

CONFORMED COPY

LOAN NUMBER 3052 EC

(First Telecommunications Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

INSTITUTO ECUATORIANO DE TELECOMUNICACIONES

Dated September 28, 1989

LOAN NUMBER 3052 EC

LOAN AGREEMENT

AGREEMENT, dated September 28, 1989 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and INSTITUTO ECUATORIANO DE TELECOMUNICACIONES (the Borrower).

WHEREAS (A) the Republic of Ecuador (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Borrower intends to contract from the Commonwealth Development Corporation (the CDC) a loan (the CDC Loan) in an amount equivalent to approximately fifteen million pounds sterling (15,000,000), to assist in financing part of the Project on the

terms and conditions set forth in an agreement (the CDC Loan Agreement) to be entered into between the Borrower and CDC;

(D) the Borrower has requested from the Overseas Economic Cooperation Fund of Japan a loan (the OECF Loan) in an amount equivalent to approximately forty five million dollars (\$45,000,000), to assist in financing part of the Project on the terms and conditions set forth in an agreement (the OECF Loan Agreement) to be entered into between the Borrower and the Government of Japan;

(E) the Borrower has requested from the Government of Italy a loan (the Italy Loan) in an amount equivalent to approximately six million dollars (\$6,000,000), to assist in financing part of the Project on the terms and conditions set forth in an agreement (the Italy Loan Agreement) to be entered into between the Borrower and the Government of Italy;

(F) the Borrower has requested from the respective Governments of France, Brazil, Mexico and Spain (collectively the Other Sources) additional loans in an aggregate amount equivalent to approximately thirty nine million five hundred thousand dollars (\$39,500,000) (the Other Loans), to assist in financing part of the Project on the terms and conditions set forth in various agreements (collectively, the Other Agreements) to be entered into, respectively, between the Borrower and each of the Other Sources; 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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "Physical and Financial Performance Targets" means the performance indicators for the Borrower furnished to the Bank by letter of even date herewith;

(c) "Co-Financing Loans" means, individually and collectively, the CDC Loan, the OECF Loan, the Italy Loan and the Other Loans;

(d) "Co-Financing Agreements" means, individually and collectively, the CDC Loan Agreement, the OECF Loan Agreement, the Italy Loan Agreement and the Other Agreements;

(e) "Institutional Action Plan" means the action plan for the Borrower furnished to the Bank by letter of even date herewith;

(f) "Implementation Schedule" means the schedule for the implementation of the Project by the Borrower, furnished to the Bank by letter of even date herewith; and

(g) "PAU" means the Project Administration Unit established by the Borrower to administer the Project, and referred to in Sections 3.07 and 7.01 (a) 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 this Agreement, an amount in various currencies equivalent to forty-five million dollars (\$45,000,000).

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 account in a bank acceptable to the Bank 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.

Section 2.03. The Closing Date shall be June 30, 1995 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 and the Guarantor 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 and the Guarantor 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."

(e) Notwithstanding the provisions of paragraph (a) of this Section, the interest rate for the Interest Period commencing in the first Semester of 1989 shall be seven and sixty-five hundredths percent (7.65%).

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 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. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate financial, administrative, engineering, telecommunications and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Schedule.

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 Borrower shall carry out the Institutional Action Plan in accordance with the timetable set forth therein and in a manner satisfactory to the Bank.

Section 3.04. (a) No later than September 30 of each year until completion of the Project, the Borrower shall furnish to the Bank a program, satisfactory to the Bank, setting forth in reasonable detail measures and policies, including, if necessary or appropriate, tariff adjustments, which shall be carried out during the next succeeding calendar year, for the purpose of achieving the then applicable Physical and Financial Performance

Targets.

(b) The Borrower shall take all action necessary for the carrying out of the program referred to in paragraph (a) of this Section so as to achieve, in a manner satisfactory to the Bank, the then applicable Physical and Financial Performance Targets, also referred to in said paragraph (a).

(c) Until completion of the Project, the Borrower shall furnish to the Bank the following periodic reports covering, in reasonable detail, its progress in meeting the Physical and Financial Performance Targets:

- (i) no later than March 30 of each year, a report on both the Physical and Financial Performance Targets, covering the immediately preceding calendar year; and
- (ii) no later than June 30, September 30 and December 31 of each year, a report with respect to only the non-financial components of the Physical and Financial Performance Targets, covering the calendar quarter ending on the immediately preceding March 31, June 30 and September 30.

Section 3.05. The Borrower and the Bank shall, starting on September 30, 1989, review at the request of either party, but not less frequently than annually until completion of the Project, the Borrower's performance in meeting the Physical and Financial Performance Targets and in carrying out the Institutional Action Plan.

Section 3.06. No later than sixty (60) days after the date referred to in Section 7.03 of this Agreement, the Borrower shall enter into contractual arrangements, under terms and conditions satisfactory to the Bank, with an established telecommunications company acceptable to the Bank, for the purposes of obtaining the assistance of such telecommunications company in the carrying out of Part B(a) of the Project.

Section 3.07. The Borrower shall, for the purposes of carrying out the Project, issue the necessary board of directors resolution and implementing regulations, and otherwise undertake all required corporate action, establishing and maintaining, in a form and with functions and staffing satisfactory to the Bank, a Project Administration Unit having overall responsibility for the administration of the Project.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, telecommunications and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and telecommunications practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other appropriate provision for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. No later than December 31, 1989, the Borrower shall carry out, or cause to be carried out, and furnish to the Bank, in such detail as the Bank may reasonably request, a study

reviewing all of the Borrower's insurance needs with respect to the Borrower's international telephone traffic operations and its related infrastructure, including, without limitation: (i) a review of the Borrower's present insurance coverage; (ii) an assessment of uninsured risks to which the Borrower is subject; (iii) a description of the general practices of the telecommunications industry regarding insurance coverage; and (iv) a cost-benefits analysis of improving the Borrower's insurance coverage.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate records and accounts to reflect the resources and expenditures in respect of the Project.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than: (A) eight months after the fiscal year ending on December 31, 1988; and (B) six months after the end of each fiscal year thereafter: (i) certified copies of its financial statements for such year as so audited, and (ii) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish to the Bank as soon as available, but in any case not later than three months after the end of each fiscal year, copies of its unaudited financial statements for such year, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iv) furnish to the Bank such other information concerning said records, accounts and financial statements as well as 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, 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 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 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall earn, for each of its fiscal years after its fiscal year ending on December 31, 1988, an annual return of not less than ten percent (10%) of the average current net value of the Borrower's fixed assets in operation.

(b) Before September 30 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, but not limited to, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For purposes of this Section:

- (i) The annual return shall be calculated by dividing the Borrower's net operating income for the fiscal year in question by one half of the sum of the current net value of the Borrower's fixed assets in operation at the beginning and at the end of that fiscal year.
- (ii) The term "net operating income" means total operating revenues less total operating expenses.
- (iii) The term "total operating revenues" means revenues from all sources related to operations.
- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, and provision for depreciation on a straight-line basis at a rate of not less than five percent (5%) per annum of the average current gross value of the Borrower's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
- (v) The average current gross value of the Borrower's fixed assets in operation shall be calculated as one-half of the sum of the gross value of the Borrower's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with the provisions of paragraph (b) of Section 5.05 of this Agreement.
- (vi) The term "current net value of the Borrower's fixed assets in operation" means the gross value of the Borrower's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1988, funds from internal sources equivalent to not less than thirty percent (30%) of the

annual average of the Borrower's capital expenditures incurred, or expected to be incurred, for that year and the next following fiscal year.

(b) Before September 30 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, but not limited to, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and
 - (B) the sum of all expenses related to operations, including administration, adequate maintenance (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
- (ii) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses incurred in the generation of revenues in (A) above.
- (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.
- (v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

- (vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.
- (viii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any long-term debt, unless the net revenues of the Borrower for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.5 times the estimated maximum debt service requirements of the Borrower for any succeeding fiscal year on all long-term debt of the Borrower, including the long-term debt to be incurred.

(b) For purposes of this Section:

- (i) the term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations adjusted to take account of the Borrower's rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues related and net non-operating income; and
 - (B) expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt;
- (ii) "non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (iii) the term "debt service requirements" means the aggregate amount of repayments (including sinking funds payments, if any) of, and interest and other charges on, long-term debt; and
- (iv) whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.05. (a) No later than December 31, 1989, the

Borrower shall audit and verify all of its accounts receivable and furnish to the Bank a report, satisfactory to the Bank, of such audit and verification.

(b) No later than December 31, 1989, and no later than every anniversary thereafter, until completion of the Project, the Borrower shall revalue all of its fixed assets in operation in accordance with a methodology and procedures satisfactory to the Bank, and furnish to the Bank a report, satisfactory to the Bank, of such revaluation.

(c) For the purposes of this Section, the term "accounts receivable" means all amounts due the Borrower, but for which the Borrower has not received payment therefor, arising from the Borrower's day-to-day operations in the normal course of its business and recorded in the Borrower's accounts on December 31 of the preceding fiscal year, but excluding provision for bad debts.

ARTICLE VI

Remedies of the Bank

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

(a) the Guarantor or any other authority having jurisdiction over the Borrower shall have taken any action for the dissolution or disestablishment of the Borrower or for the suspension of its operations;

(b) any or all of the Other Agreements shall have failed to become effective or meet the conditions for making withdrawals thereunder by June 30, 1990, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that 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;

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any of the Co-Financing Loans or any other loans or grants made to the Borrower for the financing of the Project shall have been suspended, cancelled, or terminated in whole or in part, pursuant, respectively, to the terms of any of the Co-Financing Agreements; or

(B) any such Co-Financing Loan or any other such loan or grant made to the Borrower for financing of the Project shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or acceleration of maturity is not caused by the failure of the Borrower to perform any of its obligations under such 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 (b) of Section 6.01 of this Agreement shall occur and shall continue for a period of

sixty (60) days after notice thereof shall have been given by the Bank to the Borrower;

(b) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur; and

(c) any event specified in subparagraph (c) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of subparagraph (c) (ii) of that Section.

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, namely: (a) that each of the CDC Loan Agreement, the OECF Loan Agreement and the Italy Loan Agreement has been authorized or ratified on behalf of the respective parties thereto by all necessary corporate and governmental action, and all conditions precedent to the effectiveness of such agreements or the right to make withdrawals thereunder, except only the effectiveness of this Agreement, shall have been fulfilled; and (b) that the Borrower shall have established the PAU in a form and with functions satisfactory to the Bank.

Section 7.02. The following is specified as an additional matter, 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, namely, that each of the CDC Loan Agreement, the OECF Loan Agreement and the Italy Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the respective parties thereto, and is legally binding upon such parties in accordance with its respective terms.

Section 7.03. The date of December 28, 1989 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 General Manager of the Borrower (Gerente General del IETEL) 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 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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Instituto Ecuatoriano de Telecomunicaciones
6 de Diciembre y Colón
Edif. "El Partenón"
Quito, Ecuador

Telex:

2202

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

INSTITUTO ECUATORIANO DE TELECOMUNICACIONES

By /s/ Jaime Moncayo
Authorized Representative

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) Goods: | | |
| (i) cables and associated materials | 26,250,000))))) | |
| (ii) Traffic and test equipment | 900,000)))) | 100% of foreign expenditures; 100% of local expenditures (ex- factory cost) and |
| (iii) Computers | 1,250,000))) | 50% of local expenditures for other items pro- cured locally |
| (iv) Miscellaneous, including vehicles and tools | 750,000))) | |
| (2) Works: | | |
| Cables related construction | 9,550,000 | 100% of foreign expenditures and 50% of local expenditures |
| | Amount of the Loan Allocated (Expressed in | % of Expenditures |

| Category | Dollar Equivalent) | to be Financed |
|--|--------------------|------------------------------|
| (3) Technical Assistance: | | |
| (i) Fees of training institution contracted pursuant to Section 3.06 of this Agreement for activities under Part B (a) of the Project | 650,000 | 100% |
| (ii) Consultants in respect of works under Part A of the Project and for management improvement under Parts B (b) and (d) of the Project | 750,000 | 100% of foreign expenditures |
| (iii) Project Administration Unit costs | 200,000 | 100% |
| (4) Unallocated | 4,700,000 | |
| | 45,000,000 | |
| TOTAL | 45,000,000 | |

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditure under Category (1), unless the Bank has received evidence satisfactory to it that the contractual arrangements for the hiring of all consultants financed under the Project have been entered into.

4. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, the disbursement percentages for Category (3) (iii) shall be reduced to: (a) 80% once the aggregate amount of disbursements made under such Category shall have reached the amount of \$150,000; and (b) 50% once the aggregate amount of disbursements made under such Category shall have reached the amount of \$180,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve the quality of and access to telecommunications services in Ecuador through rehabilitation and expansion of the telecommunications network and replacement of obsolete equipment; (b) strengthen the Borrower's management and organization, improve its procurement practices, and increase its commercial orientation; (c) improve service to the Borrower's business subscribers by modernizing and expanding

international telephone, telex and data services; and (d) increase private sector participation through development and use of private contractors.

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

Part A: Investment Program

- (a) Expansion of local telephone services by the addition of about 189,350 lines of local exchange equipment with associated cables to make about 189,000 connections;
- (b) rehabilitation of the cable network in Guayaquil to improve service to about 50,000 existing subscribers;
- (c) expansion of the long distance network by: (i) the addition of five new transit exchanges, and expansion of existing transit exchanges and associated interexchange routes and reorganization of the network for efficient traffic handling; and (ii) expansion of the long distance network through the installation of a new digital microwave network;
- (d) extension of telephone service to rural communities in territory of the Guarantor by: (i) the installation of the 76 new exchanges in rural areas; and (ii) provision of service to isolated areas (e.g., the Galpagos islands) by the installation of 12 domestic earth stations;
- (e) installation of a new international telephone exchange with capacity of about 1,500 terminations in Quito and a new satellite earth station at Guayaquil;
- (f) extension of data services; and
- (g) installation of a cellular telephone service.

Part B: Institutional Improvement

- (a) Provision of technical assistance, pursuant to the contractual arrangements referred to in Section 3.06 of this Agreement, to develop the Borrower's administration to improve the performance of key technical and managerial staff, increase commercial orientation, strengthen the in-house training program and sensitize the Borrower to internal and external factors affecting operational efficiency;
- (b) carrying out of a customized management development program for managers with the assistance of local management consultants;
- (c) strengthening project implementation capacity through technical assistance in the preparation and evaluation of bid documents, negotiation of contracts, administration of installation schedules, inspection of materials and performance of acceptance tests;
- (d) improving the operation and maintenance of the telecommunications system through training of staff and establishing better systems and procedures in the regions; and
- (e) execution of a management information system plan, including installation and utilization of computers.

* * * *

The Project is expected to be completed by January 31, 1995.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|--|---|
| On each June 15 and December 15 | |
| beginning December 15, 1994 through June 15, 2006 | 1,875,000 |

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

| Time of Prepayment | Premium |
|---|---|
| | The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by: |
| Not more than three years before maturity | 0.18 |
| More than three years but not more than six years before maturity | 0.35 |
| More than six years but not more than 11 years before maturity | 0.65 |
| More than 11 years but not more than 16 years before maturity | 0.88 |
| More than 16 years before maturity | 1.00 |

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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).

Part B: Preference for Domestic Manufacturers

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

Part C: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, 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, such 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c) (ii) of this Agreement.

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

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower 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" published by the Bank in August 1981. Notwithstanding the foregoing, the services referred to in Part B (a) of the Project shall be procured through direct contracting in accordance with procedures satisfactory to the Bank.

Section III. Special Provisions

A. In addition to and without limitation of any other provisions set forth in this Schedule 4 or the Guidelines, the following principles of procurement shall expressly govern all procurement of goods and works referred to in Section I of this Schedule:

1. Bids for contract awards must be permitted to be submitted, at the risk of the bidder, by mail.

2. Bids for contract awards 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.

3. Foreign bidders must not be required to have a local representative for purposes of submitting bids, and, after the submission of bids, may be required to have a local representative only on a case-by-case basis in light of the circumstances of each contract.

4. Foreign bidders must be permitted to have their financial solvency certified by a foreign bank without re-certification by any Ecuadorian bank or other Ecuadorian person or entity.

5. Bid and performance bonds and guarantees issued by foreign sureties approved by the Borrower must be admissible without recertification or other participation by any Ecuadorian bank or other Ecuadorian person or entity.

6. Contracts must be awarded to the lowest evaluated bidder in accordance with criteria set forth in the bidding documents.

7. Price adjustment clauses must be permitted to be included in all major contracts lasting more than one year.

8. 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.

B. In addition to and without limitation of any other provisions set forth in this Schedule 4 or the Guidelines for the Use of Consultants referred to in Section II of this Schedule, 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 or associated with local firms as a condition of bidding and, at the time of contracting, may be required to be so registered or associated only on a case-by-base basis in light of the circumstances of each such contract.

2. Foreign consultants must not be required, either directly or indirectly, to give any participation in or share of any consulting contract to any local firm or person, except in connection with a joint venture arrangement where: (i) a sufficient number of capable domestic firms 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.

3. Foreign consultants, including any foreign staff employed by them, must be exempted from all requirements, other than the requirement to hold a valid visa, established in the Borrower's Ley de Extranjer-a, Ley de Migraci#n, Reglamento a la Ley de Extranjer-a and Reglamento a la Ley de Migraci#n.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1), (2) and (3) 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 \$3,800,000 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 may 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 made 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 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 be equal to 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 any 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) provided 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 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 paragraph 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.

