

CONFORMED COPY

LOAN NUMBER 3356-PH

(Rural Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

LAND BANK OF THE PHILIPPINES

Dated July 11, 1991

LOAN NUMBER 3356-PH

LOAN AGREEMENT

AGREEMENT, dated July 11, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and LAND BANK OF THE PHILIPPINES (the Borrower).

WHEREAS (A) REPUBLIC OF THE PHILIPPINES (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement, including but not limited to Part C of the Project; 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;

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 in Schedule 4 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "ALF" means the Agricultural Loan Fund established and operating under Resolution No. 701 dated May 18, 1985 of the Monetary Board of the Guarantor;

(b) "ARF" means the Agrarian Reform Fund established and operating under the Comprehensive Agrarian Reform Act of 1988;

(c) "CLF" means the Countryside Loan Fund established by the Borrower;

(d) "Policy Manual" means the Policy Manual for the Countryside Loan Fund, as may be amended from time to time with the agreement of the Bank;

(e) "Participating Financial Institutions" means such financial institutions as may be accredited by the Borrower in accordance with the Policy Manual;

(f) "Subsidiary Loan Agreement(s)" means agreement(s) to be entered into between the Borrower and Participating Financial Institution(s) pursuant to Section 3.02 (a) of this Agreement;

(g) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower to a Participating Financial Institution under the provision of a Subsidiary Loan Agreement;

(h) "Sub-loan" means a loan made or proposed to be made by a Participating Financial Institution out of the proceeds of a Subsidiary Loan for a Sub-project; "Free-limit Sub-loan" means a Sub-loan for a Sub-project in an amount to be financed out of the proceeds of a Subsidiary Loan which shall not exceed the sum of \$1,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Subsidiary Loan;

(i) "Beneficiary" means any entity engaged in production, investment and related services for the rural economy to whom a Participating Financial Institution proposes to make or has made a Sub-loan;

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

(k) "Charter" means the charter of the Borrower dated August 8, 1963, as amended to the date of this Agreement;

(l) "Peso" means the currency of the Borrower; and

(m) "Sub-project" means a project to be carried out by a Beneficiary and financed under a Sub-loan.

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 fifty million dollars (\$150,000,000), 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 amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made under a Sub-loan to meet the reasonable cost of goods, works and services required for Part A of the Project.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account in a bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 1997 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 and the Guarantor 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 and the Guarantor 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 March 15 and September 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.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

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, shall carry out Parts A and B of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter and the Statement of Policy.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out Parts A and B of the Project in accordance with the Implementation Program set forth in Schedule 7 to this Agreement.

Section 3.02. (a) The Borrower shall relend the proceeds of the Loan to the Participating Financial Institutions under separate Subsidiary Loan Agreements, satisfactory to the Bank, to be entered into between the Borrower and each Participating Financial Institution as such agreements may be amended from time to time with the concurrence of the Bank, for the purpose of onlending the proceeds of the Subsidiary Loan to Sub-projects in accordance with the provisions hereof. Unless the Bank otherwise agree, the Borrower shall not in any way on-lend the proceeds of the Loan to Sub-projects directly.

(b) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(c) The Borrower shall exercise its rights in relation to each Sub-project in such manner as to: (i) protect the interests of the Guarantor, the Bank, and the Borrower; (ii) comply with its obligations under the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Sub-project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound 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: (A) certified copies of said financial statements for such year as so audited; and (B) 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 the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) retain, 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 (a) 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.

Section 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain the following ratios: (i) risk assets to net equity of not more than 7 to 1; and (ii) liquid assets to short term deposit of not less than 125%.

(b) For purposes of this Section:

- (i) The term "risk assets" means total assets excluding cash, short term deposits in banks, investment in government securities and fixed assets used in the course of the Borrower's operations.

- (ii) The term "equity" means the sum of total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.
- (iii) The term "Liquid Assets" means cash, short term deposits in banks, 80% of loans maturing within one year, and investment in government securities up to one year.

Section 4.05. Except as the Bank shall otherwise agree, the Borrower shall ensure that ARF arrears to the Borrower shall not exceed 20% of the Borrower's equity or Peso 1 billion whichever is lower.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely that the Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out Part A of the Project or to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the event specified in paragraph (a) of Section 5.01 shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that the Policy Manual, as agreed with the Bank, has been adopted and put into effect.
- (b) that the Central Bank, the Philippine Deposit Insurance Corporation, and the Borrower shall have adopted a capitalization program for the rural banks, satisfactory to the Bank.
- (c) that the Central Bank shall have issued criteria and regulations, satisfactory to the Bank, concerning: (i) the opening of new bank branches; (ii) the establishment of new banks servicing the rural areas; (iii) mergers of banks in rural areas; and (iv) single ownership restrictions.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The President 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 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:

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

For the Borrower:

Land Bank of the Philippines
317-319 Sen. Gil J. Puyat Avenue
Makati, Metro Manila
Republic of the Philippines

Fax:

(063-2) 817 2619

Telex:

22679 LBP PH
45443 LBP PH
64045 LBP PH

IN WITNESS WHEREOF the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names 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 /s/ Marianne Haug
Acting Regional Vice President
Asia

LAND BANK OF THE PHILIPPINES

By /s/ Emmanuel Pelaez
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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures To be Financed
(1) Sub-loans under Part A (1) of the Project	50,000,000	100% of Sub-loans until \$30,000,000 have been dis- bursed, and 55% thereafter
(2) Sub-loans under Part A (2) of the Project	100,000,000	75% of Sub-loans disbursed.
TOTAL	<u>150,000,000</u>	

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2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement; and (b) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$15,000,000, may be made on account of payments made for expenditures before that date but after November 1, 1990.

SCHEDULE 2

Description of the Project

The objectives of the Project are; (i) to assist in financing such productive facilities and resources in the Philippines as will contribute to the economic and social development of the country, and (ii) to enhance the policy framework governing the rural financial sector.

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

Part A: Lending Program to be carried out by the Borrower

Provision of Sub-loans through Participating Financial Institutions for:

- (1) Short-term rural production credit; and
- (2) Medium- and long-term credit for agricultural and other viable rural investments, including the Cooperatives' Experimental Pilot Plan.

Part B: Training to be carried out by the Borrower

- (1) Training of Project related staff within the Borrower and the Participating Financial Institutions; and
- (2) Training of selected cooperative staff and management.

Part C: Policy and Institutional Development

- (1) Further liberalization of banking policies in rural areas.
- (2) Introduction of a capitalization program for rural banks.
- (3) Strengthening of rural insurance and guarantee funds.
- (4) Studies to enhance the rural credit delivery and funds mobilization system.

* * *

The Project is expected to be completed by September 30, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
March 15, 1997	2,735,000
September 15, 1997	2,840,000
March 15, 1998	2,950,000
September 15, 1998	3,065,000
March 15, 1999	3,185,000

September 15, 1999	3,305,000
March 15, 2000	3,435,000
September 15, 2000	3,565,000
March 15, 2001	3,705,000
September 15, 2001	3,850,000
March 15, 2002	3,995,000
September 15, 2002	4,150,000
March 15, 2003	4,310,000
September 15, 2003	4,480,000
March 15, 2004	4,650,000
September 15, 2004	4,830,000
March 15, 2005	5,020,000
September 15, 2005	5,210,000
March 15, 2006	5,415,000
September 15, 2006	5,625,000
March 15, 2007	5,840,000
September 15, 2007	6,065,000
March 15, 2008	6,300,000
September 15, 2008	6,545,000
March 15, 2009	6,795,000
September 15, 2009	7,060,000
March 15, 2010	7,330,000
September 15, 2010	7,615,000
March 15, 2011	7,910,000
September 15, 2011	8,220,000

* 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
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

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

(2) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (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."

(3) The words "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" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 5 (c) of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 5

Procedures for and Terms and Conditions of Sub-loans

(1) General

(a) The Borrower shall finance Sub-loans, in local currency, utilizing the proceeds of the Loan allocated under Categories (1) and (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, on the basis of arrangements satisfactory to the Bank made between the Borrower and each Participating Financial Institution in accordance with the Policy Manual.

(b) The Borrower shall exercise its rights in relation to each Participating Financial Institution in such manner as: (i) to achieve the purposes of the Project; (ii) to protect the interests of the Guarantor, the Bank, and the Borrower; and (iii) to comply with its obligations under this Agreement.

(c) The Borrower shall cause each Participating Financial Institution: (i) to carry on its obligations under the Policy Manual and the arrangements referred to in paragraph (b) hereof; (ii) to carry out its operations and to conduct its affairs in accordance with sound business practices, under the supervision of experienced and competent management, and to employ qualified personnel in adequate numbers; and (iii) to maintain, and to furnish to the Bank upon request, records and accounts adequate to reflect in accordance with sound accounting practices, its operations, resources and expenditures in respect of the Project.

(2) Eligibility

(a) Financial Institutions shall be accredited to participate in the Project in accordance with criteria satisfactory to the Bank, as outlined in the Policy Manual.

(b) The Borrower shall maintain, and furnish to the Bank upon request, records with evidence of the eligibility of each Participating Financial Institution to participate in the Project.

(c) The Borrower shall by October 1, 1991 furnish to the Bank for review, an updated list of Participating Financial Institutions and a plan to conduct institutional appraisal of financial institutions expected to participate in the Project, and shall thereafter by each January 1, April 1, July 1 and October 1 furnish to the Bank an update of such list and plan.

(3) Principal Terms and Conditions

(a) Beneficiaries shall be selected in accordance with criteria satisfactory to the Bank, as outlined in the Policy Manual.

(b) Subsidiary Loans and Sub-loans shall be on terms and conditions, as outlined in the Policy Manual.

(c) Sub-loans of \$1,000,000 equivalent or more shall be made after approval of the Bank.

(d) Relending interest rates on Subsidiary Loans, either fixed or floating, shall be determined by negotiation between the Borrower and the Participating Financial Institution.

(e) The Borrower shall periodically review the interest rates referred to hereinabove and make adjustments thereon in accordance with standards, as outlined in the Policy Manual.

(f) Repayments of Subsidiary Loan principal shall be deposited in ALF/CLF to provide rural credit in accordance with the Policy Manual.

(g) The Borrower shall retain in ALF/CLF, all profits from ALF/CLF operations for purposes, and in accordance with arrangements, satisfactory to the Bank.

(h) Sub-projects shall be required to observe and conform with relevant environmental laws, rules and regulations in force in the Republic of the Philippines.

(4) Procurement

(a) Goods and works under contracts estimated to cost the equivalent of \$5,000,000 or more shall be procured under procedures for international competitive bidding satisfactory to the Bank. However, procedures for limited international bidding and direct contracting may be allowed for contracts covering the procurement of goods in the following cases: (i) in modernization or expansion projects, standardized equipment or proprietary parts that are needed for compatibility with existing equipment; (ii) machinery that is available only from limited number of suppliers worldwide; and (iii) other technical reasons acceptable to the Bank. All contracts under this paragraph shall require prior approval by the Bank.

(b) Goods, services and works, other than those set out in paragraph (a) above, shall be purchased at a reasonable price following the established commercial procedures, account being taken also of other relevant factors such as: (i) in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor; (ii) in the case of services, of their quality and the competence of the parties rendering them; and (iii) in the case of works, the technical quality and the competitive cost therefor.

(5) Disbursement Eligibility

(a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of

amortization of the Sub-loan or of repayment to the Bank of the amount of the Loan to be used for the Sub-project; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain; (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before August 31, 1996.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 Part A of 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 \$10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits 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 in 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for Part A of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Part A of 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 Part A of 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.

SCHEDULE 7

Implementation Program

The Borrower shall ensure that:

1. No retailing of ALF or CLF funds is carried out through itself except for the Cooperative Experimental Pilot Plan.
 2. CLF funds which are provided initially for short term credit shall be subsequently recycled to medium and long term sub-loans.
 3. CLF is operated on commercial basis and its net profits shall be retained within CLF.
 4. The Policy Manual, as agreed with the Bank, is issued, and shall not be amended without the prior concurrence of the Bank.
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