

CONFORMED COPY

LOAN NUMBER 2897 EC

(Financial Sector Adjustment Loan)

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 29, 1987

LOAN NUMBER 2897 EC

LOAN AGREEMENT

AGREEMENT, dated December 29, 1987, between REPUBLIC OF ECUADOR (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated July 13, 1987, from the Borrower describing a program of actions, objectives and policies designed to reform its financial sector by: (i) strengthening financial institutions; (ii) reducing the dependence of financial institutions on credit from Banco Central (as that term is hereinafter defined); and (iii) improving conditions for the development of a capital market (such program is hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports and services required during such execution; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in two equal tranches as herein-

after provided;

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 thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

(b) Section 9.07 (c) shall be modified to read:

"(c) 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 shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

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

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) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986);

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

(c) "Sucre" and "Suces" mean the currency of the Borrower;

(d) "Superintendencia" means the Borrower's Superintendencia de Bancos;

(e) "Banco Central" means Banco Central del Ecuador, the Borrower's Central Bank;

(f) "Junta Monetaria" means the Borrower's Junta Monetaria, the Monetary Board responsible for the Borrower's monetary policy;

(g) "Financial Institutions" means all of the institutions referred to in Article 17 of the Borrower's Ley General de Bancos, as amended to the date of this Agreement;

(h) "Redundant Credit Lines" means those credit lines of the Banco Central which have been identified, in the letter dated December 10, 1987, from the Banco Central to the Bank, for purposes of paragraph 9 of Schedule 4 to this Agreement;

(i) "Creditos de Estabilizacion" means any credit extended by Banco Central to Financial Institutions pursuant to the program established through Regulacion de la Junta Monetaria No. 283-85 of August 28, 1985, published in Registro Oficial No. 271 of September 13, 1985; and

(j) "Polizas Rate" means the interest payable at any time on Polizas de Acumulacion that have been issued with a 90-day maturity period, as published in Informacion Estadistica Mensual of Banco Central.

## 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 in various currencies equivalent to one hundred million dollars (\$100,000,000).

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.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in Banco Central 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 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1988, 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

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

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 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 2 to this Agreement.

Section 2.08. (a) Banco Central is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, the

Borrower hereby entrusts Banco Central with responsibility for the preparation of withdrawal applications under the Loan and for the collection of the documents and other evidence to be furnished to the Bank in support of such applications. Such withdrawal applications shall, to the extent practicable, be consolidated so as to apply for withdrawal of aggregate amounts of not less than \$5,000,000 equivalent.

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment, a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall cause the Junta Monetaria, the Banco Central and the Superintendencia to cooperate fully, and to coordinate with, each other in the carrying out of the Program, and to take all actions, including legal, administrative and regulatory actions, necessary or appropriate in the carrying out of the Program.

Section 3.04. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(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 four months after the end of each such year, a certified copy of 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, separate 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 audits 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 IV

##### Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The date of March 29, 1988 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 (a) of this Agreement, the Ministro de Finanzas y Credito Publico 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:

Ministerio de Finanzas y Credito Publico  
Avenida 10 de Agosto y George Washington  
Quito  
Ecuador

Cable address:

MINFINANZAS  
Quito, Ecuador

Telex:

2449 MINFIN ED

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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

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.

REPUBLIC OF ECUADOR

By /s/ Miguel Salazar  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain  
Regional Vice President  
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
Group	Sub-group	Description of Items
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors

897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(b) expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$20,000,000 (twenty million dollars), may be made in respect of the Project on account of payments made for expenditures before that date, but after July 10, 1987;

(d) expenditures for goods procured under contracts costing less than \$5,000 equivalent;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency shall have financed or agreed to finance;

(f) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption; and

(g) expenditures in excess of an aggregate amount equivalent to \$10,000,000 for petroleum products and foodstuffs.

3. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$50,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (a) with the progress achieved by the Borrower in the carrying out of the Program, and (b) that the actions described in Schedule 4 to this Agreement have been taken.

4. If, after the exchange of views described in paragraph 3 above, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

## SCHEDULE 2

### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 15 and August 15 beginning August 15, 1992 through August 15, 2004	3,845,000
On February 15, 2005	3,875,000

\* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	.18
More than three years but not more than six years before maturity	.35
More than six years but not more than 11 years before maturity	.65
More than 11 years but not more than 15 years before maturity	.88
More than 15 years before maturity	1.00

SCHEDULE 3

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:



"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$5,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

5. The provisions of the preceding paragraphs 3 and 4 shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

6. In addition to and without limitation on any other provisions set forth in this schedule 3 or the Guidelines, the following principles of procurement shall expressly govern all procurement of goods referred to in paragraph 1 of this Schedule:

(a) Bids for contract awards must be permitted to be submitted, at the risk of the bidder, by mail.

(b) Bids for contract awards must be required to be submitted in one single envelope, and all information contained therein must be considered simultaneously.

(c) Foreign bidders must not be required to have a local representative for purposes of submitting bids, and, after the submission of bids, may be required to have a local representative only on a case-by-case basis in light of the circumstances of each contract.

(d) Foreign bidders must be permitted to have their financial solvency certified by a foreign bank without re-certification by any Ecuadorian bank or other Ecuadorian person or entity.

(e) Bid and performance guarantees issued by foreign banks must be admissible without re-certification or other participation by any Ecuadorian bank or other Ecuadorian person or entity.

(f) Contracts must be awarded to the lowest evaluated bidder in accordance with criteria set forth in the bidding documents.

(g) Price adjustment clauses must be permitted to be included in all contracts.

(h) Letters of Credit issued to any supplier of goods must not be required to be counter-guaranteed by such supplier in whole or in part.

Actions Referred to in Paragraph 3 (b)  
of Schedule 1 to this Agreement

1. Financial Institutions shall have reduced their distributions of cash dividends to shareholders to such levels as shall enable them to meet all legal requirements with respect to loss provisioning, bad loan write-offs and capitalization.
2. The Junta Monetaria shall have issued regulations, satisfactory to the Bank, with respect to: (i) a required minimum ratio of capital to risk assets to be met by Financial Institutions; and (ii) a phase-in period of three years beginning on January 1, 1988 for purposes of applying such ratio progressively.
3. The Superintendencia shall have issued regulations, satisfactory to the Bank, restricting Financial Institutions' loan and credit transactions with groups, or any member of any group, of related persons, firms or companies; for purposes of this paragraph, the term "related" shall mean: (i) any more than 50% ownership interest of one party in another party; (ii) any form of management control exercised by one party over another, including, without limitation, holding officers' and directors' positions and interlocking directorates; (iii) any family relationships; and (iv) any affiliation between two parties by virtue of being related to a third party through any of the foregoing.
4. The Superintendencia shall have commenced implementation of a three-year program, satisfactory to the Bank, to reduce the concentration of Financial Institutions' loans or credits extended to groups, or members of groups, as described in the immediately preceding paragraph 3.
5. The Superintendencia shall have issued regulations and/or taken other adequate measures, in either case satisfactory to the Bank, to require Financial Institutions to: (i) engage external and independent auditors to review their loan portfolio and their profitability, and (ii) submit such auditors' reports to the Superintendencia.
6. Banco Central and the Superintendencia shall have, jointly, commenced the implementation of rehabilitation programs for Financial Institutions which fail to meet the capital adequacy tests and liquidity tests established by the Superintendencia, but which, in the reasonable opinion of Banco Central and the Superintendencia, offer prospects of being recapitalized.
7. The Superintendencia shall have engaged consultants to assist it and train its staff in: (i) loan portfolio inspection and classification, as well as evaluation of loss provisioning and capital adequacy; (ii) evaluation of Financial Institutions' credit risk policies, as well as their organization, procedures and methods for analyzing credit risk; (iii) utilizing information obtained from the external auditors of Financial Institutions in supervising Financial Institutions; and (iv) auditing and supervising Financial Institutions that utilize electronic data and recordkeeping procedures.
8. The Borrower shall have prepared and furnished to the Bank a study and draft legislation, both satisfactory to the Bank, for the creation of a mechanism or system to guarantee the deposits of Financial Institutions and recapitalize or otherwise rehabilitate troubled Financial Institutions.
9. Banco Central shall not have extended any new credit under the Redundant Credit Lines since the date of this Agreement.
10. The total credit outstanding from Banco Central under all credit lines (other than credit extended to the non-financial public sector) shall have declined, after taking account of inflation, by 25% as compared to such credit outstanding on December 31, 1986.

11. The minimum interest rate charged to final beneficiaries on all credit funded by Banco Central shall be no more than (i) five percentage points (5%) below the then applicable Polizas Rate or (ii) if the Polizas Rate is 20% or less, equal to the Polizas Rate.

12. The Borrower shall have established an auction market for Certificados de Tesoreria issued by the Ministry of Finance and Public Credit and/or Bonos de Estabilizacion issued by Banco Central.

13. The Junta Monetaria shall have established and published the terms of renewal for Creditos de Estabilizacion, providing, inter alia, that not more than one-half (50%) of the total amount outstanding are being refinanced and that the interest rate payable on such refinanced amounts shall be equal to the Polizas Rate.

14. Banco Central shall have caused Financial Institutions to extend all credit financed either directly or indirectly by any international financial or credit institution at a rate of interest equal to or greater than the Polizas Rate.

15. The Borrower shall have prepared and furnished to the Bank draft legislation to exempt all adjustable-rate lending from any otherwise applicable interest rate limit or restriction.

16. The Borrower shall have prepared and furnished to the Bank: (i) an action plan, satisfactory to the Bank, to implement measures designed to provide incentives and eliminate disincentives to the investment of capital as equity in business enterprises; and (ii) draft legislation, satisfactory to the Bank, to effect such action plan.

17. The macro-economic policy framework of the Borrower, including its external borrowing policy, is consistent with the Program.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$20,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. Each such deposit shall be withdrawn by the Bank from the Loan Account in the respective equivalent amounts as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) 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 paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Program, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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 any expenditure or in any 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, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account and immediate cancellation.

