

CONFORMED COPY

LOAN NUMBER 4310-BR

Loan Agreement

(Federal Water Resources Management Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated June 3, 1998

LOAN NUMBER 4310- BR

LOAN AGREEMENT

AGREEMENT, dated June 3, 1998, between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS (B) Parts A.2, B and D.2 of the Project will be carried out by the Participating States (as hereinafter defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating States part of the proceeds of the Loan as provided in this Agreement;

WHEREAS (C) the Borrower intends to receive from a cofinancier to be selected by the Borrower (the Cofinancier) a loan (the Cofinancing Loan) in an amount equivalent to \$70,000,000 to assist in financing Part B.2 of the Project on the terms and conditions set forth in an agreement (the Cofinancing Loan Agreement) to be entered into between the Borrower and the Cofinancier;

WHEREAS (D) by a letter dated February 19, 1998 (the Water Sector Policy Letter) from the Borrower's Minister of Environment, Water Resources and Legal Amazon, to the Bank, the Borrower has described the policies for its water sector; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(d) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Annual Operating Plan" means each plan referred to in Section 3.04 (c) of this Agreement;

(b) "Approved Subproject" means a project selected by the relevant Participating State, endorsed by the Borrower and approved by the Bank prior to the date of this Agreement, in accordance with the relevant provisions of the Operational Manual (as hereinafter defined), and comprising the activities set forth in Part B.1 of the Project;

(c) "Banco Central" means Banco Central do Brasil, the Borrower's Central Bank;

(d) "Dam Safety Review Panel" means the panel of experts in dam safety referred to in Section 2.05 of each of the Project Agreements;

(e) "Federal Waters" means those waters defined in Article 20 of the Borrower's Constitution;

(f) "Grant" means a grant made or proposed to be made by the Borrower, through SRH/MMA, to a Participating State for the purposes of partially financing a Subproject (as hereinafter defined) and any of the activities referred to in Part A.2 and D.2 of the Project;

(g) "Indigenous Peoples Development Framework" means the document dated October 9, 1997 which contains the principles and policies that shall apply to the preparation and carrying out of any IPDP (as hereinafter defined) that may be required under a Subproject;

(h) "Institutional Development Agreements" means any of the agreements referred to in Section 3.02 (a) of this Agreement;

(i) "IPDP" means Indigenous Peoples Development Plan, a plan, satisfactory to the Bank, for the purposes of mitigating any adverse impact on indigenous peoples as a result of a Subproject and ensuring that they benefit from such Subproject;

(j) "MIS" means management information system, a computerized system, satisfactory to the Bank, which includes the following Project information: (i) Annual Operating Plans; (ii) progress reports; (iii) monitoring reports; (iv) expenditures; (v) financial management and socio-economic data; (vi) eligibility criteria for accessing Project funds; and (vii) base-line (perfil de entrada) related to the population benefiting from Subprojects;

(k) "MMA" means Ministério do Meio Ambiente, dos Recursos Hídricos e da Amazônia Legal, the Borrower's Ministry of Environment, Water Resources and Legal Amazon;

(l) "MPO" means Ministério do Planejamento e Orçamento, the Borrower's Ministry of Planning and Budget;

(m) "Operational Manual" means the manual issued by PROÁGUA Managing Committee (as hereinafter defined) on dated May 6, 1998, containing inter alia: (i) the operating procedures for the execution of the Project, including the plans and procedures related to the construction and rehabilitation of infrastructure to be financed under the Project, training, technical assistance, environmental conservation and protection, and other activities to be carried out under the Project; (ii) the criteria for the selection, and procedures for the carrying out of Subprojects; and (iii) the model form of an Institutional Development Agreement;

(n) "Participating States" means the Borrower's States of Alagoas, Bahia, Ceará, Maranhão, Minas Gerais, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe; and "Participating State" means any of such States;

(o) "Post-Approved Subproject" means a project selected by the Borrower and approved by the Bank after the date of this Agreement, in accordance with the relevant provisions of the Operational Manual, and comprising the activities set forth in Part B.2 of the Project;

(p) "PROÁGUA Managing Committee" means the managing committee established pursuant to Portaria N° 1 of March 27, 1998 jointly issued by the Borrower's Minister of MMA and Minister of Planning and Budget;

(q) "Project Agreement" means any of the agreements between the Bank and each Participating State of even date herewith, as the same may be amended from time to time; and "Project Agreements" means all such Agreements collectively;

(r) "Project Monitoring Letter" means the letter dated March 10, 1998 delivered by the Borrower's Secretary of SEPRE/MPO (as hereinafter defined), to the Bank, setting forth the indicators to be used in monitoring the progress of the Project and the achievement of its objectives;

(s) "Resettlement Framework" means the document dated October 9, 1997 which contains the principles and policies that shall apply to the preparation and carrying out of any resettlement plan that may be required under a Subproject;

(t) "River Basin Committees" means river basin committees lawfully established in the Borrower's territory;

(u) "São Francisco River Basin Committee" means the committee to be established in a manner consistent with the relevant provisions of the SINGRH (as hereinafter defined) for the management of the Borrower's São Francisco river basin;

(v) "SEPRE/MPO" means Secretaria Especial de Políticas Regionais/ Ministério do Planejamento e Orçamento, the Borrower's Special Secretariat of Regional Policies which is housed within the Borrower's Ministry of Planning and Budget;

(w) "SINGRH" means Sistema Nacional de Gerenciamento de Recursos Hídricos, the Borrower's National System of Water Resources Management described in the Water Sector Policy Letter;

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

(y) "SRH/MMA" means Secretaria dos Recursos Hídricos/Ministério do Meio Ambiente, dos Recursos Hídricos e da Amazônia Legal, the Borrower's Secretariat of Water Resources which is housed within the Borrower's Ministry of Environment, Water Resources and Legal Amazon;

(z) "State" means the Borrower's political subdivision as referred to in the Borrower's Constitution;

(aa) "State Annual Operating Plan" means any of the plans referred to in Section 2.07 of the Project Agreements;

(bb) "State Implementation Plan" means each of the plans provided to the Bank by each of the Participating States, prior to the date of this Agreement, setting forth the targets to be achieved by such Participating State during Project implementation;

(cc) "State Waters" means those waters referred to in Article 26 of the Borrower's Constitution;

(dd) "Subproject" means either an Approved Subproject or a Post-Approved Subproject;

(ee) "Subproject Agreement" means any of the agreements referred to in Section 3.02 (c) of this Agreement;

(ff) "UEGP" means Unidade Estadual de Gerenciamento do PROÁGUA, the Project management unit referred to in Section 2.04 of each of the Project Agreements.

(gg) "UGP" means Unidade de Gerenciamento do PROÁGUA, the Project management unit referred to in Section 3.01 (b) (ii) of this Agreement;

(hh) "UMA" means the Project monitoring and evaluation unit referred to in Section 3.01 (b) (iii) of this Agreement; and

(ii) "WUAs" means water users associations lawfully established in the Borrower's territory.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred ninety eight million Dollars (\$198,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off,

seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

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

Section 2.08. (a) With respect to Part D.1 (b) of the Project, the Borrower's Minister of Planning and Budget, and the person or persons designated in writing by such Minister are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section

2.02 (a) of this Agreement and Article V of the General Conditions; and (b) With respect to the other Parts of the Project, the Minister of MMA, and the person or persons designated in writing by such Minister are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 (a) of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall: (i) through SRH/MMA: carry out Parts A.1, C and D.1 (a) of the Project; (ii) through SEPRE/MPO carry out Part D.1 (b) of the Project; and (iii) in respect of Parts A.2, B and D.2 of the Project: take all necessary steps in order to ensure that each Participating State performs in accordance with the provisions of the relevant Project Agreement all the obligations of such Participating State therein set forth, as provided in the relevant Institutional Development Agreement or Subproject Agreement, as the case may be, and, not take or permit to be taken any action which would prevent or interfere with the performance of such obligations by each Participating State; all with due diligence and efficiency and in conformity with the provisions of: (i) the Operational Manual; (ii) the Water Sector Policy Letter; (iii) the relevant Annual Operating Plan; and (iv) appropriate administrative, financial, environmental and water management practices, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall:

(i) through SRH/MMA and MPO, maintain until the completion of the Project a managing committee (the PROÁGUA Managing Committee) with adequate responsibilities, structure and functions, such Committee to be comprised of representatives of SRH/MMA and MPO for the purposes of, inter alia: (A) providing policy guidance for the planning, programming and physical execution of Project activities; (B) endorsing the relevant Annual Operating Plan; (C) recommending any changes to the Operational Manual for the Bank's approval; (D) recommending the Institutional Development and Subproject Agreements for the Bank's approval; and (E) evaluating Project performance, in order to recommend corrective actions;

(ii) through SRH/MMA, maintain until the completion of the Project a management unit (the UGP) with adequate responsibilities, structure and functions, and with staff in adequate numbers and with adequate qualifications, for the purposes of, inter alia: (A) assisting SRH/MMA in the overall coordination and carrying out of the Project; (B) consolidating the relevant Annual Operating Plan; (C) developing, operating and maintaining the MIS; and (D) providing technical and operational support to the UEGPs;

(iii) through SEPRE/MPO, maintain until the completion of the Project a monitoring and evaluation unit (the UMA), for the purposes of, inter alia: (A) monitoring and evaluating Project implementation, including its socio-economic impact and any adverse environmental and resettlement impacts; (B) presenting its evaluation of the Annual Operating Plans and progress reports to the PROÁGUA Managing Committee, for the approval by such Committee of said Plans; (C) furnishing semi-annual reports to the PROÁGUA Managing Committee and to the Bank on the compliance by the relevant Participating States of their respective obligations under its corresponding Project Agreement; and (D) providing mid-term and final reports to the PROÁGUA Managing Committee on the implementation of the Project; and

(iv) not later than eighteen months after the date of this Agreement, adopt and thereafter maintain a revised institutional structure for SRH/MMA in accordance with the corresponding functions and requirements outlined in the SINGRH, such structure to include specialized staff in adequate numbers and with adequate qualifications, as provided in the Operational Manual.

(c) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.02. For purposes of the carrying out of Parts A.2, B and D.2 of the Project, the Borrower shall, through SRH/MMA:

(a) In respect of Parts A.2 and D.2 of the Project, enter into an agreement, in accordance with the model form set forth in the Operational Manual, with each of the Participating States (the Institutional Development Agreement) to: (i) govern such Participating State's responsibilities in the carrying out of its corresponding activities under Parts A.2 and D.2 of the Project; and (ii) provide a Grant to finance part of the costs of such activities.

(b) When presenting a Subproject to the Bank for approval, the Borrower, through SRH/MMA, shall furnish to the Bank an application, in form and substance satisfactory to the Bank, and in conformity with the relevant provisions of the Operational Manual, containing, inter alia: (i) an appraisal of the Subproject, and a description of the expenditures proposed to be financed, including those expenditures proposed to be financed out of the proceeds of the Loan; (ii) a detailed description of how the relevant Participating State and such Subproject meet the eligibility criteria set forth in the Operational Manual; (iii) a plan for the administration, operation and maintenance of the proposed Subproject; (iv) evidence that land and rights in respect of land are physically and legally available for the purposes of the proposed Subproject; (v) evidence that the Participating State holds the corresponding water rights for the purposes of the proposed Subproject; (vi) evidence that the Participating State holds the corresponding environmental permits required for the execution of the works planned under the proposed Subproject; (vii) whenever applicable, evidence of compliance with Section 2.05 of the Project Agreement; (viii) whenever a Subproject requires the undertaking of environmental protection measures and/or resettlement of population: the corresponding environmental assessment and/or resettlement action plan, as such assessment and/or plan shall have been prepared in accordance with terms of reference satisfactory to the Bank, and, in the case of a resettlement action plan, in accordance with the Resettlement Framework; (ix) whenever a Subproject requires the undertaking of measures to ensure the development and protection of indigenous peoples: the corresponding IPDP, prepared in accordance with the Indigenous Peoples Development Framework; and (x) such other information as the Bank shall reasonably request in respect of the relevant Subproject.

(c) In respect of Part B of the Project, enter into an agreement, satisfactory to the Bank, with each of the Participating States (the Subproject Agreement) to: (i) govern such Participating State's participation in the carrying out of a Subproject; and (ii) provide a Grant to finance part of the costs of such Subproject.

(d) Carry out its obligations and exercise its rights under the Institutional Development Agreements and Subproject Agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, shall not assign, amend, abrogate or waive any of the Institutional Development Agreements or Subproject Agreements or any provision thereof.

Section 3.03. The Borrower shall:

(a) Through SRH/MMA, whenever required for the carrying out of a Subproject in Federal Waters, promptly award the respective water rights for the purposes of the proposed Subproject.

(b) Without limitation upon the provisions of paragraph (a) above, not later than six months after the date of this Agreement, furnish to the Bank a plan for the establishment of an unified procedure, through its Ministry of Mines and Energy and MMA, for the purposes of awarding water rights, and, thereafter carry out such plan in accordance with its own terms, including the timetable set forth therein.

(c) Not later than December 12, 1998, put into effect and thereafter maintain the MIS.

Section 3.04. Without limitation upon the provisions of Sections 9.01 (a) and 9.07 of the General Conditions, the Borrower shall:

(a) Through SRH/MMA, beginning three months after the date of this Agreement,

during each year of Project implementation, furnish to the Bank quarterly reports on the progress in the implementation of the Project, which shall take into consideration the indicators set forth in the Project Monitoring Letter, and to be of such scope and in such detail as the Bank shall reasonably request;

(b) In the months of March and September of each year during Project implementation, hold reviews jointly with the Bank (the review to take place in the eighteenth month after the date of this Agreement or when disbursements from the Loan Account have reached 40% of the amount of the Loan, whichever is earlier, to be the mid-term review), such reviews to be based on the reports referred to in paragraph (a) above and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the Borrower and the Bank, during the reviews referred to in this paragraph, as necessary for the efficient execution of the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such reviews; and

(c) in the month of December of each year during Project implementation, except for the first year, furnish to the Bank an annual plan satisfactory to the Bank (the Annual Operating Plan), endorsed by the PROÁGUA Managing Committee, describing, inter alia, the Project activities (including Subprojects) to be carried out during the next calendar year, including the cost thereof, and consolidating the State Annual Operating Plans.

Section 3.05. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 (a) and (b), 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A.2, B and D.2 of the Project shall be carried out by each Participating State responsible for the corresponding activities under such Parts of the Project, pursuant to Section 2.03 of the Project Agreement.

Section 3.06. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall, with the assistance of the Participating States:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request;

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain or cause to be retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) Any Participating State shall have failed to perform any of its obligations under the relevant Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating State will be able to perform any of its obligations under the respective Project Agreement.
- (c) The Cofinancing Loan Agreement shall have failed to become effective by December 31, 1998 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for Part B.2 of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (d)
 - (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of the Cofinancing Loan shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Cofinancier Loan Agreement, or
 - (B) the Cofinancing Loan shall have become due and payable prior to the agreed maturity thereof.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that, if any of the events specified in paragraphs (a) or (b) above shall have occurred, the Bank may, by notice to the Borrower, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures incurred by the Participating State in question, for Parts A.2, B.1 and D.2 of the Project affected by such event.

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

- (a) any event specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that at least four Subproject Agreements have become effective;
- (b) that the UGP and UMA have been adequately staffed; and
- (c) that the SRH/MMA has been authorized to carry out procurement of goods and selection of consultants for the purposes of the Project.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

- (a) the Loan Agreement has been validly registered by Banco Central Central Bank of Brazil; and
- (b) each Project Agreement has been duly authorized or ratified by, and is legally binding upon, the respective Participating State in accordance with its terms.

Section 6.03. The date September 3, 1998 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Procuradoria Geral de Fazenda Nacional
Ministério da Fazenda
Esplanada dos Ministérios-Bloco "P"- 8(andar
70048-900, Brasília, D.F.
Brazil

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

With copies to:

Ministério do Planejamento e Orçamento
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906, Brasília, D.F.
Brazil

Ministério do Meio Ambiente,
 Recursos Hídricos e Amazônia Legal
 Secretaria de Recursos Hídricos
 SGAN Quadra 601, Lote 1, 4º andar
 70830-901, Brasília - DF
 Brazil

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Brasilia, D.F., Brazil as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Robert Schneider

Authorized Representative

INTERNATIONAL BANK FOR
 RECONSTRUCTION AND DEVELOPMENT

By /s/ Luiz Carlos Sturzenegger

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

be	Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to Financed
(1)	For Parts A.1, C and D.1 of the Project:		
	(a) Goods	2,300,000	100% of foreign expenditures and 75% of local
expenditures			
	(b) Works (except for Parts A.1 and D.1 of the Project)	1,400,000	100% of foreign expenditures and 80% local expenditures
of			
	(c) Consultants' services and training	34,000,000	100% of foreign expenditures and 80% of local expenditures
(2)	For Parts A.2, B.1 and D.2 of the Project:		
	(a) Goods	62,700,000	100% of foreign expenditures and 75% of local
expenditures			
	(b) Works (except for Parts A.2 and D.2 of the Project)	22,300,000	100% of foreign expenditures and 80% local expenditures
of			

	(c) Consultants' services and training	54,300,000	100% of foreign expenditures and 80% of local expenditures
(3)	Incremental Recurrent Costs for Parta A and C of the Project	1,000,000	25%
(4)	Unallocated	20,000,000	
	TOTAL	198,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Incremental Recurrent Costs" means communication, office supply, and equipment maintenance costs, incurred by the Borrower as a result of the carrying out of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding an amount equivalent to \$19,000,000, may be made on account of payments made for expenditures before that date but after October 1, 1997 or a date twelve months before the date of this Agreement, whichever is later.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under contracts for: (i) goods costing less than \$350,000 equivalent (except the first two contracts for goods costing between \$100,000 equivalent and \$350,000 equivalent); (ii) works costing less than \$5,000,000 equivalent (except the first two contracts for works costing between \$350,000 equivalent and \$5,000,000 equivalent); (iii) services of consulting firms costing less than \$100,000 equivalent; and (iv) services of individual consultants costing less than \$50,000 equivalent; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to promote efficient allocation and rational and sustainable use and participatory management of water resources at the Borrower's level and in the Participating States; and (b) to provide reliable and sustainable water supply in selected areas of the Participating States.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Water Resources Management

1. At the Borrower's Level

(a) Institutional Development

Strengthening of the institutional and regulatory framework for supporting the implementation of the SINGRH, through, inter alia: (i) provision of goods and consultants' services for the SRH/MMA; (ii) technical assistance to implement bulk water tariffs and rights systems; (iii) training programs designed to produce skilled water resources professionals and members of WUAs; (iv) technical assistance for the preparation of water projects; (v) in respect of Federal Waters, development of a plan for the expansion and/or improvement of the existing hydrometeorological network, the installation of new strategic hydrometeorological stations as provided in such plan, and the development of a comprehensive information system (encompassing hydrologic data, information on water rights, water tariffs, hydraulic infrastructure, user associations and water availability, in quantitative and qualitative terms); and (vi)

support for the establishment of WUAs and River Basin Committees in Federal Waters.

(b) Planning and Studies

In respect of Federal Waters, preparation of: (i) water resources management plans, including the initial assessment of water resources, with priority for those river basins that have an actual or potential conflict in the use of water; (ii) plans for recovering the existing infrastructure; (iii) water resources management plans designed for mitigating emergency situations; and (iv) related technical studies.

2. At the Participating State's Level

(a) Institutional Development

Strengthening of the institutional and regulatory framework for water resources management of the Participating States consistent with the principles set forth in the SINGRH, through, inter alia: (i) support for the establishment of capable water resources agencies in the Participating States; (ii) adoption of a tailor-made procedure for the design and implementation of water laws and regulations in the Participating State; (iii) technical assistance to implement bulk water tariffs and rights systems; (iv) development of specific studies and research to support the transition from federal participation to local participation in the decision making process; (v) training programs designed to produce skilled water resources professionals and members of WUAs; (vi) in respect of State Waters and consistent with the activities set forth in Part A.1 (a) (v) of the Project, development of a plan for the expansion and/or improvement of the existing hydrometeorological network, the installation of new strategic hydrometeorological stations as provided in the plan referred to in this paragraph, and the development of a comprehensive information system (encompassing hydrologic data, information on water rights, water tariffs, hydraulic infrastructure, user associations and water availability, in quantitative and qualitative terms); and (vii) support for the establishment of WUAs and River Basin Committees in State Waters.

(b) Planning

Development of: (i) water resources master plans at the basin and Participating State levels; (ii) water resources management plans for State Waters, including the initial assessment of water resources, with priority for those river basins that have an actual or potential conflict in the use of water; and (iii) plans for rehabilitation of the existing infrastructure in State Waters.

(c) Pre-investment and Other Studies

Carrying out of: (i) pre-investment studies (including engineering studies, designs, cost estimates, social and environmental impact assessments, and resettlement and compensation studies) for potential Subprojects; (ii) water availability studies; and (iii) operational studies and decision support models for reservoirs and water resources systems.

Part B: Subprojects

1. Carrying out of Approved Subprojects consisting of: (a) pipelines; (b) simplified water supply systems; (c) other related hydraulic infrastructure; (d) environmental mitigation and resettlement measures; and (e) groundwater development systems.

2. Carrying out of Post-Approved Subprojects consisting of: (a) dams; (b) pipelines; (c) simplified water supply systems; (d) groundwater development systems; and (e) environmental mitigation and resettlement measures.

Part C: São Francisco Basin

For the São Francisco river basin, support for the implementation of an integrated water resources management system, through, inter alia:

1. Development of a regional strategy for water resources management in the basin.

2. Preparation of relevant studies and plans including but not limited to the implementation of decision support systems for the issuance of water rights, development of river morphology studies of the lower São Francisco river, and for the establishment of bulk water tariffs and rates system.

3. Support the establishment of necessary conditions for the effective operation of the São Francisco River Basin Committee of committees as the case may be.

4. Support the development and/or strengthening of WUAs in the São Francisco river basin through the execution of small pilot projects comprised of, inter alia, micro-watershed management, recuperation of riparian forest (matas ciliares), pollution and erosion control, and training and education programs.

Part D: Project Administration, Monitoring and Evaluation

1. At the Borrower's Level

Provision of goods and consultants' services for the purposes of financing Project management activities, including: (a) overall coordination and routine management; and (b) monitoring, evaluation, and support for auditing activities of the Project.

2. At the Participating State's Level

Provision of goods and consultants' services for the purposes of financing Project management activities, including: overall coordination, routine management, monitoring and evaluation of the Project activities executed at the level of the respective Participating State.

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The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On each May 15 and November 15	
beginning November 15, 2003 through May 15, 2013	9,900,000

* The figures in this column represent Dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
to the prepayment multiplied	The interest rate (expressed as a percentage per annum applicable Loan on the day of by:

Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years but not before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for works related to the construction of dams, reservoirs and related structures under the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for works and goods shall be grouped in bid packages estimated to cost, respectively, more than \$5,000,000 equivalent and \$350,000 equivalent or more each.

(c) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(d) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost \$100,000 equivalent or more per contract but \$350,000 equivalent or less per contract, up to an aggregate amount of \$55,900,000 equivalent, and works estimated to cost \$350,000 equivalent or more per contract but \$5,000,000 equivalent or less per contract, up to an aggregate amount of \$29,100,000 equivalent, may be procured under contracts awarded in accordance with the provisions of

paragraphs 3.3 and 3.4 of the Guidelines. In the procurement of goods and works under this Part C.1, standard bidding documents acceptable to the Bank shall be used.

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and/or works to be undertaken pursuant to Part C.1 hereof: of this Schedule;

(a) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

(b) whenever required by the Bank, the invitation to bid shall be advertised for at least three consecutive days in a newspaper of wide circulation in Brazil;

(c) the arrangements, under the invitation to bid, for joint-ventures (consórcios) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;

(d) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

(e) the purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

2. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount of \$3,400,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount of \$17,800,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods and works procured under Part B.1 of this section; (b) the first two contracts for goods for the benefit of each Participating State and the first two contracts for goods for the benefit of the Borrower, estimated to cost between \$100,000 and \$350,000 equivalent each; and (c) the first two contracts for works for the benefit of each Participating State and the first two contracts for the benefit of the Borrower, estimated to cost between \$350,000 and \$5,000,000 equivalent each, the procedure set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Part E: Other

For purposes of the Guidelines, the term custom duties and other import taxes includes the Borrower's Freight Surcharge for the Renewal of the Merchant Marine (Adicional ao Frete para a Renovação da Marinha Mercante - AFRMM), established pursuant to the Borrower's Decree-Law No. 1142 of December 30, 1970 as amended on December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may substitute it, in whole or in part, after January 1988.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services of a routine nature, such as surveys, engineering design of non-complex works and supervision of works, estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services for tasks that meet the requirements set forth in paragraph 3.5 of the Consultant Guidelines, estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services related to the preparation of institutional, policy and engineering studies (other than engineering design studies), estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, provided, however, that the terms of reference for the respective assignment shall be subject to the Bank's prior approval.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$20,000,000 (or such other amount as the Bank shall establish, by notice to the Borrower), to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$10,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$25,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories,

and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

[Redacted]