

CONFORMED COPY

LOAN NUMBER 3510 EC

Loan Agreement

(Second Social Development Project -- Health and Nutrition)

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated February 8, 1993

LOAN NUMBER 3510 EC

LOAN AGREEMENT

AGREEMENT, dated February 8, 1993, between REPUBLIC OF ECUADOR (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to obtain from the United Nations Development Program (UNDP) a grant (the UNDP Grant) in an amount equivalent to five hundred thousand Dollars (\$500,000) to assist in financing Part C of the Project on the terms and conditions set forth in an agreement (the UNDP Grant Agreement) to be entered into between the Borrower and UNDP; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the

modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted; and

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "CEMEIM" means MSP's (as hereinafter defined) Centro Estatal de Medicamentos e Insumos Medicos (State Medicine and Medical Supply Center), created pursuant to Decree 3913 published in the Borrower's Registro Oficial on April 28, 1988;

(b) "CRM" means the Borrower's Centro de Rehabilitaci>n de Manabò (Manabò Rehabilitation Center), created pursuant to Decree 2180 published in the Borrower's Registro Oficial on January 30, 1978;

(c) "CRM Agreement" means the agreement between the Borrower and CRM, for carrying out Part C.1 (a)-(c) of the Project in the province of Manabò, referred to in Section 3.12 (c) of this Agreement;

(d) "CONADE" means the Borrower's Consejo Nacional de Desarrollo (National Development Council);

(e) "Execution Model 1" means the model whereby IEOS (as hereinafter defined), through and under the supervision of its Provincial Directorates (as hereinafter defined) and with the assistance of a procurement agent referred to in Section 3.21 of this Agreement, shall directly carry out its obligations under Part C.1 of the Project, with private contractors being used only for the (i) water supply facility design and siting; (ii) water supply facility and latrine construction; and (iii) auditing components of such obligations;

(f) "Execution Model 2" means the model whereby IEOS (as hereinafter defined), through and under the supervision of its Provincial Directorates (as hereinafter defined) and with the assistance of a procurement agent referred to in Section 3.21 of this Agreement, shall cause all its obligations under Part C.1 (a)-(c) of the Project to be carried out through private contractors (including non-governmental organizations);

(g) "Execution Model 3" means the model whereby IEOS (as hereinafter defined), through and under the supervision of its Provincial Directorates (as hereinafter defined) and with the assistance of a procurement agent referred to in Section 3.21 of this Agreement, shall cause all its obligations under Part C.1 (a)-(c) of the Project to be carried out through one global contract with a non-governmental organization;

(h) "Execution Model 4" means a model: (i) identical (in the case of the province of Manabò) to Execution Model 2, except that CRM shall act in the place of IEOS (as hereinafter defined); and (ii) identical (in the case of the province of Guayas) to Execution Model 3, except that MSP (as hereinafter defined), through and under the supervision of its provincial delegation and without the assistance of a procurement agent, shall act in the place of IEOS (as hereinafter defined);

(i) "Health Service Areas" means the following Areas de

Salud as generically referred to in Decree 3292 published in the Borrower's Registro Oficial on May 11, 1992: Chimbacalle, Guamanò, La Magdalena, Chillogallo, Nor-Oriente and Santo Domingo Sur in the province of Pichincha; Guasmo Sur, Trinitaria, Guasmo Norte, Santiago de Guayaquil, El Empalme and Basti>n Popular in the province of Guayas; Guamote, Riobamba Sur-Este and Alausi in the province of Chimborazo; Cuba Libre, Andr s de Vera and Paj n in the province of Manabò; Loja Sur Occidental, Saraguro and Catamayo in the province of Loja; Yanuncay and Santa Isabel in the province of Azuay; Tulc n l in the province of Carchi; Saquisili and El Coraz>n in the province of Cotopaxi; Simiatug and San Miguel in the province of Bolðvar; Ambato 4 and Quero in the province of Tungurahua; Esmeraldas Norte, Esmeraldas Sur and San Lorenzo in the province of Esmeraldas; Machala Sur in the province of El Oro; Babahoyo Nor-Este and Babahoyo Sur-Este in the province of Los Rðos; Otavalo and Ibarra Sur in the province of Imbabura; CaYar in the province of CaYar; and Nueva Loja in the province of Sucumbðos;

(j) "IEOS" means the Borrower's Instituto Ecuatoriano de Obras Sanitarias (Ecuadorean Sanitation Works Institute), created pursuant to Decree 179 published in the Borrower's Registro Oficial on February 4, 1965;

(k) "IEOS Agreement" means the agreement between the Borrower and IEOS, for carrying out Part C.1 of the Project (except for Part C.1 (a)-(c) in the provinces of Guayas and Manabò), referred to in Section 3.12 (a) of this Agreement;

(l) "IESS" means the Borrower's Instituto Ecuatoriano de Seguridad Social (Ecuadorean Social Security Institute);

(m) "INEM" means the Borrower's Instituto Nacional de Empleo (National Employment Institute), created pursuant to Decree 942 published in the Borrower's Registro Oficial on July 18, 1985;

(n) "Juntas" means the Juntas Administradoras de Agua Potable y Alcantarillado (Water Supply and Sewerage Administrative Boards), already existing or to be created for purposes of the Project, governed by the terms of Decree 3327 published in the Borrower's Registro Oficial on March 29, 1979;

(o) "MBS" means the Borrower's Ministerio de Bienestar Social (Ministry of Social Welfare);

(p) "MINFIN" means the Borrower's Ministerio de Finanzas y Cr dito P blico (Ministry of Finance and Public Credit);

(q) "MSP" means the Borrower's Ministerio de Salud P blica (Ministry of Public Health);

(r) "PCU" means MSP's Project coordinating unit as referred to in Section 3.15 of this Agreement;

(s) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated March 20, 1987, May 29, 1987 and August 9, 1991 between the Borrower and the Bank;

(t) "Provincial Directorates" means the Direcciones Provinciales of IEOS in the provinces of Azuay, Chimborazo, Guayas, Loja, Manabò and Pichincha, referred to in the Reglamento Org nico y Funcional (Organic and Functional Regulations) of IEOS as amended pursuant to MSP Acuerdo (Resolution) 5721 published in the Borrower's Registro Oficial on June 28, 1990; and

(u) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of seventy million Dollars (\$70,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in Banco del Estado on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2000 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) shall carry out Parts A.1, A.2, A.3 (b)-(c), B, C.1 (a)-(c) (in the province of Guayas according to Execution Model 4), C.2 and D of the Project through MSP, and Part A.3 (a) of the Project through CEMEIM, with due diligence and efficiency and in conformity with appropriate administrative, financial, public health and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project (including the funds required to meet all operation and maintenance costs not financed by the proceeds of the Loan); and

(b) shall: (i) cause IEOS to carry out Part C.1 of the Project (except Part C.1 (a)-(c) in the provinces of Guayas and Manabò) and CRM to carry out Part C.1 (a)-(c) of the Project in the province of Manabò, all under supervision of MSP and with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public health and environmental practices; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable IEOS and CRM to carry out their respective Parts of the Project; and (iii) shall not take or permit to be taken any action which would prevent or interfere with the carrying out by IEOS and CRM of their respective Parts of the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement. No food items produced by MSP food plants may be procured for the

Project unless and until such plants have been transferred to private sector majority ownership and control.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of their respective Parts of the Project shall be carried out by IEOS and CRM.

Section 3.04. During the first two years after the Effective Date, Parts A and B of the Project shall be carried out only for the Health Service Areas of Chimbacalle, Guasmo Sur, Guamote, Guamanõ, Trinitaria, Cuba Libre, Loja Sur Occidental and Yanuncay.

Section 3.05. With regard to Part A.2 (a) of the Project, the Borrower, through MSP, shall, inter alia, for each group of approximately 600 families in a Health Service Area, perform health care outreach activities through a basic health care team comprised of between one and four physicians and two to ten nurses and auxiliary personnel, such auxiliary personnel to include community health assistants selected and trained by MSP from among candidates presented by the community served by such team. At least once each year during Project implementation, each such team shall visit each of its approximately 600 families to conduct a health assessment of, and prepare an annual health care plan for, each family, such visit to be followed-up by at least four yearly visits to each family by a nurse or community health assistant from the team so as to ensure application of the prepared annual health care plan.

Section 3.06. (a) With regard to Part A.1 of the Project, the health subcenters, centers and hospitals referred to in such Part shall be chosen according to criteria satisfactory to the Bank.

(b) The Borrower, through MSP, shall, for each fiscal year during Project implementation, provide each MSP facility in Health Service Areas with funds, in an amount satisfactory to the Bank, and shall allow each such facility to administer such funds as each such facility deems necessary in order to meet nonsalary expenses incurred by such facility (including expenses incurred for simple maintenance of the facility and its furniture and equipment and for the purchase of office supplies).

Section 3.07. The Borrower, through MSP, shall staff the facilities referred to in Part A.2 of the Project with a total of approximately 1,300 physicians and dentists, 2,000 nurses (including nursing and dental assistants), 300 medical technicians, 700 community health assistants referred to in Section 3.05 of this Agreement and 600 administrative employees. Only a maximum of 1,600 such staff positions may consist of new positions created by MSP after January 31, 1992, and such new positions shall include all dental assistants and community health assistants referred to in this Section. The Borrower, through MSP, shall hire such new staff and redeploy existing MSP staff for purposes of the Project in accordance with the terms and timetable contained in the staffing letter from the Borrower to the Bank of even date herewith.

Section 3.08. (a) Except for generic medicines covered as of January 31, 1992 by MSP's Medicamentos Gen rícos para Menores de Catorce Años (Generic Medicine for Minors under Age Fourteen) and Medicamentos para Enfermedades de Alto Riesgo (Medicine for High-Risk Diseases) programs, medicines covered under Part A.3 (a) of the Project shall be sold by MSP to those patients which require them at prices which shall result in a recovery by MSP of at least 30% of all direct and indirect costs incurred by MSP in obtaining, distributing and storing medicines and in providing them to patients through April 1996, and at least 35% from May 1996 through December 1998. Such percentages shall be calculated taking into account all medicines provided, both for free and at a price, by MSP facilities to patients in Health Service Areas from January 31, 1992 through April 30, 1996 (to determine whether the 30% target is met) and from May 1, 1996 through December 31, 1998 (to determine whether the 35%

target is met).

(b) The studies referred to in Part A.3 (c) of the Project shall be completed by consultants and presented to the Bank by no later than July 15, 1993. By no later than November 30, 1993, the Borrower, through MSP, shall present to the Bank a plan of action, satisfactory to the Bank, for implementing the recommendations of such studies and shall thereafter carry out such plan of action in accordance with its terms.

(c) The Borrower, through MSP, shall take all reasonable measures to ensure that all medicine used for the Project be of suitable quality.

Section 3.09. Beginning on January 1, 1994, the Borrower, through MSP and with the use of consultants, shall carry out a study of the cost effectiveness of Part B.1 (b) of the Project in encouraging use of MSP facilities by the poorest sectors of the population of Health Service Areas. By no later than August 1, 1995, the Borrower, through MSP, shall present to the Bank the results of such study. By no later than November 15, 1995, the Borrower, through MSP, shall present to the Bank a plan of action, satisfactory to the Bank, for implementing the recommendations of such study and shall thereafter carry out such plan of action in accordance with its terms.

Section 3.10. Beginning on October 1, 1993, the Borrower, through MSP and with the use of consultants, shall carry out a study of the impact and effectiveness of Part B.1 (d) of the Project. By no later than December 1, 1995, the Borrower, through MSP, shall present to the Bank the results of such study. By no later than February 15, 1996, the Borrower, through MSP, shall present to the Bank a plan of action, satisfactory to the Bank, for implementing the recommendations of such study and shall thereafter carry out such plan of action in accordance with its terms.

Section 3.11. By no later than June 15, 1993, the Borrower, through MSP and with the use of consultants, shall carry out and present to the Bank the results of a study on the feasibility of fortifying a powdered milk and corn meal mixture with micro-nutrients. If such study indicates that such fortification is feasible, the Borrower, through MSP, shall, by no later than July 31, 1993, present to the Bank a plan of action, satisfactory to the Bank, for obtaining and providing such fortified mixture and shall thereafter carry out Part B.1 (c) of the Project in accordance with the terms of such plan of action.

Section 3.12. (a) The Borrower, through MSP, shall cause IEOS to carry out Part C.1 of the Project (except Part C.1 (a)-(c) in the provinces of Guayas and Manabò) pursuant to the IEOS Agreement, the terms of which shall be satisfactory to the Bank. Such terms shall, inter alia and in addition to the provisions of paragraph (b) of this Section and the provisions of Section 3.20 of this Agreement, include the following:

- (i) that the Provincial Directorates in the provinces of Azuay and Pichincha shall carry out Part C.1 of the Project in such provinces according to Execution Model 1;
- (ii) that the Provincial Directorate in the province of Loja shall carry out Part C.1 of the Project in such province according to Execution Model 2;
- (iii) that the Provincial Directorate in the province of Chimborazo shall carry out Part C.1 of the Project in such province according to Execution Model 3;
- (iv) that the Provincial Directorates in the provinces of Guayas and Manabò shall carry out Part C.1 (d) of the Project in such provinces;

- (v) that the Provincial Directorates in the provinces of Azuay, Chimborazo, Loja and Pichincha shall, according to methods and criteria satisfactory to the Bank (which criteria shall, inter alia, include that the chosen communities demonstrate a verified need and desire for such facilities as well as a willingness and ability to pay the required tariffs for such facilities), choose in which communities to construct or upgrade water supply facilities in such provinces;
- (vi) that, prior to the commencement of civil works under Part C.1 of the Project in a community in the provinces of Azuay, Chimborazo, Loja and Pichincha, IEOS shall enter into a contract with the Junta for that community whereby, in exchange for the construction or upgrading of water supply facilities or the construction of latrines by IEOS, the Junta commits to: (A) provide the Provincial Directorate in its province with 30% of the cost, if at all possible in cash, of such water supply facility construction or upgrading (plus, in cases where individual house water connections are installed, 100% in cash of the cost of such connections and of individual meters for each of such connections), prior to the completion of such construction or upgrading; (B) provide the Provincial Directorate in its province with 50% of the cost, in cash or in labor and materials, of such latrine construction, prior to the completion of such construction; (C) collect tariffs from water supply facility beneficiaries, on a monthly basis, so that in each year the Junta recovers 100% of the total operating expenses with respect to such facilities and latrines (expenses related to operations, administration, maintenance and taxes); (D) place the amounts collected pursuant to subparagraph (vi) (C) of this paragraph in a separate interest bearing account managed by the Junta and use such amounts exclusively for purposes of subparagraph (vi) (E) of this paragraph; and (E) maintain and operate such water supply facilities and latrines in a sound manner;
- (vii) that IEOS shall not fail to enforce any provisions of the contracts referred to in subparagraph (vi) of this paragraph and shall exercise its rights under such contracts in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan;
- (viii) that the Borrower shall provide IEOS with the amounts referred to in paragraph (b) (ii)-(iii) of this Section and shall, through a procurement agent referred to in Section 3.21 of this Agreement, perform all procurement and contracting required for Part C.1 of the Project, other than the procurement and contracting performed by Provincial Directorates pursuant to paragraph (b) (i) of this Section;
- (ix) that IEOS shall use any cash amounts and materials collected from a Junta pursuant to subparagraph (vi) (A)-(B) of this paragraph exclusively for the construction or upgrading of water supply facilities or the construction of



latrines for which they were collected; and

- (x) that IEOS shall provide the Juntas in the provinces of Azuay, Chimborazo, Loja and Pichincha, through the maintenance centers for such provinces referred to in Part C.1 (c) of the Project, with water supply facility maintenance parts and services at cost.

(b) The IEOS Agreement shall also include terms whereby, in order to allow Provincial Directorates sufficient autonomy to comply with their obligations with respect to Part C.1 of the Project, IEOS shall: (i) promulgate and/or apply internal regulations which allow the Provincial Directorates to manage accounts, carry out procurement of works by the method referred to in Part C.2 of Section I of Schedule 4 to this Agreement, pay the contractors for the works so procured and in general perform all obligations referred to in paragraph (a) (i)-(v) of this Section, without having to obtain prior approval from IEOS headquarters in Quito; (ii) fund the accounts referred to in subparagraph (i) of this paragraph, one for each Provincial Directorate, with amounts (not to include Loan proceeds) sufficient to cover the expenditures expected to be incurred by such Provincial Directorate in a six-month period for purposes of Part C.1 of the Project; and (iii) periodically replenish such accounts with amounts, provided by the Borrower and including Loan proceeds, required to reimburse the Provincial Directorates for expenditures incurred for purposes of Part C.1 of the Project.

(c) The Borrower, through MSP, shall cause CRM (in the province of Manabò) to carry out Part C.1 (a)-(c) of the Project pursuant to the CRM Agreement, the terms of which shall be satisfactory to the Bank. Such terms shall, inter alia and in addition to the provisions of Section 3.20 of this Agreement, include the following:

- (i) that CRM shall carry out Part C.1 (a)-(c) of the Project according to Execution Model 4;
- (ii) that CRM shall, according to methods and criteria satisfactory to the Bank (which criteria shall, inter alia, include that the chosen communities demonstrate a verified need and desire for such facilities as well as a willingness and ability to pay the required tariffs for such facilities), choose in which communities to construct or upgrade water supply facilities;
- (iii) that, prior to the commencement of civil works under Part C.1 of the Project in a community in its province, CRM shall enter into a contract with the Junta for that community, the terms of which shall be identical, mutatis mutandis, to the terms of the contract referred to in Section 3.12 (a) (vi) of this Agreement;
- (iv) that CRM shall not fail to enforce any provisions of the contracts referred to in subparagraph (iii) of this paragraph and shall exercise its rights under such contracts in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan;
- (v) that the Borrower shall provide CRM with funds required to cover CRM expenditures for purposes of Part C.1 of the Project;
- (vi) that CRM shall use any cash amounts and materials collected from a Junta pursuant to subparagraph (iii) (A)-(B) of this paragraph

exclusively for the construction or upgrading of water supply facilities or the construction of latrines for which they were collected; and

- (vii) that CRM shall provide the Juntas in its province, through the maintenance center for such province referred to in Part C.1 (c) of the Project, with water supply facility maintenance parts and services at cost.

(d) Beginning on January 1, 1993, the Borrower, through MSP and with the use of consultants, shall carry out the studies referred to in Part C.2 (a) of the Project. By no later than December 1, 1993, the Borrower, through MSP, shall present to the Bank the results of such studies. By no later than March 1, 1994, the Borrower, through MSP, shall present to the Bank a plan of action, satisfactory to the Bank, for implementing the recommendations of such studies and shall thereafter carry out such plan of action in accordance with its terms. The Borrower, through MSP and with the use of consultants, shall complete the inventory referred to in Part C.2 (b) of the Project by no later than December 1, 1993.

Section 3.13. The management information system referred to in Part D.3 of the Project shall be made operational by the Borrower, through MSP, no later than the date specified in a timetable, satisfactory to the Bank, to be presented to the Bank, by the Borrower through MSP, no later than March 30, 1993.

Section 3.14. By no later than December 15, 1993 in the case of the studies referred to in Part D.4 (b) and (c) of the Project, December 31, 1994 in the case of the study referred to in Part D.4 (a) of the Project and December 31, 1995 in the case of the study referred to in Part D.4 (d) of the Project, the Borrower, through MSP, shall carry out, and present to the Bank the results of, the studies referred to in Part D.4 of the Project. The Borrower, through MSP, shall, by no later than three months after presenting each of such results to the Bank, present to the Bank plans of action, satisfactory to the Bank, for implementing the recommendations of such studies and shall thereafter carry out such plans of action in accordance with their terms.

Section 3.15. The Borrower shall coordinate implementation of the Project through the PCU, to be maintained in a manner satisfactory to the Bank throughout Project execution and to include: (a) a Project Coordinator; (b) a Technical/Operational Director assisted by four specialists, one for health care and nutrition, one for basic sanitation, one for institutional development and one for physical infrastructure; (c) an Administrative/Financial Director assisted by two specialists, one for administration and one for accounting; and (d) no more than five field work consultants. In staffing the PCU, the Borrower, through MSP, shall comply with the timetable referred to in Section 7.01 (c) of this Agreement. For purposes of Part C.1 of the Project, the Borrower shall cause the PCU to be advised by a committee consisting of representatives from MSP, MINFIN, IEOS, CONADE and MBS.

Section 3.16. (a) At the end of every six-month period during Project implementation, beginning with the period concluding on December 31, 1992, the Borrower, through the PCU, shall present to the Bank a progress report on implementation of the Project based on the performance indicators referred to in the indicators letter from the Borrower to the Bank of even date herewith. Such reports shall be consolidated into an annual report covering the preceding twelve months, to be presented to the Bank no later than July 31 of each year during Project implementation (beginning July 31, 1993).

(b) The Borrower, through MSP and MINFIN and together with IEOS and CRM, shall participate in annual reviews of Project implementation to be held in conjunction with the Bank in the third quarter of each calendar year during Project implementation, beginning in 1993. Each such review shall, based on the reports

referred to in paragraph (a) of this Section, examine the status of Project implementation and conclude with the finalization of an annual plan of action satisfactory to the Bank, including specific goals and projections for Project implementation for the immediately upcoming twelve months. Each such annual plan of action shall be carried out, or caused to be carried out, by the Borrower during the twelve months immediately subsequent to its finalization.

(c) Each annual review referred to in paragraph (b) of this Section shall also examine MSP's budget. Each annual plan of action referred to in paragraph (b) of this Section shall include a commitment by the Borrower to present to the Congress of Ecuador an MSP budget, for the immediately upcoming fiscal year, designed to cover the Borrower's obligations under Section 3.01 of this Agreement. In no case shall the Borrower present to the Congress of Ecuador any budgets wherein the amount allocated for MSP is less than the amount expended by MSP in 1991 or is less than required by MSP if it opts to expand services similar to those covered by the Project to areas other than the Health Service Areas.

Section 3.17. As part of the annual reports referred to in Section 3.16 (a) of this Agreement, the Borrower, through the PCU, shall provide the Bank with the following statistical data, compiled and presented in a manner satisfactory to the Bank, regarding the twelve-month period covered by the annual reports: (a) deaths of infants under one year of age per 1,000 live births in each Health Service Area; (b) maternal deaths, as a result of pregnancy, childbirth or post-partum difficulties, per 10,000 live births in each Health Service Area; and (c) percent of children under three years of age in each Health Service Area and of pregnant women in each Health Service Area deemed malnourished according to the criteria employed under Part B.2 (a) of the Project. The Borrower, through MSP, shall exert its best efforts to reduce infant and maternal mortality rates in Health Service Areas by 10% by the third quarter of 1996 and by 15% by the completion of the Project, as compared to such rates in effect for 1991. The Borrower, through MSP, shall likewise exert its best efforts to bring the percent of children under three years of age and of pregnant women in Health Service Areas who are malnourished to 35% by the third quarter of 1996 and to 25% by the completion of the Project.

Section 3.18. (a) During the annual review scheduled to be held in 1995, special emphasis shall be placed on examining the effectiveness of the Project in contributing towards the achievement of the goals specified in Section 3.17 of this Agreement, taking into account for purposes of such examination, inter alia, the results of Project impact evaluations to be undertaken, pursuant to Part D.3 (b) of the Project, by the Borrower, through MSP, in time for such 1995 annual review. The annual plans of action finalized as part of the annual review held in 1995 shall include measures to be taken by the Borrower as a result of such examination.

(b) Also during the annual review scheduled to be held in 1995, special emphasis shall be placed on comparing the effectiveness of Execution Models 1, 2, 3 and 4 in carrying out Part C.1 of the Project, taking into account for purposes of such comparison the results of an evaluation, to be carried out by the Borrower and presented to the Bank by June 1, 1995, of the experience under the Project with such Execution Models. The annual plans of action finalized as part of the annual review held in 1995 shall include measures to be taken by the Borrower as a result of such comparison.

Section 3.19. The Borrower, through MSP, shall enter into each of the IEOS and CRM Agreements and, except as the Bank shall otherwise agree, shall not amend, suspend, abrogate, repeal or waive any provisions of such Agreements. The Borrower shall exercise its rights under each such Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

Section 3.20. Each of the IEOS and CRM Agreements shall be for

a three-year term renewable only depending on the results of the comparison referred to in Section 3.18 (b) of this Agreement and shall contain provisions whereby IEOS and CRM, respectively, shall:

(a) maintain their records, accounts and financial statements and allow them to be audited as set forth in Section 4.01 of this Agreement, and shall assist the Borrower as necessary for the Borrower to comply with its obligations under said Section 4.01;

(b) comply with the provisions of Schedule 4 to this Agreement;

(c) carry out, or cause to be carried out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions with regard to those Parts of the Project carried out by them; and

(d) participate in the annual reviews referred to in Section 3.16 (b) of this Agreement and carry out their obligations specified in the resulting plans of action.

Section 3.21. The Borrower shall enter into contracts, satisfactory to the Bank, with procurement agents (in a manner consistent with Section II of Schedule 4 to this Agreement) to assist in the procurement of goods and works required for the Project, in the contracting of consultants and services required for the Project and in the management of training and technical assistance under Part C.1 (d) of the Project. The Borrower shall rely on such agents for all such procurement and contracting (except for the contracting of auditors and the procurement undertaken by MSP facilities with the funds referred to in Section 3.06 (b) of this Agreement, by CEMEIM pursuant to Part A.3 (a) of the Project and by Provincial Directorates and CRM of works pursuant to Part C.2 of Section I of Schedule 4 to this Agreement).

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained three sets of records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project. One set, maintained by MSP, shall apply to the entire Project. The remaining sets, one maintained by IEOS and another by CRM, shall each apply respectively to the Part of the Project carried out by the entity in question.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, and those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent private auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
  - (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
  - (iii) enable the Bank's representatives to examine such records; and
  - (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.
- (d) The report of the auditors referred to in paragraph (b) (ii) of this Section shall include an opinion as to: (i) compliance with the cost recovery obligations set forth in Sections 3.08 (a), 3.12 (a) (vi) and 3.12 (c) (iii) of this Agreement; and (ii) compliance with the provisions of Schedule 4 to this Agreement.

#### ARTICLE V

##### Other Covenants

Section 5.01. The Borrower shall cause each of IEOS and CRM:

- (a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;
- (b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and environmental practices, as applicable, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

#### ARTICLE VI

##### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) IEOS or CRM shall have failed to perform any of its obligations under the IEOS or CRM Agreement, respectively;
- (b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that IEOS or CRM will be able to perform its obligations under the IEOS or CRM Agreement, respectively;
- (c) the charter, regulations or other documents whereby IEOS

or CRM was created or is governed shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of IEOS or CRM to perform any of its obligations under the IEOS or CRM Agreement, respectively;

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of IEOS or CRM or for the suspension of its operations;

(e) the Congress of Ecuador shall have failed to enact into law any of the MSP budgets presented by the Borrower in compliance with Section 3.16 (c) of this Agreement; and

(f) (i) subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the UNDP Grant shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the UNDP Grant Agreement;

(ii) subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the UNDP Grant Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraph (c) or (d) or (e) of Section 6.01 of this Agreement shall occur.

#### ARTICLE VII

##### Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the IEOS and CRM Agreements shall have all been entered into;

(b) that the UNDP Grant Agreement shall have been entered into and the conditions for the first disbursement of the UNDP Grant shall have been fulfilled;

(c) that a timetable, satisfactory to the Bank, for filling the positions in the PCU (other than the Project Coordinator, Technical/Operational Director and Administrative/Financial Director already in place) listed in Section 3.15 of this Agreement, shall have been presented to the Bank; and

(d) that the contracts with procurement agents, referred to in Section 3.21 of this Agreement, shall have been entered into.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) on behalf of the Borrower, that each of the IEOS and CRM Agreements have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and are legally binding upon the Borrower in accordance with their terms; and

(b) on behalf of each of IEOS and CRM, that the IEOS and CRM Agreements, respectively, have been duly authorized or ratified by, and executed and delivered on behalf of, IEOS and CRM, as the case may be, and are legally binding upon each of them in accordance with their terms.

Section 7.03. The date May 10, 1993 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VIII

##### Representative of the Borrower; Addresses

Section 8.01. The Minister of Finance and Public Credit of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Finanzas y Crédito Público  
Avenida 10 de Agosto y Jorge Washington  
Quito, Ecuador

Cable address:

Telex:

MINFINANZAS  
Quito, Ecuador

22358 MINFIN-ED

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

Telex:

INTBAFRAD  
Washington, D.C.

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF ECUADOR

By /s/ Edgar Ter n  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain  
Regional Vice President  
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	9,000,000	60%
(2) Equipment and furniture (except for training materials and equipment)	11,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Vehicles	1,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Medicine and medical supplies	5,000,000	100% until the withdrawals under this Category have reached an aggregate amount equivalent to \$1,200,000; then 60% until such withdrawals have reached an aggregate amount equivalent to \$4,000,000; and 20% thereafter
(5) Technical and procurement assistance, studies, audits and training	14,000,000	100%
(6) Incremental operation and maintenance costs	12,500,000	100% until the withdrawals under this Category have reached an



aggregate amount equivalent to \$2,500,000; then 60% until such withdrawals have reached an aggregate amount equivalent to \$10,000,000; and 20% thereafter

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(7) Food under Part B.1 (d) of the Project	2,000,000	100% until the withdrawals under this Category have reached an aggregate amount equivalent to \$500,000; then 60% until such withdrawals have reached an aggregate amount equivalent to \$1,500,000; and 20% thereafter
(8) Incentives	3,500,000	100%
(9) Promotional campaigns under Parts A.2 (c) and B.3 (b) of the Project	1,500,000	100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(10) Refunding of Project Preparation Advance	1,072,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(11) Unallocated	8,928,000	
<b>TOTAL</b>	<b>70,000,000</b> =====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed the equivalent of \$5,000,000, may be made on account of payments made for expenditures before that date but after January 24, 1992.

3. For the purposes of this Schedule:

(a) the term "incremental operation and maintenance costs" means operation and maintenance costs (except as pertain to training as described in subparagraph (b) of this paragraph, to Parts A.2 (c), B.1 (b)-(e), and B.3 (b) of the Project and to operation and maintenance by Juntas of water supply facilities under Part C.1 (a)-

(b) of the Project) which would not have been incurred absent the Project and includes, inter alia, costs with respect to: (i) maintenance of MSP facilities in Health Service Areas under Part A.1 of the Project; (ii) maintenance and operation of vehicles, equipment and other goods procured under the Project and covered by Categories (2) and (3) in the table in paragraph 1 of this Schedule; (iii) salaries paid to MSP staff hired for purposes of the Project to occupy the maximum of 1,600 staff positions referred to in Section 3.07 of this Agreement; (iv) remuneration for MSP staff, not hired for purposes of the Project, for work done for the Project which is not covered by their salaries; and (v) consumable office supplies;

(b) the term "training" covers costs for: (i) scholarships for trainees; (ii) training materials and equipment; (iii) consumable office supplies procured for purposes of the training components of Parts A.2 (b), A.2 (d), A.3 (b), B.3 (a), C.1 (d), D.1 (b), D.2 (b), D.3 (c) and D.5 (d) of the Project; and (iv) reasonable transportation and per diem expenditures incurred by IEOS and MSP trainers in travelling to rural communities for purposes of Parts A.2 (d) and C.1 (d) of the Project;

(c) the term "incentives" covers one-time-only redeployment bonus payments to MSP staff, other than staff occupying the maximum of 1,600 new positions referred to in Section 3.07 of this Agreement, which are redeployed pursuant to said Section 3.07;

(d) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(e) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) expand public basic health care, nutrition and sanitation services, and improve already existing public basic health care services, for the poorest sectors of the population in Ecuador; and (b) achieve institutional strengthening of the public entities involved in the delivery of such services.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A: Basic Health Care

1. (a) Construction, equipping, furnishing and maintenance of approximately 75 new health subcenters (designed to provide basic outpatient services) and approximately 13 new health centers (designed to provide more advanced outpatient services) distributed among Health Service Areas; (b) equipping, upgrading, rehabilitation, repair and maintenance of approximately 130 existing health subcenters, approximately nine existing health centers and approximately seven existing hospitals distributed among Health Service Areas; and (c) equipping and maintenance of approximately 12 existing hospitals, distributed among Health Service Areas, which do not require upgrading, rehabilitation or repair.

2. (a) Operation of MSP facilities in Health Service Areas on the basis of a basic health care services delivery model which emphasizes the provision of preventative services at the community level to family units; (b) training of staff of such MSP facilities in techniques necessary for the proper implementation of such services delivery model; (c) implementation of a mass media campaign to disseminate information regarding such services delivery model to

its potential beneficiaries; and (d) training of beneficiaries of Part C.1 (a)-(c) of the Project in sound domestic water use and waste disposal practices.

3. (a) Provision of generic medicines and basic medical supplies (including contraceptives) to MSP facilities in Health Service Areas for use in treating patients served by such facilities; (b) provision of technical assistance and training to MSP and CEMEIM staff on stock management, warehousing, distribution, accounting, procurement and cost recovery techniques associated with supplying generic medicines and basic medical supplies; and (c) carrying out of studies to (i) assess the feasibility of alternative procurement and distribution methods for medicines and medical supplies for MSP facilities and (ii) compare the costs and benefits of market pricing versus price controls as applied to the sale of medicines by MSP facilities to their patients.

#### Part B: Nutrition

1. (a) Provision, through MSP facilities in Health Service Areas, of nutritional counselling to the populations served by such facilities (with particular emphasis on the provision to women of information on proper breast-feeding practices); (b) provision, through MSP facilities in Health Service Areas, of food supplements (a mixture of powdered milk and corn meal) to children under three years of age and to pregnant and lactating women in Health Service Areas; (c) provision, through MSP facilities in Health Service Areas, of micronutrients (iron, folic acid and vitamin C) or, if feasible, of a mixture of powdered milk and corn meal fortified with such micronutrients, to children between the ages of six months and 36 months and to pregnant and lactating women in Health Service Areas; (d) provision, through MSP facilities in Health Service Areas, of rice, beans, oil, a mixture of powdered milk and corn meal or other basic foods to children between the ages of six months and 36 months and to pregnant and lactating women in Health Service Areas, only for such periods of time as they are deemed malnourished as revealed through the growth monitoring and nutritional evaluation performed under Part B.2 (a) of the Project; and (e) provision, through MSP facilities throughout Ecuador, of powdered milk to malnourished children under six months of age whose mothers are unable to breast-feed.

2. (a) Routine growth monitoring and nutritional evaluation (based on weight to age comparisons in the case of children and height to weight comparisons in the case of women), carried out in MSP facilities in Health Service Areas, of the pregnant and lactating women and under three-year old children segments of the population served by such facilities; and (b) monitoring of anemia status in all pregnant women and children under two years of age in Health Service Areas.

3. (a) Training of staff of MSP facilities of Health Service Areas in the proper dissemination of nutritional information (including breast-feeding information) to the population served by such facilities; and (b) implementation of a mass media campaign to disseminate information regarding proper nutritional practices (including proper breast-feeding practices) to the general public.

#### Part C: Basic Sanitation and Safe Water

1. Implementation of a pilot program to provide sanitation and safe water facilities, to rural areas in Health Service Areas in the provinces of Azuay, Chimborazo, Guayas, Loja, Manabò and Pichincha, through: (a) construction, operation and maintenance of latrines (approximately 27,500) and water supply facilities for 165 communities of between 250 and 2,000 inhabitants each; (b) upgrading, operation and maintenance of 42 existing water supply facilities; (c) establishment and operation of a water supply facilities maintenance center in each of the cited provinces; and (d) provision of training and technical assistance to IEOS and CRM staff and to Juntas on techniques (including cost recovery techniques) for the proper execution of this Part of the Project.

2. (a) Carrying out of studies on institutional restructuring of the rural water and sanitation sector and on the feasibility of, and methods for, obtaining payment for construction, operation and maintenance of water supply facilities from their rural beneficiaries; and (b) preparation of a national inventory of rural water supply and basic sanitation facilities.

Part D: Institutional Strengthening

1. (a) Provision of technical assistance to assess MSP's central, provincial and local level organization and administrative processes, design reforms (including legal reforms) required to achieve a decentralized provision of MSP services and develop and put to use administrative and operational instruments, procedures, norms and manuals in support of such decentralization; and (b) training of relevant MSP staff on how to implement such decentralization.

2. (a) Design and operation, with technical assistance, of a budget programming system for MSP so as to allow more efficient allocation and use of MSP resources; and (b) training of relevant MSP, MINFIN and CONADE staff on the proper use of such system.

3. (a) Design and operation, with technical assistance, of a management information system for MSP; (b) use of such system (in cooperation with INEM) to monitor the Project and conduct Project impact evaluations; and (c) training of relevant MSP staff on the proper use of such system.

4. Carrying out of studies regarding: (a) feasibility and impact of, and methods for, obtaining cost recovery from beneficiaries for health services provided by MSP; (b) effectiveness and physical and administrative rehabilitation of MSP's hospital network; (c) methods for improving inter-institutional coordination between MSP and IESS in the delivery of health services; and (d) impact evaluation of MSP basic health care programs.

5. Development and implementation of a human resources program within MSP through: (a) identification and implementation of MSP staff reassignments, other than those required for Part A.2 (a) of the Project, as needed for the efficient operation of MSP; (b) development and implementation of personnel management systems; (c) development and implementation of sound salary scales conducive to the attraction and retention of qualified health services and administrative personnel; and (d) in-service or continuing education training for MSP managerial, administrative and financial staff to upgrade their skills.

\* \* \*

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 15, 1998	1,275,000
July 15, 1998	1,325,000
January 15, 1999	1,375,000
July 15, 1999	1,430,000
January 15, 2000	1,485,000
July 15, 2000	1,545,000
January 15, 2001	1,605,000
July 15, 2001	1,665,000
January 15, 2002	1,730,000
July 15, 2002	1,795,000
January 15, 2003	1,865,000

July 15, 2003	1,935,000
January 15, 2004	2,010,000
July 15, 2004	2,090,000
January 15, 2005	2,170,000
July 15, 2005	2,255,000
January 15, 2006	2,340,000
July 15, 2006	2,430,000
January 15, 2007	2,525,000
July 15, 2007	2,625,000
January 15, 2008	2,725,000
July 15, 2008	2,830,000
January 15, 2009	2,940,000
July 15, 2009	3,055,000
January 15, 2010	3,170,000
July 15, 2010	3,295,000
January 15, 2011	3,420,000
July 15, 2011	3,555,000
January 15, 2012	3,690,000
July 15, 2012	3,845,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for goods or works shall be grouped into bid packages estimated to cost the equivalent of more than \$1,500,000 in the case of works and \$200,000 in the case of goods.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 of this Section, goods manufactured in Ecuador may be granted a margin of preference in accordance with, and subject to, the provisions of paragraph 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. The following may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank:

(a) works estimated to cost the equivalent of \$1,500,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$12,000,000;

(b) printing of training materials estimated to cost the equivalent of \$200,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$1,400,000 minus the aggregate cost amount procured under paragraph 2 (b) of this Part; and

(c) goods (except medicine) estimated to cost the equivalent of \$200,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$11,300,000 (of which no more than \$5,400,000 shall apply to medical supplies); and

(d) food under Part B.1 (d) of the Project.

2. The following may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank:

(a) works estimated to cost the equivalent of \$50,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$5,000,000;

(b) printing of training materials estimated to cost the equivalent of \$25,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$1,400,000; and

(c) goods (except medicine) estimated to cost the equivalent of \$25,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$2,500,000 (of which no more than \$1,000,000 shall apply to medical supplies).

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to: (i) each contract procured under Part A.1 of this Section; (ii) each contract for works estimated to cost more than the equivalent of \$500,000; and (iii) the first two contracts for new health center construction, the first two contracts for repair, upgrading, maintenance or rehabilitation of health centers or hospitals, the first two contracts for office furniture or equipment and the first two contracts for medical

supplies, each procured under Part C.1 of this Section, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

#### Part E: Use of Standard Documents

All procurement of goods and works to which international or local competitive bidding applies shall be carried out using standard bidding documents acceptable to the Bank.

#### Section II. Employment of Consultants

In order to assist the Borrower, IEOS and CRM in carrying out the Project, the Borrower shall employ or cause to be employed consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" (the "Consultants Guidelines") published by the Bank in August 1981.

#### Section III. Special Provisions

A. In addition and without limitation to any other provisions set forth in this Schedule or the Guidelines, the following principles of procurement shall expressly govern all procurement of goods and works referred to in Part A of Section I of this Schedule:

1. Bids must be submitted in one single envelope, and the name of each bidder and the total amount of each bid, as well as any alternative proposals, if they have been requested or permitted, shall be read aloud when opened.

2. Foreign bidders must not be required to have a local representative for purposes of submitting bids, but may be required to have such a representative upon entering into contracts which they have been awarded.

3. Foreign bidders must be permitted to have their financial solvency certified by a foreign bank acceptable to the Borrower, IEOS or CRM without recertification by any Ecuadorean bank or other Ecuadorean person or entity.

4. Bid and performance bonds and guarantees issued by foreign sureties approved by the Borrower, IEOS or CRM must be admissible without recertification or other participation by any Ecuadorean bank or other Ecuadorean person or entity.

5. Letters of credit issued to any supplier of goods or

provider of services must not be required to be counter-guaranteed by such supplier or provider in whole or in part. This shall not prevent purchasers from obtaining other performance warranties from suppliers.

B. In addition and without limitation to any other provisions set forth in this Schedule or the Guidelines, the following principles of procurement shall expressly govern all procurement of goods, printing and works referred to in Part C.1 of Section I of this Schedule:

1. Foreign contractors and suppliers shall be allowed to bid on all contracts.
2. The date for the opening of bids shall be set on a date which shall be at least thirty days from the date of the last advertisement of the invitation to bid.
3. The invitation to bid shall be advertised for at least three days in a newspaper of wide circulation in Ecuador.
4. Contracts must be awarded to the lowest evaluated bidder in accordance with criteria set forth in the bidding documents.

C. In addition to and without limitation to any other provisions set forth in this Schedule or the Consultants Guidelines, the following principles of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

1. Foreign consultants must not be required to be locally registered as a condition of participation in the selection process, but may be required to be so registered, at the time of contracting, if the Borrower, IEOS or CRM and the Bank so agree.
2. Foreign consultants must not be required, either directly or indirectly, to give any participation in or share of any consulting contracts to any local firm or person, except in connection with a joint venture arrangement where: (i) a sufficient number of capable domestic firms or individual consultants exist to allow a foreign consultant reasonable freedom of choice; (ii) the contribution of either party to the joint venture arrangement will not be constrained by any prescribed manner or extent of participation; and (iii) the foreign consultant is not required to associate itself with any specific named domestic firms or individual consultants.
3. Foreign consulting firms shall not be required, as a condition to provide services in Ecuador under contracts to be financed out of the proceeds of the Loan, to be registered in Ecuador with a minimum capital different from that required for Ecuadorean firms.
4. Foreign consultants, either individuals or firms, providing services under contracts financed out of the proceeds of the Loan, shall not be required to pay fees to the Ecuadorean Consultants' Association that are different from those required for Ecuadorean consultants.

D. Notwithstanding Article 2 (as amended by Law 112 published in the Borrower's Registro Oficial on January 28, 1991) of Law 95 published in the Borrower's Registro Oficial on August 16, 1990, Article 58 of said Law 95 shall apply to all procurement of medicine and medical supplies to be financed out of the proceeds of the Loan.

#### Section IV. Internal Approvals

The approval by the Contralor General del Estado (National Controller General) and the Procurador General del Estado (National Attorney General) referred to in Article 18 of Law 95 published in the Borrower's Registro Oficial on August 16, 1990, shall be limited to the standard bidding documents referred to in Section I, Part E



of this Schedule.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,500,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this

Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

