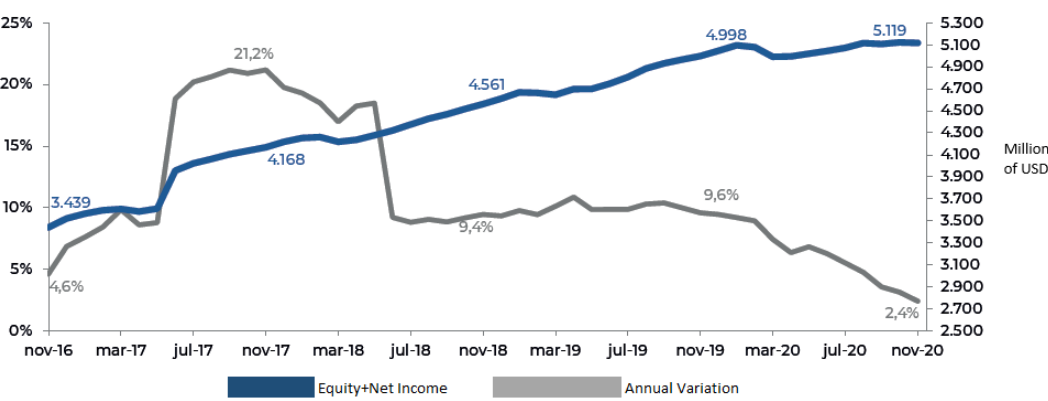
Source: ASOBANCA

The equity account plus net income of the Private Banking System as of November

2020 had a cumulative balance of USD 5,119 million. Thus, the monthly variation was - 0.1% compared to October. In annual terms, the equity registered an increase of 2.4%, which implied an annual growth in the balance of USD 120 million which means greater solvency.

Equity+ Net Income Evolution

Chart 3: Equity+ Net Income Evolution

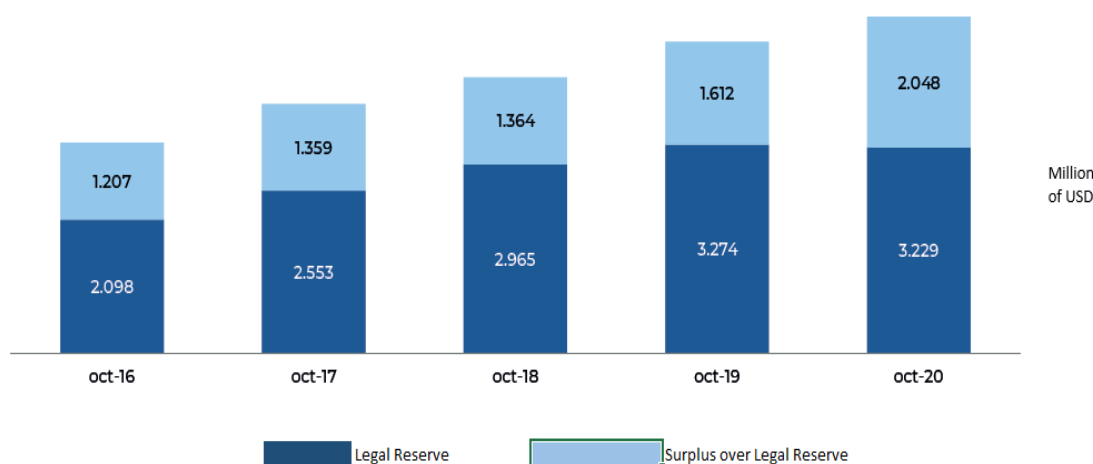


Source: ASOBANCA

At the end of October 2020, the relationship between legal reserve and the sum of weighted risk by assets and contingents of the banking system was 14.7%; that is, a surplus of 5.7 percentage points with respect to the minimum established legal reserve, which requires a ratio of not less than 9%. In absolute terms, this surplus represented USD 2,048 million. Therefore, it is evidenced that private banking maintains strong equity through this relationship.

Legal Reserve Composition

Chart 4: Legal Reserve Composition

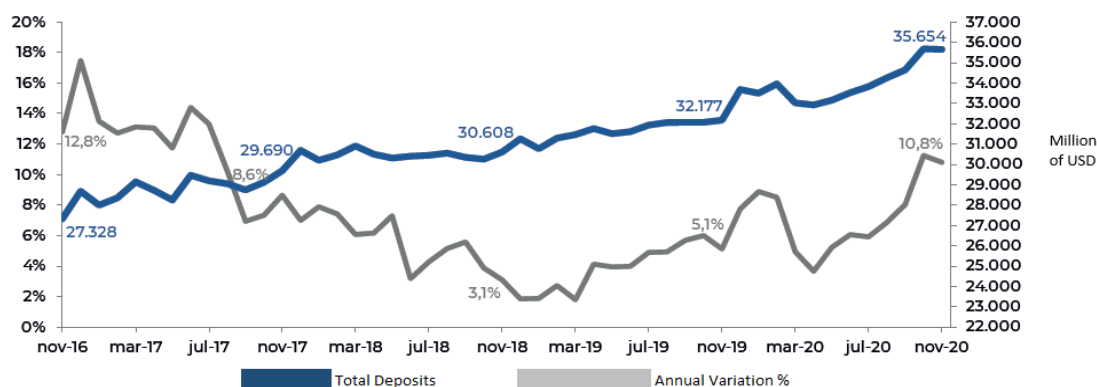


Source: ASOBANCA

The balance of bank deposits closed in November 2020 at USD 35,654 million, which meant a monthly variation of -0.1% and an annual growth of 10.8%. The percentages presented meant USD 24 million less compared to the previous month and an additional USD 3,477 million annually.

Deposits evolution

Chart 5: Deposits evolution



Source: ASOBANCA

Credit Allocation

At the end of November, the balance of the loans portfolio granted by private banks reached a value of USD 29,184 million. Of the total financing awarded, USD 17,349 million were granted to production credit. The credit for productive sectors, housing and microenterprise is 59% of the total portfolio. On the other hand, credit for consumption was 41% of the total which is USD 11,834 million.

Table 2: Credit Allocation

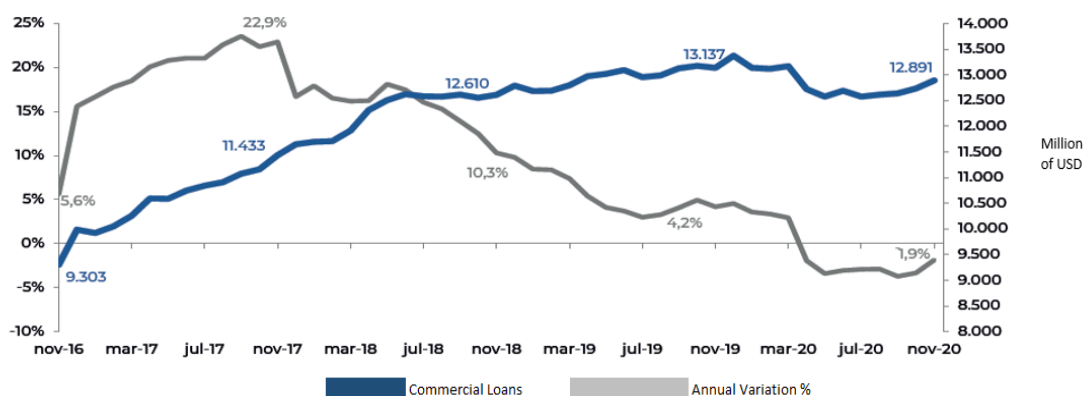
Credit Allocation

(in millions of dollars)		
Credit Type	Balance	Weight
Commercial and productive credit	12.997	45%
Mortgages	2.341	8%
Small business credit	2.012	7%
Total productive credit	17.349	59%
Total consumption credit	11.834	41%
Gross portfolio	29.184	100%

Source: ASOBANCA

The balance in the commercial loans reached USD 12,891 million at the end of November 2020. With respect to October there was a variation of 1.2%. The commercial portfolio, in annual terms, registered a variation of -1.9%, which meant an annual decrease in balance by USD 246 million.

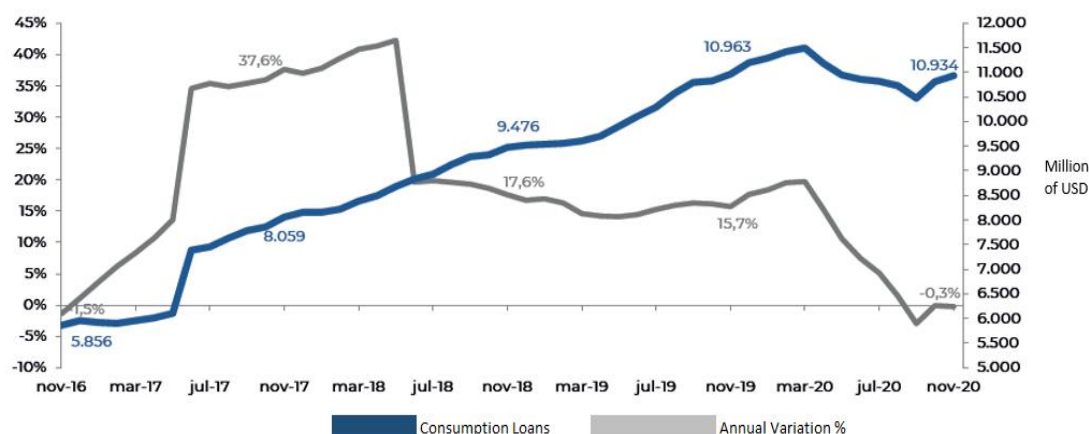
Chart 6: Commercial loans evolution



Source: ASOBANCA

The accumulated balance of the consumption loan portfolio closed in November 2020 at USD 10,934 million. This was a 1.1% monthly growth. In annual terms, this represents a decrease of 0.3%. In monetary terms this is USD 29 million less in the consumption loan balance portfolio compared to the previous year.

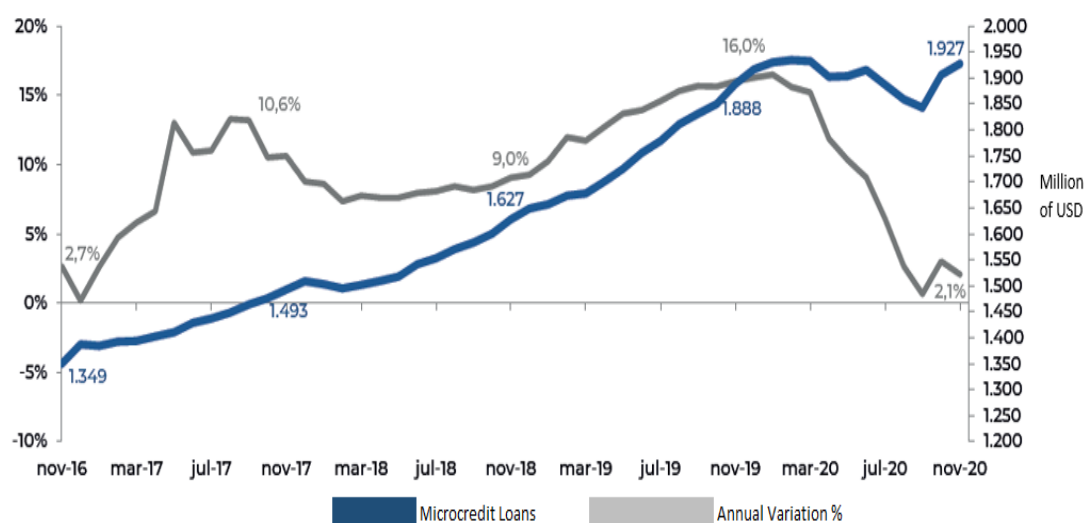
Chart 7: Consumption loans evolution



Source: ASOBANCA

At the end of November 2020, the microcredit portfolio accounted for USD 1,927 million, which implies a monthly growth of 1.1% and in annual terms showed a growth of 2.1%. In terms absolute, this meant USD 39 million more than portfolio balance in November 2019.

Chart 8: Microcredit loans evolution



Source: ASOBANCA

Regarding the interest rates, the banking market has regulated and fixed interest rates. This means that the government presents a referential interest rate for each segment and a maximum legal interest rate. In practice, 92% pf the loans are lent at the maximum rate that the law allows.

Interest Rates

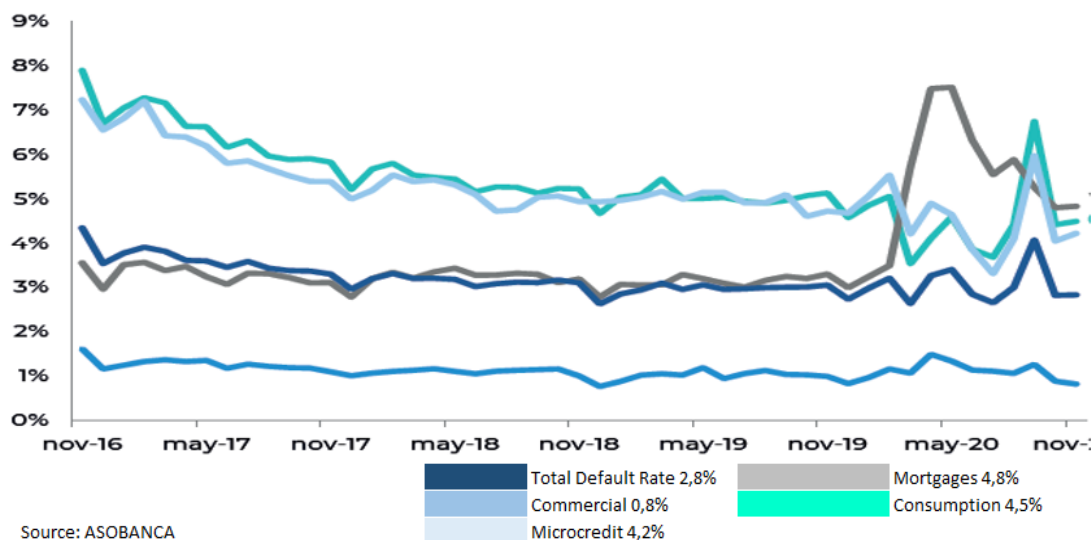
Table 3: Interest Rates

Interest Rate		
Segment	Referential Interest rate	Maximum Legal interest rate
Corporate	8,84%	9,33%
Productive Business	9,91%	10,21%
Small Business	10,97%	11,83%
Agricultural and Livestock	8,48%	8,53%
Simple Commercial	10,48%	11,83%
Consumption	16,66%	17,30%
Mortgages	10,15%	11,33%
Microcredit	26,14%	28,50%

Source: ASOBANCA

The default rate of all private banks at the end of November 2020 was 2.8%. Thus, default decreased by 0.2 p.p. in relation to the previous year. Default by segment closed in November at 0.8% for the commercial segment, 4.5% for consumption, 4.8% for mortgages and 4.2% for microcredit.

Chart 9: Default Rate Evolution



Source: ASOBANCA

GALAPAGOS BANKING SYSTEM

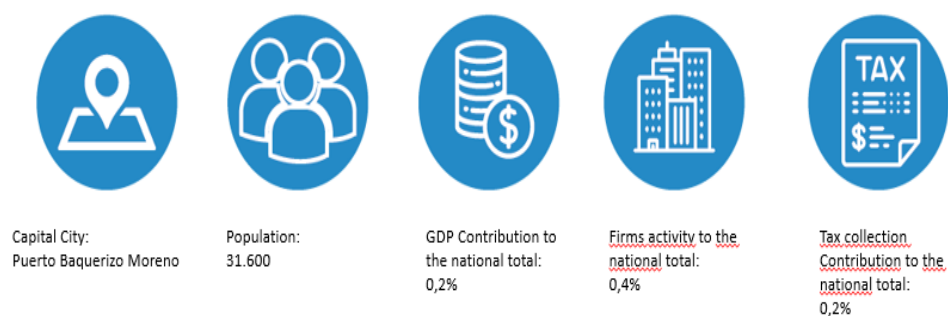
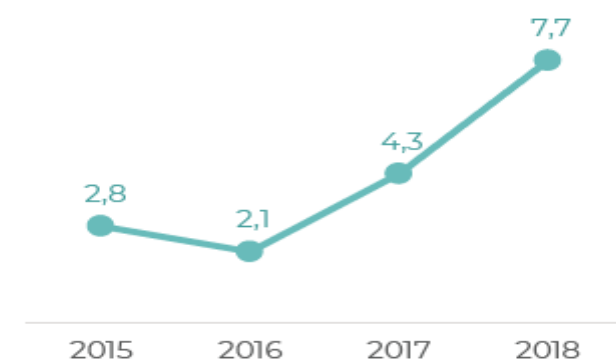


Table 4: Credit allocation main indicators

OVERVIEW	
Total Credit Volume USD	7.700.000
Galapagos Credit Volume to the National Total	0,03%
Credit Allocation Segments Weights	
Consumption	50,40%
Commercial	31,20%
Mortgages	18,20%
Microcredit	0,20%
Credit Recipient Main Recipient	
Commerce	15,50%
Lodging	7,80%
Managing Services	7,60%

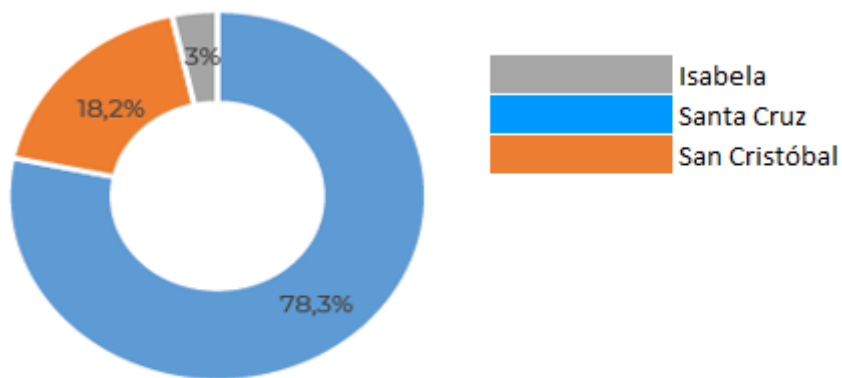
Source: ASOBANCA

Chart 10: Credit allocation evolution (in million of USD)



Source: ASOBANCA

Chart 11: Credit allocation by city



Source: ASOBANCA

The total default rate in Galápagos is 2,4%, which is 0,4% lower than the national average.

Table 5: Deposits Indicators

Deposit Overview	
Total Balance	44,9 million
Number of Clients	25.414
Average Outstanding Balance per client	1.765
% of Deposits per Bank	
Pacific Bank	79,40%
Pichincha Bank	20,60%

Source: ASOBANCA

Chart 12: Clients Evolution



Source: ASOBANCA

Chart 13: Types of Deposits



Source: ASOBANCA

ECUADORIAN GREEN CREDITS

According to data from Asobanca, since 2016 the bank Produbanco has disbursed \$142 million in this type of product. Procredit more than \$ 72 million (since 2012). Banco Pichincha started in 2018 and to date has placed \$ 150 million.

Table 6: Banks that offer green credit

Banks that offer Green Credit		
	Amount of placed credits (in millions)	Since
Produbanco	142	2016
Pichincha	150	2018
Procredit	72	2012
Bolivariano	7	2019

Is important to mention that in Ecuador 26 banks are allowed to operate. Thus, only 15% offer this type of credit and the amount is minimal compared to the total credit allocation.

The requirements and conditions to access this financing are the same as for a traditional credit, but these are added to the environmental permits and licenses.

According to Asobanca, interest rates respond to the segments set by the Superintendency of Banks. The ranges are differentiated by the customer segment, which can be corporate, business, SME or microcredit. In general terms, the green credit is on average 2,0% lower than the normal interest rate.

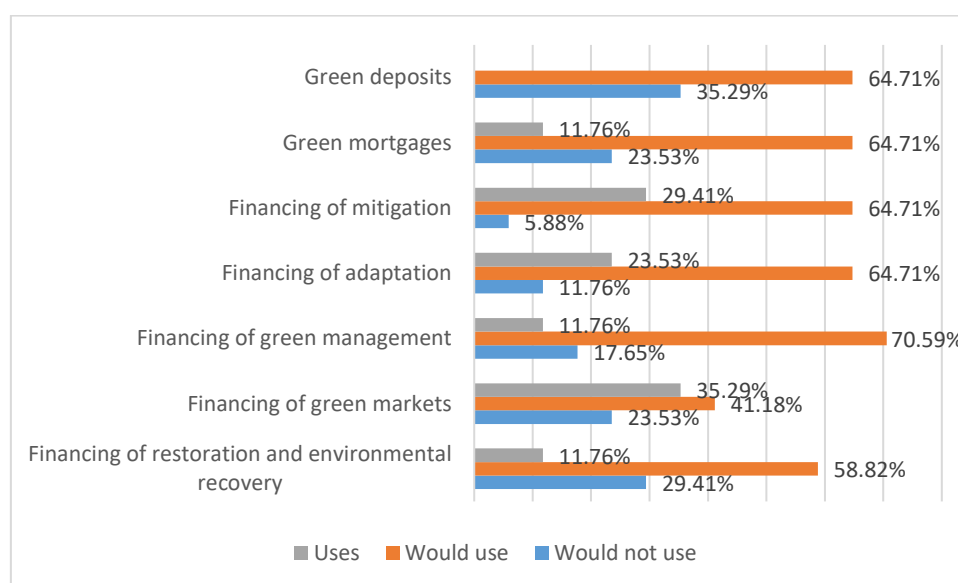
Private banking has grown in the promotion of green credit lines, however to continue Asobanca recommends that the private sector be aligned with the responsibility it has with sustainable development.

The association considers that it is necessary to invest more in infrastructure, technologies and sustainable processes, as well as activities that promote sustainability with long-term investment.

The UNEP conducting a survey of 17 Ecuadorian financial institutions (FIs) in the month of October to December 2016; 64.7% corresponds to Private Commercial Banking. The participation of public banks was 23.5%, small financial institutions; among others; and the remaining 11.8% represents Public Commercial Banking. As mentioned in this research, it was consulted whether the interviewees have commercialized, or are attracted to the trade of various financial products of “green” nature. (UNEP & CAF, 2016, p. 15)

Green Financial Products. Survey results

Graph 13: Green Credit attention



Source: UNEP & CAF

At least a third of FIs (35.3%) have already concluded credit operations in which case these are financial operations on green production, that is: ecotourism, organic products, biotrade, payments for environmental services, among others.

Among the other options reported as already commercialized, the commercialization of green financial products related to climate change mitigation (energy renewable, energy efficiency, comprehensive waste management, greenhouse gas reduction, and carbon neutral, among others) with 29.4% of the FIs surveyed. Just as with the adaptation to climate change (water conservation, agriculture, natural resources and ecosystem-based adaptation, disaster risk reduction projects, among others) with 23.5%.

Regarding the remaining percentage of 11.8%, in which is the commercialization from other financial products such as green mortgages; financing for the environmental and / or social management procedure; and financing of restoration and / or environmental recovery.

It is observed that for the year 2016 the penetration of the aforementioned products, have been scarce in the Ecuadorian banking system, the favorable response in the

supply of various green products, it is encouraging aiming to reach sustainable development. On the other hand, some institutions ruled out the commercialization of some products, noting that because they are “out of the current business” of the FIs.

Currently, the commercialization of green financial products is still scarce, but the incorporation of these over time is observed within the portfolio of the IFs. Pichincha, Produbanco, Procredit, and Bolivariano offer green credits in order to finance sustainable projects for people, SMEs and companies; providing assistance to solve or offset the environmental impact. On the other hand, Banco de Guayaquil is gradually adding green lines to its portfolio. The following lists describes some of the existing products on the market by financial institutions that have green financing products.

Procredit Bank

The implementation of ecological finance in the bank, occurs between November 2011 and February 2012, through a market study focused on the prevention of occupational hazards (MPE), From this, EcoCredit was officially launched in March 2012, this month they receive a revolving line of \$ 10 million from the Global Partnership Fund Climate (GCPF, acronym in English) (Banco Procredit, 2016). In the report presented by the Procredit team mentions that, when studying the results of 2018, compared to the period 2017, the conglomerate's green loan portfolio grew 39%; 775 million dollars, obtaining a 15.4% participation in its loan portfolio, which reflects the work of the team in financing investments that reduce environmental exposure.

Table 7. Procredit Bank Green products

Green Financial Products			
Bank	Product	Characteristics	Non green average market loan characteristics
Procredit Bank	Financing for green vehicles	Interest rate between 9,5% and 12%	Interest rate between 11% and 16%
		Maximum loan maturity 60 months	Maximum loan maturity 60 months
	Financing for green mortgages	Loan amount between \$30K and \$1MM	Loan amount between \$40K and \$0,4MM
		Interest rate 8%	Interest rate between 9% and 10,46%
		Loan maturity 15 years	Loan maturity 15 years
	Efficient equipment, garbage treatment and renewable energy	Loan amount between \$2K and \$1,5MM	Loan amount between \$2K and \$1,5MM
		Interest rate between 9,9% and 20%	Interest rate between 11% and 26%

Source: Procredit Bank and ASOBANCA

Bank of Pichincha

The Environmental and Social Risk Management System (SARAS) is incorporated into the bank's operations since 2015 as an instrument that allows evaluating the environmental and social risk of customer activities, for 2016 Pichincha had a greater presence

In the incorporation of sustainable practices, the second measurement stands out in the Index of Sustainability Dow Jones, additionally voluntarily joined in 7 initiatives of sustainability work on the design and placement of ecological credits based on three lines of friendly products and services, which will have a massive launch in 2017. It focuses on, energy efficiency, buildings and sustainable housing; and environment

Table 8. Bank of Pichincha green products

Product	2018	2019
Ecological	84 Operations	366 Operations
	Amount \$31,5MM	Amount \$17,2MM
Energy efficiency		324 Operations
		Amount \$10,9MM
Ecological agriculture		42 operations
		Amount \$6,3MM

Source: Pichincha Bank

During 2018, Banco de Pichincha was one of the first banks to be an issuer of green bonds, placing between 150-200 million dollars, the placement of green portfolio in 2018 was 78 million, they grant 5-year funding to investors and technical assistance from multilaterals. The amount of loans for renewable energy is \$20,706,379, which represents 26.1%.

Regarding product characteristics of green loans, Banco Pichincha offers the market interest rate without any difference. The comparative advantage is that it offers grace period.

Banco Pincincha has developed two Green Credit Lines:

Vehicle biocredit: With this product the intention is to finance new car as hybrids, electric and less polluting, with the specialized advice of BPAC executives. Our financing allows you to cover not only the acquisition of the vehicle but also the expenses derived from it.

Housing biocredit: The objective of this product is to finance new house or apartment that meets ecological construction characteristics, with excellent financing conditions. The home must have an environmental certification such as: EDGE, Leed or Breeam.

In the Sustainability Report from 2020, Banco Pichincha states that its vision of sustainability is based on the management of risks and opportunities before our stakeholders in economic, social and environmental issues, derived from Banco Pichincha's operations, which strengthen our corporate reputation and financial responsibility.

Finally, Banco Pichincha is one of the Local Financial Banks in Galapagos with offices. For the previous, Banco Pichincha has been preselected to implement the Programme in Galapagos.

Produbanco.

The origin of the Green Lines Program adopted by the bank was in 2013, with the support from the Andean Development Corporation –CAF, which supports with economic resources non-reimbursable, the preparation of the first emissions inventory for the certification of Carbon Neutrality of the buildings in Quito and Guayaquil.

By August 1, 2016, the Green Lines Program was implemented within the bank, which is focused on environmental projects of energy efficiency, renewable energies and environmental protection measures, until the end of 2016 \$10 million were disbursed in ecological credits to SME banking users, these funds were granted by the FMO (Netherlands Development Bank) in order to support the environmental impact reduction initiative, the product base was 20 customers. The 92% of credit assigned to the following sectors; industry 54%, agribusiness 35%, food and beverages 11%. Representing this placement 0.18% of the total portfolio of this year.

From the launch of the program until April 2018 as mentioned in the report annual bank that has placed 50.40 million dollars in specialized credits for energy efficiency projects, renewable energy and environmental protection measures. I know has carried out 74 operations during the aforementioned period, distributed as follows:

The sectors that were beneficiaries are recycling 50.99%, agriculture 22.06%, hydroelectric 15.36%, beverages 6.60%, metalworking 3.08%, poultry 1.51% and chemicals 0.40%. To the end of 2018, reached 50.60 million dollars, the increase is 20 million, has a weight of 1.62% within the Bank's total portfolio. 40.10% has been allocated to businesses that promote agriculture and floriculture. Operations carried out for credit green during the year were 118, placing 84.79 million dollars. Late December the “green account” product is added to the bank's portfolio, created with the aim of attracting resources that will be used in a unique way for Green Lines loans.

Regarding product characteristics of green loans, Produbanco offers 2% the market interest rate without any difference. The comparative advantage is that it offers grace period.

Bolivarian Bank

As of December 2018, the Bolivarian bank has assets that reach \$3,348 million, an increase of 7.5% is observed in relation to the end of 2017. It occupies the sixth position among the ten largest banks in the banking sector, it has a share of 8.2% with respect to the total assets of the system. Regarding the bank's loan amounts at the end of 2018, presented a balance of \$1,952 million, the segments with the highest volume in the portfolio; is Commercial / productive with a balance of 1,441 million, followed by Consumption with \$424 million and real estate or housing loans with \$83 million.

According to Asobanca's public report in January 2018, Banco Bolivariano has established an Environmental and Social Risk Analysis System, in order to reduce the environmental and social impact. Of the loan operations carried out by the FI, in this

document disseminates the new ecological credit products that are incorporated into the institutional portfolio. Credimax (natural users) and Crediplus (legal entities).

Regarding product characteristics of green loans, Bolivarian Bank does not offer any product difference in interest rate or loan maturity compared to traditional loans. The uniqueness of the Bolivarian Bank is that its green financial products have green names.

Bank of Guayaquil

Since 2011 Banco Guayaquil has developed a Policy and Methodology Manual for Environmental Risk Management, and since 2014 it has an Environmental Management System (EMS), the exposure assessment is verified in loan or investment procedures of segments such as Corporate, Business and SMEs. With lines of credit for a higher value at \$ 500,000; the sector where efforts are mainly focused is agriculture; for having greater vulnerability. In 2016 the incorporation of an analysis and monitoring of risks of an operation, it is the first step in relation to the gradual integration and implementation of a SARAS. For 2018 the amount with respect to the study is reduced to \$250,000; On the other hand, the BG plans to start operations with the Environmental and Social Risk Analysis System in early 2020.

Regarding product characteristics of green loans, Bank of Guayaquil offers loan conditions according to their clients cash flow, which is quite unusual compared to the standardized loan.

Banco del Pacífico:

This bank has not developed green credit lines. However, has developed sustainability memories. In the Memory, it can be observed that the bank is working to “ensure the establishment of sustainability, guided by the international standard ISO 26000, the basis on which it has developed its Social Responsibility Policies that ratify the voluntary commitment with its stakeholders.

The bank has a Corporate Social Responsibility Policy Manual in order to have clear guidelines on ethical, economic, social and environmental matters, as well as to adopt best corporate responsibility practices, based on the following fundamental matters:

Human Rights, Organization Governance, Fair Operating Practices, Active Participation and Community Development, Environment, Labor Practices and Consumer Affairs.

Banco del Pacífico, understands Corporate Social Responsibility as a management model capable of meeting the needs of its stakeholders, improving social aspects and generating tangible values, in order to achieve the sustainability of the GFBP, the community and the environment.

Its objective is to establish a distinctive aspect of our organizational culture by implementing a sustainability strategy that integrates CSR programs in the value chain of our business, to optimize our economic performance and contribute to the social development of our public of interest and the community.

Finally, Banco del Pacífico is one of the Local Financial Banks in Galapagos with offices. For the previous, Banco del Pacífico has been preselected to implement the Programme in Galapagos.

Conclusions on green credits

The total of green credits allocated in the financial system compared to the total loan allocation is minimal (less than 0.4%). Moreover, as determined by the UNEP&CAF the Ecuadorian financial institutions as of 2016 do not have an interest in allocating green credits.

Development Banks

According to the executing agency of the programme, CAF, the maximum loan amount that this development bank offers to the private sector is \$20 million. However, for this specific project CAF directory made an exception of \$5MM.

At any rate, CAF could not cover the total loan amount required by the programme. This implies that the GCF is essential to cover the remaining required funding.

Average electricity producers profit indicator

The private sector declared its intentions to aid the government's plan by investing in RE in Galapagos. This interest was verified during the launching event of this funding proposal for GCF held in Quito 5/06/2019 (El Comercio, 2019).

During the last ten years, the government classified the energy sector as "public interest", which means that all energy plants have a great deal of government intervention (Ministry Coordinator of Strategic Sectors, 2016). Due to this, the private sector had minimal involvement in the energy industry.

According to the latest sectorial analysis of Superintendence of Companies (2014), the electricity production industry shows the following return on equity (ROE).

Table 9: Energy Industry returns on equity data

Average	Maximum	Minimum	Standard Deviation
19%	30%	-5%	1.43

Source: Superintendence of Companies

An investor should expect at least the average return on equity (investment) of the Ecuadorian electricity industry, which takes into account the sovereign risk of the country (Emerging markets bond index), which as September 3th, 2019 is 6.93%¹.

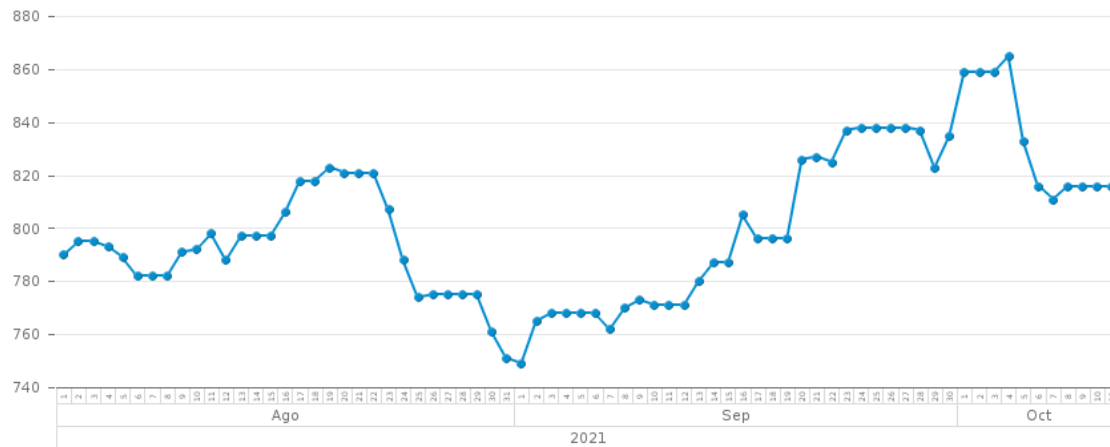
This also implies that the PV energy plant expected IRR (12.97%) is below the industry return on capital indicator. We do realize that the value of 12.97% might seem high compared to global IRRs. However, as described before, it is below the Ecuadorian average.

¹ Ecuadorian Central Bank, EMBI information: <https://www.bce.fin.ec/index.php/informacioneconomica>

Sovereign Risk

In the graph below, the emerging market risk bond index (EMBI) is shown since august 2021.

Graph 14: Risk bond index (EMBI)

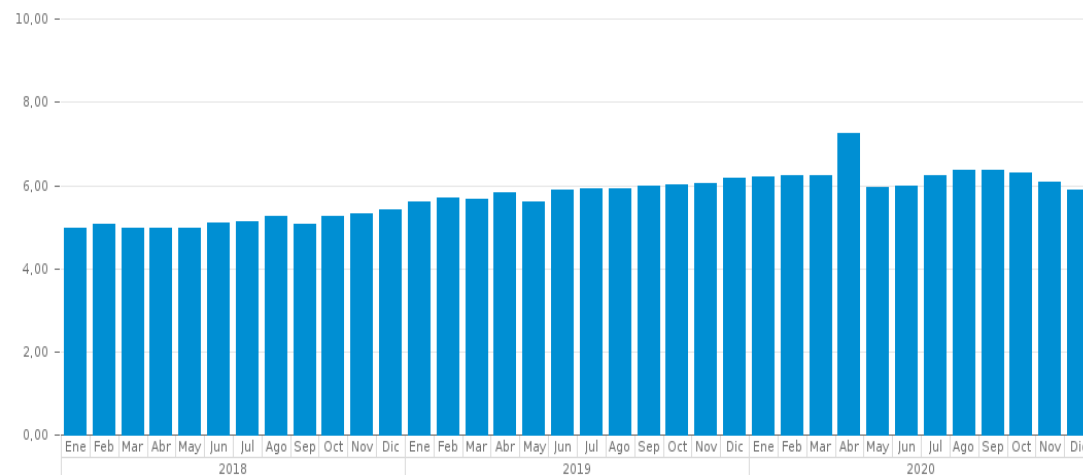


Source: Ecuadorian Central Bank

It can be concluded that the EMBI averages 830 basis points, which translates to 8.30%. This value can be interpreted as the minimum return an investor in Ecuador should have to break even in economic terms.

Additionally, the liable referential rate for Ecuador is as follows.

Graph 15: the liable referential rate for Ecuador



Source: Ecuadorian Central Bank

The current referential liable rate is 5.89%, which can be considered as the “risk free rate”.

Thus, an investor in Ecuador should expect at least 14.19% in return (EMBI+ referential liable rate). Since, the IRR of the PV energy component is 12.97%, we can conclude that its IRR is below par the Ecuadorian minimum expected return.

Direct Foreign Investment

The historical data of direct foreign investment (DFI) is presented in the following graph.

Table 10: direct foreign investment (DFI)

Direct Foreign Investment (Thousand of Dollars)					
Industry / period	Years				
	2016 1/	2017 1/	2018 1/	2019 1/	2020 1/
Agriculture, forestry, hunting and fishing	41.846,6	124.489,9	69.647,3	97.896,1	10.222,8
Commerce	123.033,9	100.578,5	89.124,7	77.017,0	99.125,4
Construction	30.464,8	59.133,0	88.986,3	69.231,6	176.787,7
Mines	467.231,5	68.394,4	808.258,7	402.073,3	553.218,7
Manufacturing industry	37.991,6	143.902,1	104.831,2	110.070,1	37.319,4
Community, social and personal services	-1.968,5	-3.890,7	-1.222,0	6.788,6	44.024,9
Services provided to companies	17.133,5	87.547,6	167.855,2	118.889,0	231.588,3
Transportation, storage and communications	39.080,6	47.210,3	52.720,0	98.864,3	8.167,8
TOTAL	754.814,1	627.365,0	1.380.201,4	967.252,8	1.140.009,2

Source: Ecuadorian Central Bank

In 2020, the average DFI per capita in Ecuador was \$64 dollars, which is quite low. This is one of the justifications for asking the GCF for funding.

Compared to the region the DFI in Latin-American is as follows.

Table 11: DFI in Latin-American

	2005-2009 ³	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
América del Sur	68 302	129 761	171 492	182 615	139 669	141 334	123 042	112 535	111 712	120 949	113 380	67 565
Argentina	6 204	11 333	10 840	15 324	9 822	5 065	11 759	3 260	11 517	11 717	6 663	4 019
Bolivia (Estado Plurinacional de)	259	643	859	1 060	1 750	657	555	335	712	302	-217	-1 097
Brasil	32 331	82 390	102 427	92 568	75 211	87 714	64 738	74 295	68 885	78 163	69 174	44 661
Chile	12 170	16 020	25 565	31 368	22 210	23 558	20 879	12 329	6 128	7 760	12 587	8 528
Colombia	8 894	6 430	14 647	15 040	16 210	16 169	11 724	13 848	13 837	11 535	14 313	8 100
Ecuador	465	166	646	567	727	772	1 323	756	625	1 388	974	1 190
Paraguay	137	462	581	697	245	412	308	425	576	458	522	568
Perú	4 978	8 455	7 682	13 622	9 826	3 930	8 314	6 739	6 860	6 967	8 055	982
Uruguay	1 461	2 289	2 504	6 394	987	4 085	2 673	-520	2 640	1 773	1 307	614
Venezuela (República Bolivariana de)	1 403	1 574	5 740	5 973	2 680	-1 028	769	1 068	-68	886

Source: Economic Commission for Latin America and the Caribbean

The previous table was constructed by the UN Economic Commission for Latin America and the Caribbean. Ecuador's FDI is below the average of the region. In general terms, only Bolivia, Paraguay and Venezuela have greater FDI.

Vis a Vis, FDI for the PV energy plant would be quite difficult to find and it is required to ask the GFC for funding.

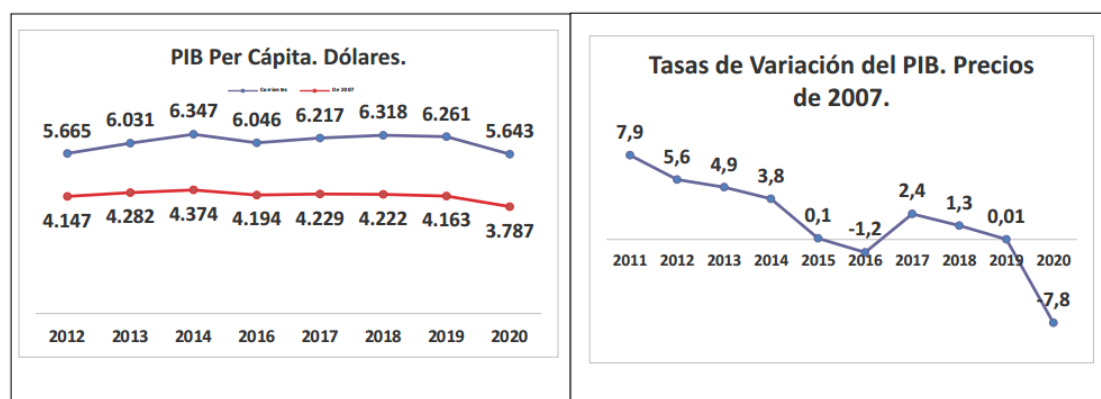
Public Good

We realize that the expected IRR of the PV power plant might seem high in universal terms. However, it is crucial to point out that after 25 years, the facility, equipment and other assets would, by law, transfer their property to the government. Making future profits a public profit.

Ecuadorian Economy

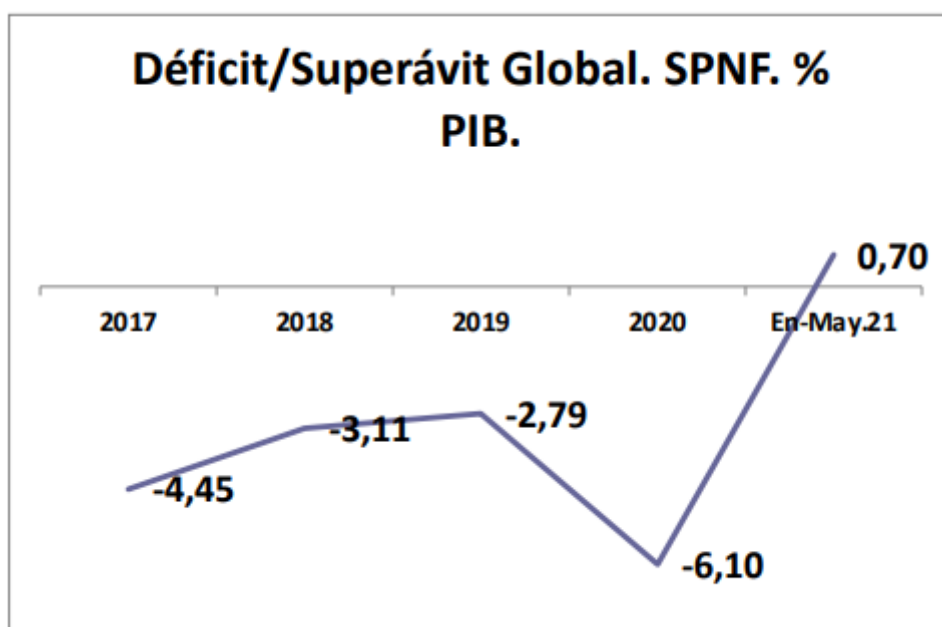
Since 2007, the government began an aggressive process of building hydroelectric and thermoelectric plants (Observatory for renewable energy in Latin America and the Caribbean, 2011). As a result, Ecuador's continental energy demand is completely satisfied; however, the cost of this process for the national treasury was high. According to the Ecuadorian Observatory of Fiscal Policy, in eight years 20% of the current GDP was assigned to the construction of hydroelectric and petrochemical (Observatory for fiscal policy, 2019). During this decade Galapagos was not able to realize its intention to replace fossil fuel for RE generation, and nowadays the government's current fiscal budget presents a deficit status, making it impossible to engage in new RE investments.

Graph 16: GDP per cápita and GDP variation rate



Fuente: Banco Central *Provisional

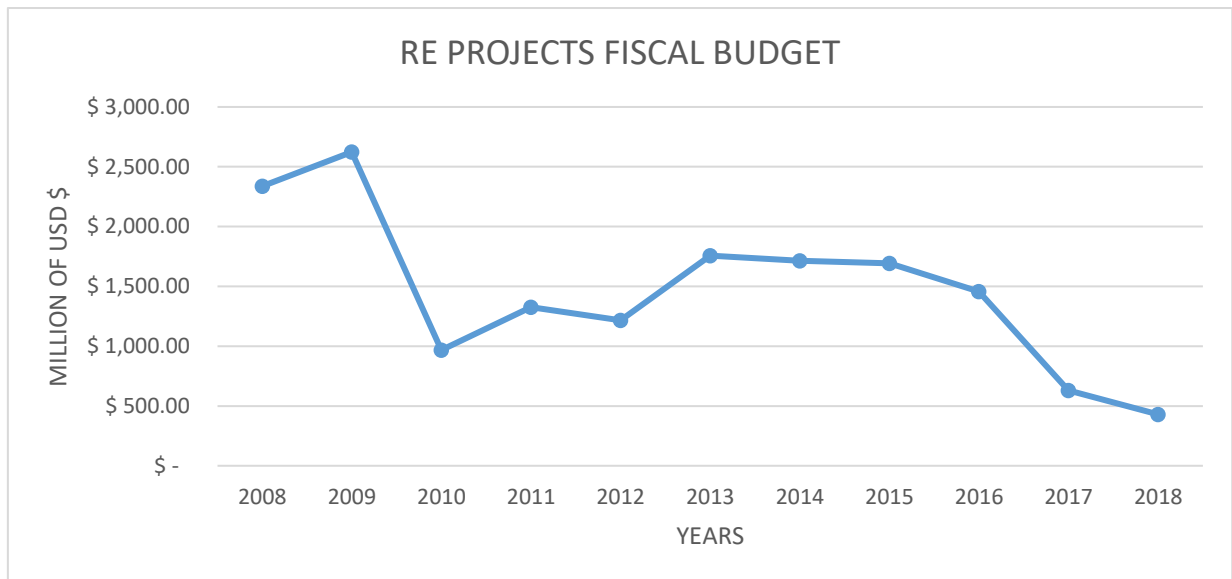
Graph 17: Ecuadorian global deficit



Source: Ecuadorian Observatory for fiscal policy, 2019

Moreover, the Ecuadorian government has a specific account assigned for this kind of projects, whose trend is presented in the next figure.

Graph 18: Trend of fiscal account for RE projects



Source: Ecuadorian Observatory for fiscal policy, 2019

As shown, the fiscal budget for RE projects for 2018 was less than \$500 million, whereas in 2009 was \$2.623 million, which means an 84% decrease. For 2019, the fiscal budget for renewable energy is almost non-existent as stated in the official financial plan².

After the socioeconomic crisis resulting from the COVID-19 pandemic, the Ecuadorian Government's budget conditions were in worse condition and the prospect of recovery is one of the lowest in the region. With these data, it can be stated that the government does not have the necessary capital resources to develop RE projects in Galapagos.

CONCLUSION

In a context where:

- ❑ The Ecuadorian economy is slowly recovering from the socio-economic crisis caused by the COVID 19 pandemic. In 2020 it presented a year-on-year growth rate of -7.8% and a fiscal deficit of -6.1%
- ❑ There are no state investments in Energy since after 10 years of government investment, the current national budget for power plants is minimal. At the same time, foreign direct investment is among the lowest in the region in recent years.
- ❑ The sovereign risk is at a high level. As of 6/10/2021 is 833bpts and to the sovereign risk we must add the Ecuadorian passive reference rate.
- ❑ At the same time, it faces a limited amount of loans for project financing from development banks, CAF's loan limit to private entities is \$ 20MM.
- ❑ There is no supply in the private credit market since the Ecuadorian private bank does not have the capacity to finance this type of project. It is extremely rare to observe loans of \$10MM.
- ❑ In addition to the fact that the project is not very attractive for private banks because, although the economic profitability rate is high, the financial profitability rate does not

² Ecuadorian fiscal budget account #421: https://www.finanzas.gob.ec/wp-content/uploads/downloads/2018/11/13-CN_Por-Entidad_Gastos.pdf

exceed the average profitability of electricity producers, and after 25 years of concession the photovoltaic plant it becomes a public good.

If GCF and CAF loans are not granted, the centralized energy product is not viable because the Ecuadorian credit supply does not satisfy this particular demand for such a large private investment aimed at environmental management and the State does not have the resources to face it either. Therefore, in a business-as-usual scenario, it results from a scenario without the existence of this project and without any change in terms of renewable energy projects.