CONFORMED COPY

LOAN NUMBER 7361-EC

Loan Agreement

(Health Insurance Strategy for the Poor Support Project)

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 5, 2006
LOAN AGREEMENT

Agreement dated June 5, 2006 between REPUBLIC OF ECUADOR (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). 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) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Loan 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 lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of ninety million dollars, as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Commitment Charge payable by the Borrower shall be equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which the Commitment Charge commences to accrue in accordance with the provisions of Section 3.01 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter; subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.

2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a
Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.

2.06. The Payment Dates are June 15 and December 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III—PROJECT

3.01. The Borrower declares its commitment to the objective of the Project, the Policies for the National System of Universal Health Insurance and the Program. To this end, the Borrower shall cause the Project to be carried out by SODEM in accordance with the provisions of the Project Operational Manual and Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV—REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

(a) SODEM’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SODEM to perform any of its obligations under this Agreement or under the Subsidiary Agreement.
(b) The Borrower’s Policies for the National System of Universal Health Insurance have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower or of SODEM to perform any of their obligations under this Agreement or under the Subsidiary Agreement.

(c) The Borrower’s Organic Law on the National Health System has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower or of SODEM to perform any of their obligations under this Agreement or under the Subsidiary Agreement.

4.02. The Additional Events of Acceleration consist of the following, namely that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V—EFFECTIVENESS

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Subsidiary Agreement has been executed on behalf of the Borrower and SODEM.

5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and SODEM and is legally binding upon the Borrower and SODEM in accordance with its terms.

5.03. The Effectiveness Deadline is the date ninety days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is the Minister of Economy and Finance.

6.02. The Borrower’s Address is:

   Ministry of Economy and Finance
   Avenida 10 de Agosto y Jorge Washington
   Quito, Ecuador

   Facsimile:
   (5932) 2503-111
   2558-232

6.03. The Bank’s Address is:

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

   Cable address:
   Telex:
   Facsimile:
INTBAFRAD 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF ECUADOR

By /s/ Diego Borja Cornejo
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Marcelo M. Giugale
Authorized Representative
The objective of the Project is to assist the Borrower to implement its strategy for health insurance coverage for targeted low-income groups that otherwise have no access to health care, with the goal of reducing infant, child and maternal mortality, as well as reducing the level of health inequalities among the Borrower’s provinces and the Borrower’s population income quintiles.

The Project constitutes the first phase of the Program, and consists of the following parts:

Component 1. Institutional Strengthening of Management Information Systems for Monitoring, Evaluation and Continuous Auditing

a. Strengthening the health management information network and related coordination for AUS, including PROAUS, and its providers.

b. Providing technical assistance and training to SODEM staff as well as selected Participating Health Care Providers’ staff, on health care contracting, payments and information systems as well as insurance premia financing under the Project.

c. Carrying out continuous financial and technical audits and surveys, such as medical audits, household surveys and health care utilization audits.

Component 2. Provision of Support for the Borrower’s Health Insurance Strategy for the Poor

Support the Borrower’s health insurance strategy for the poor to promote protection of its human capital by increasing the enrollment of beneficiaries under the Borrower’s PROAUS and guaranteeing the financing of the insurance premia (Capitation Premia) therefor by the Borrower.
SCHEDULE 2
Project Execution

Section I. Subsidiary Financing; Institutional and Other Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project by SODEM, the Borrower shall execute with SODEM, and thereafter implement, a subsidiary agreement (the Subsidiary Agreement), under terms and conditions approved by the Bank, which shall include the following:

   (a) the obligation of the Borrower to make the proceeds of the Loan for Component 1 of the Project available to SODEM;
   (b) the obligation of SODEM to: (i) carry out the Project with due diligence and efficiency and in accordance with sound administrative, financial, health, social and environmental standards and in accordance with the provisions of the Project Operational Manual; (ii) maintain adequate records to reflect, in accordance with sound accounting practices defined in the Project Operational Manual, the operations, the resources and expenditures in respect of the Project; and (iii) maintain adequate reporting in accordance with the standards specified in the Project Operational Manual;
   (c) the requirement that: (i) the goods and services needed for Component 1 of the Project and to be financed from the proceeds of the Loan shall be procured in accordance with the procedures set forth in Section III of this Schedule; and (ii) the Capitation Premia shall be used exclusively to provide health care insurance coverage under PROAUS;
   (d) the right of the Borrower to inspect, by itself or jointly with the Bank, if the Bank shall so request, the goods and services financed by the Project under Component 1 of the Project as well as the results achieved under Component 2 of the Project, the operations thereof and any relevant records and documents;
   (e) the right of the Borrower to obtain all information as the Borrower or the Bank shall reasonably request regarding the administration, operations and financial conditions of the activities and results financed by the Project; and
   (f) (i) the right of the Borrower to suspend and terminate the right of SODEM to use the proceeds of the Loan; and (ii) the obligation of SODEM to refund any portion of the Loan proceeds to the Borrower, whenever the Borrower or the Bank determines that such portion was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in the case of Capitation Premia, was not supported by evidence of an increase in Enrolled Population or other criteria set forth in this Agreement.

2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect its own interests and the interests of Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, arrogate or waive the Subsidiary Agreement of any or its provisions.

B. Institutional and Other Arrangements

1. The Borrower shall cause the Project to be carried out by SODEM in accordance with the Project Operational Manual, including the Environmental Safeguards and the Indigenous Peoples’ Plan, and except as the Bank shall otherwise agree, shall not amend or waive any provision of these
documents without the Bank’s prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail.

2. The Borrower shall ensure that, until the completion of the execution of the Project, SODEM shall have competent staff in adequate numbers with qualifications and experience satisfactory to the Bank, including the following key staff: a national secretary, a manager for health care contracting, a public health care specialist, a manager of the administrative unit, a legal adviser, a social specialist, a procurement specialist, a financial management specialist and an audit and contract specialist.

3. The Borrower shall maintain until the completion of the Project, the AUS Advisory Council with at least semi-annual meetings and shall submit reports on said meetings to the Bank.

4. The Borrower shall cause SODEM to enter into, no later than twelve months after the Effective Date, and thereafter implement: (a) at least four institutional cooperation agreements (the Institutional Cooperation Agreements) with any of the following: the Borrower’s Ministry of Public Health, the Borrower’s Ministry of Social Welfare, IESS, ISSFA, ISSPOL, STFS and the Municipality of Quito; and (b) at least five Health Care Agreements; all in form and substance satisfactory to the Bank, and except as the Bank shall otherwise agree, shall not permit any amendment or waiver of any substantive provision of said agreements without the Bank’s prior written approval. These agreements will not be amended or waived if, in the opinion of the Bank, such amendments or waivers may materially and adversely affect the carrying out of the Project or the achievement of the objective thereof. In case of any conflict between the terms of said agreements and those of this Agreement, the terms of this Agreement shall prevail.

5. The Borrower shall cause SODEM to: (a) enter into Health Care Agreements with public sector Participating Health Care Providers and Health Care Contracts with private sector Participating Health Care Providers on a yearly basis, all in terms and conditions acceptable to the Bank; (b) agree with each Participating Health Care Provider in such agreements on annual targets for the Production Tracers, work programs and resource requirements for the delivery of health care services under PROAUS supported by Component 2 of the Project; (c) ensure that payments to Participating Health Care Providers are based solely on Production Tracers under said Health Care Agreements or Health Care Contracts; and (d) ensure that in case a Participating Health Care Provider fails to achieve its obligations under the respective Health Care Agreement or Health Care Contract, SODEM may take any appropriate corrective measure.

6. The Borrower shall cause SODEM to: (a) exercise its rights and carry out its obligations under each Institutional Cooperation Agreement and under each Health Care Agreement and Health Care Contract in such a manner as to protect the interests of the Borrower and of the Bank and to accomplish the purposes of the Project; (b) cause each Participating Health Care Provider to carry out its obligations under each Health Care Agreement in such a manner as to protect the interests of the Borrower and of the Bank and to accomplish the purposes of the Project; and (c) except as the Bank shall otherwise agree, not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Institutional Cooperation Agreement, Health Care Agreement or Health Care Contract or any provision thereof.

7. Each Loan withdrawal application under Category 2 of the table in Section IV A.2 of Schedule 2 to this Agreement shall be presented to the Bank by the Borrower on a quarterly basis and the Borrower shall cause SODEM, prior to the submission of each such Loan withdrawal application, to furnish to the Bank a report in accordance with the provisions of the Project Operational Manual confirming, validating and certifying that transfers for Capitation Premia to Participating Health Care Providers under a Health Care Agreement or Health Care Contract have been done. Disbursements
under said Category 2 of the table in Section IV A.2 of Schedule 2 to this Agreement shall be done on a quarterly basis immediately after the presentation of said report by multiplying the Enrolled Population by the Enrolled Population/Production Tracers Formulae of the Performance Matrix of Schedule 4 to this Agreement.

8. For the purposes of the confirmation, validation and certification procedure referred to in paragraph 7 above, the Borrower shall cause SODEM to: (a) have the report referred to in said paragraph internally audited on a quarterly basis in accordance with standards specified in the Project Operational Manual and on the basis of the Performance Matrix, the Production Tracers and the registry of Enrolled Population by the audit and contract specialist referred to in Section I B.2 of Schedule 2 to this agreement; and (b) use as support documentation said internally audited reports provided by said audit and contract specialist, all in a manner satisfactory to the Bank.

9. The Borrower shall have the reports referred to in paragraph 7 above as internally audited in accordance with paragraph 8 above, independently audited by an independent auditor (the Technical Auditor), in accordance with the provisions of Project Operation Manual and under terms of reference to be approved by the Bank. Each such technical audit shall cover the period of one fiscal year of the Borrower and shall be furnished to the Bank for each such period not later than six months after the end of such period.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. (a) The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in sub-paragraph (b). Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

   (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>Target Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec. 31, 2007</td>
</tr>
<tr>
<td>1. Enrolled Population</td>
<td>800,000</td>
</tr>
<tr>
<td>2. Reduction in infant mortality rate (IMR), under five years old mortality rate (U5MR) and maternal mortality rate (MMR) in the Enrolled Population.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Reduction in IMR, U5MR, MMR ratios between the Enrolled Population and income quintiles 4 and 5 of the Borrower’s population in PROAUS areas.</td>
<td>□ 2.5%</td>
</tr>
<tr>
<td>4. Participating Health Care Providers achieving at least 5 Production Tracers.</td>
<td>80%</td>
</tr>
<tr>
<td>5. Reduction of out-of-pocket health care expenses incurred by the Enrolled Population.</td>
<td>□ 5%</td>
</tr>
</tbody>
</table>
6. Percentage of Health Care Agreements and Health Care Contracts audited where at least 80% of those audited demonstrate data integrity.

| 60% | 90% |

2. For purposes of Section 5.08 (c) of the General Conditions, the final report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than June 30, 2009.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than one month after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods and Non-Consultants’ Services. All goods and non consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-Consultants’ Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and non-consultants’ services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. Other Methods of Procurement of Goods and Non-Consultants’ Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and non-consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.
C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) FBS</td>
</tr>
<tr>
<td>(b) QCS</td>
</tr>
<tr>
<td>(c) LCS</td>
</tr>
<tr>
<td>(d) SSS</td>
</tr>
</tbody>
</table>

The procurement of consultants’ services following the above procurement methods will be made subject to the provisions of paragraph E below.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

E. Special Provisions

1. In addition and without limitation or restriction to any other provisions set forth in this Section or the Procurement Guidelines, the following provisions shall govern the procurement of goods and non-consultants’ services under this Section.

(a) Each bid shall be evaluated and the corresponding contract awarded to the responsive bidder who meets appropriate technical and financial standards of capability and whose bid has been determined to be the lowest evaluated bid in a manner satisfactory to the Bank. Such determination shall be made exclusively on the basis of the specifications, conditions and evaluation criteria stipulated in the bidding documents. If any factor additional to the amount or amounts of each bid is to be considered in bid evaluation, such factor or factors and the quantified manner on which they will be applied for purposes of determining the lowest evaluated bid, shall be precisely stipulated in the bidding documents. For purposes of bid
evaluation and comparison, the only bid amount or amounts to be used as a factor shall be the
bid amount or amounts as quoted in the corresponding bid, including correction of arithmetic
errors.

(b) There will be no prescribed minimum number of bids submitted for a contract to be
subsequently awarded.

(c) Foreign bidders shall not be required to authenticate (legalizar) their bidding documents or
any documentation related to such bidding documents with Ecuadorian authorities as a
prerequisite of bidding.

(d) The Borrower shall use standard bidding documents satisfactory to the Bank.

2. In addition and without limitation or restriction to any other provisions set forth in this
Section or the Consultant Guidelines, the following provisions shall govern all employment of
consultants:

(a) Foreign consultants shall not be required to be locally registered as a condition of
participation in the selection process.

(b) 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.

(c) 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.

(d) 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.

(e) No consultant financed out of the proceeds of the Loan 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 any agency of the Borrower, 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. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of
this Section and such additional instructions as the Bank shall specify by notice to the Borrower to
finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out
of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category,
and the percentage of expenditures to be financed for Eligible Expenditures in each Category.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultants’ services, training and non-consultants’ services.</td>
<td>13,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Capitation Premia.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) prior to completion of Performance Goals I.</td>
<td>15,400,000</td>
<td>100% of amounts calculated pursuant to Section I.B.7 of Schedule 2 to this Agreement.</td>
</tr>
<tr>
<td>(b) after completion of Performance Goals I.</td>
<td>30,800,000</td>
<td></td>
</tr>
<tr>
<td>(c) after completion of Performance Goals II.</td>
<td>30,800,000</td>
<td></td>
</tr>
<tr>
<td>(3) Premia for Interest Rate Caps and Interest Rate Collars.</td>
<td>0</td>
<td>Amount due under Section 2.08 (c) of this Agreement.</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>90,000,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this table, the term “training” means the reasonable cost of: (i) training materials and rental of training facilities and equipment; (ii) tuition fees, travel and per-diem of trainers and trainees; and (iii) any other expenses related to training (including study tours and workshops) to be carried out under the Project.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

2. The Closing Date is June 30, 2010.

Section V. Other Undertakings

The Borrower shall cause SODEM to: (i) no later that one month after the Effective Date, adopt through a resolution, in form and substance satisfactory to the Bank, the Project Operational Manual; and (ii) no later than six months after the Effective Date, hire the independent auditors for the financial and technical audits as respectively referred to in Sections II B.3 and I B.9 above.
SCHEDULE 3

Amortization Schedule

1. 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”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
</table>
| On each June 15 and December 15  
Beginning June 15, 2011 through June 15, 2022 | 4.17% |
| On December 15, 2022 | 4.09% |

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after
the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
SCHEDULE 4

Performance Matrix

<table>
<thead>
<tr>
<th>Enrolled Population/Production Tracers Formulae</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrolled Population under Health Care Agreements or Health Care Contracts whose Participating Health Care Providers fulfill at least 2 of the Production Tracers multiplied by $3.86 per quarter.</td>
</tr>
<tr>
<td>Enrolled Population under Health Care Agreements or Health Care Contracts whose Participating Health Care Providers fulfill at least 5 of the Production Tracers multiplied by $4.34 per quarter.</td>
</tr>
<tr>
<td>Enrolled Population under Health Care Agreements or Health Care Contracts whose Participating Health Care Providers fulfill at least 8 of the Production Tracers multiplied by $4.82 per quarter.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Goals I</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Enrolled Population equals at least 400,000 persons.</td>
</tr>
<tr>
<td>2. At least 60% of Participating Health Care Providers fulfill at least 5 Production Tracers.</td>
</tr>
<tr>
<td>3. Health Care Agreements or Health Care Contracts executed and implemented in at least 4 target provinces in the Borrower’s territory.</td>
</tr>
<tr>
<td>4. At least 60 percent of Health Care Agreements or Health Care Contracts have been audited, where at least 80 percent of those audited demonstrate data integrity.</td>
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<tr>
<td>5. At least 80 percent of transfers from the Borrower’s Ministry of Economy and Finance to SODEM to finance PROAUS occurred within one month after said transfer request.</td>
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<tr>
<th>Performance Goals II</th>
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<tr>
<td>1. Enrolled Population equals at least 800,000 persons.</td>
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<tr>
<td>2. At least 80% of Participating Health Care Providers fulfill at least 5 Production Tracers.</td>
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<td>3. Health Care Agreements or Health Care Contracts executed and implemented in at least 6 target provinces in the Borrower’s territory.</td>
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<tr>
<td>4. Fraud reporting system under Component 1 of the Project validated by external audit.</td>
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<tr>
<td>5. At least 60 percent of PROAUS enrolled pregnant women received at least one prenatal care service before the 20th week.</td>
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<tr>
<td>6. At least 40 percent of enrolled PROAUS Parroquias have concentrations of indigenous populations &gt;50%.</td>
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<tr>
<td>7. At least 80 percent of transfers from the Borrower’s Ministry of Economy and Finance to SODEM to finance PROAUS occurred within one month after said transfer request.</td>
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APPENDIX

Section I. Definitions

1. “AUS” means Aseguramiento Universal en Salud, the Borrower’s universal health insurance system, created and operating under the Borrower’s Policies for the National System of Universal Health Insurance.

2. “AUS Advisory Council” means an advisory and supervision body for the Project, comprising representatives from SODEM, the Borrower’s Ministry of Public Health, the Borrower’s Ministry of Social Welfare, the Borrower’s Ministry of Economy and Finance, IESS, ISSFA, ISSPOL, as created and operating under SODEM’s Resolution No. 016-SN-SODEM-2005, dated December 20, 2005.

3. “Capitation Premia” means payments made by SODEM for eligible health insurance coverage for targeted low income groups to Participating Health Care Providers under Health Care Agreements or Health Care Contracts.

4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


6. “Enrolled Population” means the number of persons in the Borrower’s population in income quintiles 1 and 2 that has voluntarily enrolled in PROAUS with each Participating Health Care Provider.

7. “Enrolled Population/Performance Tracers Formulae” means the formulae as set forth in the Performance Matrix appearing in Schedule 4 to this Agreement, used to calculate disbursements under Category 2 of the table in Section IV A.2 of Schedule 2 to this Agreement.

8. “Environmental Safeguards” means the safeguards (published and available to the public on the website www.sodem.gov.ec) outlining mitigation measures and monitoring procedures for hospital waste management disposal for the Project to be included in each Health Care Agreement or Health Care Contract; as said safeguards may be amended from time to time with the Bank’s prior approval.


12. “IESS” means Instituto Ecuatoriano de Seguridad Social, the Borrower’s agency responsible for social security, as created and operating under the Borrower’s Law No. 2001-55 published on November 30, 2001.
13. “Indigenous Peoples’ Plan” means the document (published and available to the public on the website www.sodem.gov.ec), dated October 21, 2005 and outlining implementation procedures, mitigation measures and monitoring procedures for indigenous peoples under the Project to be included in each Institutional Cooperation Agreement, in each Health Care Agreement and in each Health Care Contract; as said plan may be amended from time to time with the Bank’s prior approval.

14. “Institutional Cooperation Agreements” means agreements to be executed between SODEM and respectively each of the following: the Borrower’s Ministry of Public Health, the Borrower’s Ministry of Social Welfare, IESS, ISSFA, ISSPOL, STFS and the Municipality of Quito, in order to implement PROAUS.

15. “ISSFA” means Instituto de Seguridad Social de las Fuerzas Armadas, the Borrower’s social security agency for military personnel and their families, as created and operating under the Borrower’s Law No. 169 published on August 7, 1992.

16. “ISSPOL” means Instituto de Seguridad Social de la Policía Nacional, the Borrower’s social security agency for police personnel and their families, as created and operating under the Borrower’s Special Law No. 90 published on June 1, 1991.

17. “Organic Law on the National Health System” means the Borrower’s organic law on the national health system (Law No. 80, published on September 25, 2002).


19. “Participating Health Care Providers” means health care providers from the public sector and the private sector who have met the eligibility criteria set forth in the Project Operational Manual and have executed Health Care Agreements or Health Care Contracts (as the case may be) with SODEM for the delivery of health care services covered by PROAUS.


21. “Performance Matrix” means the matrix set forth in Schedule 4 to this Agreement.


23. “PROAUS” means Programa de Aseguramiento Universal en Salud, the Borrower’s program on universal health insurance, a sub-element of AUS for the two poorest income quintiles of the Borrower’s population, as created and operating under the Borrower’s Policies for the National System of Universal Health Insurance.


25. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated December 22, 2005 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24
of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

26. “Production Tracers” means a set of ten (10) service production goals included in each Health Care Agreements or Health Care Contracts.

27. “Program” means the program designed to support the Borrower’s insurance strategy for the poor and set forth or referred to in the letter dated December 22, 2005 from the Borrower to the Bank.

28. “Project Operational Manual” means an operational manual for the Project, satisfactory to the Bank and to be adopted through a resolution by SODEM with prior approval by the Borrower’s Ministry of Economy and Finance, which shall contain, inter alia: (i) the terms of reference, functions and responsibilities for the personnel of SODEM responsible for Project coordination, monitoring and evaluation of the Project; (ii) the criteria, detailed rules and procedures for the Capitation Premium; (iii) the criteria, detailed rules and procedures for the execution of Health Care Agreements and Health Care Contracts; (iv) procedures for procurement of goods and services, as well as for financial management and audits of the Project; (v) the indicators to be used in the monitoring and evaluation of the Project; (vi) draft models for the Health Care Agreements and Health Care Contracts; (vii) detailed criteria for the determination of the Enrolled Population, including procedures, activities and monitoring indicators for the enrollment of said population, which shall, inter alia, also ensure adequate and culturally appropriate access by indigenous peoples to AUS and PROAUS; (viii) flow and disbursement arrangements of Project funds; and (ix) the Environmental Safeguards as well as the Indigenous Peoples’ Plan.

29. “SODEM” means Secretaría Nacional de los Objetivos de Desarrollo del Milenio, the Borrower’s national secretariat for the millennium development goals.


31. “STFS” means Secretaría Técnica de Frente Social, the Borrower’s technical secretariat under its Ministry of Social Welfare, in charge, inter alia, of the maintenance and management of SELBEN (Sistema de Identificación y Selección de Beneficiarios de los Programas Sociales), the Borrower’s national system for identifying and selecting beneficiaries of social programs, as created and operating under the Borrower’s Executive Decree No. 614, published on August 3, 2000.

32. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to SODEM.

33. “Technical Auditor” means an independent auditor referred to in Section I.B.9 of Schedule 2 to this Agreement, in charge of carrying yearly technical audits of the Project, as selected in accordance with Section III of Schedule 2 to this Agreement, terms of reference included in the Project Operational Manual and the Procurement Plan.