

**LOAN NUMBER 4708 - BR**

# **Loan Agreement**

**(Energy Sector Technical Assistance Project)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 23, 2004**

**LOAN NUMBER 4708 -BR**

**LOAN AGREEMENT**

AGREEMENT, dated September 23, 2004, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the loan provided for in Article II of this Agreement (the Loan) 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) "ANEEL" means *Agência Nacional de Energia Elétrica*, the Borrower's regulatory agency for the power sector;

(b) "FMR" means each report referred to in Section 4.02 of this Agreement;

(c) "MME" means *Ministério de Minas e Energia*, the Borrower's Ministry of Mines and Energy;

(d) "PIU" means the unit referred to in Section 3.03 of this Agreement; and

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

## 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 this Agreement, an amount equal to twelve million one hundred twenty thousand Dollars (\$12,120,000).

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 (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of consultants' services and training activities required for the Project and to be financed out of the proceeds of the Loan, and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 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 per cent (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 single currency 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 ( $3/4$  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 the LIBOR Base Rate and the 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 in arrears on May 15 and November 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's Minister of Mines and Energy and any person or persons he or she may designate in writing are designated as representatives of the Borrower for purpose 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.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through MME, with due diligence and efficiency and in conformity with appropriate administrative, financial, regulatory and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) In carrying out any activity under the Project, the Borrower, through MME, shall seek the collaboration of any entity (including, inter alia, the Borrower's Ministry of the Environment and ANEEL) which may have a relevant interest in the carrying out of such activity, such collaboration to include, inter alia, assistance to the Borrower in the preparation of terms of reference of consultants and the formulation of training activities.

Section 3.02. Except as the Bank shall otherwise agree, procurement of 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. The Borrower shall establish and thereafter maintain during the execution of the Project a unit within MME's Executive Secretariat for purposes of coordinating and managing the carrying out of the Project, and having responsibility for all disbursement, procurement and financial management activities under the Project (the PIU), such unit to have a structure and functions satisfactory to the Bank, and qualified staff in adequate numbers as required to carry out its responsibilities under the Project.

Section 3.04. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Annex 1a of the Bank's Project Appraisal Document for the Project, the carrying out of the Project and the achievement of the objective thereof; and

(b) review with the Bank, on the 24th month after the Effective Date or when disbursements from the Loan Account have reached an amount equal to 50% of the Loan amount, whichever occurs first, the progress achieved in the carrying out of the Project during the period preceding the date of such review, based on the monitoring and evaluation activities referred to in paragraph (a) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said review.

Section 3.05. The Borrower shall:

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

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

Section 3.06. The Borrower shall, starting not later than two months after the Effective Date, and every nine-month period thereafter during the execution of the Project, exchange views with the Bank on the progress achieved by the Borrower in the implementation of the Borrower's ongoing energy sector reform program.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall establish and thereafter maintain a financial management system in the PIU, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures of the Borrower related to the Project.

(b) The Borrower shall:

- (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 months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, records, accounts and 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 financial statements, records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 (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 year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

(d) The Borrower shall ensure that the annual audit referred to in paragraph (b) of this Section also includes a review of the procurement records (as hereinafter defined) and a separate opinion by said auditors on the compliance by the Borrower with the procurement procedures set forth or referred to in Schedule 4 to this Agreement. For the purposes of this paragraph, "procurement records" means public notices for expressions of interest, requests for proposals and addenda, technical and final evaluation reports, formal appeals by firms and related outcomes, signed contracts, addenda and amendments; records on claims and dispute resolution, and records of time taken to complete key steps in the selection process of consultants.

Section 4.02. (a) The Borrower shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance acceptable to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first



calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall, not later than six months after the Effective Date, furnish to the Bank a management letter prepared by the auditors referred to in Section 4.01 (b) (i) of this Agreement commenting on the adequacy of the PIU's internal controls.

## **ARTICLE V**

### **Effectiveness; Termination**

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement, within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Borrower has established and staffed the PIU as provided in Section 3.03 of this Agreement;

(b) the financial management system referred to in Section 4.01 (a) of this Agreement has been established in a manner satisfactory to the Bank;

(c) the Borrower has furnished to the Bank terms of reference, satisfactory to the Bank, for the auditors referred to in Section 4.01 (b) (i) of this Agreement; and

(d) the Borrower has furnished to the Bank a proposed plan, satisfactory to the Bank, for the selection of consultants under the Project.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion to be furnished to the Bank, namely, that the Loan has been validly registered with the Central Bank of Brazil.

Section 5.03. The date December 23, 2004, 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 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Facsimile: (011-55-61) 412-1740

With copies to:

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

Facsimile: (011-55-61) 225-4022

Ministério de Minas e Energia  
Secretaria Executiva  
Esplanada dos Ministérios, Bloco "U" - 7º andar  
70065-900 Brasília, D.F.  
Brazil

Facsimile: (011-55-61) 319-5088

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423 (MCI) or	(202) 477-6391
Washington, D.C.	64145 (MCI)	

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 city of Brasília, Federal District, Brazil, as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By

Acting Regional Vice President  
Latin America and Caribbean

Witnessed by:

Mauricio Tiomno Tolmasquim  
Executive Secretary  
Ministry of Mines and Energy

## 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 Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services	11,500,000	84%
(2) Training	498,800	100%
(3) Front-end fee	121,200	Amount due pursuant to Section 2.04 of this Agreement
TOTAL	<u>12,120,000</u> =====	

2. For the purposes of this Schedule, the term "training" includes reasonable costs of travel and per diems of trainees, training materials, and other training related expenditures other than consultants' services.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$1,200,000, may be made on account of payments made for expenditures incurred within twelve months 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 expenditures for training, and for expenditures under contracts for consultants' services that are not subject to prior review by the Bank pursuant to Part D.2 of Schedule 4 to this Agreement, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to ensure sustainable implementation of the Borrower's ongoing energy sector reform program.

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 objective:

#### Part A: Energy Market Development and Regulation

Provision of technical assistance (including training, as required) on technical and coordination issues important for the efficiency of the energy market (including links between electricity supply and the natural gas industry, concentration of ownership in the electricity generation industry, wholesale electricity market rules, retail level electricity market competition, links between wholesale and retail electricity markets, and barriers to international power trade) and on improvement of the regulatory activities for the electric sector (including links among the relevant federal regulatory agencies, performance contracts between MME and ANEEL and possibly *Agência Nacional de Petróleo* (the Borrower's regulatory agency for the hydrocarbons sector), regulatory accounting and the electricity tariff review process).

#### Part B: Access to Energy

Provision of technical assistance (including training, as required) on matters of access and affordability of energy (electricity, liquid petroleum gas and natural gas) for poor consumers, including the development of: (a) comprehensive and consistent strategies for rural electrification, including policies and coordination of ongoing initiatives, baseline data collection, funding mechanisms, assessment and optimization of the development impacts and sustainability of the various electrification alternatives, and methodologies for monitoring and oversight of the implementation of new rural electrification programs; and (b) principles and eligibility rules to ensure that tariff discounts on electricity, liquid petroleum gas and natural gas are more effectively coordinated and better targeted towards the poor consumers on a sound economic basis.

#### Part C: Environmental Management

Provision of technical assistance (including training, as required) for mainstreaming of environmental concerns under Part D of the Project, and for complementing institutional strengthening activities under Part E of the Project, covering, inter alia, environmental licensing, environmental change and social responsibility,

assessment of issues and options in the area of climate change and environmental services, monitoring and ex-post evaluation systems for environmental and social impacts of power projects, incentives for enhanced environmental and social responsibility, and institutional realignment and capacity building of professional cadres.

Part D: Long-term Planning

Provision of technical assistance (including training, as required) for long-term planning regarding the Borrower's energy sector, covering: (a) preparation and/or updating of methodologies for expansion of the energy system, including integration of environmental and social concerns; (b) preparation and/or updating of selected inventories of river basins and feasibility of sites for electricity generation projects; and (c) the carrying out of a macro-location study on thermal plants to define the general areas in which those plants should be built, taking into account location of demand, fuel supply, land availability, and pollution issues.

Part E: Institutional Strengthening and Coordination

Provision of technical assistance (including training, as required) for: (a) the restructuring and institutional strengthening of MME, mainly in the areas of integrated planning, international energy integration, universal access to energy, energy efficiency, alternative technologies and technology utilization, mines and metallurgy, and oil and natural gas; and (b) the improvement of the institutional structures that support *Conselho Nacional de Política Energética*, the Borrower's council for energy policy, and operationalization of the *Conta de Desenvolvimento Energético*, the Borrower's energy development fund.

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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 Dollars)*</u>
On each May 15 and November 15	
beginning November 15, 2008 through November 15, 2017	605,000
on May 15, 2018	625,000

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



## **SCHEDULE 4**

### **Procurement of Consultants' Services**

#### 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Schedule.

#### Part B: Quality- and Cost-based Selection

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

#### Part C: Individual Consultants

Services of individual consultants, costing not more than \$2,000,000 equivalent in the aggregate, for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines: (a) shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; or (b) may be procured on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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

##### 1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank, for its review and approval as provided in Section 5.01 (g) of this Agreement, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 or more, the report on the comparison of the qualifications and experience of the candidates, or the qualifications and experience of the candidate in the case of sole-source selection, as well as the 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 D, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1) and (2) 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 consultants’ services and training activities 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 the amount of \$1,000,000 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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
    - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on

behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals 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.