

**LOAN NUMBER IBRD 9180-EC
GCF TF NUMBER TF0B4618**

Financing Agreement

(Third Inclusive and Sustainable Growth Development Policy Loan)

between

REPUBLIC OF ECUADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between the REPUBLIC OF ECUADOR (“Borrower”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement).

WHEREAS: (A) having satisfied itself as to the feasibility and priority of the Program aimed to support the Borrower set foundations to: (i) responding to the COVID-19 pandemic to protect the vulnerable; (ii) removing barriers to private sector development and supporting economic recovery; and (iii) promoting public sector efficiency and fiscal sustainability post-crisis;

(B) following an international effort to provide development support to countries most affected by refugees, funding from the Global Concessional Financing Facility was received by the Bank for purposes of providing concessionality to this Agreement;

(C) under the terms of a Financial Procedures Arrangement with the Trustee of the Global Concessional Financing Facility dated August 10, 2016, the Bank has agreed to provide a concessional contribution to the Borrower, endorsed by the Borrower’s MFA (the Concessional Portion of the Financing as hereinafter defined) as part of an integrated financing under the terms of this Agreement (the Financing as hereinafter defined); and

(D) furthermore, the Bank has decided to provide this Financing, without a direct link to specific expenditures or investments, on the basis of, *inter alia*: (i) the actions which the Borrower has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Borrower’s maintenance of an adequate macroeconomic policy framework.

NOW THEREFORE, the Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to provide financing to the Borrower in the amount of five hundred fourteen million one hundred thousand Dollars (\$514,100,000) (“Financing”), consisting of the following:
 - (a) a loan in an amount of five hundred million Dollars (\$500,000,000) (“Loan”), as such amount may be converted from time to time through a Currency Conversion; and

- (b) a concessional contribution in an amount of fourteen million one hundred thousand Dollars (\$14,100,000) (“Concessional Portion of the Financing”).
- 2.02. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance of the Loan.
- 2.04. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.05. The Borrower elects to apply the Automatic Rate Fixing Conversion to the Loan. Accordingly, without limitation upon the provisions of Article IV of the General Conditions and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal five hundred million Dollars (\$500,000,000) shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
 - (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and the progress achieved in carrying out the Program; and
 - (b) without limitation upon paragraph (a) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consist of the following: that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework;
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Borrower's Minister of Economy and Finance.
- 6.02. For purposes of Section 10.01 of the General Conditions:

- (a) the Borrower's address is:

Ministry of Economy and Finance
Av. Amazonas y Pereira, Plataforma Financiera
Quito, Ecuador

Telephone: (5932) 399-8500; and

- 6.03. For purposes of Section 10.01 of the General Conditions:

- (a) the Bank's address is:
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

- (b) the Bank's Electronic Address is:

Telex:	Facsimile:
248423 (MCI) or	1-202-477-6391
64145 (MCI)	

AGREED as of the Signature Date.

REPUBLIC OF ECUADOR

By Arturo Cabrera
Authorized Representative
Name: Arturo Cabrera
Title: Min. Relaciones Exteriores (s)
Date: 26-nov.-2020

By Juan Hidalgo
Authorized Representative
Name: Juan Hidalgo
Title: Undersecretary of Public Finance
Date: 26-nov.-2020

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By Boris E. Utria
Authorized Representative
Name: Boris E. Utria
Title: Country Director (p.p.)
Date: 26-Nov-2020

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

A. **Responding to COVID-19 to protect the vulnerable**

1. The Borrower has: (i) expanded the coverage of social safety nets to poor and vulnerable households by including them into the social registry and making them eligible to receive regular cash transfers, as evidenced by Ministerial Agreement No. 042 of MIES dated August 31, 2020; (ii) achieved the increased coverage through emergency transfers using the 2018 Social Registry Index (*Indice de Registro Social 2018*) to reach poor and vulnerable households not previously covered by social assistance programs during May and June 2020, as evidenced by Decree No. 1026 dated April 24, 2020 and published in the Official Gazette on May 4, 2020; (iii) improved access to those transfers by expanding the availability of retail banking agents and adjusting the calendar of payments to encourage social distancing, as evidenced by COE Resolution of April 16, 2020, Ministerial Agreement No. 021 of MIES, dated April 27, 2020 and *Oficio Junta Regulación Monetaria Financiera* No. JPRMF-2020-0223-O; and (iv) approved a new social protection program to protect poor and vulnerable households against the impact of economic contraction, as evidenced by Decree No. 1179, dated October 26, 2020; and Ministerial Agreement No. 047 of MIES, dated October 26, 2020.
2. The Borrower has temporarily (for the months of April-July 2020) reduced the time it takes to access unemployment benefits, as evidenced by Articles 22 and 23 of the *Ley Humanitaria*.
3. The Borrower has facilitated the economic integration of migrants by: (i) improving the efficiency of the process to apply for migratory status; and (ii) processing 13,500 pending humanitarian visa applications, as evidenced by Resolution from the *Consejo Nacional para la Igualdad de Movilidad Humana* No. RPC-SE-01-N°01-2020 published in the Official Gazette on September 21, 2020, the Integral Plan for the Attention and Protection of the Venezuelan Population in Mobility in Ecuador 2020 – 2021, and MFA Memorando No. MREMH-VMH-2020-0727-M dated August 13, 2020.

B. **Removing barriers to private sector development and supporting economic recovery**

4. The Borrower has reduced financial distortions by consolidating credit segments and adopting flexible interest rate ceilings, as evidenced by Resolution of the *Junta de Política y Regulación Monetaria y Financiera* No. 603-2020-F, dated September 22, 2020.
5. The Borrower has approved and adopted regulations that provide an objective, pre-defined formula to make changes to the minimum wage; such formula will be used to adjust the minimum wage in case the tripartite negotiations between workers, employers, and the

government, do not achieve an agreement on minimum wage adjustment; as evidenced by Ministerial Agreement MDT-2020-185 of the Borrower's Ministry of Labour, dated September 17, 2020.

6. The Borrower has facilitated business entry by enacting the executive regulation that implements a simplified regime for corporations and reduces business formalization cost, as evidenced by SCVS Resolution No. SCVS-INC-DNCDN-2020-0012, dated September 1, 2020 and published in the Official Gazette on September 25, 2020.
7. The Borrower approved regulations to facilitate trade and foreign investment by reducing or eliminating import tariffs on a range of agricultural inputs and equipment, computers, and cellphones, as evidenced by COMEX Resolutions COMEX-025-2019; COMEX-024-2019; COMEX-023-2019, dated October 4, 2019 and published in the Borrower's Official Gazette on October 8, 2019.

Pillar 3: Promoting public sector efficiency and fiscal sustainability post-crisis

8. To improve transparency in the extractive industries, the Borrower has: (i) applied to become a full EITI implementing member country, as evidenced by the cover letter and the formal application publicly available on the Ecuador EITI website; and (ii) approved regulations and the Work Plan for EITI implementation, as evidenced by the minutes from the 3rd Multi-Stakeholder Group (MSG) meeting hold on August 4th, 2020.
9. The Borrower, through the National Assembly, has amended the Organic Code of Planning and Public Finance to: (i) introduce a medium-term fiscal framework and a fiscal risk management framework, (ii) revise downwards to 5 percent the current margin of 15 percent for changes in the budget without consulting the National Assembly, and (iii) create an integrated national and subnational public investment system, as evidenced by the *Ley Orgánica para el Ordenamiento de las Finanzas Públicas* published in the Official Gazette (*Suplemento*) No. 253 on July 24, 2020.
10. The Borrower has issued a decree introducing a gradual removal of gasoline and diesel subsidies and established a price smoothing formula to protect consumers from excessive price volatility, as evidenced by Presidential Decree No. 1054, dated May 19, 2020 and published in the Official Gazette No. 253 on July 24, 2020, and Presidential Decree No. 1183, dated November 4, 2020 and published in the Official Gazette on November 4, 2020.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end are set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in US\$)	Amount of the Concessional Portion of the Financing Allocated (expressed in US\$)
(1) Single Withdrawal Tranche	500,000,000	14,100,000
TOTAL AMOUNT	500,000,000	14,100,000

- C. Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless: (a) each withdrawal is made on a *pari passu* basis and at a 2.83% ratio between the amount of the Loan allocated and the amount of the Concessional Portion of the Financing allocated; and (b) the Bank is satisfied: (i) with the Program being carried out by the Borrower; and (ii) with the adequacy of the Borrower's macroeconomic policy framework.
- D. Deposit of Financing Amounts.** The Borrower, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Bank: (a) the exact sum received into the accounts referred to in Section 2.03 (a) of the General Conditions; (b) the details of the accounts to which the equivalent of the Financing proceeds will be credited; and (c) the record that an equivalent amount of the Financing has been accounted for in the Borrower's budget management systems.
- E. Audit.** Upon the Bank's request, the Borrower shall:
1. have the account referred to in Section 2.03 (a) of the General Conditions audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;
 2. furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Bank; and
 3. furnish to the Bank such other information concerning the account referred to in Section 2.03 (a) of the General Conditions and their audit as the Bank shall reasonably request.
- F. Closing Date.** The Closing Date is December 31, 2021.

SCHEDULE 2

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”).

Level Principal Repayments

Principal Payment Date	Installment Share
On each May 15 and November 15 Beginning May 15, 2025 through May 15, 2031	7.14%
On November 15, 2031	7.18%

APPENDIX

Section I. Definitions

1. “COE” means *Comité de Operaciones de Emergencia*, the Borrower’s committee created to coordinate policies and actions aimed at reducing risk, and coordinate response and recovery in emergency and disaster situations.
2. “COMEX” means *Comité de Comercio Exterior*, the Borrower’s Committee on Foreign Trade created by Article 71 of the Organic Code of Production, Foreign Trade and Investment, published in the Official Gazette on December 29, 2010.
3. “COVID-19” means the coronavirus disease caused by the 2019 novel coronavirus (SARS-CoV-2).
4. “EITI” means the Extractive Industries Transparency Initiative, the global standard to promote the open and accountable management of oil, gas and mineral resources, which seeks to strengthen public and corporate governance, promote understanding of natural resource management, and provide the data to inform reforms for greater transparency and accountability in the extractives sector.
5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020), with the modifications set forth in Section II of this Appendix.
6. “Global Concessional Financing Facility” and “GCFF” each means the financing facility established with a focus on providing concessional financing to middle income countries most affected by the presence of large numbers of refugees, and referred to in the *Preamble* to this Agreement, as having contributed the Concessional Portion of the Financing for the Program.
7. “Integral Plan for the Attention and Protection of the Venezuelan Population in Mobility in Ecuador 2020 – 2021” means *Plan Integral para la Atención y Protección de la Población Venezolana en Movilidad Humana en Ecuador 2020 – 2021*, the Borrower’s plan published in MFA’s website.
8. “*Junta de Política y Regulación Monetaria y Financiera*” means the Borrower’s body responsible for monetary and financial policies and regulations, created by Article No. 13 of the Borrower’s Monetary and Financial Code (*Código Orgánico Monetario y Financiero*), published in the Official Gazette No. 332 on September 12, 2014.
9. “*Ley Humanitaria*” means the Borrower’s Law “*Ley Orgánica de Apoyo Humanitario para Combatir la Crisis Sanitaria derivada del COVID-19*”, dated June 19, 2020 and published in the Borrower’s Official Gazette on June 22, 2020.

10. “MEF” means *Ministerio de Economía y Finanzas*, the Borrower’s Ministry of Economy and Finance, or any successor thereto.
11. “MFA” means *Ministerio de Relaciones Exteriores y Movilidad Humana (Cancillería)*, the Borrower’s Ministry of Foreign Affairs, or any successor thereto.
12. “MIES” means *Ministerio de Inclusión Económica y Social*, the Borrower’s Ministry of Economic and Social Inclusion, or any successor thereto.
13. “Organic Code of Planning and Public Finance” means the Borrower’s *Código Orgánico de Planificación y Finanzas Públicas*, dated October 20, 2010 and published in the Official Gazette on October 22, 2010.
14. “Program” means the program of objectives, policies, and actions designed by the Borrower and set forth or referred to in the letter dated October 25, 2020 from the Borrower, through its Minister of Economy and Finance, to the Bank declaring the Borrower’s priority for implementation and commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
15. “SCVS” means *Superintendencia de Compañías, Valores y Seguros*, the Borrower’s Superintendency of Companies, Securities and Insurance, created by Article No. 78 of the Borrower’s Monetary and Financial Code (*Código Orgánico Monetario y Financiero*), published in the Official Gazette No. 332 on September 12, 2014, or any successor satisfactory to the Bank.
16. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
17. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Wherever used throughout the General Conditions (including the Appendix) the term “*Loan Agreement*” and “*loan agreement*” are modified to read “*Financing Agreement*” and “*financing agreement*”, respectively; the terms “*Loan Parties*” and “*Loan Party*” are modified to read “*Financing Parties*” and “*Financing Party*” respectively; the term “*Original Loan Currency*” is modified to read “*Original Financing Currency*”; and the term

“*Substitute Loan Currency*” is modified to read “*Substitute Financing Currency*”. Furthermore, wherever used in Sections 2.01 to 2.04, 2.06, 3.08 (a), (b), and (d), 5.03 to 5.06, 7.01 to 7.03 (a) to (d), 7.04 (a), 7.05, 9.03 (b), including the titles thereof, the term “*Loan*” is modified to read “*Financing*”; the term “*Loan Account*” is modified to read “*Financing Account*”; the term “*Loan Currency*” is modified to read “*Financing Currency*”; and the term “*Unwithdrawn Loan Balance*” is modified to read “*Unwithdrawn Financing Balance*”.

3. In the Appendix, **Definitions**, the following new paragraphs are inserted with the following definitions of “*Concessional Portion of the Financing*”, “*Financing*”, “*Financing Account*”, “*Financing Currency*”, and the remaining paragraphs are renumbered accordingly:

“*Concessional Portion of the Financing*” means the portion of the Financing provided to the Borrower on a non-reimbursable basis in the Financing Agreement.”

“*Financing*” means the financing provided for in the Financing Agreement.”

“*Financing Account*” means, collectively, the Loan Account and the account opened by the Bank in its books in the name of the Borrower to which the amount of the Concessional Portion of the Financing is credited.”

“*Financing Currency*” means the Currency or Currencies in which the Loan and Concessional Portion of the Financing are dominated.”

“*Unwithdrawn Financing Balance*” means the amount of the Financing remaining unwithdrawn from the Financing Account from time to time.”

4. In the Appendix, **Definitions**, wherever used in the following definitions of the terms “*Borrower*”; “*Closing Date*”; “*Financing Agreement*”; “*Original Financing Currency*”; “*Program*”; and “*Substitute Financing Currency*”, the terms “*Loan*” and “*Loan Account*” are modified to read “*Financing*” and “*Financing Account*”, respectively.