

CONFORMED COPY

LOAN NUMBER 2956 PH

(Reform Program for Government Corporations)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated September 1, 1988

LOAN NUMBER 2956 PH

LOAN AGREEMENT

AGREEMENT, dated September 1, 1988, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated April 27, 1988 from the Borrower (hereinafter called the Letter of Development Policy) describing a program of actions, objectives and policies designed to achieve certain reforms of government corporations (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports and services required during such execution; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

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

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Asset Privatization Trust" means the Asset Privatization Trust established and operating under the Borrower's Proclamation No. 50 dated December 8, 1986 and Proclamation No. 50A dated December 15, 1986, or any successor thereto;

(b) "Committee on Privatization" means the Committee on Privatization formed pursuant to the Borrower's Proclamation No. 50 dated December 8, 1986 and Proclamation No. 50A dated December 15, 1986;

(c) "Government Corporation" means a corporation which is created by a law of the Borrower or incorporated and organized under the Borrower's Corporations Code and in which the Borrower, directly or indirectly, has ownership of the majority of the capital or has voting control, including the subsidiary of any such corporation;

(d) "Disposition Entity" means any entity (other than the Asset Privatization Trust) designated as responsible for carrying out the privatization of a Government Corporation pursuant to the Program or the Borrower's Proclamation Number 50 dated December 8, 1986 and Proclamation Number 50A dated December 15, 1986;

(e) "Administrative Order" means the Borrower's Administrative Order Number 59 dated February 16, 1988 entitled "Rationalizing the Government Corporate Sector";

(f) "Technical Assistance" means the actions to be undertaken by the Borrower under the Program, pursuant to Section 3.05 of this Agreement;

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

(h) "Pesos" or the sign "P" means pesos in 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 the Loan Agreement, an amount in various currencies equivalent to two hundred million dollars (\$200,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

(b) The Borrower shall, for the purposes of the Program, open and maintain in dollars a special account in the Central Bank of the Philippines 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 August 31, 1991 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

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

(c) For purposes of this Section:

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

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

## ARTICLE III

### Particular Covenants

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

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

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

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section (including those for the Special Account) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 3.04. The Borrower shall provide on a timely basis to the Committee on Privatization, the Asset Privatization Trust as well as each Disposition Entity such resources and facilities as may be required for the privatization of assets under the Program.

Section 3.05. (a) The Borrower shall carry out on a timely basis, in accordance with terms of reference agreed with the Bank

and complete no later than December 31, 1991, the Technical Assistance to support inter alia the following: (i) privatization of selected Government Corporations; (ii) disposition actions in respect of selected Government Corporations (other than privatization); (iii) strengthening of Government Corporations retained in the Borrower's portfolio; and (iv) development and implementation of computerized accounting systems for Government Corporations.

(b) The qualifications, experience and terms of reference of the consultants used by the Borrower in carrying out the Technical Assistance shall be as agreed between the Borrower and the Bank.

(c) The Borrower shall provide on a timely basis such resources and facilities as may be required to carry out the Technical Assistance.

#### ARTICLE IV

##### Additional Event of Suspension

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

#### ARTICLE V

##### Effective Date

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of this General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Secretary of Finance  
Department of Finance  
Manila  
Philippines

Cable address:

SECFIN  
Manila

Telex:

7550 CBP-PH  
40268 CB-CONF

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

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

IN WITNESS WHEREOF, the parties hereto, acting through their

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

REPUBLIC OF THE PHILIPPINES

By /s/ Emmanuel Pelaez  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu  
Regional Vice President  
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

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

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

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

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

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

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$30,000,000 may be made on account of payments made for such expenditures before that date but after July 1, 1987;

(d) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance; and

(e) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption.

3. No withdrawal shall be made and no commitment shall be entered into to pay amounts to the Borrower or others in respect of expenditures to be financed out of the proceeds of the Loan:

- (i) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account, and the total amount of such commitments, shall have reached the equivalent of \$75,000,000, unless the Bank shall be satisfied, after the exchange of views as described in Section 3.01 of this Agreement: (a) with the progress achieved by the Borrower in the carrying out of the Program; and (b) that the actions described in Part A of Schedule 4 to this Agreement have been taken; and
- (ii) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account, and the total amount of such commitments, shall have reached the equivalent of \$150,000,000, unless the Bank shall be satisfied, after the exchange of views described in Section 3.01 of this Agreement: (a) with the progress achieved by the Borrower in the carrying out of the Program; and (b) that the actions described in Part B of Schedule 4 to the Agreement have been taken.

4. If, after the exchange of views described in Section 3.01 of this Agreement, the Bank is not satisfied: (a) with the progress achieved by the Borrower in carrying out the Program; or (b) that the actions described in Schedule 4 to this Agreement have been carried out as agreed with the Bank, and this situation shall not be rectified by the Borrower within 90 days after notice thereof by the Bank, then the Bank may, by notice to the Borrower, cancel the amount of the Loan then unwithdrawn or any part thereof.

#### SCHEDULE 2

##### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 1, 1994	3,650,000
August 1, 1994	3,790,000

February 1, 1995	3,935,000
August 1, 1995	4,090,000
February 1, 1996	4,245,000
August 1, 1996	4,410,000
February 1, 1997	4,580,000
August 1, 1997	4,760,000
February 1, 1998	4,940,000
August 1, 1998	5,135,000
February 1, 1999	5,330,000
August 1, 1999	5,535,000
February 1, 2000	5,750,000
August 1, 2000	5,970,000
February 1, 2001	6,205,000
August 1, 2001	6,440,000
February 1, 2002	6,690,000
August 1, 2002	6,950,000
February 1, 2003	7,220,000
August 1, 2003	7,495,000
February 1, 2004	7,785,000
August 1, 2004	8,085,000
February 1, 2005	8,400,000
August 1, 2005	8,720,000
February 1, 2006	9,060,000
August 1, 2006	9,410,000
February 1, 2007	9,770,000
August 1, 2007	10,150,000
February 1, 2008	10,540,000
August 1, 2008	10,960,000
Total	200,000,000

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

#### Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00



### SCHEDULE 3

#### Procurement

##### Part A: International Competitive Bidding

Except as provided in Part B hereof, goods shall be procured under contracts awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

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

##### "2.8 Notification and Advertising

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

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

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

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

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

##### Part B: Other Procurement Procedures

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

2. Commonly traded commodities may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Bank, in accordance with procedures acceptable to the Bank.

##### Part C: Review by the Bank of Procurement Decisions

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

2. With respect to each contract referred to in paragraphs 1 and 2 of Part B of this Schedule, the Borrower shall furnish to the

Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

3. Notwithstanding the provisions of paragraphs 1 and 2 of Part C of this Schedule, where payments under a contract are to be made out of the proceeds of the Special Account, the copies of such contract or the documentation and the information to be furnished to the Bank pursuant to the provisions of paragraph 1 or paragraph 2 of Part C of this Schedule, as the case may be, shall be furnished to the Bank as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

4. The provisions of the preceding paragraphs 1, 2 and 3 of Part C of this Schedule shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 3.03 (c) (ii) of this Agreement.

#### SCHEDULE 4

##### Actions Referred to in Paragraph 3 of Schedule 1 to this Agreement

###### Part A.

1. Final decisions by appropriate authorities on the manner of disposition of all Government Corporations.

2. Completion of all actions (including offering for sale) necessary towards the transfer to private persons of title to the capital presently owned by, or on behalf of, the Borrower in each of at least thirty Government Corporations, representing at least twenty percent of the value in fiscal year 1985 of such part of the assets of Government Corporations as are approved for privatization under the Program.

3. Finalization of an implementation plan, agreed with the Bank, in respect of about one hundred Government Corporations, for: (i) the conversion of selected Government Corporations, which are not to be retained as Government Corporations in their present form, including absorption as line agencies or departments, reorganization as non-profit private corporations, mergers and consolidation; and (ii) the liquidation of designated Government Corporations.

4. Satisfactory progress towards amendments of charters of Government Corporations as necessary to implement the plan referred to in paragraph 3 of Part A of this Schedule.

5. Completion of a review of charters of Government Corporations, and the formulation of recommendations arising from such review, to ensure that (i) where the Chairman of a Government Corporation is the representative of the Department to which that Government Corporation is attached, (a) arrangements for monitoring and inter-departmental evaluation of the Government Corporation by the Borrower's Government Corporate Monitoring and Coordinating Committee (GCMCC) are appropriately adjusted to take into account this fact; and (b) the other responsibilities of such representative are consistent with the need that the representative devote adequate time and attention in the discharge of his/her responsibilities as Chairman; and (ii) where ex-officio members constitute the majority of the members of the Board of Directors of a Government Corporation, the selection of the Departments represented on the Board in each case adequately takes into account the relevance of the functions of such Department to the activities of the Government Corporation.

6. Finalization of an implementation plan, agreed with the

Bank, to introduce computerized accounting systems for Government Corporations developed pursuant to the Technical Assistance.

7. Approval of a corporate planning program for Government Corporations agreed with the Bank and developed pursuant to the Technical Assistance, by the Board of Directors of each of at least five Government Corporations.

8. Design of a performance evaluation and incentive system for Government Corporations, agreed with the Bank and developed pursuant to the Technical Assistance.

9. Appointment of adequate staff for the Corporate Affairs Group of the Department of Finance.

10. Satisfactory progress towards amendments of charters of Government Corporations to incorporate in such charters the principles set forth in paragraph 7 of the Borrower's Letter of Development Policy.

11. Issuance by the Borrower of regulations to: (i) eliminate automatic guarantee by the Borrower of loans contracted by Government Corporations; and (ii) ensure that when Government Corporations are required by the Government to undertake activities which are not financially viable, the Government shall take adequate and timely steps to protect the financial viability of such Government Corporations on the basis of arrangements agreed between the Government and the concerned Government Corporation as part of the monitoring and supervision of such Government Corporation by GCMCC.

12. Satisfactory progress towards establishing an appropriate corporate career executive service for Government Corporations.

13. Appointment of consultants, with qualifications and experience and terms of reference agreed with the Bank, for carrying out the Technical Assistance.

#### Part B.

1. Completion of all actions (including offering for sale) necessary towards the transfer to private persons of title to the capital presently owned by, or on behalf of, the Borrower in each of at least sixty Government Corporations, representing at least fifty percent of the value in fiscal year 1985 of such part of the assets of Government Corporations as are approved for privatization under the Program.

2. Finalization of an implementation plan, agreed with the Bank, for Government Corporations not covered under paragraph 3 of Part A of this Schedule, for (i) the conversion of selected Government Corporations, which are not to be retained as Government Corporations in their present form, including absorption as line agencies or departments, reorganization as non-profit private corporations, mergers and consolidation; and (ii) the liquidation of designated Government Corporations.

3. Implementation of the plan referred to in paragraph 3 of Part A of this Schedule, including satisfactory progress towards amendments of charters of Government Corporations necessary for the same.

4. Satisfactory progress in implementing recommendations formulated pursuant to paragraph 5 of Part A of this Schedule.

5. Satisfactory progress towards amendments of charters of Government Corporations for the purposes set out in paragraph 10 of Part A of this Schedule.

6. Approval of the corporate planning program referred to in paragraph 7 of Part A of this Schedule by the Board of Directors of each of at least fifteen Government Corporations (including the

Government Corporations referred to in paragraph 7 of Part A of this Schedule).

7. Introduction of the computerized accounting systems agreed with the Bank by each of at least ten Government Corporations.

8. Introduction of the performance evaluation and incentive system referred to in paragraph 8 of Part A of this Schedule, by each of at least fifteen Government Corporations.

9. Satisfactory progress in the implementation of the Technical Assistance.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

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

(b) the term "Authorized Allocation" means an amount equivalent to \$12,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

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

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

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

(i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly

from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or

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

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

