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Project Number 518-0015

Loan Number 518-U-040

PROJECT LOAN AND GRANT AGREEMENT

BETWEEN

THE STATE OF ECUADOR

AND

THE UNITED STATES OF AMERICA

INTEGRATED RURAL HEALTH
DELIVERY SYSTEM

September 29, 1981

CONFORMED COPY

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A.I.D. Project 518-0015
A.I.D. Loan 518-U-040

LOAN AND GRANT AGREEMENT (THE "AGREEMENT") BETWEEN THE STATE OF ECUADOR ("BORROWER"), ACTING THROUGH THE MINISTRY OF FINANCE ("MINISTRY"), THE MINISTRY OF FOREIGN AFFAIRS AND THE MINISTRY OF PUBLIC HEALTH; AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA, ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Parties of the project described in Section 2.1. (the "Project") and the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project

The Project, which is further described in Annex 1, consists of cooperating with the Borrower in its program of developing an Integrated Rural Health Delivery System model by (i) assisting Borrower efforts to strengthen its institutional capabilities to plan, manage and evaluate an integrated rural health delivery system, (ii) carrying out primary health care, water supply/sanitation and nutrition improvement activities in three Integrated Rural Development (IRD) areas to demonstrate the effectiveness of the model and (iii) introducing small scale replication activities into other IRD areas.

Annex 1, attached, amplifies the definition of the Project contained in Section 2.1. Within the limits of the definition of the Project in Section 2.1., elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2., without formal amendment of the Agreement. Annex 1 identifies those elements of the Project which are Grant-financed, and those which are Loan-financed.

SECTION 2.2. Incremental Nature of Project

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1. of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties to proceed at the time of a subsequent increment.

(b) Within the overall Project Assistance Completion Date as defined in Section 3.3. of this Agreement, A.I.D., based upon consultation with the Borrower, may specify in Project Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant; the Loan

To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to the Borrower under the terms of this Agreement not to exceed two hundred thousand United States Dollars (US\$200,000) (the "Grant"), and to lend to the Borrower under the terms of this Agreement not to exceed four million eight hundred thousand United States Dollars (US\$4,800,000) (the "Loan"). Subsequent increments up to a total life of project grant amount of seven hundred and fifty thousand United States Dollars (US\$750,000) and up to a total life of project loan amount of six million United States Dollars (US\$6,000,000), may be made available under the terms and conditions set out in Section 2.2. The aggregate amount of disbursements under the Loan constitutes the principal of the Loan.

The Loan may be used to finance foreign exchange costs (as defined in Section 7.1.) and local currency costs (as defined in Section 7.2.) of goods and services required for the Project. The Grant may be used to finance Local Currency costs (as defined in Section 7.2.) and U.S. Dollar costs (as defined in Section 7.3.) of goods and services required for the Project.

SECTION 3.2. Borrower Resources for the Project

(a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan and

Grant, and all other resources reasonably required to carry out the Project effectively and in a timely manner, in accordance with the objectives of this Agreement.

(b) The resources provided by the Borrower for the Project will be not less than the equivalent of US\$7.0 million including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date

(a) The Project Assistance Completion Date ("PACD"), which is September 30, 1986, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan and Grant will have been performed and all goods financed under the Loan and Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as the Parties may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement under the Loan or Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1. no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan or Grant by all or any part thereof for which requests for disbursements, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration date of said period.

Article 4: Loan Terms

SECTION 4.1. Interest

The Borrower will pay to A.I.D. interest on the Loan which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement of the Loan hereunder and at the rate of three percent (3%) per annum

thereafter on the outstanding balance of principal. Without limiting any other right or obligation under this Agreement, the Borrower agrees to compensate A.I.D. in the event that the Borrower is delinquent on any payment due under the Loan. Such compensation shall be calculated at the rate of three percent (3%) per annum on such delinquent payment. Interest on the outstanding principal balance will accrue from the date (as defined in Section 8.5.) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement of the Loan hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment

The Borrower will repay the principal to A.I.D. within twenty-five (25) years from the date of the first disbursement of the Loan in thirty-one (31) approximately equal semi-annual installments of principal and interest. The first installment of principal will be payable nine and one-half (9 1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide Ecuador with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment

All payments of interest and principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C., 20523, U.S.A. and will be deemed made when received by such office.

SECTION 4.4. Prepayment

Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms

(a) The Borrower and A.I.D. agree to negotiate, at such

time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of the Borrower, which enable the Borrower to repay principal and interest on a different schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2., and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2., the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties; provided that, in the absence of mutual agreement, the negotiations will take place at the Office of the Ministry of Finance in Quito, Ecuador.

SECTION 4.6. Termination on Full Payment

Upon payment in full of the principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. relating to the provisions of this Agreement will terminate, except for any obligations under Section B.3. or D.6. of Annex 2, with respect to Grant funds.

Article 5: Conditions Precedent to Disbursement

SECTION 5.1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement of the Loan or Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A legal opinion of the Attorney General of the State to the effect that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms; and

(b) A statement of the name of the person for the Borrower holding or acting in the office specified in Section 9.2., and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 5.2. Conditions Precedent to Disbursement for Water and Sanitation Field Activities to be Implemented by the Ecuadorian Institute of Sanitary Works

Prior to any disbursement under the Loan, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, to finance those water supply and sanitation (WS/S) field activities to be carried out by the Ecuadorian Institute of Sanitary Works (IEOS), except for the procurement of vehicles and imported equipment, the Borrower shall, except as the Parties may otherwise agree in writing, furnish, in form and substance satisfactory to A.I.D.:

(a) an executed agreement between IEOS and the Integrated Rural Development Secretariat (IRDS) describing a coordination and disbursement mechanism;

(b) a first year operational plan for carrying out such field activities;

(c) evidence of the establishment of a Rural Water Supply and Sanitation coordination unit within IEOS; and

(d) evidence that paraprofessional personnel will be incorporated into the provincial directorates of Cotopaxi and Chimborazo Provinces.

SECTION 5.3. Conditions Precedent to Disbursement for Primary Health Care Activities in IRD Projects to be Implemented by the Ministry of Health

Prior to any disbursement under the Loan or the issuance by A.I.D. of documentation pursuant to which disbursement will

be made, to finance those primary health care field activities in each IRD are to be carried out by the Ministry of Health (MOH), except for the procurement of vehicles and imported equipment, the Borrower shall, except as the Parties may otherwise agree in writing, furnish, in form and substance satisfactory to A.I.D.:

(a) an agreement between the MOH and the IRDS describing a coordination and disbursement mechanism;

(b) a first year operational plan for carrying out such field activities; and

(c) evidence that there has been designated and established for each such IRD area the position of area health chief and that an individual has been selected for each such position.

SECTION 5.4. Condition Precedent to Disbursement for Food and Nutrition Activities of the Integrated Rural Development Secretariat

Prior to any disbursement under the Loan or Grant, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, to finance food and nutrition activities of the Integrated Rural Development Secretariat (IRDS), which may be carried out by its Project Implementation Units, other than for technical assistance and training, the Borrower shall, except as the Parties may otherwise agree in writing, furnish, in form and substance satisfactory to A.I.D., selection criteria for the IRDS food and nutrition activities and a work plan and a budget for each such activity to be financed.

SECTION 5.5. Notification of Meeting Conditions Precedent

When the conditions precedent specified in Section 5.1., 5.2., 5.3., and 5.4. have been satisfactorily met, A.I.D. will promptly notify the Borrower.

SECTION 5.6. Terminal Dates for Conditions Precedent

(a) If all conditions specified in Section 5.1. have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Borrower.

(b) If all conditions specified in Section 5.2. and 5.3. have not been met within 180 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balances of the Loan and Grant, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Borrower. In the event of such termination the Borrower will repay immediately the principal then outstanding and any accrued interest.

Article 6: Special Covenants

SECTION 6.1. Project Evaluation

The parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) Evaluation of progress toward attainment of the objectives of the Project;

(b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) Assessment of how such information may be used to help overcome such problems; and

(d) Evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 6.2. Operational Plans

The Borrower shall covenant that, unless the Parties otherwise agree in writing, it will cause the LEOS and the MOH, respectively, to update, on at least an annual basis, the operational plans referred to in Sections 5.2. and 5.3. of this Agreement.

SECTION 6.3. Additional Personnel

The Borrower covenants that unless the Parties otherwise agree in writing, it shall provide such personnel additional to those currently employed as may be necessary to carry out the Project effectively.

SECTION 6.4. Long-term Training

The Borrower shall covenant that, unless the Parties otherwise agree in writing, government officials who receive long-term training shall be assigned positions of responsibility commensurate with their training. It shall further covenant that IEOS employees will work in activities related to rural water and sanitation and that Ministry of Health employees shall work in activities related to primary health care for a period at least twice as long as their training.

SECTION 6.5. Water and Sanitation Activities in Jipijapa

The Borrower shall covenant that, unless the Parties otherwise agree in writing, IEOS will enter into arrangements with those local and regional governmental authorities which may implement rural water and sanitation activities in the Canton of Jipijapa about the provision of technical support and the use of paraprofessional personnel, maintenance units and vehicles and equipment financed by the Project and assigned to the IEOS provincial directorate in Manabi.

SECTION 6.6. Continued Funding of Project Activities

The Borrower covenants that, except as the Parties may otherwise agree in writing, it will provide continuing funding of project activities a period of at least five years after the Project Assistance Completion Date.

Article 7: Procurement Source

SECTION 7.1. Foreign Exchange Costs (Loan)

Disbursements under the Loan pursuant to Section 8.1. will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in Annex 2 (Standard Provisions Annex) Section C.1.(b) with respect to marine insurance. Ocean shipping financed by A.I.D. under the Loan shall be financed only on flag vessels of the United States, Ecuador or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

SECTION 7.2. Local Currency Costs (Loan and Grant)

Disbursements under the Loan and Grant pursuant to Section 8.2. will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Ecuador ("Local Currency Costs").

SECTION 7.3. U.S. Dollar Costs (Grant)

Disbursements under the Grant pursuant to Section 8.1. will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code '000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("U.S. Dollar Costs"), except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

Article 8: Disbursements

SECTION 8.1. Disbursement for Foreign Exchange and U.S. Dollar Costs (Loan and Grant)

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan or Grant for foreign exchange and U.S. Dollar Costs of goods and services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon: (1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services on behalf of the Borrower for the Project; or (2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by the Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan or the Grant unless the Borrower instructs A.I.D. in advance to the contrary.

SECTION 8.2. Disbursement for Local Currency Costs (Loan and Grant)

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursement of funds under the Loan or Grant, for local currency costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained by acquisition by A.I.D. with U.S. Dollars by purchase.

SECTION 8.3. Other Forms of Disbursement

Disbursements of the Loan or the Grant may also be made through such other legal means as the parties may agree to in writing.

SECTION 8.4. Rate of Exchange

Except as may be more specifically provided under Section 8.2., if funds provided under the Loan or the Grant are introduced into Ecuador by A.I.D., or any public or private entity for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such legal arrangements as may be necessary so that such funds may be converted into local currency through the Central Bank of Ecuador, at the official rate of exchange.

SECTION 8.5. Date of Disbursement

Disbursements of the Loan and Grant by A.I.D. will be deemed to occur:

(a) On the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, Letter of Credit, Contract or Purchase Order;

(b) On the date on which A.I.D. disburses to the Borrower or its designee local currency acquired in accordance with Section 8.2. (b); or

(c) In the case of disbursements pursuant to Section 8.3., on the date specified in the other form of disbursement documents.

Article 9: Miscellaneous

SECTION 9.1. Communications

Any notice, request, document or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party to the following address:

To the Borrower:

Mail Address: Ministerio de Finanzas y Credito Publico
Quito, Ecuador

Cable Address: Ministerio de Finanzas y Credito Publico
Quito, Ecuador

To A.I.D.:

Mail Address: United States AID Mission to Ecuador
Edificio Computec
Av. Colombia 1573 y Queseras del Medio
Quito, Ecuador

Cable Address: USAID,
Quito, Ecuador

All such communications will be in English or Spanish. Other addresses may be substituted for the above upon the giving of prior notice.

SECTION 9.2. Representatives

For all purposes relevant to this Agreement, the Borrower will be represented by the Minister of Finance or his designee, and A.I.D. will be represented by the official holding or acting in the office of the A.I.D. Director, each of whom by written notices may designate additional representatives for all purposes other than exercising the power under Section 2.1. to revise elements of the amplified description in Annex 1. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D. which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 9.3. Standard Provisions Annex

A combined Loan and Grant Standard Provisions Annex (Annex 2) is attached to and forms part of this Agreement.

SECTION 9.4. Language of Agreement

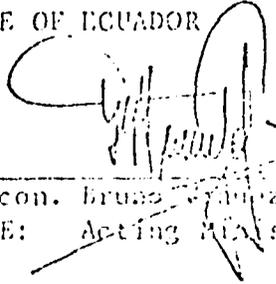
This Agreement is executed in both the English and Spanish languages.

SECTION 9.5. Bilateral Agreement

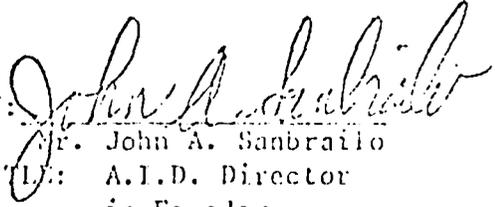
This Agreement is further subject to the terms of the following Bilateral Agreement, as modified and supplemented: "GENERAL AGREEMENT FOR ECONOMIC, TECHNICAL AND RELATED ASSISTANCE BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE REPUBLIC OF ECUADOR," signed on April 17, 1962, and published in the Official Register No. 143, dated April 27, 1962. More specifically, reference is made to Article VI-3 of such Bilateral Agreement, dealing with the furnishing and the receipt of the assistance.

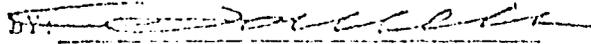
IN WITNESS WHEREOF, the State of Ecuador and the Government of the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered on September 7, 1981.

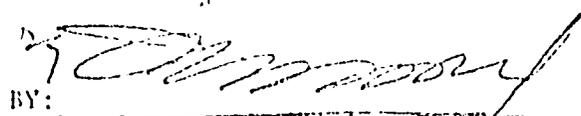
STATE OF ECUADOR

BY: 
Econ. Bruno Yajmeza P.
TITLE: Acting Minister of Finance

UNITED STATES OF AMERICA

BY: 
Dr. John A. Sanbrailo
TITLE: A.I.D. Director
in Ecuador

BY: 
Dr. Alfonso Barrera Valverde
TITLE: Minister of Foreign Affairs

BY: 
Dr. Miguel Coello Fernandez
TITLE: Minister of Public Health

FIRMA DEL CONVENIO DE CREDITO Y FONDOS NO REEMBOLSABLES
PARA EL SISTEMA DE SERVICIOS DE SALUD RURAL INTEGRAL
ENTRE EL ESTADO ECUATORIANO Y LA AGENCIA PARA EL DESA-
RROLLO INTERNACIONAL (A.I.D.)

Con el objeto de solemnizar el acto firma, como Testigo de Honor, el señor Embajador de los Estados Unidos de América.

Raymond E. Gonzalez
Embajador de los Estados Unidos
de América

ANNEX 1

PROJECT DESCRIPTION

I. Project Goal, Purpose and Strategy

The project's over-all goal is to improve the health of Ecuador's rural poor. The purpose of the project is to develop a model for a low cost health care delivery system which will be implemented in three Integrated Rural Development Projects and which can be replicated on a nation-wide basis. The model will be based on an area (sub-provincial) integrated services delivery system supported by a strengthened institutional capacity at the provincial and national levels. Specifically it will:

- Improve existing health services delivery and provide new, integrated health services in high priority rural areas.
- Improve the utilization of lower cost primary health care services through promotion and through increased demand.
- Rationalize health service delivery by coordinating efforts of health services institutions within geographic areas.
- Facilitate extension of rural water and sanitation services through the use of appropriate low cost technologies.
- Incorporate nutrition concerns in health program design and implementation.
- Decentralize decision-making responsibility for health programs and facilitate community participation in the decision making and implementation process.

At the area level, the model consists of four major elements:

- (1) Creation of a new area level of health management which will result in the posting of an area health chief (coordinator) who will be responsible for managing health activities in his area in close technical and administrative coordination with the respective IRD Project Implementation Unit.

- (2) Expanded Primary Care with emphasis on priority programs which have increased community participation in the design and delivery of services and which utilize community based paramedical personnel.
- (3) Water supply and sanitation projects which extend coverage to the population not currently covered.
- (4) Nutrition activities designed to carry out effective supplementary feeding programs and activities to increase the availability of basic foods.

The project strategy is to support the development and implementation of the model of the integrated rural health delivery system by: strengthening the capabilities of Ecuadorean governmental institutions to plan, manage, support and replicate the model at the area, provincial and national level and to carry out primary health care, including water supply/sanitation and nutrition improvement activities in three Integrated Rural Development (IRD) projects, Quimiag-Penipe, Salcedo and Jipijapa.

II. Project Implementation Arrangements

The following Ecuadorian government institutions will implement project activities: The National Health Council (NHC), Ministry of Public Health (MOH), Ecuadorian Institute of Sanitary Works (IEOS) and the Integrated Rural Development Secretariat (IRDS).

Those project activities which are intended to strengthen the capabilities of the Ecuadorian institutions to implement the integrated rural health delivery system will be administered directly by each of the institutions involved. The studies and activities related to the field demonstration projects will be coordinated by the IRDS and will be implemented jointly by the Project Implementation Units, the MOH and IEOS in conformity with interinstitutional accords between the IRDS and the implementing institutions. The precise role and responsibilities of the area health chiefs as well as their relationship to the IRD project executing units will be defined in the operating manual jointly developed by the MOH and the IRDS.

Loan and Grant funds as well as national counterpart funds for institutional strengthening will be assigned directly to each institution in accordance with Part A of the financial plan contained in Table 1 of this Annex.

Funding for the field activities, in accordance with Parts B and C of the financial plan, including loan and national counterpart funds, will be channelled through the IRDI to implementing institutions in accordance with the inter-institutional accords established between the Integrated Rural Development Secretariat and each implementing institution and in accordance with the regulations of the National Integrated Rural Development Fund (FOCADRI).

III. Project Activities

A. Institutional-Strengthening Activities

1. NHC

This component of the project will permit the NHC to augment the availability of studies and current information which will facilitate the establishment of national health policies and the coordination of inter-institutional health programs by implementing specialized studies and developing seminars and workshops.

a. Studies

The NHC will carry out several studies and analyses related to key health policy concerns. Possible studies might include (1) the implications of the planned extension of coverage of the Instituto Ecuatoriano de Seguro Social (IESS) including the Seguro Campesino program, the extension of medical services to new affiliates, and the incorporation of new groups of beneficiaries, (2) the feasibility of developing a national drug supply system, and (3) adequate user charges for primary health care and potable water services, and (4) the feasibility of developing and organizing a National Health System. These studies will be carried out by the Borrower's direct hire and/or contract personnel. The NHC will also assure that the low cost primary health care, water and sanitation technologies are properly evaluated.

Loan funds will partially finance local costs of studies including local contractors. Grant funds will finance short-term technical specialists while the Ecuadorian contribution will be in the form of professional, secretarial and clerical support as well as some operational costs of the studies.

b. Seminars and Workshops

The NHC will sponsor seminars and workshops for the faculties of Ecuador's State medical schools and senior officials of the MOH, IEOS and the IESS which will analyze priority health issues and identify appropriate ways to address them. Grant funds will finance the participation of experts in the seminars and workshops as well as observational visits to health planning and primary health care activities in other countries.

Loan funds will partially finance local costs of the seminars and workshops. The Borrower will provide management and logistical support for the seminars and workshops.

c. NHC Support

The operations of the NHC will be supported by loan funds which will finance office equipment and by a Borrower counterpart contribution to finance supplies, materials, equipment and office space.

2. MOH

This component of the Project will support the implementation of the Integrated Rural Health Delivery System model at the area (micro-regional), provincial and national levels.

a. Implementation of Model

The area health delivery system model will be established in the Salcedo, Quimiag-Penipe, and Jipijapa IRD projects. An area health chief will be appointed by the MOH in each location and will be responsible for the following health activities in these areas: (1) Formulation, implementation and control of health plans and programs, including budget, according to the annual operating plans; (2) administration of training courses and implementation of the continuing Medical Education program; (3) development and organization of general, financial and personnel administration programs, according to the norms established for the System; (4) development, organization and administration of the sub-systems for information, supervision, investigation, logistical supply, referral-counter-referral, medical audit and other technical-administrative activities necessary to develop the model; and (5) coordination of activities with the Implementation Unit of the corresponding IRD Project.

The area chiefs will depend administratively on their respective Provincial Health Directors who will supervise, evaluate, and provide technical, logistical and administrative support to the area chiefs. Also, the area chiefs will jointly formulate operational plans, make decisions about program implementation and exercise fiscal control with the Project Implementation Units; these Implementation Units will supply physical plant, and logistical and administrative support to the area chiefs.

The MOH will undertake the legal and technical-administrative actions which permit the decentralization and delegation of functions to the area chiefs so that they can carry out their activities with sufficient authority and responsibility.

Grant funds will provide approximately twelve months of external technical assistance to support development, implementation and evaluation of the area model.

Loan funds will finance contracts and related costs (e.g. per diem) for area chiefs during the initial years of the project on a declining basis, as well as the procurement of vehicles and equipment. Borrower funds will cover area chiefs' salaries and related costs on a gradually increasing basis, social benefits payments and vehicle operation and maintenance costs.

b. Training

(1). Area Level

Significant training of area personnel will be carried out as part of the project. At least three area chiefs will receive training at the Universidad del Valle in Cali, Colombia. Approximately thirty doctors, nurses and nurse midwives serving in the Quimiag-Penipe, Salcedo and Jipijapa IRD areas and provincial level supervisory personnel will receive practical short-term training in all aspects of maternal and child health while approximately thirty auxiliary nurses will receive additional training in rural health care; ten new auxiliary nurses will receive formal training. Loan funds will finance the participation costs of MOH personnel at these courses. Grant funds will finance consulting services for curriculum development and course evaluation. Borrower funding will cover materials preparation costs and salaries of trainees and trainers.

(2). Province Level

Provincial level management and planning capacity will be enhanced through training of provincial level personnel. The training programs will include out-of-country and in-country management training for the provincial health chiefs of Chimborazo, Cotopaxi, Manabi and three additional provinces as well as short courses which emphasize administrative skills for other provincial level personnel from Cotopaxi, Chimborazo and Manabi.

Loan funds will finance out-of-country training costs and subsistence costs for in-country training. Grant funds will finance consulting services to design and conduct in-country training. The Borrower will finance costs of Ecuadorian training personnel, training materials, and participant salaries during training.

(3). National Level

Advanced training in health planning and management will be provided. Approximately six employees of the MOH and two members of National Universities' medical faculties will receive masters level training abroad. Also executive seminars on health planning and management will be conducted by the Universidad del Valle in Colombia and in Quito with the participation of public sector officials and university medical faculty members. Loan funds will finance the external training while Borrower counterpart funds will cover participant salaries and local logistical support.

3. IEOS

This component will assist IEOS to augment its capacity to implement rural water and sanitation projects and will improve IEOS' capacity to test and apply appropriate and/or low cost rural water and sanitation technologies. An improved institutional capacity to implement rural water and sanitation activities will be obtained (1) through the creation of a national Rural Water and Sanitation Coordination Unit and (2) by shifting much of the responsibility for the design, implementation and maintenance of rural water supply and sanitation projects to strengthened provincial directorates.

a. National Level Activities

The major activities to be undertaken at the

national level are the institutionalization of the Rural Water Supply and Sanitation Coordination Unit, and the implementation of a training program.

(1) Rural Water Supply and Sanitation Coordination Unit

The Coordination Unit will coordinate the planning, design, and implementation of all rural water and sanitation programs. This unit, which will be attached to the Executive Director of IEOS, will expedite the design and implementation of rural programs through IEOS' existing structure. It will also coordinate studies and tests of alternative technologies and design modifications leading to cost reductions and will promote the adoption of appropriate norms, standards, designs and technologies which will reduce costs of rural water systems.

IEOS will staff the Coordination Unit adequately to carry out the project's objectives. It is expected that this staff will include a chief, a deputy chief, an anthropologist, a health educator, and/or other professional personnel as well as secretarial and clerical personnel.

A.I.D. financial support for the coordination unit will be primarily in the form of technical assistance, studies and equipment. Specific activities under the project include the execution of feasibility studies and field trials to test and evaluate specific low cost technologies (e.g. handpumps, robodevices, purification devices, simple pour-flush toilets), to determine the technical and economic efficiency as well as their environmental and social acceptability.

Loan funds will finance local costs of the studies and field trials (materials, supplies, contracts for technical services and construction) and the acquisition of not more than five imported utility vehicles. Borrower counterpart funds will finance the operation of the Coordination Unit, including staff salaries, supplies, operating expenses, vehicle maintenance and per diem. Grant funds will finance short term consulting services of U.S. experts to assist in the design and execution of the studies and field evaluation of technologies.

In addition, A.I.D. will provide the services of a sanitary engineer experienced in rural water supply and sanitation programs for approximately thirty-six months at no cost to the Project. This advisor will work with IEOS to

promote the effective operation of the Coordination Unit. The advisor will also assist IEOS to develop and evaluate low per capita cost rural water and sanitation technologies, to promote the utilization of paraprofessional personnel in provincial offices, and to develop technical manuals and training programs related to the design, construction and maintenance of rural water systems. The chief of the Coordination Unit will be the counterpart to the advisor. IEOS will provide the advisor with an office and secretarial services. One of the utility vehicles will be assigned to the advisor on a full time basis.

(2) Training

Long term out-of-country and short term in-country training activities will be carried out. Long term training will consist of masters level education for approximately four professionals, which focuses on promotion, planning, design, construction and maintenance of low cost rural water supply and sanitation systems. Short term training will focus on improving the skills and performance of provincial level sanitary inspectors, health educators, promoters, engineers and water and sanitation system operators and administrative personnel; also, training will be provided to IEOS central headquarters staff and to representatives of other Borrower organizations and private voluntary organizations as appropriate. Short term training will focus on topics such as project administration, community motivation and the utilization of low cost water and sanitation technologies.

Loan funds will be used for long term out-of-country training costs and to assist IEOS to increase its training capacity in water and sanitation by financing health and sanitation experts, preferably Ecuadorians (individuals and institutions), audiovisual equipment and training materials, and by covering local costs of training such as transportation to the training sites and per diem while in training. Grant funds will finance short term U.S. consultants (individuals or institutions) to assist IEOS to identify specific training requirements, to develop training plans and to design and test training courses. The Borrower counterpart will cover salaries of IEOS training personnel and participants while in training, provision of classroom facilities and training materials, and a contribution to the in-country training fund.

b. Provincial Level Activities

The capability of the provincial offices of IEOS

in Cotopaxi, Chimborazo, and Manabi provinces to design, construct, and maintain rural water systems will be increased through the provision of paraprofessional staff, maintenance units, and vehicles and equipment. Each of these elements will be implemented in the IRD projects on a priority basis in one or more of the three provinces in order to test the feasibility of their future implementation on a national scale.

(1) Paraprofessional Personnel

In order to reduce costs of rural water and sanitation projects paraprofessional personnel will be utilized to carry out many simple design, promotion, inspection, and supervision tasks currently carried out by engineers. At least ten paraprofessionals will receive intensive training under the project in the design, construction and maintenance of low cost rural water and sanitation systems. These paraprofessionals will be incorporated into IEOS provincial directorates, IRD Project Implementation Units or regional governmental organizations which deal with rural water and sanitation in Chimborazo, Cotopaxi and Manabi provinces.

(2) Maintenance Units

Maintenance units will be established in Chimborazo, Cotopaxi and Manabi provinces to work with local Juntas de Agua and the organizations involved in rural water supply in close coordination with the IRD Project Implementation Units, to perform both routine and preventative maintenance of rural water systems, including hand pumps. Each of these maintenance units will be staffed by a mechanic and a mechanic's helper who will be provided with an equipped mobile van.

(3) Logistical Support

The project will provide logistical support to assure the efficient operation of IEOS provincial directorates in Chimborazo, Cotopaxi and Manabi. Vehicles, including motorcycles for paraprofessionals, vans for maintenance units, pick-up trucks assigned to personnel working in IRD project areas and cargo trucks as well as topographic, drafting, water-testing, maintenance and audiovisual equipment will also be procured.

The loan will be used to finance the purchase of provincial vehicles and equipment. Grant funds will finance

third country training for at least ten paraprofessionals. Borrower counterpart funds will finance salary and related costs of paraprofessional and maintenance personnel, vehicle operation and maintenance costs.

B. Coordination, Investigation, and Technology Promotion Activities

1. IRDS

a. Food Policy Studies

The IRDS will establish a task force on nutrition policy and will enter into agreements with Ecuadorian research institutions and/or individuals to design and conduct studies of the relationships between production, distribution and consumption patterns and nutrition in the three IRD projects.

Loan funds will finance local costs of the studies while Grant funds will finance consulting services. Grant funds will also finance in-country and out-of-country training for personnel connected with Integrated Rural Development Projects related to the nutritional aspects of rural development in an amount not exceeding \$25,000. The Borrower will finance salaries and related costs of task force members and office space and logistical support for consultants.

b. Promotion of Low Cost Technologies

In order to rapidly disseminate low cost rural health, food production, water and sanitation technologies, loan funds will be available to finance procurement of designs or devices which may be used in other Integrated Rural Development Project Areas. The Borrower counterpart will cover the costs of installation and operation of these technologies.

2. MOH

a. Bio-Medical, Social and Nutritional Studies

The MOH through the National Nutrition and Social Medicine Research (INMIES) in coordination with the Project Implementation Units will carry out studies in the three IRD projects to improve and update existing bio-medical, social and nutritional information. The studies will be financed with Loan, Grant and Borrower funds.

b. Operational Research

The MOH in coordination with the Project Implementation Units will carry out process evaluations on the implementation of the area model to determine the progress achieved in terms of the established objectives. These evaluations will be financed with Grant, Loan and Borrower funds.

C. Field Level Demonstration Activities

1. Primary Health Care (PHC)

This component will be implemented by the MOH in coordination with the Project Implementation Units. It will finance a variety of primary health care interventions designed to provide more effective health services, increase the demand for health services and increase meaningful community participation. Three types of activities will be financed: a) promotion of community based Primary Health Care Activities; b) priority primary care programs and c) provision of necessary primary care infrastructure. These activities will be managed by the area health chiefs designated in each of the three IRD areas in coordination with the Project Unit.

a. Promotion of Community Based PHC Activities

(1) Health Promoters

At least 30 health promoters will be trained and employed in the three IRD project areas. These promoters will be recruited from the communities in which they will work. They will provide health promotion and prevention as well as limited medical attention and first-aid and will promote referrals to higher level health facilities (i. e. posts, sub-centers). They will be administratively supervised and paid by their respective communities but will be technically supervised and reappplied by the MOH.

Loan funds will finance promoter training and, on a declining basis, a monthly grant from the MOH to local communities which will be used by the communities to remunerate promoters. The Borrower counterpart contribution will finance these community grants on an increasing basis, assuming all costs by the end of the project.

(2) Other Community Based Primary Health Care Activities

The project will support other community based activities such as the establishment of community operated botiquines, midwife training and support, and a pilot school health volunteer program. Loan funds will finance items such as training, minor construction, and equipment and supplies other than medicines for these activities. Borrower funds will finance the purchase of medicines, and some training costs and personnel costs.

b. Priority Primary Health Care Programs

Priority primary health care programs will be initiated or strengthened in the Salcedo, Quimiag-Penipe and Jipijapa IRD areas. These are expected to include diarrheal disease control, the expanded immunization program, goiter control and health education and will involve community participation.

For diarrheal disease control programs, loan funds will finance the purchase of oralyte, training and educational materials, training seminars and observational travel. Borrower counterpart will finance program supervision and logistical support.

For the immunization program, loan funds will finance procurement of equipment as well as training costs. The Borrower contribution will finance vaccines, salaries of program personnel and other logistical expenses.

A goiter control program will be carried out in the Quimiag-Penipe IRD project area. This is expected to include iodized oil injections to the at risk population as well as feasibility studies to identify economically, technically and culturally acceptable permanent solutions to this problem. Loan funds will finance direct costs of the mass vaccination campaign and studies. The Borrower contribution will finance salaries for program personnel and laboratory analyses.

An assistant health educator will be assigned at least part-time to each of the three IRD project areas to design and implement health education activities. Loan funds will finance vehicles, training equipment and supplies. The Borrower will directly finance the salary costs of the assistant health educators.

c. Health Infrastructure

Six health subcenters and seven health posts will be built in the three IRD project areas. These facilities and twelve other health posts located in multipurpose community centers will be furnished and equipped. A radio communication network between area chiefs, Project Implementation Units, hospital health centers, sub-centers, health posts, and health promoters will be developed on a pilot basis in one IRD area.

The loan will finance the construction of the health subcenter and health post structures, remodeling of training centers, radio equipment, and the furnishing and equipping of these facilities and of the twelve community center-health posts. The communities to be served by the health posts and subcenters will be responsible for finishing the construction and donation of land for construction sites. The Borrower, through the MOH budget, will finance the operation costs of the facilities and equipment and drugs used in the subcenters and posts.

2. Water Supply and Sanitation

The water supply and sanitation activities to be carried out under the project serve two purposes. First, they will provide a significant portion of the rural population in the Salcedo, Quimiag-Penipe and Jipijapa IRD areas with potable water and sanitation services. Second, they will test and promote the adoption of low cost technologies and system designs for rural water and sanitation systems.

Two types of water supplies, gravity flow aqueduct systems and shallow wells with handpumps, will be built.

a. Rural Water Supply Systems

In Salcedo and Quimiag-Penipe approximately twenty nine gravity fed systems will be built or rehabilitated. TEOS will be responsible for the technical administration of designs and will coordinate construction, including the contracting of specific tasks and procurement of non-local materials, for the water systems and wells. Communities will, however, participate extensively in the planning, construction, operation and maintenance of water systems. Each community in which a system is to be built will sign a formal agreement with the Project Implementation Unit prior to construction of the system.

b. Shallow Wells with Handpumps

In Jipijapa approximately 600 wells will be built while about seventy wells will be installed in the other two IRD Projects. In Jipijapa the installation program will be coordinated through the Junta de Recursos Hidraulicos de Jipijapa y Pajan and the IRD project unit while IEOS will provide technical support. Installation of wells may be carried out by the Junta de Recursos Hidraulicos as well as by private groups such as cooperatives.

Loan funds will be used to finance fifty percent of the total WS/S construction expenditures, while the Borrower counterpart will finance thirty percent of the total construction expenditures, including construction supervision. Beneficiary communities will contribute at least twenty percent of the cost in the form of labor and local materials contributions.

b. Excreta Disposal

The project will provide as many as 5,000 pit latrines and pour-flush toilets. Loan funds will finance material purchases; the Borrower will provide promoters and supervision; and communities will contribute local labor and materials for the walls of the structures.

3. Food and Nutrition Activities

This component will improve the effectiveness of supplementary feeding programs in the short term and will undertake pilot activities to evaluate the feasibility of producing within the community changes in consumption and food utilization practices directed at increasing the linkages between agricultural production and nutritional improvements. The first activity will be implemented by the MOH and the second by the IRDS through its Project Implementation Units.

a. MOH Maternal and Child Feeding Program Support

The operational efficiency of the Maternal and Child Supplementary Feeding Program in Cotopaxi, Chimborazo and Manabi provinces will be improved through intensive training in health education, program administration and logistics. Loan funds will finance curriculum development, preparation of training materials, and transportation and per diem of participants, while the Borrower will finance salaries of trainers and

participants, and construction/improvement of warehouses.

b. Pilot Food and Nutrition Field Activities

A variety of community based nutrition activities will be implemented on a pilot basis by the IRDS through its Project Implementation Units in the three IRD project areas. The precise definition of these activities will be based on the studies to be carried out by the IRDS (see Part B of this annex) and will be in accordance with the stipulations in Section 5.4 of the Loan and Grant Agreement. Possible studies might include research on the relationships between production, distribution and consumption patterns and nutrition in the three IRD Projects. Possible activities will include community managed outlets for basic foods, local food processing and storage centers, utilization of local agricultural production for school feeding and development of local weaning foods or other activities identified by the nutrition studies.

The loan will finance facility construction, equipment, and working capital. The Borrower will also contribute to a revolving credit fund and will finance supervisory and technical staff expenditures. Communities will carry out the construction activities, providing labor and land.

Table 1

FINANCIAL PLAN

(US \$000)

<u>Component</u>	A.I.D.		Borrower of Ecuador	Total
	Loan	Grant		
<u>A. Institution Building Activities</u>	<u>1,575</u>	<u>475</u>	<u>2,100</u>	<u>4,150</u>
1. National Health Council	<u>100</u>	<u>140</u>	<u>160</u>	<u>400</u>
a. Studies	50	100	100	250
b. Seminars and Workshops	30	40	30	100
c. NHC Support	20	-	30	50
2. Ministry of Health	<u>525</u>	<u>135</u>	<u>540</u>	<u>1,200</u>
a. Area Level	330	100	350	780
(1) Implementation of Model	(185)	(80)	(245)	(510)
(2) Training	(145)	(20)	(105)	(270)
b. Provincial Level	50	35	50	135
c. National Level	145	-	140	285
3. Ecuadorean Institute of Sanitary Works	<u>950</u>	<u>200</u>	<u>1,400</u>	<u>2,550</u>
a. National Level Activities	610	125	710	1,445
b. Provincial Level Activities	340	75	690	1,105
<u>B. Coordination, Investigation, and Technology Promotion Activities</u>	<u>255</u>	<u>205</u>	<u>230</u>	<u>690</u>
1. Integrated Rural Development Secretariat	225	175	200	600
a. Food Policy Studies	100	175	125	400
b. Promotion of Low Cost Technologies	125	-	75	200
2. Ministry of Health	30	30	30	90
a. Bio-medical, Social and Nutritional Studies	15	15	15	45
b. Operational Research	15	15	15	45

FINANCIAL PLAN (CONTINUED)

(US \$000)

	A.I.D.		Borrower	Total
	Loan	Grant	of Ecuador	
<u>C. Field Demonstration Activities</u>	<u>3,570</u>	<u>-</u>	<u>4,130</u>	<u>7,700</u>
1. Primary Health Care (PHC)	<u>870</u>	<u>-</u>	<u>630</u>	<u>1,500</u>
a. Community Based Primary Health Care Activities	180	-	120	300
(1) Health Promoters	(120)	-	(100)	(220)
(2) Other Community Based PHC Activities	(60)	-	(20)	(80)
b. Priority Primary Health Care Programs	145	-	140	285
c. Health Infrastructure	545	-	370	915
2. Water Supply and Sanitation	<u>2,500</u>	<u>-</u>	<u>3,300</u>	<u>5,800</u>
a. Rural Water Supply Systems	1,170	-	1,170	2,340
b. Shallows with handpumps	680	-	680	1,360
c. Excreta Disposal	650	-	1,450	2,100
3. Nutrition Activities	<u>200</u>	<u>-</u>	<u>200</u>	<u>400</u>
a. MOH Maternal and Child Feeding Program Support	50	-	35	85
b. Pilot Nutrition Field Activities	150	-	165	315
<u>C. Contingencies</u>	<u>600</u>	<u>70</u>	<u>540</u>	<u>1,210</u>
<u>TOTAL</u>	<u>6,000</u>	<u>750</u>	<u>7,000</u>	<u>13,750</u>

ANNEX 2

INTEGRATED RURAL HEALTH DELIVERY SYSTEM

COMBINED LOAN AND GRANT PROJECT

AGREEMENT STANDARD PROVISIONS ANNEX

Definitions:

As used in this Annex, the "Agreement" refers to the Loan and Grant Project Agreement for Integrated Rural Health Delivery System to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters

To assist the Borrower in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation

The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project

The Borrower will:

(a) Carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services

(a) Any resources financed under the Loan or Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Loan or Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation

(a) This Agreement, and the Loan and Grant will be free from, and the principal and interest of the Loan will be paid free from, any taxation or fees imposed under laws in effect in Ecuador pursuant to the provisions of Article 3 of Decree No. 316, published in Official Register No. 522 of March 28, 1974.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan or Grant, and any property or transaction relating directly to such contracts (in accordance with the limitation established in Article IV (b) of the General Bilateral Agreement of April 17, 1962), and (2) any commodity procurement transaction financed under the Loan or Grant, are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in Ecuador, the Borrower will pay or reimburse the same with funds other than those provided under the Loan or Grant.

SECTION B.5. Reports, Records, Inspections, Audit

The Borrower will:

(a) Furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Loan or Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) Afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by A.I.D., and books, records and other documents relating to the Project and the Loan or Grant.

SECTION B.6. Completeness of Information

The Borrower confirms that:

(a) The facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan or Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement; and

(b) It will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments

The Parties affirm that no payments have been or will be

received by any official in connection with the procurement of goods or services financed under the Loan or Grant, except fees, taxes, or similar payment legally established in Ecuador.

SECTION B.8. Information and Marking

The Borrower will give appropriate publicity to the Loan and Grant and the Project as a program to which the United States has contributed, identify Project sites, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in Ecuador will be deemed an eligible Foreign Exchange or U.S. Dollar cost, if otherwise eligible under Section C.7. (a).

(c) Any motor vehicles financed under the Loan or Grant will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or persons (and their personal effects), will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date

No goods or services may be financed under the Loan or Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts

Except as the Parties may otherwise agree in writing:

(a) The Borrower will furnish to A.I.D. upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Loan or Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished to A.I.D. on preparation.

(2) such documentation will also be furnished to A.I.D., on preparation, relating to any goods or services which, though not financed under the Loan or Grant, are regarded by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters.

(b) Documents related to the prequalification of contractors, and to the solicitation of proposals for goods and services financed under the Loan or Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States and Ecuadorian standards and measurements when applicable;

(c) Bid awards, contracts and contractors financed under the Loan or Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to such awards and the execution of such contracts. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution;

(d) Consulting firms used by the Borrower for the Project but not financed under the loan or Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Borrower for the Project but not financed under the Loan or Grant, shall be acceptable to A.I.D.; and

(e) Bidding, contracting and procurement under the Loan and Grant shall be carried out in accordance with A.I.D. regulations and procedures with respect to international project agreements, including A.I.D. Handbook II, (copy of which has been provided to the Borrower);

SECTION C.4. Reasonable Price

No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan or Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers

To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Loan or Grant, the Borrower will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping

(a) Goods which are to be transported to Ecuador may not be financed under the Loan or Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Borrower, has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan or Grant if such goods or persons are carried: (1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under Section 7.1. or 7.3. of the Agreement, as appropriate, without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D. by written notice to the Borrower has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately-owned United States flag commercial ocean vessels are not available at fair and reasonable rates for such vessels: (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to Ecuador on dry cargo liners shall be

paid to or for the benefit of privately-owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance

(a) Marine insurance on goods financed by A.I.D. which are to be transported to Ecuador may be financed under the Loan or Grant, as a Foreign Exchange or U.S. Dollar cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Borrower by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to Ecuador financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Loan or Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Borrower under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

Section C.8. U.S. Government-owned Excess Property

The Borrower agrees that United States Government owned excess personal property, in lieu of new items financed under the Loan or Grant, will be utilized wherever practicable. Funds under the Loan or Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination, Remedies

SECTION D.1. Cancellation by the Borrower

The Borrower may, by giving A.I.D. 30 days' written notice, cancel any part of the Loan or Grant which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default, Acceleration

It will be an "Event of Default" if the Borrower shall have failed: (a) to pay when due any interest or installment of principal required under this Agreement, (b) to comply with any other provision of this Agreement, or (c) to pay when due any interest or installment of principal or other payment required under any other loan, guaranty or other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may at its option give the Borrower notice that all or any part of the unrepaid principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

(1) such unrepaid principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension

If at any time:

(a) An Event of Default has occurred; or

(b) An event occurs which A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan or Grant will be attained or that the Borrower will be able to perform its obligations under this Agreement; or

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(d) The Borrower shall have failed to pay when due any interest, installment of principal or other payment required

under any other loan, guaranty, or other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies,

then A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;

(2) decline to issue additional commitment documents or to make disbursement other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the loan or Grant be transferred to A.I.D. if the goods are from a source outside Ecuador, are in a deliverable state and have not been offloaded in ports of entry of Ecuador. Any disbursement made under the loan with respect to such transferred goods will be deducted from principal.

SECTION D.4. Cancellation by A.I.D.

If, within sixty (60) days from the date of any suspension of disbursement pursuant to Section D.3., the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the loan or Grant that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement

Notwithstanding any cancellation, suspension of disbursement or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all principal and accrued interest hereunder.

SECTION D.6. Refunds

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in U.S. dollars to A.I.D. within sixty days after receipt of a request therefor.

(b) If the failure of the Borrower to comply with any of its obligations under this Agreement has the result that goods or services financed under the Loan or Grant are not used in accordance with this Agreement, A.I.D. may require the Borrower to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. dollars to A.I.D. within four months after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) Any refund under subsection (a) or (b), or any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Loan or Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will be made available first for the cost of goods and services required for the Project, to the extent justified, and the remainder, if any, (i) will be applied to the installments of principal in the inverse order of their maturity if derived from Loan funds and the amount of the Loan reduced by the amount of such remainder; and (ii) will be applied to reduce the amount of the Grant if derived from Grant funds.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Borrower under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. dollars by the Borrower.

SECTION D.7. Nonwaiver of Remedies

No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy within the terms of the Agreement.

SECTION D.8. Assignment

The Borrower agrees, upon reasonable request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Borrower in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financing in whole or in part out of funds granted by A.I.D. under this Agreement.