

CONFORMED COPY

LOAN NUMBER 4271 IN

Loan Agreement

(Haryana Power Sector Restructuring Project)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated January 16, 1998

LOAN NUMBER 4271 IN

LOAN AGREEMENT

AGREEMENT, dated January 16, 1998, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated November 12, 1997, from the State of Haryana (Haryana) enclosing a detailed policy statement approved by Haryana designed to restructure, reform and develop the power sector in Haryana (hereinafter the Reform Program or Program) and declaring Haryana's commitment to the execution of such Program;

(B) the Borrower has requested that the Bank support Haryana's execution of the Reform Program through a series of loans over a period of approximately ten years to be utilized by the Borrower for assisting Haryana in implementing such Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Reform Program, has requested the Bank to assist in the financing of the Project;

(D) the Project will be carried out by the Haryana State Electricity Board with the Borrower's and Haryana's assistance; and WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower in support of the first phase of the Reform Program upon the terms and conditions set forth in this Agreement, in the Haryana Project Agreement of even date herewith between the Bank and Haryana, and the HSEB Project Agreement of even date herewith between the Bank and the Haryana State Electricity Board.

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

Section 6.03 is modified to read:

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

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) "Bill" means the Haryana State Electricity Reform Bill, 1997;
- (b) "Financial Commitment Letter" means the letter dated November 12, 1997 setting out the financial support that Haryana will provide to HSEB and its successor entities pursuant to the provisions of the Financial Restructuring Plan attached to such Letter;
- (c) "Financial Restructuring Plan" means the Plan of Haryana attached to the Financial Commitment Letter for the purpose of ensuring that HSEB and its successor entities achieve the financial and operational targets set out in such Plan;
- (d) "Fiscal Year" and "FY" mean the Fiscal Year of the Borrower, Haryana or HSEB beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;
- (e) "Haryana" means the State of Haryana, a State of India, and includes any successor thereto;
- (f) "Haryana Project Agreement" means the agreement between the Bank and State of Haryana of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Haryana Project Agreement;
- (g) "HSEB Project Agreement" means the agreement between the Bank and HSEB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the HSEB Project Agreement;

(h) "HSEB" means the Haryana State Electricity Board established under the provisions of the Electricity (Supply) Act, 1948, of India as amended to the date of this Agreement;

(i) "Indian Rupee" and "Rs" mean the currency of the Borrower;

(j) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated November 3, 1993 between the Borrower and the Bank as amended on December 19, 1996 and on October 1, 1997;

(k) "Resettlement Action Plan" means the plan dated November 13, 1997, prepared by HSEB, and found satisfactory by the Bank for dealing with the resettlement and rehabilitation of people resulting from the implementation of the Project;

(l) "Social Policies and Procedures" means the Social Policies and Procedures dated November 6, 1997, prepared by HSEB, and found satisfactory by the Bank, for dealing with the social and land acquisition aspects of the Project;

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

(n) "Subsidiary Loan Agreement" means the agreement to be entered into between Haryana and HSEB pursuant to Section 2.02 of the Haryana Project Agreement, as the same may be amended from time to time, and such terms includes all schedules to the Subsidiary Loan 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 the Loan Agreement, an amount equal to sixty million dollars (\$60,000,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Reserve Bank of India 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.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 2000 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to 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) "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) one half of one percent (1/2 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 2.05, 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 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 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Haryana to ensure that HSEB carries out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and technical practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable HSEB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Haryana in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

(c) The Borrower shall release to Haryana funds equivalent to the amounts withdrawn by the Borrower from the Loan Account including those deposited in the Special Account, immediately after such withdrawal in accordance with the Borrower's standard arrangements for release of such funds to the States of India.

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. The Borrower and the Bank hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by HSEB pursuant to Section 2.04 of the HSEB Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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) 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; and

(b) The Borrower shall:

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

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

ARTICLE V

Remedies of the Bank

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

(a) Haryana shall have failed to perform any of its obligations under the Haryana Project Agreement.

(b) HSEB shall have failed to perform any of its obligations under the HSEB Project Agreement.

(c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Haryana or HSEB will be able to perform their respective obligations under the Haryana Project Agreement and the HSEB Project Agreement.

(d) An event shall have occurred which shall make it improbable that the Reform Program or a significant part thereof will be carried out.

(e) The Bill shall not have become an Act (hereinafter the Act) and declared effective by July 1, 1998.

(f) Haryana shall have failed to publish, make effective and implement under the Act by September 30, 1998, a scheme, satisfactory to the Bank, for transferring the property, interest in property, rights and liabilities of HSEB, and the personnel of HSEB, to new generation and transmission, including distribution companies.

(g) The companies referred to in paragraph (f) of this Section 5.01 shall have failed to assume the obligations of HSEB under the HSEB Project Agreement and undertake such additional obligations for implementing the Project satisfactory to the Bank.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement with the meaning of Section 12.01 (c) of the General Conditions, namely that the Subsidiary Loan Agreement has been executed on behalf of Haryana and HSEB.

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

(a) that the Haryana Project Agreement has been duly authorized or ratified by Haryana and is legally binding upon Haryana in accordance with its terms;

(b) that the HSEB Project Agreement has been duly authorized or ratified by HSEB and, and is legally binding upon HSEB in accordance with its terms; and

(c) that the Subsidiary Loan Agreement has been duly authorized or ratified by Haryana and HSEB and is legally binding upon Haryana and HSEB in accordance with its terms.

Section 6.03. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purpose of Section 11.03 of the General Conditions.

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

For the Borrower:

Secretary to the Government of India
Department of Economic Affairs Ministry of Finance
New Delhi, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-31-66175 FINE IN
953-31-61430 FINE IN

For the Bank:

International Bank for Reconstruction and Development

1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
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 District of Columbia, United States of America, as of the day and year first above written.

INDIA

By /s/ Sudhakar Rao

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Mieko Nishimizu

Regional Vice President
South Asia

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:

TABLE WAS DONE IN COLUMN FORMAT

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; and

(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.

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: (a) goods and works under contracts not exceeding \$200,000 equivalent and \$500,000 equivalent respectively, under such terms and conditions as the Bank shall specify by notice to the Borrower; and (b) services under contract not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants 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 assist Haryana in implementing the first phase of its Reform Program and to address the most critical bottlenecks of the power system.

The Project, which forms part of the Program, 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: Emergency Investment Measures

1. Construction of critically needed high voltage evacuation lines and transmission lines and sub-stations to evacuate power from: (i) the Nathpa Jhakri Hydro-electric Project, (ii) the Faridabad NTPC has based Power Project; and (iii) liquid-fuel based power stations.

2. Rehabilitation and upgrading of about 24 substations and about 50 feeders in the subtransmission and distribution systems and the provision of equipment and materials for the subtransmission and distribution systems.

Part B: Improvement of Commercial and Technical Services

Carrying out a program to enhance the efficiency and quality of technical services to the consumers in selected locations consisting of: (i) the introduction of decentralized computerized billing systems at about 20 sub-divisional offices through the provision of consultants' services and equipment; and (ii) the rehabilitation of complaint centers at all district headquarters, and operation division headquarters, and the establishment of improved complaint registering system through, inter alia, the provision of communications equipment, vehicles and materials.

Part C: Technical Assistance

Developing capabilities of the new institutions that will emerge from the restructuring of the power sector, including a regulatory commission and new power utilities, for implementing the Reform Program and the investment measures through the provision of technical assistance and engineering services.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
September 15, 2003	1,255,000
March 15, 2004	1,295,000
September 15, 2004	1,330,000
March 15, 2005	1,375,000
September 15, 2005	1,415,000
March 15, 2006	1,455,000
September 15, 2006	1,500,000
March 15, 2007	1,545,000
September 15, 2007	1,595,000
March 15, 2008	1,640,000
September 15, 2008	1,690,000
March 15, 2009	1,745,000
September 15, 2009	1,795,000
March 15, 2010	1,850,000
September 15, 2010	1,905,000
March 15, 2011	1,965,000
September 15, 2011	2,025,000
March 15, 2012	2,085,000
September 15, 2012	2,150,000

March 15, 2013	2,215,000
September 15, 2013	2,280,000
March 15, 2014	2,350,000
September 15, 2014	2,420,000
March 15, 2015	2,495,000
September 15, 2015	2,570,000
March 15, 2016	2,645,000
September 15, 2016	2,725,000
March 15, 2017	2,810,000
September 15, 2017	2,895,000
March 15, 2018	2,980,000

* 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

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 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B. Preference for Domestically Manufactured Goods and Domestic Contractors The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Communication systems, poles, safety kits and erection and rehabilitation works in the distribution network (feeders and substations); and

(b) goods and works (other than those in paragraph (a) of this Part C.1) estimated to cost less than \$200,000 and \$5,000,000 equivalent per contract respectively, up to an aggregate amount not to exceed the equivalent of \$5,000,000 for goods and \$10,000,000 for works, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 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 prequalify for bidding or to bid for

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

2. Prior Review

With respect to each contract for civil works estimated to cost the equivalent of \$500,000 or more and each contract for goods estimated to cost the equivalent by \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. 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.

2. The following provisions shall apply to consultants services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Part C of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$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 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$8,000,000.

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

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

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

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

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

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

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

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

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

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

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

