

LOAN NUMBER 3146 PH

LOAN AGREEMENT

(Second Municipal Development Project)

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated January 19, 1990

LOAN NUMBER 3146 PH

LOAN AGREEMENT

AGREEMENT, dated January 19, 1990, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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, 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 forth and the following additional terms have the following meanings:

(a) "Local Government Unit" means a municipality or a city to which the Borrower proposes to make or has made a Sub-loan;

(b) "Municipal Development Fund" means the

Municipal Development Fund established and operating under Presidential Decree No. 1914 dated March 29, 1984 to provide financial assistance to municipalities and cities for development projects;

(c) "Project Management Office" means the Project Management Office within the Department of Public Works and Highways of the Borrower established pursuant to DPWH Department Order No 78 dated June 6, 1989;

(d) "Project Steering Committees means the Project Steering Committee, established pursuant to Presidential Decree No. 1914 dated March 29, 1984, and comprising representatives of various departments and agencies of the Borrower responsible for or involved in the Project;

(e) "Special Account" means the account to be opened and thereafter maintained pursuant to Section 2.02 (b) of this Agreement;

(f) "Sub-loan" means a loan made or proposed to be made by the Borrower through the Municipal Development Fund out of the proceeds of the Loan to a Local Government Unit for the local component of a Sub-project; and

(g) "Sub-project" means a specific development project with a component to be carried out by the Borrower (referred to as the national component), and a component to be carried out by a Local Government Unit utilizing the proceeds of a Sub-loan (referred to as the local component).

## 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, various currencies that shall have an aggregate value equivalent to the amount of forty million dollars (\$40,000,000) 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 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 maintain in dollars a special account in a bank acceptable to the Bank 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1996 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 ( $\frac{3}{4}$  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 Periods 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 amounts 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 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 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, shall carry out and cause the Local Government Units to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out and cause the Local Government Units to carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain and cause to be maintained records and accounts in respect of the Project and Sub-projects, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the departments or agencies of the Borrower and Local Government Units responsible for carrying out the Project or Sub-project or any part thereof.

(b) The Borrower shall:

- (i) have and cause the Local Government Units to have the records and accounts referred to in paragraph (a) of this Section including (in the case of the Borrower) 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 nine months after the end of each such year, a consolidated report of such audits by its 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 audits 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 and cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain and cause to be retained, 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 consolidated report of such audits contains a separate opinion by its 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.

#### ARTICLE V

##### Termination; Representative; Addresses

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 the General Conditions.

Section 5.02. 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 5.03. 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:

Telex:

MINFIN  
Manila

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:

Telex:

INTBAFRAD 440098 (ITT)  
Washington, D.C. 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 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. 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) Sub-loans for amount Sub-projects under Part A (2) & (3) of the Project	19,500,000	100% of the disbursed under the Municipal Development Fund
(2) Civil works under Part A (1) of the Project	8,500,000	60%
(3) Goods and services under Part B of the Project	5,500,000	100% of the amount disbursed by the Department of Finance
(4) Unallocated	6,500,000	
TOTAL	40,000,000	

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

(a) in respect of payments made for expenditures prior to the date of this Agreement; and

(b) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Parts B and C of Schedule 5 to this Agreement.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (i) assist local governments to provide basic infrastructure, services and facilities especially to lower income communities; and (ii) strengthen the financial, technical and managerial capabilities of Local Government Units.

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

#### Part A: Sub-projects

##### 1. National Components

Basic Infrastructure: Construction of wells, dredging, construction and rehabilitation of collector drains, creeks and other major drainage facilities; improvement of national roads and minor drainage along such roads.

##### 2. Local Components

(a) Basic Infrastructure: Installation of communal faucets; construction of wells; construction of communal sanitation facilities; construction and rehabilitation of drainage canals and pipes; and improvement of existing alleys, footpaths and local roads.

(b) Public Facilities: Construction and rehabilitation of public markets, slaughterhouses and motorpools.

(c) Equipment: Provision of road and drainage maintenance equipment, utility vehicles, and computers.

##### 3. Consultancies

Utilization of consultants' services for: (a) Sub-project preparation including feasibility studies; and (b) detailed design and engineering, and/or construction supervision.

#### Part B: Real Property Tax Administration

Preparation of tax maps and improvement of real property tax records, records management, data computerization and tax collections in the Local Government Units.

#### Part C: Technical Assistance

Provision of technical assistance to:

(a) Department of Public Works and Highways of the Borrower for (i) preparation, appraisal and monitoring of development projects in Local Government Units; and (ii) carrying out of a study of solid waste collection, disposal and management by Local Government Units of Bulacan, Rizal, Laguna and Cavite Provinces.

(b) Department of Finance of the Borrower for developing a management system for the Municipal

Development Fund.

\* \* \*

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due dollars)*	Payment of Principal (expressed in dollars)
August 1, 1995	730,000
February 1, 1996	755,000
August 1, 1996	785,000
February 1, 1997	815,000
August 1, 1997	850,000
February 1, 1998	880,000
August 1, 1998	915,000
February 1, 1999	950,000
August 1, 1999	990,000
February 1, 2000	1,025,000
August 1, 2000	1,065,000
February 1, 2001	1,105,000
August 1, 2001	1,150,000
February 1, 2002	1,195,000
August 1, 2002	1,240,000
February 1, 2003	1,290,000
August 1, 2003	1,340,000
February 1, 2004	1,390,000
August 1, 2004	1,445,000
February 1, 2005	1,500,000
August 1, 2005	1,560,000
February 1, 2006	1,620,000
August 1, 2006	1,680,000
February 1, 2007	1,745,000
August 1, 2007	1,815,000
February 1, 2008	1,885,000
August 1, 2008	1,955,000
February 1, 2009	2,030,000
August 2, 2009	2,110,000
February 1, 2010	2,185,000

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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

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	0.15



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 4

##### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded 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).

2. To the extent practicable, contracts for maintenance equipment shall be grouped in bid packages estimated to cost the equivalent of \$200,000 or more each.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Republic of the Philippines may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Other Procurement Procedures

##### 1. International and local shopping:

Items or groups of items estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$6,800,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

##### 2. Local competitive bidding:

Civil works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

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

##### 1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on accounts 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 4.01 (c)(ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall, as may be required, employ or cause the Local Government Units to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

### SCHEDULE 5

#### Implementation; Terms and Conditions of Sub-loans

##### A. Implementation

1. The Borrower shall maintain the Project Steering Committee and cause it to provide overall policy guidance and coordination among the various agencies responsible for or involved in the Project.

2. The Borrower shall maintain the Project Management Office with powers, functions, resources and staffing satisfactory to the Bank.

3. The Borrower shall maintain the Municipal Development Fund with powers and functions satisfactory to the Bank.

4. The Borrower shall carry out Parts A(1), B and C of the Project through its Department of Finance and Department of Public Works and Highways, and Part A(2)

and (3) of the Project through the Local Government Units selected by the Borrower in consultation with the Bank.

5. The Borrower shall appropriate the proceeds of the Loan in the budgets of its Department of Finance and Department of Public Works and Highways for carrying out Parts A and B of the Project.

6. Part B of the Project shall be carried out by the Department of Finance through certain cities and municipalities selected by the Borrower in consultation with the Bank. The Borrower shall only disburse up to eighty per cent (80%) of the amount expended by the selected cities and municipalities on procurement of goods and services under Part B of the Project.

#### B. Sub-projects and Sub-loans

1. The Borrower shall cause the Project Management Office to select Sub-projects on the basis of the socio-economic merits and financial and technical viability of each such sub-project, and shall cause the Project Management Office to appraise each Sub project so selected in accordance with appraisal criteria satisfactory to the Bank.

2. The Borrower shall, prior to the award of a Sub-loan or Sub project, submit or cause the Project Management Office to submit to the Bank for review and acceptance, an application, in form satisfactory to the Bank, together with the following:

(a) in case of a Sub-loan for Sub-project preparation:

such information as the Bank may reasonably request;

(b) in case of a Sub-loan, other than a Sub-loan for Sub-project preparation, and a Sub-project:

(i) an appraisal of the Sub-project including an implementation plan and a description of the expenditures to be financed out of the proceeds of the Loan;

(ii) copies of the Sub-project and Sub-loan agreements; and

(iii) such other information as the Bank may reasonably request.

3. The Borrower shall enter into Sub-project agreements with Local Government Units for carrying out Part A(2) and (3) of the Project on terms and conditions satisfactory to the Bank.

4. The Borrower shall, to enable the Local Government Units to carry out the Sub-projects, on-lend the proceeds of the Loan allocated in Category (1) of Schedule 1 to this Agreement through Sub-loans to Local Government Units on the terms and conditions satisfactory to the Bank including the main terms and conditions set out hereinbelow. The Sub-loans shall be on-lent to the Local Government Units by the Department of Finance of the Borrower through the Municipal Development Fund.

5. The Borrower shall not, without the concurrence of the Bank, make any amendment(s) to the Sub-project and/or Sub-loan agreement(s) relating to, in the case of Sub-loans, any of the terms and conditions of Sub-loans

outlined hereinbelow or, in the case of Sub-projects, any terms and conditions that might materially affect the Sub-project.

C. Main Terms and Conditions of Sub-loans

1. Main Terms

Maximum Sub-loan amount : 90 % of local component of total Sub-project cost

Repayment period : up to 20 years including up to 5 years of grace with equal payments of interest and principal

Interest rate : variable (initially set at 11% per annum) inclusive of all charges and fees

Review of terms and : annually by the Borrower and conditions of the Bank starting May 1, 1990 Sub-loans

Foreign exchange : to be borne by the Borrower risk

Repayment of Sub-loan principal and payments of Sub-loan interest will be deposited by the Local Government Unit in the Municipal Development Fund to provide financial assistance to municipalities and cities for development projects.

2. Main Conditions

Procurement: Procurement of goods, services and civil works for the Sub-projects and to be financed out of the proceeds of the Sub-loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

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

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

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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, withdrawals from the Loan Account of the remaining unwithdrawn amount of the Local allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the

extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will 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.

