Loan Agreement

(Chimborazo Development Investment Project (PIDD))

between

PROVINCIAL COUNCIL OF CHIMBORAZO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 18, 2008
LOAN AGREEMENT

Agreement dated April 18, 2008, between the PROVINCIAL COUNCIL OF CHIMBORAZO ("Borrower") and the 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 fifteen million three hundred thousand Dollars ($15,300,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 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 Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.

2.04. 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; 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. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower
shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

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

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.07. (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.

2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 of this Agreement 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 the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed 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.

ARTICLE III—PROJECT

3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project in accordance with the provisions of 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, namely that the Provincial Regimen Law has been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement. Such suspension shall continue until the Additional Event of Suspension has ceased to exist, unless the Bank has notified the Loan Parties that such right to make withdrawals has been restored, as referred to in Section 7.02 of the General Conditions.

4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V—EFFECTIVENESS

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Borrower has complied with Article 30 and 31 of the Executive Decree No. 611 by: (a) entering into the trust agreement referred to in said Article 30; and (b) entering into the restitution agreement referred to in said Article 30 and in said Article 31.

5.02. The following is specified as an Additional Legal Matter, to be included in the opinion or opinions to be furnished to the Bank by the Guarantor, namely, that the Borrower has complied with Section 5.01 above.

5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank’s approval of the Loan which expire on June 8, 2009.

ARTICLE VI—REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is the Prefecto of the Borrower.

6.02. The Borrower’s Address is:

Primera Constituyente Y Carabobo
Riobamba, Ecuador

Facsimile:

592 (03) 2947397
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: INTBAFRAD 248423(MCI) or INTBAFRAD 64145(MCI)

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

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

PROVINCIAL COUNCIL OF CHIMBORAZO

By /s/ Mariano Curicama
Authorized Representative

By /s/ Newton Mestanza
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to increase production and market access of rural families living in the Chambo and Chanchan-Chimbo river basins in the Borrower’s territory, through investments in irrigation and roads improvement.

The Project consists of the following parts:

**Part 1: Productive Investments**

A. Irrigation Rehabilitation and Improvements
   
   (a) Carrying out, with the assistance of TAPs, dissemination activities to promote the Irrigation Subprojects.

   (b) Provision of technical assistance and training to the Borrower for the identification, evaluation and selection of Irrigation Subprojects according to the eligibility criteria detailed in the Operational Manual.

   (c) Carrying out the works and provision of technical assistance and training to the WUAs for the operation, maintenance and management of the Selected Irrigation Subprojects.

B. Roads Rehabilitation and Maintenance

   (a) Carrying out of rehabilitation and improvement works of the Riobamba-Cebadas Road and the Charicando-Turubamba Road.

   (b) Provision of technical assistance and training to the MEMRs for the carrying out of routine maintenance works on the roads referred to in (a) above and other local roads in the Borrower’s territory.

**Part 2: Project Management**

Strengthening of the institutional and technical capacity of the Borrower, through the provision of technical assistance, training and goods (including office equipment), for, *inter alia*: (i) Project management and coordination, monitoring and evaluation; and (ii) dissemination of Project information.
SCHEDULE 2

Project Execution

Section I. Subsidiary Financing; Institutional and Other Arrangements

A. Implementation Agreements

1. To facilitate the carrying out of Part 1.A (c) of the Project, the Borrower shall enter into a separate agreement with each WUA responsible for the Selected Irrigation Subproject, under terms and conditions acceptable to the Bank (the “Subproject Implementation Agreement”), which shall provide, *inter alia*, the terms and conditions for the carrying out of the Selected Irrigation Subproject, in accordance with the terms of this Agreement and the Operational Manual, including the WUA’s obligations to carry out the operation, management and maintenance of the Selected Irrigation Subproject in accordance with the terms and requirements of the Operational Manual and the Borrower’s obligation to procure the goods, works and services for the execution of the Selected Irrigation Subproject in accordance with the provisions of this Agreement.

2. The Borrower shall exercise its rights under each of the Subproject Implementation Agreements, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of the Subproject Implementation Agreements or any provision thereof.

B. Institutional Arrangements

1. The Borrower shall maintain at all times during the execution of the Project:

   (a) a Project Operational Team, within the Borrower’s *Dirección De Obras Publicas*, to provide support to the Borrower for the implementation and coordination of the Project, supervised by a Project coordinator, and with powers, staffing and structure acceptable to the Bank as defined in the Operational Manual (the “POT”). The POT shall be responsible, *inter alia*, for:

      (i) overall responsibility for planning, coordinating, implementing and monitoring of Project activities;

      (ii) carrying out of Project procurement and contracting of the required works, goods and consultant’s services with the assistance of the TAPs;
(iii) revision and updating of the Operational Manual;

(iv) preparation of the progress semi-annual reports and annual operational plans to be submitted to the PAC; and

(v) provision of technical advice to the PAC for the selection of the Irrigation Subprojects.

(b) a Project Advisory Committee, presided by the Borrower’s Prefecto or its designated representative, with the overall responsibility for providing policy oversight and guidance for the implementation of the Project and with powers and composition acceptable to the Bank as defined in the Operational Manual (the “PAC”). The PAC shall be responsible, inter alia, for:

(i) provision of support and establishment of strategic guidelines for the implementation of the Project;

(ii) inter-institutional coordination and establishment of strategic alliances with other stakeholders;

(iii) approval of the appointment of the Project’s coordinator;

(iv) review and approval of the annual operation plans for the Project;

(v) review and approval of the semi-annual progress and evaluation reports for the Project and the Project’s implementation completion report;

(vi) review of the annual auditing reports of the Project;

(vii) approval of the Selected Irrigation Subprojects; and

(viii) provision of support to the Borrower in the design and implementation of the monitoring and evaluation system for the Project.

C. Manual

1. The Borrower shall carry out the Project in accordance with an operational manual satisfactory to the Bank (the Operational Manual), such manual to include, inter alia:

(a) the Project’s organization structure;
(b) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, disbursement, financial management, social and environmental requirements thereof);

(c) the administrative rules and procedures for preparing, proposing, evaluating, selecting, contracting, financing, carrying out and supervising the activities financed under Part I. A (c) of the Project, including the criteria and procedures for selecting the Irrigation Subprojects and the obligation of the WUAs to co-finance at least 5% in cash and the unskilled labor and 20% of the construction materials of the civil works cost of implementation of each of the Selected Irrigation Subprojects;

(d) the IPPF and the EMP (including provisions regarding the protection of natural habitats, forests, and pest management); and

(e) the Performance Indicators.

2. The Operational Manual may be amended by the Borrower from time to time with the prior approval of the Bank. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

D. Environmental and Social Provisions

Without limitation to the provisions of Section 5.01 (b) of the General Conditions and of Sections I.B. and I.C of this Schedule, the Borrower shall:

1. carry out the Project, and cause each and every Selected Irrigation Subproject to be carried out, in accordance with the provisions and recommendations of the EA and to carry out the environmental assessment according to the provisions of the EMP (including provisions regarding protection of natural habitats, forests and pest management); and

2. carry out the Project, and cause each and every Selected Irrigation Subproject to be carried out, in accordance with the provisions and recommendations of the IPPF.
Section II. Project Monitoring, Reporting, Evaluation.

A. Project Reports

1. 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 Performance Indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five days after the end of the period covered by such report.

2. Each Project Report shall also include: (a) the financial reports referred to in Section II.B. 2 below; (b) a physical progress report; and (c) procurement reports, all in accordance with the formats agreed with the Bank.

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, as part of the Project Report, interim un-audited financial reports for the Project covering the semester, 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.

4. In conjunction with the financial audit referred to in Section B.3 above, the Borrower shall obtain annual procurement audits, each of which shall cover the period of one fiscal year of the Borrower. Not later than six months after the end of such period, the Borrower shall furnish to the Bank all information concerning the procurement audit as the Bank may reasonable request.

Section III. Procurement

A. General

1. Goods, Works and Non-consultant services. All goods, works and non-consultant 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, Works and Non-consultant Services**

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

2. **Other Methods of Procurement of Goods, Works and Non-consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultant 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) National Competitive Bidding, subject to the additional provisions set forth in Part E of this Section III</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct contracting</td>
</tr>
<tr>
<td>(d) Procedures set forth in Section 3.17 of the Procurement Guidelines for Community Participation</td>
</tr>
</tbody>
</table>

**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) Least Cost Selection (for audits only)</td>
</tr>
<tr>
<td>(b) Consultant’s Qualifications</td>
</tr>
<tr>
<td>(c) Single-source Selection</td>
</tr>
<tr>
<td>(d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(e) Sole Source Procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

D. **Review by the Bank of Procurement Decisions**

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (i) each contract for goods or works estimated to cost the equivalent of $250,000 and $3,000,000 or more procured on the basis of International Competitive Bidding and all Direct Contracting; (ii) the first two contract each year under National Competitive Bidding and Shopping for Goods and Works; (iii) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more and contracts under Single-source Selection; and (iv) each contract for individual consultants estimated to cost the equivalent of 50,000 or more. 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, works and non-consultants’ services with National Competitive Bidding procedures 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. Evaluation criteria other than price shall be expressed in monetary terms. 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) No reference value shall be required for publication in the bidding documents.

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

(d) 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.

(e) The Borrower shall use standard bidding documents and standard evaluation formats; all 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 to authenticate (legalizar) any documentation related to their participation in the selection process with Ecuadorian authorities as a condition of participation in said selection process.

(c) No reference value shall be required for publication in the proposal documents.

(d) 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.

(e) Foreign consulting firms shall not be required, as a condition to participate to provide services, to be registered in Ecuador with a minimum capital different from that required for Ecuadorian firms.

(f) 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.

(g) The invitation to submit proposals should be sent to the consultant firms included in a short list only as approved by the Bank. The invitation to submit proposals should not be open to any other consulting firm.
(h) 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.

(i) The Borrower shall use standard requests for proposals and standard evaluation formats, all satisfactory to the Bank.

(j) Consultants (firms and individuals) shall not be required to present Bid and Performance securities as a condition to present proposals and sign a contract.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of: (a) Article II of the General Conditions; (b) this Section; and (c) such additional instructions as the Bank may specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), 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, consultant’s services, Training and works (for Selected Irrigation Subprojects) under Part 1.A of the Project</td>
<td>9,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Loan Allocated (expressed in USD)</td>
<td>Percentage of Expenditures to be financed</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>------------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>(2) Goods, consultants’ services, and works under Part 1.B of the Project</td>
<td>4,400,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods, consultants’ services and Training under Part 2 of the Project</td>
<td>1,600,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>15,300,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For 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 non-consultant 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:

   (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or

   (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $50,000.00 equivalent may be made for payments made prior to this date but on or after July 1, 2007, and in no case more than twelve months before the date of this Agreement, for Eligible Expenditures; or

   (c) for payments made for expenditures covered by Category (1) in respect of Selected Irrigation Subprojects, unless the respective Subproject Implementation Agreement with each WUA responsible for the Selected Irrigation Subproject, has been entered into by the parties thereto.

2. The Closing Date is September 30, 2013.
Section V. Other Undertakings

A. By December 14, 2007, the Borrower has strengthened and updated the financial management system referred to in Section II B.1. of Schedule 2 to this Agreement in a manner satisfactory to the Bank.

B. Within two weeks after the Effective Date, the Borrower shall ensure that: (i) the financial management specialist-accountant; (ii) the financial management assistant; and (iii) the treasury, as referred to in the Operation Manual, have been appointed.

C. Within three months after the Effective Date, the Borrower shall execute the contract, satisfactory to the Bank, for the provision of the external financial audit referred to in Section II.B.3 of Schedule 2 to this Agreement.

D. Within three months after Effective Date, the Borrower has strengthened the procurement management capabilities of the Borrower’s procurement unit (PU) in a manner satisfactory to the Bank, including, in particular, by: (i) appointing the senior staff of the PU; and (ii) submitting to the Bank revised bidding documents and standard formats for bid evaluation, acceptable to the Bank, for the procurement of goods, works and services financed with the proceeds of the Loan.
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>
<tbody>
<tr>
<td>On each June 15 and December 15:</td>
<td></td>
</tr>
<tr>
<td>Beginning June 15, 2010 through June 15, 2026</td>
<td>2.94%</td>
</tr>
<tr>
<td>On December 15, 2026</td>
<td>2.98%</td>
</tr>
</tbody>
</table>
APPENDIX

Section I. Definitions

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

2. “Charicando-Turubamba Road” means the Borrower’s road, approximately 26 km long, located in the Borrower’s canton of Alausi, which starts at the junction with the Panamerican highway in Charicando and ends in Turubamba sector, in La Dolorosa.


4. “EA” means the Borrower’s Environmental Assessment dated June 6, 2007, detailing, inter alia, the environmental and social mitigation measures to be applied during Project implementation, as such may be amended from time to time with the prior approval of the Bank.

5. “EPM” means the Borrower’s Environmental Procedures Manual dated June 6, 2007, detailing, inter alia, the procedures to carry out the environmental screening and assessment and the environmental management plan of the Irrigation Subprojects. The EMP has been incorporated to the Operational Manual and may be amended or updated from time to time with the prior approval of the Bank.

6. “Executive Decree No. 611” means the Guarantor’s Decreto Ejecutivo No. 611 that regulates the LOREYTF, published in the Guarantor’s Official Register No. 131 on October 24, 2005, as it may have been amended to the date of this Agreement.

7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005, with the modifications set forth in Section II of this Appendix.

8. “IPPF” means the Borrower’s indigenous peoples’ process framework for the Project, dated July 15, 2007, as such may be amended from time to time with the prior approval of the Bank.

9. “Irrigation Subprojects” means a set of proposed activities and investments of rehabilitation and modernization of irrigation systems, including both improvement and rehabilitation works and the provision of training for the operation, management and maintenance of the irrigation systems.
10. “LOREYTF” means *Ley Organica de Responsabilidad, Estabilización y Transparencia Fiscal*, the Guarantor’s Law of Responsibility, Stabilization and Financial Transparency, Law No. 72, published in the Guarantor’s Official Register No. 334 on August 15, 2006 as it may have been amended to the date of this Agreement.


12. “MEMRs” means the Routine Road Maintenance Micro-Enterprises, micro enterprises formed by local community members residing in the Borrower’s territory, which have as their main objective, the routine maintenance of the local roads.

13. “PAC” means “Project Advisory Committee”, the committee referred to in Section I.B.1 (b) of Schedule 2 to this Agreement.

14. “Performance Indicators” means the indicators for Project monitoring and evaluation.

15. “POT” means the “Project Operational Team”, the team referred to in Section I.B.1 (a) of Schedule 2 to this Agreement.


17. “Procurement Plan” means the Borrower’s procurement plan for the Project dated October 1, 2007 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.

18. “Provincial Regimen Law” means *Ley Organica de Régimen Provincial*, the Provincial Law of Ecuador which establishes and regulates the organization and functions of the Borrower, published in the Guarantor’s Official Register No. 288 on March 20, 2002, as it may have been amended to the date of this Agreement.

19. “Riomba-Cebadas Road” means the Borrower’s road, approximately 35 km long, which starts outside of the city of Riobamba and travels within the parishes of Licto, San Luís, Punín and Flores, terminating in the town of Cebadas.

20. “Selected Irrigation Subprojects” means the Irrigation Subprojects which are eligible for financing under Part 1.A (c) of the Project, in accordance with the criteria set forth in the Operational Manual.
21. “Subproject Implementation Agreement” means an agreement referred to in Section I.A.1 of Schedule 2 to this Agreement.

22. “TAPs” means technical assistance service providers (including non governmental organizations (NGOs) of different natures, universities, consulting firms and second-tier organizations) which will be contracted to assist the Borrower and the WUAs in the carrying out of Part 1.A of the Project, and to assist the Borrower in procurement procedures and screening of Irrigation Subprojects.

23. “WUAs” means the associations, with legal personality, formed by irrigation water users, which associations operate at the provincial level and have as their main function, irrigation system administration, operation and management, water distribution and the collection of fees.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 2.07 (b) shall read as follows:

   “Except as otherwise provided in the Loan Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account on or after the Effective Date and pay to itself the amount of the Front-end Fee payable pursuant to Section 3.01.”

2. Section 3.01 shall read as follows:

   “Section 3.01. Front-end Fee. The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).”

3. A new paragraph (d) is added to Section 3.02, at the end thereof, which shall read as follows:

   “Section 3.02. Interest

   (d) Notwithstanding the provisions of paragraph (a) of this Section, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the Borrower shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified in the Loan Agreement (or such other interest rate as may be applicable pursuant to Article IV as a result of a Conversion) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.”
4. APPENDIX – Definitions:

4.01. Definition (19) “Commitment Charge” is deleted.

4.02. Definition (40) “Fixed Spread” shall read as follows:

“Fixed Spread” means the Bank’s fixed spread for the initial Loan Currency in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement; provided, that upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines; and provided further that notwithstanding the foregoing, for purposes of determining the Default Interest Rate applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount.”

4.03. Definition (43) “Front-end Fee” shall read as follows:

“Front-end Fee” means the fee specified in the Loan Agreement for the purpose of Section 3.01.”

4.04. Definition (56) “LIBOR Reset Date” shall read as follows:

“LIBOR Reset Date” means:

(a) for any Loan Currency other than Euro, the day two London Banking Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period of a Variable Spread Loan, the day two London Banking Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two London Banking Days prior to the fifteenth day of the month preceding such month; (ii) in the case of the Initial Interest Period of a Fixed Spread Loan, the day two London Banking Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided, that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two London Banking Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to any Approved Currency other than Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days...
prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided, that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the Conversion Date); 

(b) for Euro, the day two Target Settlement Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period for a Variable Spread Loan, the day two Target Settlement Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period for a Fixed Spread Loan, the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the Conversion Date); and

(c) notwithstanding sub-paragraphs (a) and (b) of this paragraph, if, for a Currency Conversion to an Approved Currency, the Bank determines that market practice for the determination of the LIBOR Reset Date is on a date other than as set forth in said sub-paragraphs, the LIBOR Reset Date shall be such other date, as further specified in the Conversion Guidelines.”

4.05. Definition (63) “Loan Payment” shall read as follows:

““Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding
Amount payable by the Borrower."

4.06. Definition (68) “Payment Date” shall read as follows:

““Payment Date” means each date specified in the Loan Agreement occurring on or after the date of the Loan Agreement on which interest is payable.”

4.07. The following definitions are added to the Appendix at the end thereof:

““Default Interest Period” means for any overdue amount of the Withdrawn Loan Balance, each Interest Period during which such overdue amount remains unpaid; provided, however, that the first such Default Interest Period shall commence on the 31st day following the date on which such amount becomes overdue, and the final such Default Interest Period shall end on the date at which such amount is fully paid.”

““Default Interest Rate” means for any Default Interest Period:

(a) in the case of a Variable Spread Loan: Default LIBOR plus the Variable Spread plus one half of one percent (0.5%);

(b) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Variable Rate immediately prior to the application of the Default Interest Rate: the Default Variable Rate plus one half of one percent (0.5%); and

(c) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Fixed Rate immediately prior to the application of the Default Interest Rate: Default LIBOR plus the Fixed Spread plus one half of one percent (0.5%).”

““Default LIBOR” means LIBOR for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default LIBOR shall be equal to LIBOR for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”

““Default Variable Rate” means the Variable Rate for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default Variable Rate shall be equal to the Variable Rate for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”