

CONFORMED COPY

CREDIT NUMBER 2778 MAG

Development Credit Agreement

(Social Fund II Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 5, 1995

CREDIT NUMBER 2778 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 5, 1995, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Bank has received from the Borrower a letter of sector policy related to poverty alleviation, dated July 28, 1995, describing a program of actions, objectives and policies designed to bring about a reduction of poverty in Madagascar (hereinafter referred to as "the Program"), and declared its commitment to the execution of the Program;

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

(C) the Project will be carried out by the Fonds d'Intervention pour le Developpement (FID), with the Borrower's assistance and, as part of such assistance, the Borrower will make available to FID the proceeds of the Credit as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) the last sentence of Section 3.02 is deleted;
- (b) the second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Beneficiary" means the person, group or agency, to whom a grant is made;
- (b) "Board of Directors" means the Board of Directors referred to in paragraph 1 of Schedule 2 to the Project Agreement;
- (c) "Convention" means the agreement to be entered into between the Borrower and FID pursuant to Section 3.05 (a) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Convention;
- (d) "Executive Director" means the Executive Director referred to in paragraph 2 (a) of Schedule 2 to the Project Agreement;
- (e) "FID" means Fonds d'Intervention pour le Developpement, a not-for-profit association serving the public interest (association a but non lucratif reconnue d'interet public), established under the Borrower's Ordinance No. 60-133, Decree No. 60-383 and Ordinance No. 75-017;
- (f) "Food Security and Nutrition Project" means the Food Security and Nutrition Project for which a previous credit (Credit 2474-MAG) was granted by the Association;
- (g) "grant" means a grant made to finance a sub-project;
- (h) "NGO" means a non-governmental organization;
- (i) "Procedures' Manual" means the Procedures' Manual referred in Section 3.05 (a) of this Agreement, as the same may be amended from time to time, and such term includes any

schedules to the Procedures' Manual;

(j) "project account" means the project account referred to in Section 3.06 to this Agreement;

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

(l) "Regional Directors" means the Regional Directors referred to in paragraph 2 of Schedule 2 to the Project Agreement;

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

(n) "sub-project" means a sub-project under Part A of the Project and to be financed out of the proceeds of the Credit.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty five million five hundred thousand Special Drawing Rights (SDR 25,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified

in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1, commencing March 1, 2006 and ending September 1, 2035. Each installment to and including the installment payable on September 1, 2015 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. FID 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 the Development Credit Agreement, shall cause FID to perform in accordance with the provisions of the Project Agreement all the obligations of FID 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 FID to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall take steps, or cause FID to take steps, to:

(a) prepare and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by FID pursuant to Section 2.03 of the Project Agreement.

Section 3.05. (a) The Borrower shall conclude an agreement (hereinafter referred to as the Convention) with FID, under which it shall transfer to FID the entire proceeds of the Credit on a non-reimbursable basis and on such other terms and conditions as shall be acceptable to the Association; including, but without being limited to, provisions to the following effect:

- (i) the amount allocated to sub-projects shall be used exclusively to finance sub-projects on a grant basis;
- (ii) no sub-project shall be considered for financing under the Project except in accordance with criteria, and terms and conditions, set forth in a Procedures' Manual adopted by FID, and approved by the Borrower and the Association;
- (iii) goods and services required for the purposes of financing sub-projects shall be procured in accordance with procedures acceptable to the Association, and set forth in the Procedures' Manual;
- (iv) no sub-project shall be considered for financing under the Project, except to the extent that (A) adequate arrangements are in place for the financing of maintenance and

other incremental recurrent costs, if any; and (B) in the case of income generating activities under Part A (b) of the Project, a revolving fund has been established by, or on behalf of, the Beneficiary for the recovery of funds made available to finance equipment and working capital;

- (v) except with the approval of the Association, no grant shall be in excess of (A) \$50,000, or (B) in the case of a transport sector sub-project under Part A (a) of the Project, \$100,000; and
- (vi) no sub-project shall be executed under the Project, unless a contract has been concluded between the Beneficiary and FID, setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, and the amount of the relevant counterpart contribution.

(b) The Borrower shall exercise its rights under the Convention in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Convention or any provision thereof.

Section 3.06. (a) Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall open, in a commercial bank and on terms and conditions satisfactory to the Association, an advance account in the currency of the Borrower (hereinafter referred to as project account), to be operated and maintained by FID, into which it shall deposit from time to time its local counterpart contribution to the cost of the Project.

(b) The Borrower shall:

- (i) make an initial deposit of the equivalent of \$225,000 into the project account; and
- (ii) have the project account replenished on a quarterly basis, or whenever the balance thereof equals not more than one third of the amount of the initial deposit, whichever occurs first.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) 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 Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) FID shall have failed to perform any of its obligations under the Project Agreement, the Convention or the Procedures' Manual;

(c) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that FID will be able to perform its obligations under the Project Agreement, the Convention or the Procedures' Manual;

(d) the statutes or by-laws of FID shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of FID to perform any of its obligations under the Project Agreement, the Convention or the Procedures' Manual; or

(e) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of FID or for the suspension of its operations.

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

(a) any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraph (d) and (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Convention has been executed on behalf of the Borrower and FID;

(b) the project account has been duly opened, and the initial amount of \$225,000 equivalent deposited therein; and

(c) auditors have been appointed for audit purposes under the Project in accordance with the provisions of Section 4.01 of this Agreement and Section 4.01 of the Project Agreement.

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

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

(b) that the Convention has been duly authorized or ratified by the Borrower and FID and is legally binding upon the Borrower and FID in accordance with its terms.

Section 6.03. 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 6.04. The obligations of the Borrower under Section 4.01 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance 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 Budget
Antananarivo 101
Madagascar

Cable address:

MINFIN
Antananarivo

Telex:

22489

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 MADAGASCAR

By /s/ Johnson Randrianiaina
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox
Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
1. Works and goods for sub-projects	18,720,000	86%
2. Consultancy services and training under sub-projects	2,140,000	100%
3. Technical assistance, training and studies	1,000,000	100%
4. Equipment, vehicles, furniture and materials	790,000	95%
5. Operating costs	1,590,000	90%
6. Unallocated	1,260,000	
TOTAL	25,500,000 =====	

2. For the purposes of this Schedule, the term "operating costs" means the incremental operating costs arising under the

Project on account of local contractual support staff salaries, social benefits, travel and other allowances; rental and maintenance of equipment; fuel, spare parts and vehicle insurance; office rental, materials and supplies; utilities and communications' expenses; and banking charges.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and consultants' services (firms) under contracts not exceeding \$75,000 equivalent, consultants' services (individuals) under contracts not exceeding \$20,000 equivalent, operating costs and training, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to alleviate poverty and support community development through provision of financial resources to support sub-projects of benefit to the communities.

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

Part A: Sub-project Financing

Provision of financial resources to FID to finance sub-projects as follows in all six of the provinces of the Borrower:

(a) construction and rehabilitation of basic infrastructure, including schools, health centers, water supply, small irrigation perimeters, rural roads, small bridges, as well as activities relating to reforestation and protection of the environment;

(b) income generating activities, including activities pertaining to the Community Nutrition Program under the Food Security and Nutrition Project;

(c) private sector support programs, including training programs for small enterprises and consulting firms, and development of grassroots community groups and local NGOs.

Part B: Studies

1. Commissioning of a market identification and demand study to identify potential types of income generating activities to be financed under Part A (b) of the Project.

2. Development of a training needs assessment and training plan for contractors and engineering consultants.

3. Completion of a diagnostic evaluation of technical and contracting procedures designed to strengthen the process of implementation of sub-projects by contractors and engineering consultants.

* * *

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

SCHEDULE 3

Implementation Program

1. The Board of Directors shall be responsible for external monitoring and evaluation of FID, and for liaison with the Association and other donors.

2. The Borrower shall submit, or cause FID to submit, to the Association, for its review or approval, as the case may be:

(a) not later than October 31 of each year, a proposed annual work program, including a proposed budget and financing plan, for the forthcoming fiscal year;

(b) quarterly and annual progress reports on the status of the Project, including regular beneficiary assessment and client feedback reports;

(c) reports as needed on the award of individual contracts under the Project; and

(d) quarterly procurement reports giving details of:

(i) revised cost estimates for individual contracts and for the Project;

(ii) revised timing of procurement actions, including advertizing, bidding, contract award and completion time for individual contracts; and

(iii) status of compliance with aggregate limits on prescribed procurement procedures, and with the Procedures' Manual.

3. (a) The Borrower shall, not later than November 30 of each year, commencing on November 30, 1996, undertake, in conjunction with the Association and FID, a joint annual review (or, in the case of the review to be held not later than November 30, 1998, a midterm review) of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower and FID of their respective obligations under this Agreement and, in particular:

(i) the progress achieved by the Borrower and FID during the current fiscal year, having regard to the monitoring indicators agreed upon amongst the Borrower, the Association and FID; and

(ii) in the case of the midterm review;

(A) progress achieved in the preparation, appraisal and implementation of income generating activities; and

(B) the impact of private sector support programs on the quality of projects and the development of consulting firms.

(b) Not later than one month prior to each review, the Borrower shall furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project, and giving details, in particular, of the various matters to be discussed at such review.

(c) Following each review, the Borrower undertakes to act promptly and diligently in order to take, or assist FID in taking, any corrective action deemed necessary to remedy any

shortcoming noted in the implementation of the Project, or to implement, or assist FID in implementing, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit 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 \$2,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,300,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 5,000,000.

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

3. After the Association 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible

expenditures.

All such deposits shall be withdrawn by the Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association,

refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

