

LOAN NUMBER 3162 EC

Loan Agreement
(Fourth Small Scale Enterprise Project)

between

REPUBLIC OF ECUADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated, March 29, 1990

LOAN NUMBER 3162 EC

LOAN AGREEMENT

AGREEMENT, dated March 29, 1990, between the REPUBLIC OF ECUADOR (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

of Part A of the Project;

(B) the Project will be carried out by CORPORACION FINANCIERA NACIONAL (CFN) with the participation of BANCO CENTRAL DEL ECUADOR, the Borrower's Central Bank (BCE) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to CFN the proceeds of the Loan as provided for 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;

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 (the General Conditions) with the modifications set forth, in Schedule 4 to this Agreement 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) "FOPINAR" means Fondo de Fomento para la Pequena Industria y la Artesania, a fund for small scale industry and artisan development established by CFN pursuant to title VI of the Ley Constitutiva de la Corporacion Financiera Nacional (as hereinafter defined) and owned and operated by CEN;

(b) "Technical Cooperation Committee" means the committee to be strengthened and expanded pursuant to Section 2.07 of the Project Agreement;

(c) "Financial Intermediary" means the Borrower's Banco Nacional de Fomento or any commercial bank or private finance company legally established and operating in the territory of the Borrower, which is in good standing with the Borrower's Superintendency of Banks and has been accepted by the Bank for the purposes of participating in the Project;

(d) "Investment Enterprise" means an enterprise engaged in, or to be established for the purposes of engaging in, manufacturing (including agro-industries), industry-related services, tourism or fisheries whose fixed assets, excluding land and buildings, are less than the equivalent of \$200,000 (or such other amount as CFN and the Bank shall agree) and to which a Financial Intermediary proposes to make or has made a Subloan;

(e) "Ley Constitutiva de la Corporacion Financiera Nacional" means Supreme Decree No. 2062 of the Borrower, dated December 20, 1977, which established CFN, as amended to the date of this Agreement;

(f) "FOPINAR's Statement of Policy and Operating Procedures" means the statement of policy and the operating procedures for FOPINAR approved by the Board of Directors of CFN on May 29, 1980, as amended to the date of this Agreement;

(g) "Prior Loan Agreement" means the Loan Agreement (Third Small Scale Enterprise Credit Project) between the Borrower and the Bank, dated April 10, 1986, as amended to the date of this

Agreement;

(h) "Prior Project Agreement" means the Project Agreement (Third Small Scale Enterprise Credit Project) between the Bank and CFN, dated April 10, 1986, as amended to the date of this Agreement;

(i) "Project Agreement" means the agreement of even date herewith between the Bank and CFN, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(j) "Subsidiary Loan Agreement" means the Agreement to be entered into by the Borrower, acting through BCE, with CFN pursuant to Section 3.01 (b) of this Agreement;

(k) "Participation Agreement" means an agreement to be entered into by CFN with a Financial Intermediary pursuant to Section 2.03 (a) of the Project Agreement;

(l) "Subsidiary Loan" means the loan provided for in the Subsidiary Loan Agreement;

(a) "FOPINAR Loan" means a loan made, or proposed to be made, to a Financial Intermediary by CFN, under a Participation Agreement financed partially out of the proceeds of the Subsidiary Loan;

(n) "Subloan" means a loan made, or proposed to be made, to an Investment Enterprise for an Investment Project (as hereinafter defined) by a Financial Intermediary financed exclusively out of the proceeds of a FOPINAR Loan;

(o) "Free-limit SubLoan" means a Subloan, as so defined, which qualifies as a free-limit Subloan pursuant to the provisions of paragraph 2 (b) of Section I of Schedule I to the Project Agreement;

(p) "Investment Project" means a specific project to establish an Investment Enterprise or to increase or improve the physical resources or productivity of an existing Investment Enterprise, including, without limitation, acquisition and utilization of fixed assets and provision of permanent working capital and technical assistance, as required by, or for, such Investment Enterprise to carry out such specific project, and which is financed under a Subloan and, if required, by a loan to be made by the Financial Intermediary in accordance with the provisions of Section 2.03 (a) (iii) of the Project Agreement;

(q) "Project Account" means the subaccount to be maintained by CFN in BCE for purposes of the Project pursuant to Section 2.08 (a) of the Project Agreement;

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

(s) "Fiscal Year" means the fiscal year of CFN which currently commences on January 1 in each year; and

(t) "Sucre" means the currency of the Borrower.

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, various currencies that shall have an aggregate value equivalent to

the amount of fifty million dollars (\$50,000,000), being the sum of withdrawals of the proceeds of the Loan with each withdrawal valued by the Bank as of the date of such withdrawal.

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 amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Subloan to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars an account (the Special Account) in BCE on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be applicable 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.

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

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 CFN to perform in accordance with the provisions of the Project Agreement all the obligations of CFN therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CFN 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, through BCE, relend the proceeds of the Loan to CFN under an agreement (the Subsidiary Loan Agreement) to be entered into between the Borrower and CFN, under terms and conditions which shall have been approved by the Bank and which shall include, inter alia, the following:

- (i) the Subsidiary Loan shall be denominated and repayable in Sucres;
- (ii) the principal amount of the Subsidiary Loan shall be repayable in line with the Amortization Schedule set forth in Schedule 3 to this Agreement;
- (iii) interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time shall be payable on the dates specified in Section 2.06 of this Agreement at a rate per annum equal to the rate payable by the Borrower to the Bank under Section 2.05 of this Agreement;

- (iv) the commitment charge on the principal amount of the Subsidiary Loan not withdrawn from time to time shall be payable on the dates specified in Section 2.06 of this Agreement at a rate per annum equal to the rate payable by the Borrower to the Bank under Section 2.04 of this Agreement;
- (v) the proceeds of the Subsidiary Loan shall be deposited in FOPINAR and utilized by CFN exclusively for the purposes of the carrying out of Part A of the Project; and
- (vi) BCE shall act as the agent of CFN for the collection of payments to be made to CFN under FOPINAR Loans for which service BCE shall charge CFN a fee equivalent to one eighth of one percent per annum of the principal amount of each FOPINAR Loan.

(c) The Borrower shall, through BCE, 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.

(d) The Borrower shall not, without the prior agreement of the Bank, suspend or terminate the right of CFN to have access to the proceeds of the Subsidiary Loan, or declare the principal amount of the Subsidiary Loan due and payable prior to the agreed maturity, unless:

- (i) the right of the Borrower to withdraw the proceeds of the Loan shall have been suspended or terminated by the Bank;
- (ii) the Bank shall have declared the principal amount of the Loan relent to CFN to be due and payable immediately; or
- (iii) a default shall have occurred in the due and punctual payment of any monies payable by CFN to the Borrower and such default shall continue for thirty days after notice thereof shall have been given by the Borrower to CFN.

(e) The Borrower shall bear any losses occasioned by changes in the rate of exchange between Sucres and the currency or currencies in which payments by the Borrower to the Bank will be made under this Agreement.

Section 3.02. (a) The Borrower shall enter into contractual arrangements with BCE as financial agent for the Borrower, under terms and conditions satisfactory to the Bank, providing. inter alia, for:

- (i) the relending to CFN of the proceeds of the Loan under the Subsidiary Loan Agreement in accordance with the provisions of this Agreement; and
- (ii) the organizational arrangements, and provision of adequate staff, resources and facilities, to be made by BCE for purposes of the Project.

(b) The Borrower shall exercise its rights under such contractual arrangements 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, not assign, amend, abrogate or waive such contractual arrangements or any provision thereof.

Section 3.04. Except as the Bank shall otherwise agree, procurement of 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 3 to the Project Agreement.

Section 3.05. 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) in respect of the Project shall be carried out by CFN pursuant to Section 2.11 of the Project Agreement.

Section 3.06. The provisions of Section I of Schedule 1 to the Project Agreement and of Schedule 2 to the Project Agreement shall, as of the Effective Date, be deemed to supersede the provisions of the Prior Loan Agreement related to interest rates applicable to Subloans only in respect of all Subloans approved after the Effective Date under the Prior Loan Agreement and, for purposes of this Section, the term 'Subloans' has the same meaning as in the Prior Loan Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall cause BCE to:

(a) maintain adequate records for the Special Account and furnish to the Bank as soon as available, but in any case not later than two weeks after the end of each month, certified statements of the Special Account for such month;

(b) have the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(c) furnish to the Bank as soon as available, but in any case not later than four 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; and

(d) furnish to the Bank such other information concerning such records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. The Borrower shall ensure that the rates of interest applicable to the withdrawn and outstanding balance of the principal of Subloans and Sector Loans (as defined in Schedule 2 to the Project Agreement) shall be those referred to in Schedule 1, Section I, 1 (c) and Schedule 2 to the Project Agreement.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (h) of the General

Conditions, the following additional events are specified:

(a) a change shall have been made in the Ley Constitutiva de la Corporacion Financiera Nacional which would, in the opinion of the Bank, materially and adversely affect the financial condition or operations of CFN or of FOPINAR;

(b) the Borrower, CFN or any other authority having jurisdiction shall have taken any action for the dissolution, liquidation or disestablishment of CFN or for the suspension of its operations;

(c) FOPINAR shall have ceased to be operated by CFN or a change shall have been made in the administration of FOPINAR which would, in the opinion of the Bank, materially and adversely affect the financial condition or operations of FOPINAR;

(d) a subsidiary or any other entity shall have been created or acquired or taken over by CFN, if such creation, acquisition or taking over would adversely affect the conduct of FOPINAR's business or FOPINAR's financial condition or the efficiency of CEN's management of FOPINAR and of personnel assigned to FOPINAR or would adversely affect the carrying out of the Project;

(e) FOPINAR's Statement of Policy and Operating Procedures shall have been amended, suspended, abrogated, waived or not enforced, without the Bank's prior consent;

(f) BCE shall have failed to perform any of its obligations under the contractual arrangements referred to in Section 3.02 (a) of this Agreement;

(g) CFN shall have failed to perform any of its obligations under the Project Agreement or the Subsidiary Loan Agreement;

(h) any part of the principal amount of any loan to CFN having an original maturity of one year or more in accordance with its terms, shall have become due and payable in advance of maturity as provided in the relevant contractual instruments, or any security for any such loan shall have become enforceable;

(i) CFN shall have been unable to pay its debts as they mature or any action or proceeding shall have been taken by CFN or by others whereby any of the property of CFN shall or may be distributed among its creditors;

(j) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that CFN will be able to perform its obligations under the Project Agreement;

(k) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that BCE will be able to perform its obligations under the contractual arrangements referred to in Section 3.02 (a) of this Agreement; and

(l) the CD Rate (as defined in Schedule 2 to the Project Agreement) shall cease to be, in the Bank's opinion, a freely determined rate.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraph (a), (b), (c), (d) or (e) of Section 5.01 of this Agreement shall occur; and

(b) any of the events specified in paragraph (f), (g), (h) or (i) of Section 5.01 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 CFN.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 and BCE have entered into the contractual arrangements referred to in Section 3.02 (a) of this Agreement;

(b) the Subsidiary Loan Agreement has been entered into by the Borrower, acting through BCE, and CFN;

(c) CFN has strengthened and expanded the Technical Cooperation Committee in accordance with the provisions of Section 2.07 of the Project Agreement, and has appointed therein the representatives from the private and public sector referred to in such Section;

(d) CFN has employed or assigned to the satisfaction of the Bank, a core team responsible for the implementation of Part B of the Project;

(e) CFN has entered into Participation Agreements with the Borrower's Banco Nacional de Fomento and with at least two other Financial Intermediaries pursuant to Section 2.03 (a) of the Project Agreement; and

(f) CFN's Board of Directors shall have issued a resolution setting forth the debt-servicing scheme referred to in Schedule 1, Section I, 1 (d) of the Project Agreement.

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 Project Agreement has been authorized or ratified by CFN, and is legally binding upon CFN in accordance with its terms;

(b) that the contractual arrangements referred to in Section 3.02 (a) of this Agreement, have been duly authorized or ratified by the Borrower and BCE, and are legally binding upon the Borrower and BCE in accordance with their terms;

(c) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower, acting through BCE, and CFN and is legally binding upon the Borrower, BCE and CFN in accordance with its terms; and

(d) that the Participation Agreements referred to in paragraph (e) of Section 6.01 of this Agreement, have been duly authorized or ratified by the parties thereto, and are legally binding upon such parties in accordance with their terms.

Section 6.03. The date June 29, 1990, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance and Public Credit of the Borrower is designated as representative of the Borrower for the purposes 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:

Ministry of Finance and Public Credit
Avenida 10 de Agosto y
18 de Septiembre
Quito
Ecuador

Cable address:

Telex:

MINFINANZAS
Quito
Ecuador

2358 MINFIN-ED

Banco Central
10 de Agosto y Briceno
Quito
Ecuador

Cable address:

Telex:

BANCENTRL
Quito

2165 BANCEN-ED

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

440098 (ITT)
2448423 (RCA) or
64145 (WUI)

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

REPUBLIC OF ECUADOR

By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By Regional Vice President
Latin America and the Caribbean

SCHEDULE I

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
Subloans	50,000,000	85% of the amounts disbursed under a FOPINAR Loan
TOTAL	50.000.000 =====	

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

(a) in respect of a Subloan unless the Subloan and the FOPINAR Loan out of the proceeds of which such Subloan is made have been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule I to the Project Agreement; and

(b) 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 five million dollars (\$5,000,000), may be made on account of payments made for expenditures before that date but after December 13, 1989.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) encourage the growth of investments and productivity in the Borrower's territory through facilitating the access of Investment Enterprises to formal credit by generating increased lending by Financial Intermediaries to such Investment Enterprises; (ii) provide focused and integrated technical assistance support to Investment Enterprises in order to increase their productivity and to reinforce coordination between institutions that provide technical assistance to Investment Enterprises; and (iii) assist in strengthening the management and technical skills of Financial Intermediaries and of CFN's staff assigned to operate FOPINAR.

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:

Carrying out of Investment Projects by Investment Enterprises financed by Subloans through Financial Intermediaries.

Part B: Technical Assistance

1. Provision of technical assistance to, and training of staff of, FOPINAR and the Financial Intermediaries to assist in the execution of Part A of the Project.
2. Provision of technical assistance to, and training of staff of, Investment Enterprises through the carrying out of programs aimed at, inter alia, developing entrepreneurial, financial, production and marketing skills to assist in the execution of Part A of the Project.
3. Acquisition and utilization of training equipment and materials for the purposes of the preceding two paragraphs.
4. Carrying out of studies to identify new projects for the purposes of Part A of the Project.

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15 beginning July 15, 1995 through July 15, 2006	2,085,000
On January 15, 2007	2,045,000

The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

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

(2) The words "the Bank may, by notice to the borrower and the Guarantor, 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 cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in subparagraph 3 (c) of Section I of Schedule 1 to the Project Agreement (as such term is defined in the Loan Agreement), the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under subparagraphs

(a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and CFN (as such term is defined in the Loan Agreement), terminate the right of the Borrower and CFN to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled"

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Category" means the Category set forth in the table in paragraph I of Schedule I to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to Paragraph 3 (a) of this Schedule and Schedule 1 to this Agreement.

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 a deposit or deposits which does or 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; and

(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; and

(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 made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the Eligible Category, 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the Eligible Category less 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 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 Category 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.

