

No. 10112

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
ECUADOR**

Loan Agreement—*Fisheries Project* (with annexed Loan Regulations No. 3, as amended, and Project Agreement between the Bank and the Corporación Financiera Nacional). Signed at Washington on 5 September 1968

Authentic text: English.

Registered by the International Bank for Reconstruction and Development on 30 December 1969.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
ÉQUATEUR**

Contrat d'emprunt — *Projet relatif aux pêcheries* (avec, en annexe, le Règlement n° 3 sur les emprunts, tel qu'il a été modifié, et le Contrat relatif au Projet entre la Banque et la Corporación Financiera Nacional). Signé à Washington le 5 septembre 1968

Texte authentique: anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 30 décembre 1969.

LOAN AGREEMENT¹

AGREEMENT, dated September 5, 1968, between the REPUBLIC OF ECUADOR (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

Article I

LOAN REGULATIONS; SPECIAL DEFINITIONS

Section 1.01. The parties to this Agreement accept all the provisions of Loan Regulations No. 3 of the Bank, dated February 15, 1961 as amended February 9, 1967,² with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Loan Regulations No. 3, as so modified, being hereinafter called the Loan Regulations): Sections 5.06, 6.17 and 7.03 are amended by inserting the words " or the Project Agreement " after the words " the Loan Agreement " wherever they occur in said Sections.

Section 1.02. Unless the context otherwise requires, the following terms wherever used in this Agreement have the following meanings:

(a) The term " CFN " means the Corporación Financiera Nacional, a development finance corporation established in its present form under Supreme Decree No. 1726 of the Borrower dated 21 August 1964 as amended by Supreme Decrees Nos. 2681 dated 20 November 1964, 2595 dated 18 December 1964, 678 dated 12 April 1965, 1551 dated 21 July 1965 and 1926 dated 15 September 1965 of the Borrower;

(b) The term " Subsidiary Loan Agreement " means the loan agreement between the Borrower and CFN referred to in Section 5.02 of this Agreement;

(c) The term " Project Agreement " ³ means the agreement between the Bank and CFN of even date herewith and shall include any amendment thereof made by agreement between the Bank and CFN; and

¹ Came into force on 14 September 1969 upon notification by the Bank to the Government of Ecuador.

² See p. 86 of this volume.

³ See p. 88 of this volume.

(d) The term “NFI” means the National Fisheries Institute of the Borrower.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to five million three hundred thousand dollars (\$ 5,300,000).

Section 2.02. (a) The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan.

(b) The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Agreement and the Loan Regulations and in accordance with the allocation of the proceeds of the Loan set forth in Schedule I to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Bank.

Section 2.03. The Borrower shall be entitled to withdraw from the Loan Account in respect of the reasonable cost of goods required for the Project and to be financed under this Loan Agreement (a) such amounts as shall have been paid, (or, if the Bank shall so agree, as shall be required to meet payments to be made) for expenditures under Categories II, III, IV and V of the allocation of the proceeds of the Loan set forth in Schedule I to this Agreement; and (b) subject to the provisions of Section 2.03 of the Project Agreement the equivalent of not more than eighty-five per cent (depending on the contribution of CFN's borrowers to the expenditures referred to herein) of such amounts as shall have been paid (or, if the Bank shall so agree, as shall be required to meet payments to be made) for expenditures under Category I in the said Schedule; provided, however, that if there shall be an increase in the estimate of such expenditures, the Bank may by notice to the Borrower adjust the above percentage as required in order that withdrawals of the amount of the Loan then allocated to such Category I and not withdrawn may continue *pro rata* with the expenditures remaining to be made under such Category.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of six and one-fourth per cent ($6\frac{1}{4}\%$) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Except as the Borrower and the Bank shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1%) per annum on the principal amount of any such special commitment outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on January 1 and July 1 in each year.

Section 2.08. The Borrower shall repay the principal of the Loan in accordance with the Amortization Schedule set forth in Schedule 2 to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan in accordance with the provisions of this Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, (i) the goods to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in February 1968, and in accordance with such other procedures supplementary thereto as shall be agreed between the Borrower and the Bank, and (ii) contracts for the procurement of such goods shall be subject to the prior agreement of the Bank.

Section 3.03. Except as the Bank shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VI of the Loan Regulations.

Section 4.02. The Minister of Finance of the Borrower is designated as authorized representative of the Borrower for the purposes of Section 6.12 of the Loan Regulations. The Minister of Finance of the Borrower may designate additional or other authorized representatives by appointment in writing notified to the Bank.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall carry out the Project, or cause the Project to be carried out, with due diligence and efficiency and in conformity with sound financial, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) To assist the Borrower in carrying out Part C of the Project, the Borrower shall employ, or cause to be employed competent and experienced consultants acceptable to, and upon terms and conditions satisfactory to, the Borrower and the Bank.

Section 5.02. (a) The Borrower shall relend the proceeds of the Loan in respect of Part A of the Project to CFN pursuant to a subsidiary loan agreement on terms and conditions satisfactory to the Borrower, the Bank and CFN.

(b) The Borrower shall promptly and effectively exercise every power, right and recourse available to it under the Subsidiary Loan Agreement to cause CFN punctually to perform all its obligations under the Subsidiary Loan Agreement and generally to protect the interests of the Borrower and the Bank.

(c) Except as the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of amending assigning, abrogating or waiving any provision of the Subsidiary Loan Agreement.

Section 5.03. The Borrower shall enter into arrangements satisfactory to the Bank with NFI to ensure that NFI assists in the carrying out of the Project by (a) employing a qualified and experienced consultant acceptable to the Bank on terms and conditions satisfactory to the Bank for the purpose of organizing a training program and establishing adequate training facilities including the supervision of the acquisition and operation of one training vessel required for the execution of the Project (such vessel to be used exclusively for the practical instruction of trainees), (b) employing three qualified and experienced experts in the capacity of captain, engineer and net

bosun, respectively, acceptable to the Bank on terms and conditions and for a period of time satisfactory to the Bank for the purpose of (i) operating the said training vessel, (ii) carrying out the said training program and (iii) instructing counterpart personnel to be selected and hired by NFI after consultation with the Bank to assume similar responsibilities in the future, such personnel to be acceptable to and to be employed on terms and conditions satisfactory to the Borrower and the consultant referred to in subsection (a) above, (c) advising CFN on technical aspects relating to Part A of the Project and in particular on (i) the technical competence of applicants for loans to be financed in whole or in part out of the proceeds of the Loan lent to CFN and (ii) the technical competence of the crews proposed for operating any vessels purchased in whole or in part out of the proceeds of the Loan lent to CFN, or, where applicable, the ability of such proposed crews to complete a training program successfully, such advice, however, not to be binding on CFN, and (d) providing borrowers to whom CFN has made loans financed in whole or in part out of the proceeds of the Loan with all the information available to it on fish resources, fishing methods and gear in order to contribute to increasing the profitability of the fishing operations of such borrowers.

Section 5.04. The Borrower shall maintain or cause to be maintained records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial conditions, in respect of the Project, of NFI and of the ministries or departments of the Borrower responsible for the carrying out of the Project or any part thereof; shall enable the Bank's representatives to inspect the Project, the goods and any relevant records and documents; and shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods, and the operations and financial condition, in respect of the Project, of NFI and of the ministries or departments of the Borrower responsible for the carrying out of the Project or any part thereof.

Section 5.05. (a) The Borrower and the Bank shall co-operate fully to assure that the purpose of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as shall be reasonably requested with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Borrower for purposes related to the Loan.

Section 5.06. (a) The Borrower shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank for, insurance of the goods financed out of the proceeds of the Loan against such risks and in such amount as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, the Borrower undertakes to insure or cause to be insured the imported goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

Section 5.07. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from any taxes, and free from all restrictions, imposed under the laws of the Borrower or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 5.08. The Loan Agreement, the Project Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof, and the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Section 5.09. It is the mutual intention of the Borrower and the Bank that no external debt shall enjoy any priority over the Loan by way of a lien hereafter created on governmental assets (including any priority in the allocation or realization of foreign exchange). To that end, the Borrower and

Banco Central del Ecuador undertake that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower or of the Banco Central del Ecuador or any other institution acting as the Central Bank of the Borrower, as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect. Within the limits of its constitutional powers, the Borrower will make the foregoing undertaking effective with respect to liens on assets of any of the Borrower's agencies including agencies granted autonomy by the Constitution of Ecuador (other than Banco Central del Ecuador), any other institution acting as the Central Bank of the Borrower, or any of the Borrower's political subdivisions or of any agency of any such political subdivisions, and to the extent that the Borrower is unable within the limits of its constitutional powers to make such undertaking effective, the Borrower will give to the Bank an equivalent lien satisfactory to the Bank. The foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date; or (iii) any lien solely upon revenues or receipts in currency of the Borrower which is given by a political subdivision (*consejo provincial* or *municipalidad*) or by an agency of a political subdivision of the Borrower under arrangements containing no provisions which would result in priority in the allocation or realization of foreign exchange.

Section 5.10. The sale of fish for export by direct transshipment in Ecuadorian ports from vessels financed in whole or in part out of the proceeds of the Loan shall enjoy a position, under the laws or regulations of the Borrower or laws or regulations in effect in its territories, no less favorable than the position accorded to the sale of fish for export by processors on land.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a) or paragraph (b) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in

paragraph (c) of Section 5.02 of the Loan Regulations, or in paragraph (a) or subparagraph (ii) of paragraph (b) of Section 6.02 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. The following additional events are specified for the purpose of paragraph (i) of Section 5.02 of the Loan Regulations:

- (a) A default shall have occurred in the performance of any covenant or agreement on the part of CFN under the Project Agreement or under the Subsidiary Loan Agreement;
- (b) Before the Project Agreement shall have terminated in accordance with its terms:
 - (i) CFN shall have been unable to pay its debts as they mature or any action or proceeding shall have been taken whereby any property or assets of CFN shall or may be distributed among its creditors; or
 - (ii) The Borrower or any other authority having jurisdiction shall have taken any action for (a) the dissolution of CFN or for the suspension of its operations, or (b) the acquisition of the ownership, possession or control of any of the property or assets of CFN necessary for the proper and efficient operation of its business;
- (c) An extraordinary situation shall have arisen, which shall make it improbable that CFN will be able to perform its obligations under the Project Agreement or under the Subsidiary Loan Agreement; and
- (d) NFI shall have failed to carry out any of the arrangements referred to in Section 5.03 of this Agreement.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (b) of the Loan Regulations:

- (a) The execution and delivery of the Project Agreement on behalf of CFN shall have been duly authorized or ratified by all necessary corporate action;

(b) The Borrower and CFN shall have entered into the Subsidiary Loan Agreement and the execution and delivery of such Subsidiary Loan Agreement on behalf of the Borrower and CFN shall have been duly authorized or ratified by all necessary governmental and corporate action;

(c) The Borrower and NFI shall have made adequate arrangements to ensure that the provisions referred to in Section 5.03 of this Agreement are carried out by NFI;

(d) The Borrower shall have furnished to the Bank evidence satisfactory to the Bank that the undertakings by Banco Central del Ecuador in Section 5.09 of this Agreement contained, are valid and binding obligations of Banco Central del Ecuador; and

(e) The Borrower shall have furnished to the Bank evidence satisfactory to the Bank that after the date of this Agreement and prior to the Effective Date Banco Central del Ecuador shall have taken no action which would have constituted a violation of the provisions of Section 5.09 of this Agreement had it been effective on the date such action was taken.

Section 7.02. The following are specified as additional matters, within the meaning of Section 9.02 (c) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank:

- (a) That the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, CFN and constitutes a valid and binding obligation of CFN in accordance with its terms;
- (b) That the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and CFN and constitutes valid and binding obligations of the Borrower and CFN in accordance with its terms;
- (c) That the arrangements between the Borrower and NFI referred to in Section 5.03 of this Agreement have been duly authorized or ratified by, and executed and delivered on behalf of the Borrower and NFI and constitute valid and binding obligations of the Borrower and NFI in accordance with their terms; and
- (d) That the undertakings by Banco Central del Ecuador in Section 5.09 of this Agreement contained, constitute valid and binding obligations of Banco Central del Ecuador in accordance with their terms.

Section 7.03. If this Agreement shall not have come into force and effect by December 15, 1968, this Agreement and all obligations of the parties hereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for purposes of this Section. The Bank shall promptly notify the Borrower of such later date.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be October 31, 1974, or such other date as may from time to time be agreed between the Borrower and the Bank.

Section 8.02. The following addresses are specified for the purpose of Section 8.01 of the Loan Regulations:

For the Borrower:

Ministry of Industries and Commerce
Quito, Ecuador

Alternative address for cables:

Minduscom
Quito, Ecuador

For the Bank:

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

Alternative address for cables:

Intbafrad
Washington, D.C.

Section 8.03. The Minister of Industries and Commerce of the Borrower is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

Republic of Ecuador:

By Carlos MANTILLA-ORTEGA
Authorized Representative

International Bank for Reconstruction and Development:

By J. Burke KNAPP
Vice President

Banco Central del Ecuador:

By Carlos MANTILLA-ORTEGA
Authorized Representative

SCHEDULE 1

ALLOCATION OF THE PROCEEDS OF THE LOAN

<i>Categories</i>	<i>Amounts Expressed in US\$ Equivalent</i>
I. Constructing and equipping 12 tuna purse seiners	\$ 3,570,000
II. Designing and supervising construction of 12 tuna purse seiners	140,000
III. Training Program for crews of 12 tuna purse seiners, includ- ing the purchase of a training vessel	400,000
IV. Feasibility Study for improved harbor facilities	190,000
V. Interest and other charges during construction	1,000,000
	<u>\$ 5,300,000</u>

If the estimated cost of the items included in any of the Categories I-IV above shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category will be available for reallocation to meet increases in the estimated cost of other items in any of the above Categories I-IV, provided, however, that a reallocation to Category I under the foregoing conditions shall in no event exceed 85 % of such increase.

SCHEDULE 2

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>
January 1, 1975	\$ 120,000	January 1, 1982	\$ 185,000
July 1, 1975	125,000	July 1, 1982	190,000
January 1, 1976	130,000	January 1, 1983	200,000
July 1, 1976	135,000	July 1, 1983	205,000
January 1, 1977	135,000	January 1, 1984	210,000
July 1, 1977	140,000	July 1, 1984	215,000
January 1, 1978	145,000	January 1, 1985	225,000
July 1, 1978	150,000	July 1, 1985	230,000
January 1, 1979	155,000	January 1, 1986	240,000
July 1, 1979	160,000	July 1, 1986	245,000
January 1, 1980	165,000	January 1, 1987	255,000
July 1, 1980	170,000	July 1, 1987	260,000
January 1, 1981	175,000	January 1, 1988	270,000
July 1, 1981	180,000	July 1, 1988	285,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations:

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity.....	1/2 %
More than three years but not more than six years before maturity	1 1/2 %
More than six years but not more than eleven years before maturity	2 1/2 %
More than eleven years but not more than sixteen years before maturity	3 3/4 %
More than sixteen years but not more than eighteen years before maturity ..	5 %
More than eighteen years before maturity	6 1/4 %

SCHEDULE 3

DESCRIPTION OF PROJECT

The Project consists of the following:

- A. The design, construction, supervision of construction and equipment of twelve tuna purse seiners for use in fishing under the flag of the Borrower.
- B. The provision of a training program for crews for the said twelve tuna purse seiners.
- C. A feasibility study for improved harbor facilities beyond those required for Parts A and B of the Project at the Port of Manta and at Santa Rosa and Ballenita.

The Project is expected to be completed in 1974.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 3, DATED 15 FEBRUARY 1961,
AS AMENDED 9 FEBRUARY 1967

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO MEMBER GOVERNMENTS

[Not published herein, See United Nations. Treaty Series, vol. 615, p. 98.]

PROJECT AGREEMENT

AGREEMENT, dated September 5, 1968, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and CORPORACIÓN FINANCIERA NACIONAL (hereinafter called CFN).

WHEREAS by an agreement of even date herewith between the Republic of Ecuador (hereinafter called the Borrower) and the Bank, which agreement, the Schedules thereto and the Loan Regulations therein referred to are together hereinafter called the Loan Agreement,¹ the Bank has agreed to make available to the Borrower a loan of an amount in various currencies equivalent to five million three hundred thousand dollars (\$ 5,300,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that CFN agrees to undertake certain obligations to the Bank as hereinafter provided; and

WHEREAS CFN, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake certain obligations as hereinafter provided;

NOW THEREFORE, the parties hereto hereby agree as follows:

Article I

DEFINITIONS

Section 1.01. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations² therein referred to (as so defined) shall have the respective meanings therein set forth.

Article II

PARTICULAR COVENANTS

Section 2.01. CFN shall carry out or cause to be carried out Part A of the Project with due diligence and efficiency and shall at all times conduct its operations and affairs in accordance with sound financial standards and practices under the supervision of qualified and experienced management.

Section 2.02. CFN and the Borrower shall enter into the Subsidiary Loan Agreement providing for the relending by the Borrower to CFN of the proceeds of the Loan in respect of Part A of the Project.

Section 2.03. Amounts withdrawn under Section 2.03 (b) of the Loan Agreement shall be relent by CFN for the construction and equipment of the vessels described in Part A of the Project to be procured in accordance with the provisions of Section 3.02 of the Loan Agreement. CFN's borrowers shall be

¹ See p. 64 of this volume.

² See p. 86 of this volume.

required to pay their share of the cost (15 % as presently estimated) before funds may be withdrawn from the Loan Account under said Section 2.03 (b).

Section 2.04. CFN shall furnish to the Bank such documents and other evidence as are requested by the Bank in connection with any application or request by the Borrower for withdrawals from the Loan Account in respect of Part A of the Project.

Section 2.05. CFN shall (i) furnish to the Bank the technical evaluation on its applicants for loans to be financed in whole or in part out of the proceeds of the Loan relented to CFN, (ii) submit to the Bank for its prior agreement CFN's appraisals of the foregoing applications and the loan agreements which it proposes to conclude with borrowers to whom loans are to be made in whole or in part out of the proceeds of the Loan relented to CFN and shall not thereafter take or concur in any action that would have the effect of amending, assigning, abrogating or waiving any provision of such agreements without the prior agreement of the Bank and (iii) exercise its rights in relation to each of its said borrowers in such a manner as to protect the interests of the Bank, the Borrower and CFN.

Section 2.06. Except as the Bank shall otherwise agree, CFN shall (i) employ a qualified and experienced naval architect acceptable to and on terms and conditions satisfactory to the Bank, (ii) submit to the Bank for its prior agreement the designs, specifications and bid and contract documents for the construction or purchase of any vessels to be financed in whole or in part out of the proceeds of the Loan relented to CFN and (iii) arrange for the supervision of construction of any vessels to be purchased in whole or in part out of the proceeds of the Loan relented to CFN.

Section 2.07. Except as the Bank shall otherwise agree (a) CFN shall phase the construction of vessels to be purchased in whole or in part out of the proceeds of the Loan relented to CFN. Initially, up to three vessels will be constructed and further construction will be suspended until (i) said vessels have been operated for a period of time sufficient to enable evaluation of their suitability for use in the carrying out of the Project and (ii) suitable crews for the operation of further vessels have been trained or are available for training.

(b) The naval architect referred to in Section 2.06 (i) of this Agreement will if necessary modify the design of further vessels in the light of the evaluation referred to in the foregoing subsection (a) and thereafter the design of further vessels purchased in whole or in part out of the proceeds of the Loan shall not be materially altered except with the prior agreement of the Bank.

Section 2.08. (a) CFN shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan in respect of Part A of the Project, the borrowers to whom it has made loans to be financed in whole or in part out of the proceeds of the Loan, the subprojects for which such loans have been granted and the administration, operations and financial condition of CFN in respect of the carrying out of Part A of the Project.

(b) CFN shall maintain records adequate to record the progress of Part A of the Project and of each subproject financed in whole or in part out of the proceeds of the Loan (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operating and financial conditions of CFN in respect of Part A of the Project. CFN shall enable the Bank's representatives to examine such records.

(c) CFN shall have its balance sheet and related statements and its financial statements relating to Part A of the Project certified annually by an independent accountant or accounting firm acceptable to the Bank and shall promptly after their preparation and not later than four months after the close of the fiscal year to which they apply transmit to the Bank certified copies of such statements and a signed copy of the accountant's or accounting firm's report.

Section 2.09. (a) CFN and the Bank shall cooperate fully with each other to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as either shall reasonably request with regard to Part A of the Project.

(b) CFN and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the other matters covered by this Agreement or the Subsidiary Loan Agreement. CFN shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the performance by CFN of its obligations under this Agreement or the Subsidiary Loan Agreement.

Article III

EFFECTIVE DATE; TERMINATION

Section 3.01. (a) This Agreement shall come into force and effect on the Effective Date.

(b) If the Loan Agreement shall terminate pursuant to Section 7.03 thereof, the Bank shall promptly notify CFN and upon the giving of such notice, this Agreement and all obligations of the parties hereunder shall forthwith cease and determine.

Section 3.02. This Agreement shall terminate and all the obligations of CFN and of the Bank hereunder shall terminate on the date on which the Subsidiary Loan Agreement or on the date on which the Loan Agreement shall terminate in accordance with their terms, whichever shall be the earlier.

Article IV

MISCELLANEOUS

Section 4.01. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 4.02. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Alternative address for cables:

Intbafrad
Washington, D.C.

For CFN:

Avenida Patria 350
P. O. Box 2653
Quito, Ecuador

Alternative address for cables:

Comnavalores
Quito, Ecuador

Section 4.03. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of CFN may be taken or executed by the General Manager of CFN or such person or persons as he shall designate in writing.

Section 4.04. This Agreement may be executed in several counterparts, each of which shall be an original and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development:

By J. Burke KNAPP
Vice President

Corporación Financiera Nacional:

By Carlos MANTILLA-ORTEGA
Authorized Representative
