

CONFORMED COPY

LOAN NUMBER 3425 EC

(First Social Development Project -- Education and Training)

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated March 9, 1992

LOAN NUMBER 3425 EC

LOAN AGREEMENT

AGREEMENT, dated March 9, 1992, 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) Parts B.1 and B.2 of the Project (in cooperation with the Borrower's Ministerio de Educacion, Cultura, Deportes y Recreacion (Ministry of Education, Culture, Sports and Recreation, hereinafter referred to as MEC)) and Parts B.3 through B.7 of the Project will be carried out by Servicio Ecuatoriano de Capacitacion Profesional (Ecuadoran Vocational Training Service, hereinafter referred to as SECAP) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SECAP proceeds of the Loan as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Bank and SECAP;

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) "CENAPIA" means Centro Nacional de Pequena Industria y Artesania (National Center for Crafts and Small Industry) affiliated with the Borrower's Ministerio de Industrias, Comercio, Integracion y Pesca (Ministry of Industries, Commerce, Integration and Fishing);

(b) "CENDES" means Centro de Desarrollo Industrial (Industrial Development Center) affiliated with the Borrower's Ministerio de Industrias, Comercio, Integracion y Pesca (Ministry of Industries, Commerce, Integration and Fishing);

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

(d) "DINACAPED" means the Direccion Nacional de Capacitacion y Perfeccionamiento Docente e Investigacion Pedagogica (National Directorate of Teacher Training and Pedagogical Studies) of MEC;

(e) "DINEIB" means the Direccion Nacional de Educacion Intercultural Bilingce (National Directorate of Intercultural Bilingual Education) of MEC;

(f) "DINEPP" means the Direccion Nacional de Educacion Popular y Permanente (National Directorate of Adult Education) of MEC;

(g) "DINERE" means the Direccion Nacional de Educacion Regular y Especial (National Directorate of Regular and Special Education) of MEC;

(h) "DNPE" means the Direccion Nacional de Planeamiento Educativo (National Directorate of Education Planning) of MEC;

(i) "Editorial Council" means the council referred to in Section 3.08 of this Agreement;

(j) "Hub School" means the public Primary School (as hereinafter defined), established pursuant to Section 3.06 of this Agreement, which serves as the administrative center for the surrounding network of other public Primary Schools that are part of its School Network (as hereinafter defined);

(k) "INEM" means Instituto Nacional de Empleo (National Employment Institute) affiliated with the Borrower's Ministerio de Trabajo y Recursos Humanos (Ministry of Labor and Human Resources);

(l) "IPED" means a MEC Instituto Pedagogico (teacher training college), of which there are various distributed throughout the provinces of Ecuador;

(m) "MINFIN" means the Borrower's Ministerio de Finanzas y Credito Publico (Ministry of Finance and Public Credit);

(n) "PCU(M)" means MEC's Project coordinating unit as referred to in Section 3.12 of this Agreement;

(o) "PCU(S)" means SECAP's Project coordinating unit as referred to in Section 2.10 of the Project Agreement;

(p) "Primary School" means a school where any of the following grades are taught to children: pre-school and grades 1 through 9 (thus a primary education, for purposes of this Project, covers pre-school and grades 1 through 9);

(q) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated February 23, 1990, April 5, 1990 and August 2, 1991 between the Borrower and the Bank;

(r) "Provincial Directorates" means MEC's delegations (Direcciones Educativas Provinciales) in the provinces of Ecuador;

(s) "School Network" means a Centro Educativo Matriz (Matrix Education Center, consisting of a Hub School and surrounding network of public Primary Schools served by the Hub School), as described in MEC's Acuerdo (Resolution) no. 3695, dated August 20, 1990;

(t) "SNALME" means MEC's Servicio Nacional de Abastecimiento de Libros y Materiales Educativos (National Service for Books and Educational Materials Supply);

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

(v) "Subsidiary Agreement" means the Agreement between the Borrower and SECAP referred to in Section 3.01 (c) 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 eighty-nine million dollars (\$89,000,000), 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 Central de Ecuador on terms and conditions satisfactory to the Bank. 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 September 30, 1999 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 May 15 and November 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.

Section 2.08. The Minister of Education of the Borrower, with regard to Loan proceeds for Part A of the Project, and the Director General of SECAP, with regard to Loan proceeds for Part B of the Project, are designated as representatives of the Borrower for the purposes of taking any actions required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### 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 Part A of the Project, and cooperate with SECAP in carrying out Parts B.1 and B.2 of the Project, through MEC with due diligence and efficiency and in conformity with appropriate administrative, financial and educational practices, and the Borrower shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project and for the proper functioning of every School Network (including, inter alia, the funds referred to in Section 3.05 of this Agreement and those required to meet all operation and maintenance costs not financed by the proceeds of the Loan);

(b) shall cause SECAP to carry out Part B of the Project (in cooperation with MEC with regard to Parts B.1 and B.2 of the Project) in accordance with the provisions of the Project Agreement with due diligence and efficiency and in conformity with appropriate administrative, financial and vocational training practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SECAP to carry out such Parts of the Project (including, inter alia, those funds required to meet all operation and maintenance costs not financed by the proceeds of the Loan), and shall not take or permit to be taken any action which would prevent or interfere with the carrying out by SECAP of such Parts of the Project;

(c) shall make proceeds of the Loan available to SECAP for Part B of the Project under a subsidiary agreement to be entered into between the Borrower and SECAP, under terms and conditions which shall have been approved by the Bank; and

(d) shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, shall not assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

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.

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 Part B of the Project shall be carried out by SECAP (except that MEC shall cooperate with SECAP in carrying out such obligations with regard to Parts B.1 and B.2 of the Project).

Section 3.04. The Borrower, through MEC, shall carry out the plan of action regarding the measures to be taken for establishing and making operational the relationship between School Networks and Provincial Directorates with regard to the administration of education activities. Such plan of action is contained within the studies letter referred to in Section 3.10 of this Agreement.

Section 3.05. The Borrower, through MEC, shall, for each fiscal year during Project implementation, provide each School Network with funds, in an amount satisfactory to the Bank, and shall allow each School Network to administer such funds as each School Network deems necessary in order to meet nonsalary expenses incurred by the School Network (including expenses incurred for the maintenance of public Primary School facilities within the School Network).

Section 3.06. With regard to Part A.1 of the Project, 55 public Primary Schools shall be converted by the Borrower, through MEC, into Hub Schools in three phases. In the first phase, 20 Hub Schools shall be established in low-income areas in the cities of Quito and Guayaquil. In the second phase, 23 Hub Schools shall be established in low-income urban areas in the provinces of Guayas, Pichincha, Esmeraldas, El Oro and Los Rios. In the third phase, 12 Hub Schools shall be established in low-income urban areas in the provinces of Carchi, Chimborazo, Loja, Manabi and Canar. The precise location of each Hub School shall be chosen according to criteria satisfactory to the Bank.

Section 3.07. With regard to Part A.2 of the Project, in-service training shall take place for each School Network for a period of two years after the establishment of its Hub School. Such training shall be provided by instructors from DINACAPED and, to the extent such instructors are available, from the IPED in the School Network's province. The School Networks shall provide logistical support and allow their facilities to be used for such training.

Section 3.08. Part A.5 of the Project shall be carried out as follows by the Borrower, through MEC, under the supervision of the Editorial Council:

(a) membership in the Editorial Council shall at all times during Project execution consist of one representative of the private publishing sector, plus eight representatives from MEC (one representative from the Minister of Education and Culture himself, one from the PCU(M), one from DINACAPED, one from DINEIB, one from DNPE, one from DINERE, one from Unidad Ejecutora Educacion para el Desarrollo Proyectos MEC-BID (Executing Unit for Education for Development Projects MEC - Interamerican Development Bank) and one from SNALME), and the Editorial Council shall, in addition to supervising the carrying out of Part A.5 of the Project, carry out in a manner satisfactory to the Bank the textbook activity rationalization plan, also satisfactory to the Bank, which plan shall be submitted, no later than the annual review to be held in 1993 and referred to in Section 3.13 of this Agreement, to the Bank by the Borrower through PCU(M);

(b) MEC shall contract consultants to: (i) design the textbooks, workbooks and teachers' guides, such materials to be based on an updating of the Abramos Surcos textbooks, currently in use in rural parts of Ecuador, so as to adapt them for use in urban areas as well and remove any gender, ethnic, social or other bias or stereotyping from their content; and (ii) provide technical assistance to the Editorial Council to assist in carrying out the textbook activity rationalization plan referred to in paragraph (a) of this Section;

(c) MEC shall contract for the printing of the textbooks, workbooks and teachers' guides; and

(d) MEC, through SNALME, shall: (i) distribute Abramos Surcos materials to the School Networks until the materials printed pursuant to paragraph (c) of this Section are ready; (ii) thereafter

distribute the materials printed pursuant to paragraph (c) of this Section to all students served by School Networks, collecting from each student an annual textbook rental fee equal to 20% of each textbook's design, production and distribution cost; (iii) sell the remainder of the materials printed pursuant to paragraph (c) of this Section to other students at a price equal to 15% above the materials' design, production and distribution cost; and (iv) place the proceeds collected pursuant to subparagraphs (ii) and (iii) of this paragraph in an editorial fund, administer such proceeds in a manner satisfactory to the Bank and apply them towards the republication of the materials designed pursuant to this Section as needed to serve School Networks, replace worn rented copies and maintain commercial sales.

Section 3.09. With regard to Part A.6 of the Project, the Borrower, through MEC, shall:

(a) administer the testing program through a Council of Directors composed of the Minister of Education and Culture, the Director of DNPE's Department of Evaluation and the coordinator of the PCU(M); and

(b) implement the testing program in four phases, beginning on a pilot basis in 1992 with language and mathematics tests of approximately 15,000 students in the provinces of Guayas, Pichincha and El Oro, then in 1993 and 1994 extending the student and geographical coverage and expanding the tests to include science and social science, then in 1996 implementing the program on a nationwide scale by testing each of approximately 121,150 students in grades 2, 6 and 9 on the four topics of language, mathematics, science and social science, and maintaining the full testing program on a nation-wide scale continuously thereafter.

Section 3.10. The Borrower, through MEC, shall carry out the studies referred to in Part A.9 of the Project and employ consultants according to the timetable contained in the studies letter from the Borrower and SECAP to the Bank of even date herewith.

Section 3.11. The Borrower, through MEC, shall enter into, and carry out the terms of, an operational agreement with SECAP, satisfactory to the Bank, setting forth how MEC and SECAP shall cooperate in carrying out Parts B.1 and B.2 of the Project. Such agreement shall specify, inter alia, that:

(a) the courses under Parts B.1 and B.2 of the Project shall be offered by MEC's DINEPP, using facilities available at MEC adult education centers and technical colleges as well as SECAP vocational training centers;

(b) the preparation of teaching materials for Part B.2 of the Project, and the training of instructors who shall give the courses under Part B.2 of the Project, shall be the joint responsibility of MEC and SECAP, with MEC identifying poverty groups and their educational needs so as to target such courses effectively;

(c) the courses under Part B.2 of the Project shall be offered in MEC technical colleges, MEC arts and crafts centers, MEC special education institutes, Hub Schools and SECAP vocational training centers; and

(d) SECAP shall annually during Project implementation pay MEC a fee equal to 100% of the costs incurred by MEC in providing its services under Parts B.1 and B.2 of the Project.

Unless the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce such operational agreement with SECAP or any provision thereof.

Section 3.12. The Borrower shall coordinate implementation of Part A of the Project (as well as its cooperation with SECAP under Parts B.1 and B.2 of the Project) through the PCU(M), to be maintained in a manner satisfactory to the Bank throughout Project execution and to include: (a) a coordinator who shall be assisted by

an education management specialist; (b) a general education specialist who shall be assisted by a consultant involved in the development of School Networks; (c) an administrator who shall be assisted by an audit and financial control specialist; (d) an architect or other facilities specialist who shall be assisted by a procurement and contracting specialist; and (e) a lawyer who shall serve the PCU(M) on a part-time basis. In staffing the PCU(M), the Borrower shall comply with the timetable referred to in Section 6.01 (c) (ii) of this Agreement. At least quarterly during Project execution, the PCU(M) coordinator shall meet with the PCU(S) coordinator and MINFIN's Undersecretary of Public Credit to discuss the status of Project implementation and exchange observations derived from their Project execution experience.

Section 3.13. (a) At the end of every six-month period during Project implementation, beginning with the period concluding on June 30, 1992, the Borrower, through PCU(M), shall present to the Bank a progress report on Part A of the Project based on the performance indicators referred to in the indicators letter from the Borrower and SECAP to the Bank of even date herewith. Such reports shall be consolidated into an annual report covering the preceding calendar year, to be presented to the Bank no later than March 31 of each year during Project implementation (beginning March 31, 1993).

(b) The Borrower, through MEC and MINFIN and together with SECAP, 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 1992. Each such review shall, based on the reports referred to in Section 3.13 (a) of this Agreement and in Section 2.11 (a) of the Project Agreement, examine the status of Project implementation and conclude with the finalization of annual plans of action satisfactory to the Bank (one for Part A of the Project and the other for Part B of the Project), including specific goals and projections for Project implementation for the immediately upcoming twelve months. Each such annual plan of action for Part A of the Project shall 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 MEC's budget. Each annual plan of action for Part A of the Project referred to in paragraph (b) of this Section shall include a commitment by the Borrower to present to the Congress of Ecuador a MEC budget, for the immediately upcoming fiscal year, designed to cover the Borrower's obligations under Section 3.01 (a) of this Agreement. Each annual plan of action for Part B of the Project referred to in paragraph (b) of this Section shall include a commitment by the Borrower to present to the Congress of Ecuador a SECAP budget, for the immediately upcoming fiscal year, designed to cover the Borrower's obligations under Section 3.01 (b) of this Agreement. The Borrower shall, throughout the course of Project implementation, present to the Congress of Ecuador for each fiscal year (beginning for fiscal year 1993) a budget wherein the total amount proposed for MEC (for purposes of public primary education in pre-school and grades 1 through 9) represents a greater share of the total amount proposed for MEC (for all purposes) than was the case in the budget approved by the Congress of Ecuador for fiscal year 1991.

Section 3.14. As part of the annual reports referred to in Section 3.13 (a) of this Agreement, the Borrower, through PCU(M), shall provide the Bank with the following statistical data, compiled and presented in a manner satisfactory to the Bank, regarding the immediately preceding completed school year: (a) the rate of public Primary School student grade repetition; (b) the rate of public Primary School student dropouts; and (c) the public school participation rate of Ecuador's primary education age population. The Borrower, through MEC, shall exert its best efforts to bring the repetition and dropout rates referred to herein down to 15% and 3%, respectively, by the school year ending in 1998, and to bring the participation rate referred to herein up to 95% by the school year ending in 1998.



Section 3.15. During the annual reviews scheduled to be held in 1995 and 1997, special emphasis shall be placed on examining the effectiveness of Part A of the Project in contributing towards the achievement of the goals specified in Section 3.14 of this Agreement, taking into account for purposes of such examination, inter alia, the results of the studies undertaken pursuant to Part A.9 of the Project. The annual plans of action finalized as part of the annual reviews held in 1995 and 1997 shall include measures to be taken by the Borrower as a result of such examination.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project. As part of such obligation, the Borrower, through MEC, shall maintain such records and accounts with respect to Part A of the Project, as well as to the editorial fund referred to in Section 3.08 (d) of this Agreement and to the funds expended or received by MEC with regard to Parts B.1 and B.2 of the Project.

(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 acting under terms of reference satisfactory 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, accounts and financial statements 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.

Section 4.02. The Borrower, through MEC, shall enter into contracts with consultants to prepare an accounting system for MEC's operations, satisfactory to the Bank, and shall use such system, beginning no later than June 30, 1992, as part of its compliance with, and without in any way limiting, its obligation to maintain records and accounts under Section 4.01 of this Agreement.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) SECAP shall have failed to perform any of its obligations under the Project Agreement;
- (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 SECAP will be able to perform its obligations under the Project Agreement;
- (c) the charter, regulations or other documents whereby SECAP was created or is governed shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SECAP to perform any of its obligations under the Project Agreement;
- (d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SECAP or for the suspension of its operations; and
- (e) the Congress of Ecuador shall have failed to approve any of the MEC or SECAP budgets presented by the Borrower in compliance with Section 3.13 of this Agreement.

Section 5.02. 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 5.01 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), (d) or (e) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. 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 Subsidiary Agreement, satisfactory to the Bank, shall have been fully executed;
- (b) that the operational agreement referred to in Section 3.11 of this Agreement and in Section 2.06 of the Project Agreement shall have been fully executed;
- (c) that: (i) the PCU(M) shall have been established and is operational and staffed with at least the coordinator, general education specialist, administrator and architect/facilities specialist referred to in Section 3.12 of this Agreement; and (ii) a timetable, satisfactory to the Bank, for filling the other

positions in the PCU(M) listed in Section 3.12 of this Agreement, shall have been presented to the Bank;

(d) that: (i) the PCU(S) shall have been established and is operational and staffed with at least the coordinator and the administrator/accountant referred to in Section 2.10 of the Project Agreement; and (ii) a timetable, satisfactory to the Bank, for filling the other positions in the PCU(S) listed in Section 2.10 of the Project Agreement, shall have been presented to the Bank;

(e) that SECAP shall have presented to the Bank a plan of action, satisfactory to the Bank, for entering into the agreements referred to in Section 2.14 of the Project Agreement by the end of 1995; and

(f) that the Borrower and SECAP shall have each entered into a contract (in a manner consistent with Section II of Schedule 4 to this Agreement) with a procurement agent or agents to assist in the procurement of goods and works and contracting of consultants required for the Project.

Section 6.02. 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 the Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms;

(b) on behalf of SECAP, that the Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, SECAP and is legally binding upon SECAP in accordance with its terms; and

(c) on behalf of SECAP, that the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, SECAP and is legally binding upon SECAP in accordance with its terms.

Section 6.03. The date May 11, 1992 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Finanzas y Credito Publico  
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:

INTBAFRAD  
Washington, D.C.

Telex:

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/ Raul Vallejo  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ping-Cheung Loh  
Acting 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	23,000,000	70%
(2) Vehicles, equipment and furniture (ex- cluding teaching materials)		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expendi- tures for other items procured locally
(a) under Part A of the Project	8,500,000	
(b) under Part B of the Project	4,000,000	
(3) Teaching materials		100%
(a) under Part A of the Project	6,300,000	
(b) under Part B of	1,400,000	

the Project

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Technical assistance, studies and audits		100%
(a) under Part A of the Project	11,000,000	
(b) under Part B of the Project	6,500,000	
(5) Training		100%
(a) under Part A of the Project	4,500,000	
(b) under Part B of the Project	1,800,000	
(6) Incremental operation and maintenance costs		
(a) under Part A of the Project:		
(i) office and school supplies	1,200,000	100% until withdrawals under this Category have reached an aggregate amount equiva- lent to \$500,000; then 60% until such withdrawals have reached an aggre- gate amount equivalent to \$1,100,000; and 30% thereafter

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(ii) other	4,800,000	100% until withdrawals under this Category have reached an aggregate amount equiva- lent to \$1,800,000; then 60% until such withdrawals have reached an aggre- gate amount equivalent to \$4,200,000; and 30% thereafter

(b) under Part B of

the Project:

(i) office supplies	300,000	100% until withdrawals under this Category have reached an aggregate amount equivalent to \$100,000; then 60% until such withdrawals have reached an aggregate amount equivalent to \$200,000; and 30% thereafter
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Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(ii) other	5,700,000	100% until withdrawals under this Category have reached an aggregate amount equivalent to \$2,200,000; then 60% until such withdrawals have reached an aggregate amount equivalent to \$5,100,000; and 30% thereafter

(7) Refunding of Project Preparation Advance	640,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
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(8) Unallocated	9,360,000
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TOTAL	89,000,000
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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 \$3,000,000 for expenditures incurred by SECAP and not to exceed the equivalent of \$1,800,000 for expenditures incurred by MEC, may be made on account of payments made for expenditures before that date but after July 13, 1991.

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 (c) of this paragraph) which would not have been incurred absent the Project and includes, inter alia, costs with respect to: (i) maintenance of School Network facilities and maintenance and operation of schools which have been expanded or rehabilitated into Hub Schools under Part A.1 of the Project; (ii) maintenance and operation of vehicles and equipment procured under

the Project; (iii) salaries paid to MEC and SECAP staff hired for purposes of the Project; (iv) remuneration for MEC and SECAP 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 and school supplies;

(b) the term "teaching materials" means items which directly serve a pedagogical purpose, such as maps, posters and books (including the printing and distribution of books, but not technical assistance provided to write or design such books);

(c) the term "training" covers costs for: (i) scholarships for trainees; (ii) trainer/instructor fees for purposes of Parts A.2, A.7, A.8 and B.5 (b) of the Project; and (iii) consumable training supplies procured for purposes of Parts A.2, A.7, A.8 and B.5 (b) of the Project;

(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) improve the quality and delivery of primary education and vocational training services targeted to the poor in Ecuador; and (b) achieve institutional strengthening of MEC and SECAP.

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: Primary Education

1. Expansion or rehabilitation of 55 public Primary Schools in low-income urban areas, and furnishing, maintenance and operation of each such school as a Hub School, as well as maintenance of the facilities of the School Networks.
2. Provision of in-service training, covering topics such as improved use of class time and improved use of textbooks, to all teachers who work in the School Networks, together with provision of training to the instructors who will present such in-service training so that they may do so in the most effective manner.
3. Operation of pre-school classes in each School Network.
4. Screening of all students served by the School Networks to detect the presence of learning disabilities, and provision of special education services, headquartered at each Hub School, to those students which have such disabilities.
5. Design, production and distribution of Primary School textbooks, workbooks and teachers' guides and other printed teaching materials for use in public Primary Schools throughout Ecuador.
6. Design and implementation of a systematic and standardized nation-wide testing program to assess academic achievement (but not to decide promotion) of second, sixth and ninth grade public Primary School students on a periodic basis.
7. Decentralization of selected MEC administrative activities so that such activities are assumed by the School Networks and by the Provincial Directorates in each of the provinces where a School

Network is located, together with provision of training to approximately 635 staff members (110 from School Networks, 480 from Provincial Directorates and 45 from MEC headquarters) with respect to administration under the new decentralized structure.

8. Provision of training and technical assistance to approximately 255 staff members (110 from School Networks, 105 from Provincial Directorates and 40 from MINFIN, CONADE and MEC headquarters) with respect to improved budgeting and resource allocation techniques for public Primary Schools, together with provision of computer equipment and software to facilitate the budgeting process.

9. Carrying out of the following studies: (a) a study, based on data collected pursuant to Part A.6 of the Project, to:

- (i) assess the quality of public Primary School education in Ecuador;
- (ii) determine which types of public Primary School students are at greatest risk of repeating grades or dropping out of school and how educational inputs can affect that risk; and
- (iii) compare the academic achievement of public Primary School students who have participated in pre-school programs with the achievement of those who have not participated in such programs;

(b) a study on the demographics of indigenous children of Primary School age and on the social, cultural, linguistic and other problems they could face as Primary School students; (c) studies on the effectiveness of the pre-school and special education activities carried out under Parts A.3 and A.4 of the Project and on Primary School teacher use of classroom time; (d) a study to provide the analytical framework for planned national policy deliberations on reform of Ecuador's secondary school sector; and (e) a study to provide the analytical framework for planned national policy deliberations on reform of Ecuador's post-secondary school sector.

#### Part B: Adult Education and Vocational Training

1. Provision of the equivalent of a complete primary education to approximately 113,500 adults who have already attained literacy but have not received a full primary education.

2. Provision of basic vocational skills training in arts and crafts, agriculture, industry, construction, small business management and assorted trades and services to approximately 200,000 students (plus approximately 25,500 disabled students) through short-duration courses.

3. Provision, as part of SECAP's existing Capacitacion Popular (Popular Training) program, of more advanced basic vocational skills training through short-duration courses in arts and crafts, agriculture, industry, construction, small business management and assorted trades and services to 180,000 students (including students who have successfully completed the training referred to in Part B.2 of the Project), together with the provision to SECAP of 150 modular mobile workshops, 30 vehicles to transport such workshops and 10 community instruction/production centers to complement SECAP's existing facilities for offering such courses.

4. Support by SECAP (in cooperation with CENDES and CENAPIA), on a pilot basis, for small businesses with export potential in the clothing, leather garment, furniture and wooden parts sectors through: (a) identification of production, design and quality control problems of such businesses, together with provision of training and technical assistance to such businesses to solve such problems through improved productivity and competitiveness; (b) establishment of three technological information and consulting centers to serve as the delivery points for such training and



technical assistance and to provide access to international data bases containing information on opportunities and techniques relating to such sectors; and (c) encouragement of enhanced export marketing and economies of scale in such sectors.

5. (a) Production of training manuals for use by SECAP staff; and (b) provision of training to approximately 2,160 SECAP instructors in more effective technical skills teaching techniques and course design.

6. Updating of existing curricula offered by SECAP and designing of 19 new courses (in areas such as small-scale mining, tanning, industrial electronics, data processing and baking) to be offered by SECAP, together with provision and installation of equipment for SECAP, as well as provision of spare parts for existing SECAP equipment and of teaching materials for SECAP (including equipment for an audio-visual materials reproduction unit in SECAP and for the new courses to be offered by SECAP).

7. Institutional strengthening of SECAP through: (a) development and use of an information system for SECAP (in cooperation with INEM) whereby living standards, labor market conditions, SECAP course impact in the markets and the employment histories of SECAP graduates are monitored and analyzed so as to allow SECAP to plan and respond effectively to the demands of the labor market; (b) development and use of internal manuals to guide, inter alia, SECAP's infrastructure use, cost accounting and fund management; (c) creation of a data base, accessible nationwide through one national and four regional information centers, containing all available vocational training documentation in Ecuador; and (d) consultation with the private sector in SECAP decision-making.

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

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
May 15, 1997	1,625,000
November 15, 1997	1,685,000
May 15, 1998	1,750,000
November 15, 1998	1,820,000
May 15, 1999	1,890,000
November 15, 1999	1,960,000
May 15, 2000	2,040,000
November 15, 2000	2,115,000
May 15, 2001	2,200,000
November 15, 2001	2,285,000
May 15, 2002	2,370,000
November 15, 2002	2,465,000
May 15, 2003	2,560,000
November 15, 2003	2,655,000
May 15, 2004	2,760,000
November 15, 2004	2,865,000
May 15, 2005	2,975,000
November 15, 2005	3,090,000
May 15, 2006	3,210,000
November 15, 2006	3,335,000
May 15, 2007	3,465,000
November 15, 2007	3,600,000
May 15, 2008	3,740,000
November 15, 2008	3,880,000
May 15, 2009	4,035,000
November 15, 2009	4,190,000
May 15, 2010	4,350,000
November 15, 2010	4,520,000
May 15, 2011	4,695,000

November 15, 2011

4,870,000

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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 for Hub School expansion and rehabilitation estimated to cost the equivalent of \$1,500,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$32,500,000;

(b) printing of teaching materials estimated to cost the equivalent of \$200,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$2,500,000; and

(c) goods (excluding computer hardware and software and vehicles) estimated to cost the equivalent of \$200,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$3,000,000.

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 for Hub School or School Network maintenance estimated to cost the equivalent of \$50,000 or less per contract or per bid package, up to an aggregate amount of \$7,000,000;

(b) printing of teaching materials (excluding textbooks) estimated to cost the equivalent of \$25,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$1,500,000; and

(c) goods (including motorcycles but excluding other vehicles and computer hardware and software) estimated to cost the equivalent of \$25,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$10,300,000. School Networks, without the assistance of the procurement agents referred to in Section 6.01 (f) of this Agreement, shall be the sole procurers of school and office supplies for their use (up to an aggregate amount equivalent to \$3,000,000) which are included within the \$10,300,000 equivalent covered by this subparagraph.

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, which is either estimated to cost more than the equivalent of \$500,000 or is part of a bid package estimated to cost more than the equivalent of \$500,000, procured under Part C.1 of this Section; and (iii) the first contract for goods, the first contract for printing, the first contract for Hub School civil works and the first contract for civil works for other schools in the School Networks, 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 and SECAP in carrying out the Project, the Borrower and SECAP shall employ 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 or SECAP without recertification by any Ecuadoran bank or other Ecuadoran person or entity.

4. Bid and performance bonds and guarantees issued by foreign sureties approved by the Borrower or SECAP must be admissible without recertification or other participation by any Ecuadoran bank or other Ecuadoran 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 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: (a) a sufficient number of capable domestic firms or individual consultants exist to allow a foreign consultant reasonable freedom of choice; (b) the contribution of either party to the joint venture arrangement will not be constrained by any prescribed manner or extent of participation; and (c) 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 Ecuadoran 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 Ecuadoran Consultants' Association that are different from those required for Ecuadoran consultants.

#### 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 Ley No. 95, of August 2, 1990 (Ley de Contratacion Publica), 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 (6) 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 \$4,200,000 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 para- graph 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; or (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.

