

Loan Agreement  
(Itaparica Resettlement and Irrigation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

CENTRAIS ELETRICAS BRASILEIRAS S.A. - ELETROBRAS

Dated December 7, 1987

=LOAN NUMBER 2883 BR

LOAN AGREEMENT

Agreement, dated December 7, 1987, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CENTRAIS ELETRICAS BRASILEIRAS S.A. - ELETROBRAS (the Borrower).

WHEREAS (A) The Federative Republic of Brazil (the Guarantor), the Borrower and Companhia Hidro Eletrica do Sao Francisco (CHESF), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Project will be carried out by CHESF with the Borrower's assistance and, as part of such assistance, the Borrower will make available to CHESF the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and CHESF;

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 last sentence of Section 3.02 deleted (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 for and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Bank and CHESF 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 Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and CHESF pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and "Subsidiary Loan" means the loan provided for under the Subsidiary Loan Agreement;

(c) "CESA and FESA accounts" means the accounts referred to in Section 2.02 (b) and (c) of this Agreement;

(d) "CESA" means the local expenditures special account to be opened pursuant to Section 2.02 (b) of this Agreement;

(e) "FESA" means the foreign exchange expenditures special account to be opened pursuant to Section 2.02 (c) of this Agreement;

(f) "Account Bank" means the Central Bank in respect of CESA and the Bank referred to in Section 2.02 (c) of this Agreement in respect of FESA;

(g) "Central Bank" means Banco Central do Brasil;

(h) "cruzado" means the currency of the Guarantor;

(i) "ELETROBRAS estatutos" means the by-laws of the Borrower as approved by Decreto No. 81531 of April 10, 1978 of the Guarantor as amended as of the date of this Agreement;

(j) "CHESF's Estatutos" means the by-laws of CHESF as approved by Decreto-Lei No. 8,031 of October 3, 1945 of the Guarantor, as amended as of the date of this Agreement;

(k) "CODEVASF" means Companhia de Desenvolvimento do Vale do Sao Francisco;

(l) "FUNAI" means Fundacao Nacional do Indio;

(m) "Implementation Agreement" means the agreement to be entered into between CHESF and FUNAI pursuant to Section 2.06 (a) of the Project Agreement and the CODEVASF Agreement;

(n) "CODEVASF Agreement" means the agreement entered into between CHESF and CODEVASF on June 19, 1987 and published in the Official Gazette on September 30, 1987;

(o) "1984-1988 Investment Plan" means the Guarantor's electric power, sector investment plan for years 1984 through 1988, as such plan may be annually amended as provided in Section 3.01 (b) of the Guarantee Agreement;

(p) "Five-Year Investment Program" means the five-year investment program for the Guarantor's Electric Power Sector to be prepared each year by the Guarantor pursuant to the provisions of Section 3.01 (b) of the Guarantee

Agreement;

(q) "Electric Power Sector Companies" means all federal and state entities operating in the generation, transmission and distribution of electricity in Brazil other than Itaipu Binacional; and

(r) "Global Guarantee Fund" means the Reserva Global de Garantia established by Article 4 of Lei No. 5,655 of May 20 1971, as amended by Decreto-Lei No. 1,383 of December 26, 1974 and Decreto-Lei No. 1.849 of January 13, 1981, all of the Guarantor, to supplement, when necessary, the revenues from the sale of electricity obtained by electric power companies in Brazil, in order to ensure their economic and financial equilibrium.

## ARTICLE 11

### 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 and thirty two million dollars (\$132,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule I 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 shall, for the purposes of the Project, open and thereafter maintain in the Central Bank an account in dollars on terms and conditions satisfactory to the Bank. Disbursement out of this account (hereinafter called CESA) shall be made exclusively to meet expenditures in cruzados incurred in respect of the reasonable cost of goods and services required to carry out the Project and to be financed by the Bank pursuant to paragraph (a) above.

(c) The Borrower shall, for the purposes of the Project, open and thereafter maintain in a bank, acceptable to the Central Bank and the Bank, an account in dollars on terms and conditions satisfactory to the Bank. Disbursements out of this account (hereinafter called FESA) shall be made exclusively to meet expenditures in currencies other than cruzados incurred in respect of the reasonable cost of goods and services required to carry out the Project and to be financed by the Bank pursuant to paragraph (a) above.

(d) Deposits into, and payments out of, CESA and FESA shall be made in accordance with the provisions of Schedule 4 to this Agreement. The Borrower shall cause the Account Bank to furnish to the Bank each month certified statements of CESA and FESA.

Section 2.03. The Closing Date shall be June 30, 1994 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (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 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 Guarantor and the Borrower of 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 January 15 and July 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 the Loan Agreement, shall cause CHESF to perform, in accordance with the provisions of the Project Agreement, all the obligations of CHESF therein set forth, shall take or cause to be taken in a timely manner all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CHESF 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 relend the proceeds of the Loan to CHESF, under a subsidiary loan agreement satisfactory to the Bank, between the Borrower and CHESF, which shall include, inter alia, the financial terms and conditions set forth, in respect of the Loan, in Sections 2.04 through 2.07 of this Agreement, but including a service fee to be paid by CHESF to the Borrower at a rate of 0.5% per annum on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time;

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

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 I to the Project Agreement.

Section 3.03. The Bank and the Borrower 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 CHESF pursuant to Section 2.03 of the Project Agreement.

### ARTICLE IV

#### Management and Operations of the Borrower

Section 4.01. The Borrower shall at all times maintain its corporate existence and right to carry out its operations, and shall take all steps necessary to acquire, maintain and renew all rights, cowers and privileges which are necessary or useful in the conduct of its business.

Section 4.02. The Borrower shall carry on its operations and conduct its affairs, maintain its financial position and plan its future expansion, all in accordance with sound administrative, financial, and public utility practices and under the supervision of qualified and experienced management assisted by competent

staff in adequate numbers.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

#### ARTICLE V

##### Financial and Other Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall: (i) have its records, accounts (including the CESA and FESA) and financial statements (balance sheets, statements of income and expenses and related statements) 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, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 5.02. Without limitation or restriction upon the Provisions of Section 3.01 (a) of this Agreement, the Borrower specifically undertakes, whenever there is reasonable cause to believe that the funds available to CHESF will be inadequate to meet the estimated expenditures required for carrying, out the Project, to make arrangements, satisfactory to the Bank, promptly to provide or cause CHESF to be provided with such funds as are needed to meet such expenditures.

Section 5.03. At least until the Closing Date the Borrower shall:

(a) reinvest in capital stock of CHESF all dividends paid to the Borrower by CHESF;

(b) provide, or cause to be provided, to CHESF adequate resources necessary to allow CHESF to meet the financial undertakings set forth in the Project Agreement and the financial ratios set forth in Sections 4.04 and 4.05 thereof; and

(c) not later than November 30 of each year, review with the Bank and CHESF, the financial requirement of CHESF for the following year and the measures to be taken in order to meet such requirements.

Section 5.04. Not later than November 30 of each year, the Borrower shall review, together with the Guarantor and the Bank, the portion of the Five-Year Investment Program to be carried out during the following year, such review to include the specific financial requirements for the execution of such plan as well as the electric power sector's overall financial situation and related proposed tariff action and other financial measures.

#### ARTICLE VI

##### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

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

(b) 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 CHESF will be able to perform its obligations under the Project Agreement.

(c) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or CHESF or for the suspension of its operations.

(d) A change in ELETROBRAS's Estatutos shall have been made, which shall materially affect the operations or the financial condition of the Borrower.

(e) A change in CHESF's Estatutos shall have been made, which shall materially and adversely affect the operations or the financial condition of CHESF.

(f) CODEVASF or FUNAI shall have failed to perform their respective obligations under their respective Implementation Agreement.

(g) A change in the legislation of the Guarantor shall have occurred which shall materially and adversely alter the carrying on of CHESF's business or the setting or adjustment of CHESF's rates for the sale of electricity at such levels as shall be necessary to provide CHESF with revenues sufficient to ensure the continued operation of its business in accordance with appropriate financial and public utility practices; provided, however, that to the extent that such revenues shall not be sufficient for that purpose, transfer of funds from the Global Guarantee Fund may be made by the Guarantor to CHESF in order to supplement such revenues.

For the purpose of this paragraph, the term "change in the legislation of the Guarantor" shall mean any change (including, but without limitation, any amendment or repeal of, or failure to carry out or enforce, any such legislation) in the entire body of legislation of the Guarantor (including, but without limitation, all constitutional provisions, statutes, laws, decree-laws, executive decrees and regulations and any other legal provisions of a similar nature) directly or indirectly relating to the carrying on of CHESF's business and the determination and adjustment of CHESF's rates for the sale of electricity.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraphs (a) or (f) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in Paragraphs (c), (d), (e) and (g) of Section 6.01 of this Agreement shall occur.

## ARTICLE VII

### Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and CHESF;

(b) CHESF shall be in possession, with utilization rights, of all the land required for the Project;

(c) the Loan Agreement has been duly registered by the Central Bank; and

(d) CHESF shall have selected firms with qualifications satisfactory to the Bank, to be asked to present proposals for the provision of the services referred to in Part A.2 of the Project.

Section 7.02. 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 Project Agreement has been duly authorized or ratified by CHESF, and is legally binding upon CHESF in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and CHESF and is legally binding upon the Borrower and CHESF in accordance with its terms;

(c) that CHESF shall be in possession, with utilization rights, of the land required for the Project as referred to in Section 7.01 (b) of this Agreement; and

(d) that the Loan Agreement has been duly registered by the Central Bank.

Section 7.03. The date \_\_\_\_\_ is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VIII

##### Addresses

Section 8.01. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

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

For the Borrower:

Centrais Eletricas Brasileiras S.A. - ELETROBRAS  
Av. Presidente Vargas, 642-10 Andar  
Caixa Postal 1639  
20079 Rio de Janeiro, R.J.  
Brazil

Cable address:

ELETROBRAS  
Rio de Janeiro

Telex:

391 2136674

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain

Regional Vice President  
Latin America and the Caribbean

CENTRAIS ELETRICAS BRASILEIRAS S.A. -  
ELETROBRAS

By /s/ Jose Carlos Aleluia Costa

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil Works	44,000,000	28%
(2) Goods	71,000,000	100% of foreign expenditures and 100% of local expenditures (ex- factory cost)
(3) Consultants' Services	7,000,000	75%
(4) Unallocated	10,000,000	
TOTAL	32,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the cruzados or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph I 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 the equivalent of \$13,000,000, may be made on account of payments made for expenditures before that date but after June 15, 1987.

SCHEDULE 2

Description of the Project

The objectives of the Project are to maintain and improve the living standards of the population to be displaced by the flooding of the reservoir of the Itaparica Dam on the Sao Francisco river.

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

Part A: Rural Resettlement

1. Irrigation Subprojects:



Resettlement of: (a) about 2,400 families (including the Tuxa Amerindian communities) to the area around the future Itaparica Reservoir; (b) about 2,900 families to the areas of the three new irrigation schemes to be constructed under Part A.1 (ii) hereof, including:

(i) Itaparica Reservoir area: design and construction of pumping stations and water distribution networks for 7,900 hectares around the future Itaparica Reservoir both in the State of Bahia's and the State of Pernambuco's banks of the Sao Francisco river.

(ii) Irrigation Schemes

(A) Brigida (State of Pernambuco): installation of a pumping station on the Sao Francisco river, a main canal, a secondary distribution network and a surface drainage, and feeder road network to provide irrigation for about 1,500 hectares.

(B) Pedra Branca (State of Bahia): Installation of a pumping station on the Sao Francisco river, a main canal, a second pumping station to deliver water to two sub-areas of the scheme, and several small pumping stations and distribution networks, compensation reservoirs and surface drainage and road networks to provide irrigation for about 2,700 hectares.

(C) Caraiabas-P.G. (State of Pernambuco): Installation of a pumping station on the Sao Francisco river and several smaller pumping stations along the main canal, a distribution network, reservoirs and surface drainage and road networks to provide irrigation for about 5,600 hectares.

2. Agricultural Production and Social Support

(a) Provision of consultants' services for the overall management of the irrigation areas included in Part A.1 of the Project, the coordination of operation and maintenance of the irrigation schemes included therein, the Provision of organizational support to farmers' associations and on-farm technical assistance to farmers and social services for farmers.

(b) Provision of technical assistance to CHESF for supervision of the consultants' services to be provided under 2 (a) above.

3. Rural Housing

Construction of rural housing grouped in about 123 small villages (agrovilas), each house consisting of: (i) a one-bedroom dwelling unit of about 45 square meters of total surface area for non-property owners; and (ii) a unit not exceeding 65 square meters of total surface area for property owners.

4. Water Supply

Installation of water supply and treatment systems for the agrovilas.

5. Road System

(a) Improvement of about 170 km of 5-meter-wide gravel-surfaced rural roads.

(b) Construction of about 1,400 km of 5-meter-wide gravel-surfaced roads.

6. Electric Power System

Primary power supply system:

(a) installation of about 133 kilometers of electrical transmission lines of 69 kilovolts;

(b) construction of 6 electrical substations to service the area of the

irrigation schemes included in Part A.1 of the Project; and

(c) installation of house connections.

7. Education, Health and Social Services

(a) Construction and acquisition of equipment and supplies for about 59 schools and 8 health posts; and

(b) training of teachers and health professionals.

Part B: Urban Resettlement

Relocation of four towns: Petrolandia and Itacuruba in the State of Pernambuco, and Rodelas and Barra do Tarrachil in the State of Bahia, including:

1. Construction of roads, water supply, electricity and sewerage systems;
2. Provision of serviced plots and building materials and construction of new houses for the resettled population;
3. Construction of public buildings for health, education, post and telecommunications and police services, cemeteries, slaughterhouses, markets, and ancillary public services;
4. Provision of serviced plots for commercial use; and
5. Construction of churches and ancillary facilities, community halls, libraries, public squares, parks, sports facilities, and the planting of trees alongside all new urban roads.
6. Road System

Construction of a 20-km double-surface-treatment road linking the Itaparica Dam with the new town of Petrolandia, an 11.4-km double-surface-treatment road providing access to the new town of Itacuruba and a 106-km gravel-surfaced road with a protective asphalt coating linking the Itaparica dam with the new town of Barra de Tarrachil.

7. Electric Power System

Installation of electrical house connections for residential and commercial properties.

8. Water Supply and Sewerage

Construction and installation of water supply and sewerage systems in each of the new towns.

Part C: Fisheries Research

Provision of consultants' services to review and monitor the biological potential of the Itaparica reservoir.

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15	
beginning July 15, 1991	
through January 15, 2003	5,500,000

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\* 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 multiplied on the Loan on the day of prepayment by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

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

(c) the term "Authorized Allocation" means: (i) in respect of CESA, initially an amount equivalent to \$40,000,000 to be withdrawn from the Loan Account and deposited in the CESA pursuant to paragraph 3 (a) of this Schedule until the aggregate of the amounts so withdrawn reaches such equivalent amount, and \$17,000,000 equivalent thereafter; and (ii) in respect of FESA, an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited in the FESA pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of CESA or FESA, as the case may be, shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule. The Account Bank shall authorize withdrawals from the CESA or FESA, as the case may be, on the basis of the evidence that the Bank shall have reasonably determined. For each such withdrawal so authorized, the Account Bank shall debit or cause to be debited CESA or FESA, as the case may be, with the dollar equivalent of the amount of the eligible expenditures in question in cruzados, in the case of CESA, or with the actual dollar amount or the dollar equivalent of the eligible expenditures in currencies other than dollars or cruzados, in the case of FESA.

3. After the Bank has received evidence satisfactory to it that CESA and FESA have been duly opened, withdrawals of the corresponding Authorized Allocation and subsequent withdrawals to replenish CESA or FESA, as the case may be, 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 corresponding Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in CESA or FESA, as the case may be, such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of CESA or FESA, as the case may be, 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 CESA or FESA, as the case may be, such amounts as shall be required to replenish CESA or FESA, as the case may be, with amounts not exceeding the amount of payments made out of CESA or FESA, as the case may be, 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 the evidence supporting the request for such deposit furnished pursuant to paragraph II of this Schedule.

4. For each payment made by the Borrower out of CESA or FESA, as the case may be, 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, the Bank may deny any request for a further deposit into CESA or FESA 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 Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 Project, 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 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 CESA or FESA, as the case may be, 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 CESA or FESA (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 pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into CESA or FESA, as the case may be, (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 CESA or FESA 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 CESA or FESA 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, provided, however, that in the event that any amount outstanding in either CESA or FESA could be utilized to cover eligible expenditures under the other special account, the Bank may, upon request of the Borrower, authorize the transfer of such outstanding amount to the special account where the eligible expenditures could be financed.

