

CONFORMED COPY

LOAN NUMBER 2898 EC

(Second National Low-Income Housing Project)

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 24, 1988

LOAN AGREEMENT

AGREEMENT, dated May 24, 1988, between REPUBLIC OF ECUADOR (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by the Banco Ecuatoriano de la Vivienda (hereinafter called BEV), with the Borrower's assistance and, as part of such assistance, the Borrower will make available to BEV the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and BEV;

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) "Project Agreement" means the agreement between the Bank and BEV of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BEV 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 the Subsidiary Loan Agreement; and "Subsidiary Loan" means the loan to be granted by the Borrower to BEV under the Subsidiary Loan Agreement;

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

(d) "Sucre" means the currency of the Borrower;

(e) "GTZ" means the Gesellschaft fuer Technische Zusammenarbeit of the Federal Republic of Germany;

(f) "Banco Central" means Banco Central del Ecuador, the Borrower's Central Bank;

(g) "JNV" means the Borrower's Junta Nacional de la Vivienda;

(h) "GTZ Agreement" means the technical assistance agreement to be entered into among BEV, GTZ and JNV pursuant to Section 2.07 of the Project Agreement and pursuant to the applicable provision of the JNV Agreement;

(i) "Private Developers" means any private person, company or other entity engaged as a housing construction developer in Ecuador;

(j) "Private Contractors" means any private person, company or other entity engaged as a housing construction contractor in Ecuador;

(k) "JNV Agreement" means the agreement to be entered into between BEV and JNV pursuant to Section 2.08 (a) of the Project Agreement; and "JNV Loan" means the loan to be made by BEV to JNV under the JNV Agreement;

(l) "Development Contracts" means, individually and collectively, any contract entered into by BEV and a Private Developer, pursuant to Section 2.09 of the Project Agreement;

(m) "Construction Contracts" means, individually and collectively, any contract entered into by JNV and a Private Contractor pursuant to Section 2.08 (b) of the Project Agreement;

(n) "Investment Program" means BEV's investment program referred to in Part A.1 of the Project;

(o) "Annual Action Plan" means the action plan to be submitted annually by BEV to the Bank pursuant to Section 2.10 of the Project Agreement;

(p) "Sub-loans" means loans extended to Beneficiaries for home improvement projects, pursuant to Part A.1 (ii) of the Project and Section 2.11 of the Project Agreement;

(q) "Reference Rate" means the interest rate paid from time to time on demand deposits by BEV;

(r) "Lending Instrument" means a form of legal instrument providing for the lending of money, whether or not secured by real property, and containing, inter alia, the terms and conditions described in the letter, of even date herewith, from BEV to the Bank;

(s) "Variable Interest Rate System" means a system of periodically adjustable interest rates, as applied to loan transactions, with the specific terms, conditions and features, including capitalization of interest, described in the letter, of even date herewith, from BEV to the Bank;

(t) "Housing Unit" means any house or other shelter financed by BEV as part of the Investment Program or constructed by JNV or a Private Developer under the Project;

(u) "Beneficiary" means any purchaser of a Housing Unit financed by BEV, or any recipient of a Sub-loan; and

(v) "Operational and Financial Performance Targets" means the targets and indicators set forth in Schedule 2 to the Project 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 sixty million dollars (\$60,000,000).

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 Banco Central 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 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. BEV is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall (i) cause BEV to carry out the Project either directly or, for Part A.1 (i) of the Project, with the assistance of JNV and/or Private Developers, with due diligence and efficiency and in conformity with appropriate administrative, financial, public housing, engineering and banking practices; (ii) cause BEV to perform in accordance with the provisions of the Project Agreement all the obligations of BEV therein set forth; and (iii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BEV to carry out the Project and to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such carrying out or such performance.

(b) The Borrower shall relend the proceeds of the Loan to BEV under a subsidiary loan agreement to be entered into between the Borrower and BEV, under terms and conditions which shall have been approved by the Bank and which shall include, inter alia, the following terms and conditions: (i) the Subsidiary Loan shall be made and denominated in Sucres; (ii) interest shall be charged on the amount of the Subsidiary Loan outstanding from time to time at a variable rate to be adjusted annually and to be equal to the Reference Rate; (iii) the outstanding principal of the Subsidiary Loan shall be repaid by BEV in accordance with an amortization schedule reflecting BEV's projected cash flow, but in any event not exceeding a maximum amortization period of seventeen years and with payment dates corresponding to the payment dates of the Loan; (iv) interest on the Subsidiary Loan shall be paid by BEV semi-annually; (v) a commitment charge corresponding to the commitment charge payable on the Loan shall be paid by BEV; and (vi) for the purpose of carrying out Part A.1 (i) of the Project, BEV shall be required to on-lend or transfer a portion of the Subsidiary Loan

to JNV and/or Private Developers, as the case may be, in such amounts, at such interest rates and in such manner as set forth in Sections 2.08 and 2.09, respectively, of the Project Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan 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 or waive the Subsidiary Loan 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 5 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by BEV pursuant to Section 2.03 of the Project Agreement.

Section 3.04. (a) The Borrower shall cause JNV to enter into the JNV Agreement with BEV and shall cause JNV to perform all of its obligations therein set forth, all as provided in Section 2.08 and Schedule 1 of the Project Agreement.

(b) The Borrower shall cause JNV to exercise its rights under the JNV Agreement in such manner as to protect the interests of JNV and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall cause JNV not to assign, amend, abrogate or waive the JNV Agreement or any provision thereof.

Section 3.05. The Borrower shall cause JNV: (a) to establish new staff positions, within JNV, consisting of or equivalent to a national finance division chief, a cost accounting departmental chief, a control and planning section chief, a national director of information systems and a national director for the promotion of BEV's housing program; and (b) to recruit, appoint and, at all times until Project completion, employ persons possessing adequate qualifications and experience to fill such new staff positions.

Section 3.06. The Borrower shall cooperate and coordinate with BEV and take all actions, including legal, administrative or regulatory actions, necessary or appropriate in order to enable BEV to (i) in each calendar year beginning with 1988, carry out its Annual Action Plan with respect to such year; (ii) utilize, in accordance with Section 2.17 of the Project Agreement, the Lending Instrument for all of its loan transactions which finance the acquisition of Housing Units by Beneficiaries, or home-improvement projects undertaken by Beneficiaries, and (iii) charge interest on all of such loan transactions in accordance with the Variable Interest Rate System, as provided in Section 2.17 of the Project Agreement, and at the levels required by Section 2.16 (a) of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall: (i) for each fiscal year, have the records and accounts for the Special Account 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 four months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning said records and

accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

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

(a) BEV shall have failed to perform any of its obligations under the Project Agreement, or the event described in Section 2.16 (c) of the Project Agreement shall have occurred.

(b) 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 BEV will be able to perform its obligations under the Project Agreement.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of BEV or JNV or for the suspension of their respective operations, unless, at the time of such action, a successor institution or agency is established with functions and powers substantially equivalent to those of BEV or JNV, as the case may be.

(d) Any party or parties to the JNV Agreement or the GTZ Agreement shall have failed to perform any of its or their respective obligations under any of such agreements.

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

(a) the event specified in paragraph (a) or (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph (c) 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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and BEV;

(b) BEV, JNV and GTZ shall have entered into the GTZ Agreement;

(c) BEV and JNV shall have entered into the JNV Agreement;

(d) JNV shall have appointed the staff referred to in Section 3.05 of this Agreement; and

(e) BEV and JNV, either jointly or separately, shall have furnished to the Bank the terms of reference for a study and an implementation schedule for a program, each satisfactory to the Bank, for the purpose of improving and upgrading their respective accounting and financial management procedures and systems, as referred to in Section 4.02 of the Project Agreement and in paragraph 7 of Schedule 1 to the Project Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be

furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by BEV, and is legally binding upon BEV in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and BEV, and is legally binding upon the Borrower and BEV in accordance with its terms; and

(c) that the JNV Agreement has been duly authorized or ratified by BEV and JNV, and is legally binding upon BEV and JNV in accordance with its terms.

Section 6.03. The date of August 24, 1988 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Ministro de Finanzas y Credito Publico of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministerio de Finanzas
10 de Agosto y Jorge Washington
Quito
Ecuador

Cable address:

MINFINANZAS
Quito, Ecuador

Telex:

2449 MINFIN ED

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

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/ Mario Ribadeneira
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Works under Part A.1 (i) of the Project		81%
(i) being carried out by JNV	35,700,000	
(ii) being carried out by Private Developers	1,000,000	
(2) Sub-loans under Part A.1 (ii) of the Project	21,300,000	81% of amounts disbursed
(3) Equipment and vehicles under Part A.2 of the Project	500,000	100% of foreign expenditures and 81% of local expenditures

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Consultants' services:		100%
(i) under Part A.3 of the Project	500,000	
(ii) under Part B of the Project	1,000,000	
TOTAL	60,000,000	

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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures incurred prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$2,000,000, may be made on account of payments made prior to that date but after November 20, 1987.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of expenditures (a) under Category (1)(i) in the table in such paragraph, unless the Bank shall have received a model of the Construction Contract, in form and substance satisfactory to the Bank, to be used by JNV for the purpose of contracting with Private Contractors to carry out any part of the Project; and (b) under Category (1)(ii) in the table in such paragraph, unless the Bank shall have received a model of the Development Contract, in form and substance satisfactory to the Bank, to be used by BEV for the purpose of contracting with Private Developers to carry out any part of the Project.

5. Notwithstanding the provisions of paragraph 1 above, no further withdrawals shall be made in respect of expenditures under Categories (1) and (2) in the table of such paragraph after \$6,000,000 have been disbursed under such category, unless BEV shall have developed, implemented and begun utilization of the Lending Instrument and the Variable Interest Rate System as provided in Sections 2.16 (a) and 2.17 of the Project Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) assist BEV in adopting new interest rate policies and a new lending instrument designed to improve resource mobilization and allocation in the Borrower's housing sector; (ii) streamline and strengthen the financial, administrative and productive efficiency of BEV and JNV while further rationalizing the Borrower's public housing investment program; (iii) enable BEV and JNV to target their housing stock production more accurately at low-income beneficiaries; and (iv) encourage greater participation of Private Developers and Private Contractors in low-income housing through increased subcontracting by JNV to Private Contractors and by providing Private Developers with direct access to BEV funding.

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: Investment Program

1. Implementation of a portion of BEV's investment program for the period from 1988 through 1993, such portion consisting inter alia of (i) development and subsequent financing of serviced building lots or completed Housing Units, which building lots and Housing Units are estimated not to exceed, in the aggregate, 15,000, and (ii) granting of Sub-loans for approximately 15,000 home improvement projects throughout the Borrower's territory.

2. Acquisition and utilization of vehicles and equipment for purposes of carrying out the Investment Program.

3. Technical assistance for purposes of carrying out the Investment Program.

Part B: Technical Assistance

1. Technical assistance to BEV and JNV to enable them to improve: (i) norms and standards for low-income housing construction; (ii) contracting and supervision practices; (iii) loan portfolio management; (iv) operational efficiency; and (v) accounting procedures and financial management systems.

2. Technical assistance to BEV and JNV to enable them to implement policies to promote the mobilization of domestic financial resources while being responsive to Beneficiaries' needs, conditions and circumstances.

* * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each April 1 and October 1	
beginning October 1, 1992 through October 1, 2004	2,310,000
On April 1, 2005	2,250,000

* 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	.18
More than three years but not more than six years before maturity	.35
More than six years but not more than 11 years before maturity	.65
More than 11 years but not more than 15 years before maturity	.88
More than 15 years before maturity	1.00

SCHEDULE 4

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 equivalent to \$4,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories minus 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.

(b) 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 any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account and immediate cancellation.

SCHEDULE 5

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

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: Other Procurement Procedures

1. Equipment and vehicles may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Civil works estimated to cost less than \$1,200,000 equivalent per contract, up to an aggregate amount of \$18,200,000 equivalent may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. Goods and works financed by Sub-loans under Part A.1 (ii) of the Project may be procured in accordance with BEV's and/or the purchaser's normal practices in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to the first five (5) contracts for civil works to be financed under Part A.1 (i) of the Project, and, in addition, with respect to each contract for civil works estimated to cost the equivalent of \$1,200,000 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, clause (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 4 to the Loan 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 4.01 (a) (ii) of the Loan Agreement and 4.01 (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 BEV in carrying out the Project, BEV 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 (the Guidelines for the Use of Consultants).

Section III: Special Provisions

A. In addition to and without limitation of any other provisions set forth in this Schedule 5 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, other than those referred to in paragraph 3 of Part C of such Section I:

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 required to be submitted in one single envelope, and all information contained therein must be considered simultaneously.
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 guarantees issued by foreign banks must be admissible without re-certification 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 contracts.

8. Adjustments of contracts for the acquisition of goods or the provision of works must not exceed 15%, as set forth in Section I, Part D, paragraph 2 of this Schedule.

9. 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 5 or the Guidelines for the Use of Consultants, 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 Extranjeria, Ley de Migracion, Reglamento a la Ley de Extranjeria and Reglamento a la Ley de Migracion.

