

CONFORMED COPY

LOAN NUMBER 4658-EGT

Loan Agreement

(Higher Education Enhancement Project)

between

ARAB REPUBLIC OF EGYPT

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated: April 23, 2002

LOAN NUMBER 4658-EGT

LOAN AGREEMENT

AGREEMENT, dated April 23, 2002, between the ARAB REPUBLIC OF EGYPT (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated February 11, 2002, from the Borrower describing the objectives, policies and actions and financing plan designed to develop and promote the efficiency, relevance and quality of higher education and the Bank has

responded thereto by a letter dated February 17, 2002;

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

(C) the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower in support of the Project 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 for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (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) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(b) “Fiscal Year” and “FY” mean the twelve (12) months period corresponding to any of the Borrower’s fiscal years, which period commences on July 1 and ends on June 30 of each calendar year;

(c) “HEEPF” means the Higher Education Enhancement Project Fund to be established under Part A.1 of the Project, and thereafter maintained by the Borrower’s MOHE in accordance with the provisions of paragraph A.3 of Schedule 5 to this Agreement;

(d) “HEEPF Grants” means grants made or to be by the Borrower, through MOHE, under Part A.2 of the Project to finance Sub-projects (as this term is hereinafter defined), in accordance with eligibility criteria set forth in the HEEP Manual (as this term is hereinafter defined);

(e) “HEEP Manual” means the procedures manual, satisfactory to the Bank, dated March 10, 2002, which shall govern the carrying out of Part A.2 of the Project;

(f) “MOHE” means the Ministry of Higher Education of the Borrower or any successor thereto;

(g) “NQAC” means the National Quality Assurance Council to be established under Part A.1 of the Project, and thereafter maintained by the Borrower to ensure quality of higher education programs;

(h) "PMU" means the Project Management Unit to be maintained by the Borrower in accordance with the provisions of paragraph A.1 of Schedule 5 to this Agreement;

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

(j) "Sub-project" means a specific activity under Part A.2 of the Project whose objective is to: (i) improve quality of teaching and learning; (ii) support collaboration between private sector and post-secondary institutions; or (iii) enhance efficiency of management and administration of post-secondary institutions.

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, an amount equal to fifty million Dollars (US\$50,000,000).

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: (i) amounts paid (or if the Bank shall so agree, to be paid) by MOHE on account of expenditures under a HEEPF Grant to meet the reasonable costs of goods, works and services required for Sub-projects under Part A.2 of the Project; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the other parts of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, through MOHE, for the purposes of the Project, open and maintain in dollars a special deposit account (the Special Account) in its Central Bank, on terms and conditions satisfactory to the Bank. 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 December 31, 2007, 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 LIBOR Base Rate plus LIBOR Total Spread.

- (b) For the purposes of this Section:
- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
 - (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
 - (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
 - (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ($\frac{3}{4}$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.08. 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 2.09 The Borrower represents that it has designated its Ministry of Finance for the purpose of handling, on behalf of the Borrower, debt service payments with respect of the Loan.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, through MOHE, with due diligence and efficiency and in conformity with appropriate education, communication, coordination, management and governance practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through MOHE, carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. 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 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall, through MOHE:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the continued achievement of the objectives 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, through MOHE, maintain a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations related to the Project.

(b) The Borrower shall, through MOHE:

(i) have the records, accounts and financial statements referred to in Paragraph (a) of this Section and the records and accounts for the Special Account for each Fiscal Year audited, in accordance with auditing standards acceptable to the Bank, 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 (6) months after the end of each such year: (A) certified copies of its

financial statements referred to in paragraph (a) above for such year as so audited, and (B) an opinion on such statements, records and accounts and a 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank shall from time to time reasonably request.

Section 4.02. The Borrower shall, through MOHE, prepare and furnish to the Bank not later than 45 days after the end of the first calendar quarter, after the Effective Date and thereafter not later than 45 days after each calendar quarter, a Financial Monitoring Report for such period in a format and content acceptable to the Bank, each of which:

- (a) (i) sets forth actual and budgeted sources and applications of funds for the Project, both cumulatively and for the period covered by said report; (ii) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report; and (iii) explains the variances between actual and budgeted expenditures;
- (b) (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (ii) explains variances between the actual and previously forecast implementation targets; and
- (c) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

ARTICLE V

Termination

Section 5.01. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower

Section 6.01. The Minister of State for Foreign Affairs of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Foreign Affairs
(International Cooperation Sector)

8 Adly Street,
Cairo, Egypt

Cable address:

Ministry of Foreign Affairs,
(International Cooperation Sector)
Cairo, Arab Republic of Egypt

Facsimile:

(202) 578 9711
(202) 391 5167

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)

Facsimile:

(202) 477-6391

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

ARAB REPUBLIC OF EGYPT

By /s/ H.E. Nabil Fahmy

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Louis Sarbib

Regional Vice President
Middle East and North Africa

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in United States dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works	4,500,000	75%
(2) Goods	11,000,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 75% of other items procured locally
(3) Consultants' services and training	16,000,000	100%
(4) HEEPF Grants	12,000,000	100% of amounts disbursed by MOHE
(5) Incremental Operating Costs	1,500,000	80%
(6) Front-end fee	500,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	4,500,000	
TOTAL	50,000,000	

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 Operating Costs” means expenditures incurred by the PMU on account of office furniture and supplies, local transportation, audit and PMU staff costs, excluding salaries of officials of the Borrower.

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$250,000 equivalent each; (ii) works under contracts costing less than \$600,000 equivalent each; (iii) services of consulting firms under contracts costing less than \$100,000 equivalent each; (iv) services of individual consultants under contracts costing less than \$50,000 equivalent each; and (v) HEEPF Grants, under such terms and conditions as the Bank shall specify by notice to the Borrower’s MOHE.

SCHEDULE 2

Description of the Project

The objective of the Project is to create conditions conducive to improving the quality and efficiency of the Borrower’s higher education system through legislative reform, institutional restructuring and the establishment of independent quality assurance mechanisms and monitoring systems.

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: Reform of the overall governance and management efficiency of the higher education system

1. Provision of goods and consultants’ services to: (i) reform the legislation governing the Borrower’s higher education system; (ii) rationalize funding allocation mechanisms according to a transparent, equitable, and formula-driven approach; (iii) establish the NQAC and provide it with capacity building tools; (iv) provide training to members of higher education governing bodies and higher education administrators in management and financing practices, and in the use of technology to rationalize administrative procedures; and (v) establish and support the operation of the HEEPF.

2. Provision of HEEPF Grants to post-secondary institutions for carrying out Sub-projects.

Part B: Improvement of quality and relevance of university education

Provision of works, goods and consultants’ services for: (i) the establishment of an integrated computer and network infrastructure for the deployment of a high-speed network infrastructure; (ii) in-service training for university faculty and instructors to develop their competencies in the use and application of instructional technology in their teaching; and (iii) the installation and operationalization of an inter-university library system.

Part C: Improvement of the quality and relevance of mid-level technical education

Provision of works, goods and consultants' services for: (i) the refurbishment of old facilities to acceptable international standards and construction of new facilities; (ii) curriculum redesign and instructor training; (iii) equipment upgrading, including information technology equipment; and (iv) training for strengthened administration and management.

* * *

The Project is expected to be completed by June 30, 2007

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in United States dollars)</u>
On each February 15 and August 15 Beginning August 15, 2007 up to August 15, 2018	2,085,000
And on February 15, 2019	2,045,000

* The figures in this column represent the amount in United States dollars to be repaid,
except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods 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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$600,000 equivalent per contract, up to an aggregate amount not to exceed \$4,500,000 equivalent, and goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,100,000 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.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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

(a) With respect to each contract for: (i) goods estimated to cost the equivalent of US\$250,000 or more; (ii) the first three contracts for goods estimated to cost the equivalent of US\$100,000 or more but less than the equivalent of US\$250,000; and (iii) the first three contracts for works, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first three contracts for goods, procured under shopping procedures, estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall, through MOHE, provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall, through MOHE, provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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.

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 and January 1999 (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. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 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.

2. Quality-based Selection

Services estimated to cost less than \$100,000 equivalent per contract, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

3. 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 consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) 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.

SCHEDULE 5

Implementation Program

A. Project Implementation

1. Overall responsibility for Project management and implementation shall be vested in MOHE, which shall be assisted by the PMU. The Borrower shall, through MOHE, maintain the PMU within MOHE, with professional staff in adequate numbers whose qualifications, experience and terms of reference shall be acceptable to the Bank.

2. The functions of the PMU shall include, *inter alia*, responsibility for: (i) the procurement process and the preparation of withdrawal applications under the Project; (ii) monitoring, in accordance with indicators agreed upon with the Bank, progress in the implementation of the Project; (iii) preparation, for submission to the Bank, of annual work programs and updated procurement plans relating to the Project; (iv) budgeting, financial management and accounting; and (v) preparation, for submission to the Bank, of the reports referred to under paragraph B of this Schedule.

3. The Borrower shall, through MOHE: (i) establish HEEPF by July 1, 2004, and NQAC by July 1, 2005, with adequate resources satisfactory to the Bank and personnel in adequate numbers, whose qualifications, experience and terms of reference shall be acceptable to the Bank; (ii) ensure that HEEPF Grants under Part A.2 of the Project shall be made in accordance with eligibility criteria, requirements and other details set out in the HEEPF Manual; and (iii) review with the Bank at such intervals as the Bank may request, the HEEPF Manual, and, based on such reviews, update the same as may be agreed between the Borrower and the Bank.

B. Mid-Term Review

The Borrower shall, through MOHE:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about April 1, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2005, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3), (4) and (5) 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 works, 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 \$4,000,000 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 \$2,000,000 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 \$10,000,000.

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, through MOHE, 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’s MOHE shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall, through MOHE, 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, through MOHE, furnish to the Bank the documents and other evidence required pursuant to para-graph 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’s MOHE 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, through MOHE, out of the Special Account, the Borrower shall, through MOHE, 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's MOHE 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, 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 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.

