

CONFORMED COPY

LOAN NUMBER 4346-EC

Loan Agreement

(International Trade and Integration Project)

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 7, 1998

LOAN NUMBER 4346-EC

LOAN AGREEMENT

AGREEMENT, dated October 7, 1998, between the REPUBLIC OF ECUADOR (the Borrower) and the 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;

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 for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997 (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Annual Operating Plan" means any of the plans referred to in Section 3.04 (b) of this Agreement;

(b) "Beneficiary" means Eligible Grassroots Beneficiaries or Eligible Learning and Innovation Beneficiaries (as defined below);

(c) "COMEXI" means Consejo de Comercio Exterior e Inversiones, the Borrower's foreign trade and investment council established pursuant to the Foreign Trade and Investment Law (as defined below);

(d) "CORPEI" means Corporación de Promoción de Exportaciones e Inversiones established by the Trade and Investment Law;

(e) "CORPEI Subsidiary Agreement" means the agreement to be entered into between the Borrower and CORPEI pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to such agreement;

(f) "Customs Administration" means the Borrower's Customs Office or any legal entity to be created by the Borrower as a successor to such office;

(g) "Eligible Grassroots Beneficiary" means a micro-enterprise, an entrepreneur or a micro-enterprise association which is eligible as a beneficiary of a Grassroots Growth Subproject in accordance with the provisions of the Operational Manual (as defined below);

(h) "Eligible Learning and Innovation Beneficiary" means an enterprise, a producer or trade association which is eligible as a beneficiary of a Learning and Innovation Subproject (as defined below) in accordance with the provisions of the Operational Manual;

(i) "Foreign Trade and Investment Law" means the Borrower's law No. 12 published in the Gazette No. 82 Supplement, dated June 9, 1997 (as defined below);

(j) "Gazette" means Registro Oficial, the Borrower's official gazette;

(k) "Grassroots Growth Subproject" means a subproject for industrial research or pre-competitiveness activities to be carried out by an Eligible Grassroots Growth Subproject Beneficiary which is eligible for financing, in part, out of the proceeds of the Loan in accordance with the provisions of the Operational Manual;

(l) "Indicators" means the performance monitoring indicators set forth in a supplemental letter of even date herewith;

(m) "INEN" means Instituto Ecuatoriano de Normalización, the Borrower's institute of quality products standards established pursuant to its decree law No. 357 dated April 28, 1970 published in the Gazette on September 7, 1970, as such decree law has been amended to the date of this Agreement;

(n) "INEN Commercial Services" means the calibration, testing, and quality promotion services being provided by INEN;

(o) "INH" means Instituto Nacional de Higiene, the Borrower's hygiene institute established pursuant to the Borrower's law published in the Gazette on October 23, 1941;

(p) "Integrated System of Financial and Administrative Information" means a system providing integrated planning, budgeting, accounting, and treasury information and analysis, for decision-making, monitoring and evaluation, as well as human resource information and materials control systems and internal regulations and procedures;

(q) "Learning and Innovation Subproject" means a subproject for industrial research or pre-competitiveness activities to be carried out by an Eligible Learning and Innovation Subproject Beneficiary which is eligible for financing, in part, out of the proceeds of the Loan in accordance with the provisions of the Operational Manual;

(r) "MICIP" means Ministerio de Comercio Exterior, Industrialización y Pesca, the Borrower's Ministry of Foreign Trade, Industry and Fishing;

(s) "Operational Manual" means a manual, satisfactory to the Bank, setting forth the criteria for selection and the procedures for implementation and supervision of Grassroots Growth Subprojects and Learning and Innovation Subprojects;

(t) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated November 27, 1995 and January 4, 1996 between the Borrower and the Bank;

(u) "Project Technical Support Unit" means the unit referred to in Section 3.03 of this Agreement;

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

(w) "Subprojects" means Grassroots Growth Subprojects or Learning and Innovation Subprojects; and

(x) "WTO" means the World Trade Organization.

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, an amount equal to twenty one million Dollars (\$21,000,000).

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, works, services and Subprojects 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 may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank or a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank including, in the event the account is opened in a commercial bank, protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 2002 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period:
(A) one half of one percent (1/2 of 1%);
(B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that

include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable March 15 and September 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:

(i) shall carry out:

(A) Parts A.1, C.1, C.2, C.3 and D of the Project through MICIP;

(B) Part A.2 of the Project through the Customs Administration; and

(C) Part C.4 of the Project through MICIP with the assistance of INEN,

all with due diligence and efficiency and in conformity with appropriate trade, administrative, financial, engineering, environmental and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts A, C and D of the Project; and

(ii) without any limitation or restrictions upon any of its other obligations under the Loan Agreement shall:

(A) through the CORPEI Subsidiary Agreement cause CORPEI to:

(I) carry out Part B of the Project with due diligence and efficiency and in

conformity with appropriate trade, administrative,
financial, engineering, environmental and
technical practices; and

(II) provide the funds, facilities, services
and other resources
necessary or appropriate to carry out Part B of the Project; and

(B) not take or permit to be taken any action which
would prevent or interfere with the
carrying out of Part B of the Project.

(b) The Borrower shall transfer: (i) on a grant basis,
\$10,500,000 out of the proceeds of the Loan to finance Parts B.2 and B.3
of the Project and a portion of Part B.4 of the Project; and (ii) on a
loan basis, \$1,000,000 out of the proceeds of the Loan to finance a
portion of Part B.4 of the Project, to CORPEI under a subsidiary
agreement to be entered into between the Borrower and CORPEI, under terms
and conditions which shall have been approved by the Bank.

(c) The Borrower shall exercise its rights and comply with its
obligations under the CORPEI 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, the
Borrower shall not assign, amend, abrogate, waive or fail to enforce the
CORPEI Subsidiary Agreement or any provision thereof.

(d) (i) In the event that during the implementation of the
Project the Customs Administration is
restructured as a legal entity, the Borrower shall not later
than ninety days after the new entity has appointed a legal
representative, enter into an agreement with such
entity, under terms and conditions
satisfactory to the Bank, for purposes of making available the
outstanding proceeds of the Loan allocated for Part
A.2 of the Project; (ii) the Borrower shall
exercise its rights and comply with its obligations under the agreement
referred to in (i) herein 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, the Borrower shall not
assign, amend, abrogate, waive or fail to
enforce such 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. Without limitation to the provisions of Section 3.01
(a) of this Agreement, the Borrower shall maintain within MICIP, until
completion of the Project, a Project technical support unit staffed by
professionals with qualifications, experience, functions and
responsibilities satisfactory to the Bank, assisted by qualified
personnel in adequate numbers.

Section 3.04. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to
monitor and evaluate on an ongoing basis, in accordance with the
Indicators, the carrying out of the Project and the achievement of the

objectives thereof;

(b) by no later than November 30 of each year, until completion of the Project, furnish to the Bank for its approval, an annual operating plan for the implementation of the Project during the upcoming twelve months, such plan to comprise: (i) the main activities to be carried out under the Project during the respective year; (ii) the objectives, and expected results or outputs of such activities; (iii) the corresponding cost estimates and budgets, including the counterpart funds; (iv) the proposed revisions to the Indicators, if applicable; and (v) the relevant institutional arrangements and responsibilities;

(c) prepare, under terms of reference satisfactory to the Bank and furnish to the Bank on or about April 30, July 31, October 31 and January 31 each year, commencing October 31, 1998 a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(d) review with the Bank: (i) by July 31 each year, or such later date as the Bank shall request, the reports referred to in subparagraph (c) of this Section; and (ii) by July 31, 2000, in addition to the reports referred to in paragraph (c) of this Section, the socio-economic impact of the Subprojects; and

(e) thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank views on the matter.

Section 3.05. The Borrower shall ensure that Subprojects are appraised, selected, carried out, financed, monitored and supervised in accordance with the provisions of the Operational Manual.

Section 3.06. The Borrower shall not later than June 30, 1999, bring INEN Commercial Services to the point of sale.

Section 3.07. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.08. The Borrower shall not later than March 1, 1999 present to its Congress: (a) a bill of law to adopt duty drawback regulations allowing the participation in the duty drawback system of domestic producers supplying intermediate goods to exporters; and (b) a bill of law to create a national quality council.

Section 3.09. The Borrower shall not later than six months after the Effective Date (or such later date as the Bank shall request) review with the Bank the progress made by CORPEI in carrying out Parts B.2 and B.3 of the Project, in particular the percentages of expenditures

financed with Loan proceeds as set forth in Category (4) (a) of the table in paragraph 1 of Schedule 1 to this Agreement. As a result of such review, the Bank may by notice to the Borrower increase the percentage of expenditures under Category (4) (a) up to 50%.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank consistently applied, by independent private auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a 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 such records and accounts and the audit thereof, and concerning said auditors, 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 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.

ARTICLE V

Remedies of the Bank

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

(a) CORPEI shall have failed to perform any of its obligations under the CORPEI Subsidiary Agreement;

(b) if applicable, the Customs Administration shall have failed to perform any of its obligations under the agreement referred to in Section 3.01 (d) (i) of this Agreement;

(c) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CORPEI or the Customs Administration (if the event set forth in Section 3.01 (d) (i) of this Agreement occurs) will be able to perform their respective obligations under the CORPEI Subsidiary Agreement and the agreement referred to in Section 3.01 (d) (i) of this Agreement;

(d) the Foreign Trade and Investment Law shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially, and adversely the operations or the financial condition of CORPEI or its ability to carry out Part B of the Project or to perform any of its obligations under the CORPEI Subsidiary Agreement;

(e) the Borrower's Ministerial Agreement No. 0416 of December 24, 1997 or Decree 651 of September 19, 1997 or Decree 331 of October 31, 1997 shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Borrower to carry out the Project;

(f) the Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of CORPEI to carry out Parts B.2 and B.3 of the Project; and

(g) the amendments to the Borrower's trade regulations referred to in paragraph 3 (b) of Schedule 1 to this Agreement shall have been reversed, suspended, amended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Borrower to achieve the objectives of the Project.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a) or (b) or (f) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (d) or (e) or (g) 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 the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) the Operational Manual shall have been adopted by CORPEI;
- (b) the CORPEI Subsidiary Agreement shall have been entered into by the parties thereto;
- (c) CORPEI shall have furnished to the Bank, for its review, the short list and the request for proposals (as such term is defined in paragraph 2.8 of the Consultant Guidelines referred to in Section II, Part A, of Schedule 4 to this Agreement) for selecting the consulting firm referred to in Part B.4 of the Project; and
- (d) a system, satisfactory to the Bank, for the administrative, financing and accounting control of the Project, shall have been put into operation.

Section 6.02. 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 the CORPEI Subsidiary Agreement has been entered into and is legally binding upon the parties thereto.

Section 6.03. The date January 7, 1999 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Public Credit of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Public Credit
Av. 10 de agosto y Jorge Washington
Quito, Ecuador

Cable address:

MINFINAZAS
Quito, Ecuador

Telex:

22358 MINFIN

For the Bank:

International Bank for
Reconstruction and Development

1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD

248423 (MCI)

or

Washington, D.C.

64145 (MCI)

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/ Fidel Jaramillo

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Javed Burki

Regional Vice President
Latin American 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 Dollars)	% of Expenditures to be Financed
(1) Civil works	200,000	100% of foreign expenditures and 80% of local expenditures
(2) Goods	1,000,000	100% of foreign expenditures and 80% of local expenditures
(3) Consultants' Services and Training		
(a) for Part A.1 (d)	200,000)

of the Project)	
(b) for Part B.4 of the Project	1,500,000)	
(c) for Parts C.1, C.2 and C.3 of the Project	2,800,000)	
(d) for all other Parts of the Project	4,700,000))
(4) Subprojects			
(a) under Part B.2 of the Project	7,000,000)	30%
(b) under Part B.3 of the Project	3,000,000)	50%
(5) Refunding of Project Preparation Advance	600,000		Amounts due pursuant to Section 2.02 (c) of this Agreement
TOTAL	21,000,000		

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "Consultants' Services and Training" means the cost of consultants' services, including those of the Technical Support Unit, and related travel, training, workshops and information and publication services, all as required for Parts A, B.4 and C of the Project, and auditors as referred to in Part D of the Project; and

(d) the term "Subprojects" means the cost of information services, training, travel of a Beneficiary, demonstration equipment, technical advisory service fees, quality or environmental testing and certification, as required for a Subproject, and the cost of the consulting firm's fees for the management of the implementation of Parts B.2 and B.3 of the Project.

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 except that withdrawals, in an aggregate amount not exceeding \$2,100,000 may be made on account of payments made for expenditures before that date but after February 24, 1998;

(b) payments made for expenditures under Category (3) (a) unless the Borrower shall have adopted amendments to its trade regulations of April 1, 1998 to set forth procedures which shall ensure adequate consideration of domestic consumers interests related to safeguards,

antidumping and countervailing measures; and

(c) payments made for expenditures under Category (3) (c) unless the Borrower shall have issued criteria and procedures for the establishment of mandatory standards of products which are: (i) based on health, safety, security, environmental, and prevention of deceptive practices considerations; and (ii) consistent with the WTO requirements set forth in the Code of Good Practice for the Preparation, Adoption and Application of Standards of the WTO Agreement on Technical Barriers to Trade.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) services under contracts costing less than: (i) \$100,000 equivalent for consulting firms; and (ii) \$50,000 equivalent for individual consultants;

(b) goods under contracts costing less than \$50,000 equivalent;
and

(c) works, Subprojects, and incremental operating costs,

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to promote increased socio-economic growth of the Ecuadorian economy through international trade development and integration with the global economy.

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: International Trade Management

1. International Trade Management and Access to International Markets

(a) Training of the staff of MICIP and COMEXI as well as of the members of the institutions which are represented in the board of COMEXI to help ensure conformity with WTO agreements and reporting requirements, to strengthen negotiations capacity for expanding market access for Ecuadorian firms, and to support policy making of COMEXI through, inter alia: (i) intensive training courses on specific WTO matters and agreements; (ii) a twinning program to develop domestic capacity in WTO related matters and other trade issues; (iii) international negotiations training; and (iv) simulation workshops.

(b) Upgrading, and equipping, of MICIP's and COMEXI's offices as required to implement the Integrated System of Financial and Administrative Information, and training of MICIP's and COMEXI's staff on such system.

(c) Provision of the technical assistance, training and information systems required to carry out a diagnostic assessment of the international competitiveness of selected producer groups and to identify

and resolve policy and institutional constraints to outward-oriented growth.

(d) Strengthening of MICIP's unfair trade practices safeguards administration through, inter alia: (i) technical assistance to prepare MICIP's organizational and functional descriptions, individual job descriptions and qualifications, and working procedures; (ii) internal and external training; (iii) upgrading of facilities and equipment; (iv) preparation of an information data base containing information and calculations relating to investigations and injury analyses, monitoring of specific cases, including cases involving Ecuadorian firms overseas; and legislation and case work trends overseas on products of interest to Ecuador; and (v) subscription to relevant publications overseas.

2. Customs Administration Program

(a) Development and implementation of a program to expand eligibility, transparency and efficiency of the duty drawback system for direct and indirect exporters.

(b) Provision of the technical assistance, training and equipment, including computers, required to implement the program referred to in paragraph (a) above.

(c) Implementation of an information campaign on the Borrower's duty drawback system.

Part B: Entrepreneurial Learning and Innovation

1. (a) Carrying out of: (i) an information campaign to broaden the awareness and interest of Ecuadorian enterprises in making international trade linkages; and (ii) an information campaign to broaden the awareness of Ecuadorian products abroad.

(b) Promotion of trade information technology for electronic international business data and communications exchanges through the INTERNET and private subscription networks including, inter alia: (i) the distribution of software packages; and (ii) the installation of a Web Site of CORPEI on Ecuadorian exports.

(c) Carrying out of local and distance learning seminars for entrepreneurs and staff of enterprises to learn WTO regulations and international business practices.

(d) Carrying out of an eco-export program which consists of broadening the awareness of the benefits of products with due regard to environmental protection and, in particular, oriented to the export markets.

2. Financing of Learning and Innovation Subprojects.

3. Financing of Grassroots Growth Subprojects.

4. Contracting of a consulting firm to assist CORPEI in carrying out Parts B.2 and B.3 of the Project.

Part C: Product Quality Program

Provision of technical assistance as required:

1. (a) to promote quality production among local enterprises, and control of such quality production by the Borrower's agencies; and (b) to negotiate, with trading countries, agreements for the mutual recognition of systems of accreditation of product quality standards;
2. for the operation of a system of accreditation of laboratory and certification services operating in Ecuador following internationally recognized criteria;
3. to upgrade INEN's and INH's certification services and laboratories; and
4. for the preparation of a plan for the privatization of INEN Commercial Services.

Part D: Audits

Provision of auditing services for purposes of carrying out audits under Section 4.01 of this Agreement.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Principal	Payment of
in	(Expressed
Date Payment Due	Dollars)
*	
On each March 15 and September 15	
beginning September 15, 2003	
through March 15, 2015	875,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of this Section.

Part B: Procurement Procedures

1. Limited International Bidding

Except as provided in Part B.2 hereof, goods shall be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works shall be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project

shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract procured pursuant to the provisions of Part B.1 of this Schedule the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Commercial Practices

Services to assist in carrying out Subprojects under Parts B.2 and B.3 of the Project and estimated to cost less than \$50,000 equivalent may be procured in accordance with commercial practices acceptable to the Bank.

5. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than \$50,000, the terms of reference shall be furnished to the Bank for its review and approval.

3. Post Review

With respect to each contract not governed by paragraph 2 of this

Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section III. Special Provisions

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

1. Bids shall 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 shall not be required to have a local representative for purposes of submitting bids.
3. Foreign bidders shall be permitted to have their financial solvency certified by a foreign bank acceptable to the procuring party without recertification by any Ecuadorian bank or other Ecuadorian person or entity.
4. Bid and performance bonds and guarantees issued by foreign sureties approved by the procuring party shall be admissible without recertification or other participation by any Ecuadorian bank or other Ecuadorian person or entity.
5. Letters of credit issued to any supplier of goods or provider of services shall not be required to be counter-guaranteed by such supplier or provider in whole or in part. This shall not prevent the procuring party from obtaining other performance warranties from such suppliers or providers.

Part B: In addition to and without limitation or restriction to any other provisions set forth in this Schedule or the Consultants Guidelines, the following provisions shall govern all employment of consultants referred to in Section II of this Schedule:

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
2. Foreign consultants shall not be required, either directly or indirectly, to give any participation in or share of any consulting contracts to any local firm or person.
3. Foreign consulting firms shall not be required, as a condition to provide services, to be registered in Ecuador with a minimum capital different from that required for Ecuadorian firms.
4. Foreign consultants, either individuals or firms, shall not be required to pay fees to the Ecuadorian Consultants' Association that are different from those required for Ecuadorian consultants.
5. No consultant shall, at the time he or she is carrying out his or her contractual obligations as consultant, hold civil service office or any other position in an agency of the Borrower or any Ecuadorian public sector entity, nor shall such consultant have any right to re-entry into any such office or position upon the conclusion of his or her consulting

services.

Section IV. Internal Approvals

1. With respect to the procurement of goods to be financed out of the proceeds of the Loan, any approval of bidding documents and contracts required under the laws of the Borrower shall be given only by the Project Technical Support Unit.

2. With respect to the employment of consultants, any approval of contracts or of consultant selection processes required under the laws of the Borrower, shall be given only by the Project Technical Support Unit.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 equal to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$700,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the amount of \$2,500,000.

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 deposit into the Special Account of an amount or amounts 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 into the Special Account such amount or amounts as the Borrower shall have requested.

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

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

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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.

