

LOAN NUMBER IBRD 9114-EC

Financing Agreement

(Second Inclusive and Sustainable Growth Development Policy Loan)

between

REPUBLIC OF ECUADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

FINANCING AGREEMENT

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

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

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

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

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

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

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — LOAN

- 2.01. The Bank agrees to provide financing to the Borrower in the amount of five hundred and six million Dollars (\$506,000,000) (“Financing”), consisting of the following:
 - (a) a loan in an amount of five hundred million Dollars (\$500,000,000) (“Loan”), as such amount may be converted from time to time through a Currency Conversion; and

- (b) a concessional contribution in an amount of six million Dollars (\$6,000,000) (“Concessional Portion of the Financing”).
- 2.02. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance of the Loan.
- 2.04. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.05. The Borrower elects to apply the Automatic Rate Fixing Conversion to the Loan. Accordingly, without limitation upon the provisions of Article IV of the General Conditions and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal five hundred million Dollars (\$500,000,000) shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.06. The Payment Dates are May 1 and November 1 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

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

ARTICLE IV — REMEDIES OF THE BANK

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

ARTICLE V — EFFECTIVENESS; TERMINATION

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

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

- (a) the Borrower's address is:

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

Telephone: (5932) 399-8500; and

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

- (a) the Bank's address is:


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

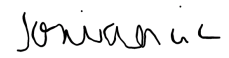
- (b) the Bank's Electronic Address is:

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


AGREED as of the Signature Date.

REPUBLIC OF ECUADOR

By 
Authorized Representative
Name: Juan Hidalgo
Title: Undersecretary of Public Finance
Date: 08-May-2020

By 
Authorized Representative
Name: José Valencia
Title: Minister of Foreign Affairs
Date: 09-May-2020

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By 
Authorized Representative
Name: Marianne Fay
Title: Country Director
Date: 08-May-2020

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

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

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

1. In the context of the COVID-19 crisis, the Borrower has created an emergency cash transfer scheme to vulnerable households that are not covered by social assistance programs, as evidenced by the Borrower's Executive Decree No. 1022, March 27, 2020, published in the Official Gazette (*Suplemento*) No. 173 on March 31, 2020.
2. The Borrower has increased flexibility in work arrangements in the context of the COVID-19 crisis by regulating telework and allowing for emergency adjustments or suspension of work shifts, as evidenced by the Ministerial Agreements MDT 2020-076 dated March 12, 2020 and MDT 2020-077 dated March 15, 2020.
3. The Borrower has created fiscal space for crisis response by: (i) increasing the withholding of income taxes for large corporations in resilient segments while deferring payments from firms in the most affected segments; as evidenced by the Borrower's Executive Decree No. 1021, March 27, 2020, published in the Official Gazette (*Suplemento*) No. 173 on March 31, 2020 and Resolution of the *Servicio de Rentas Internas* No. NAC-DGERCGC20-00000025, dated April 1, 2020; and (ii) reducing the costs associated with purchased medical equipment by eliminating import tariffs and restrictions applied to these goods in response to the COVID-19 emergency; as evidenced by the Resolution of the *Comité del Comercio Exterior* No. 004-2020, dated March 22, 2020.
4. The Borrower has: (i) created a Migratory Registry based on the information of the Migratory Census to ensure the effective provision of public services to Venezuelan migrants and refugees; as evidenced by the Borrower's Executive Decree No. 826, dated July 25, 2019 and published in the Official Gazette on July 26, 2019, and the Memorandum of Understanding entered into the Borrower's Ministry of External Affairs and ACNUR on October 22, 2019; and (ii) extended by 60 days the amnesty to irregular Venezuelan migrants allowing their permanence in the country, and ratified the validity of Venezuelan passports expired up to 5 years, in the context of the COVID-19 crisis; as evidenced by the Borrower's Executive Decree (*Decreto Ejecutivo*) No. 1020, dated March 23, 2020, published in the Official Gazette (*Suplemento*) No. 168 on March 24, 2020.

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

5. The Borrower has included provisions in the Entrepreneurship and Innovation Law to facilitate firm entry and growth of small young firms, including: (i) the creation of a simplified regime for registering a corporation; and (ii) the creation of entrepreneurship-

enhancing programs in the education system; as evidenced, respectively by the Borrower's Entrepreneurship and Innovation Law.

6. The Borrower has adopted measures to reduce the number of sectoral and occupational minimum wages fixed, and improve the timeline for setting minimum wages; as evidenced by the Ministerial Agreement (*Acuerdo Ministerial*) from the Ministry of Labor MDT 2020-023, dated February 14, 2020.
7. The Borrower has helped expand the reach of the financial system by: (i) reducing barriers to digital financial services for underserved populations, including by allowing for remote uptake of basic accounts via mobile phones; as evidenced by the Borrower's Resolutions of the *Junta de Política y Regulación Monetaria y Financiera* No. 503-2019-F, dated March 1, 2019 and published in the Official Gazette on April 3, 2019 and No. 518-2019-F, dated June 14, 2019, and published in the Official Gazette on August 1, 2019; and (ii) reducing the cost of getting financing from abroad by expanding the criteria for exemption of the outward foreign exchange tax (*Impuesto a la Salida de Divisas-ISD*) associated with financial transactions; as evidenced by article 41 of the Borrower's Tax Reform Law.

C. Promoting public sector efficiency and fiscal sustainability post-crisis

8. The Borrower has: (i) submitted to the National Assembly, for approval thereof, amendments to the Organic Code of Planning and Public Finance to: (a) introduce a four-year medium-term fiscal framework and a fiscal management risk framework, (b) reduce from 15 percent to 5 percent the margin for changes to the central government budget without prior approval from the National Assembly, and (c) integrate the forward looking cost implications from public investment decisions into annual budgets; as evidenced by the *Oficio* No. T.581-SGJ-20-0179 from the Borrower's Presidency, dated April 16, 2020; and (ii) established a Committee of Public Finance (*Comité de Finanzas Públicas*) to oversee fiscal risk assessment and mitigation; as evidenced by the Ministerial Decree (*Acuerdo Ministerial*) No. 0017 dated January 31, 2020, and published in the Official Gazette on March 2, 2020.
9. The Borrower has eliminated redundancies in staff by adopting and implementing an inter-ministerial agreement to cut duplicative posts in deconcentrated offices; as evidenced by the Inter-ministerial Agreement (*Acuerdo Interinstitucional SENPLADES-MEF-MDT-001-2019*) entered into between the Borrower's National Secretariat for Planning and Development, MEF, and the Ministry of Labor on June 24, 2019 and published in the Official Gazette on July 25, 2019.
10. The Borrower has: (i) appointed a commission within the Regulatory Agency for Hydrocarbon (ARCH) to set up fuel prices and increase transparency in price setting by making final prices and reference prices publicly available; and (ii) launched the competitive auction for renewable energy opening the market to the private sector while reducing the fiscal impacts of electricity by applying the least cost generation expansion plan for generation, and allowing pass through of all costs to end user prices; as evidenced, respectively, by ARCH Resolution No. RE-2019-075, dated June 13, 2019 and published in the Official Gazette on July 3, 2019, ARCH webpage: www.Controlhidrocarburos.gob.ec/precios-combustibles, Presidential Decree No. 856 dated

August 15, 2019 and published in the Official Gazette on August 20, 2019 and Minutes of the pre-qualification processes for the El Aromo and Villonaco II and III auctions.

Section II. Availability of Loan Proceeds

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

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

Allocations	Amount of the Loan Allocated (expressed in US\$)	Amount of the Concessional Portion of the Financing Allocated (expressed in US\$)
(1) Single Withdrawal Tranche	500,000,000	6,000,000
TOTAL AMOUNT	500,000,000	6,000,000

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of the Single Withdrawal Tranche unless: (a) each withdrawal is made on a *pari passu* basis and at a 98.81% 1.19% ratio between the amount of the Loan allocated and the amount of the Concessional Portion of the Financing allocated; and (b) the Bank is satisfied: (i) with the Program being carried out by the Borrower; and (ii) with the adequacy of the Borrower’s macroeconomic policy framework.

D. Deposit of Financing Amounts. The Borrower, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Bank: (a) the exact sum received into the accounts referred to in Section 2.03(a) of the General Conditions; (b) the details of the accounts to which the equivalent of the Financing proceeds will be credited; and (c) the record that an equivalent amount of the Financing has been accounted for in the Borrower’s budget management systems.

E. Audit. Upon the Bank’s request, the Borrower shall:

1. have the account referred to in Section 2.03(a) of the General Conditions audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;
2. furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably

request, and make such report publicly available in a timely fashion and in a manner acceptable to the Bank; and

3. furnish to the Bank such other information concerning the account referred to in Section 2.03(a) of the General Conditions and their audit as the Bank shall reasonably request.

F. Closing Date. The Closing Date is December 31, 2020.

SCHEDULE 2

Commitment-Linked Amortization Repayment Schedule

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

Level Principal Repayments

Principal Payment Date	Installment Share
On each May 1 and November 1 Beginning November 1, 2031 through November 1, 2047	2.94%
On May 1, 2048	2.98%

APPENDIX

Section I. Definitions

1. “ACNUR” means *Alto Comisionado de las Naciones Unidas para los Refugiados*, the United Nations High Commissioner for Refugees.
2. “COVID-19” means the coronavirus disease caused by the 2019 novel coronavirus (SARS-CoV-2).
3. “Entrepreneurship and Innovation Law” means the Borrower’s *Ley Orgánica de Emprendimiento e Innovación*, dated February 21, 2020 and published in the Official Gazette on February 28, 2020.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing”, dated December 14, 2018, with the modifications set forth in Section II of this Appendix.
5. “Global Concessional Financing Facility” and “GCFE” each means the financing facility established with a focus on providing concessional financing to middle income countries most affected by the presence of large numbers of refugees, and referred to in the *Preamble* to this Agreement, as having contributed the Concessional Portion of the Financing for the Program.
6. “Junta de Política y Regulación Monetaria y Financiera” means the Borrower’s body responsible for monetary and financial policies and regulations, created by Article No. 13 of the Borrower’s Monetary and Financial Code (*Código Orgánico Monetario y Financiero*), published in the Official Gazette No. 332 on September 12, 2014.
7. “MEF” means *Ministerio de Economía y Finanzas*, the Borrower’s Ministry of Economy and Finance, or any successor thereto.
8. “MFA” means *Ministerio de Relaciones Exteriores y Movilidad Humana (Cancillería)*, the Borrower’s Ministry of Foreign Affairs, or any successor thereto.
9. “Migratory Registry” means the data set on Venezuelans refugees and migrants established by Borrower’s Executive Decree No. 826, dated July 25, 2019 and published in the Official Gazette on July 26, 2019.
10. “Migratory Census” means the data gathering process for the Migratory Registry.
11. “Organic Code of Planning and Public Finance” means the Borrower’s *Código Orgánico de Planificación y Finanzas Públicas*, dated October 20, 2010 and published in the Official Gazette on October 22, 2010.
12. “Program” means the program of objectives, policies, and actions designed by the Borrower and set forth or referred to in the letter dated April 15, 2020 from the Borrower, through its

Minister of Economy and Finance, to the Bank declaring the Borrower's priority for implementation and commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program's objectives.

13. "Regulatory Agency for Hydrocarbon" means *Agencia de Regulación y Control Hidrocarburífero (ARCH)*, the Borrower's Hydrocarbon Regulation and Control Agency established by the Borrower's Hydrocarbons Law (*Ley de Hidrocarburos*) published in the Official Gazette No. 711 on November 15, 1978, as a technical-administrative body in charge of regulating, controlling and supervising the technical and operational activities in the different phases of the Borrower's hydrocarbon industry.
14. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.
15. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Wherever used throughout the General Conditions (including the Appendix) the term "*Loan Agreement*" and "*loan agreement*" are modified to read "*Financing Agreement*" and "*financing agreement*", respectively; the terms "*Loan Parties*" and "*Loan Party*" are modified to read "*Financing Parties*" and "*Financing Party*" respectively; the term "*Original Loan Currency*" is modified to read "*Original Financing Currency*"; and the term "*Substitute Loan Currency*" is modified to read "*Substitute Financing Currency*". Furthermore, wherever used in Sections 2.01 to 2.04, 2.06, 3.08(a), (b), and (d), 5.03 to 5.06, 7.01 to 7.03(a) to (d), 7.04(a), 7.05, 9.03(b), including the titles thereof, the term "*Loan*" is modified to read "*Financing*"; the term "*Loan Account*" is modified to read "*Financing Account*"; the term "*Loan Currency*" is modified to read "*Financing Currency*"; and the term "*Unwithdrawn Loan Balance*" is modified to read "*Unwithdrawn Financing Balance*".
3. In the Appendix, **Definitions**, the following new paragraphs are inserted with the following definitions of "Concessional Portion of the Financing", "Financing", "Financing Account", "Financing Currency", and the remaining paragraphs are renumbered accordingly:

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

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

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

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

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

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