

CONFORMED COPY

CREDIT NUMBER 2870 CHA

Development Credit Agreement

(Gansu Hexi Corridor Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 2, 1996

CREDIT NUMBER 2870 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 2, 1996, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to sixty-million dollars (\$60,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) the Project will be carried out by Gansu (as defined in Section 1.02(b) of this Agreement) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Gansu the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan 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 among the Association,

the Bank and Gansu; and

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 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 Bank 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) "Environmental Action Plan" means the environmental action plan referred to in Part C of Schedule 2 to the Project Agreement.
- (b) "Gansu" means the Borrower's Province of Gansu.
- (c) "Irrigation Areas" means the Shuang Ta, Chang Ma and Hua Hai irrigation areas of Gansu.
- (d) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Single Currency Loan and Guarantee Agreements" of the Bank, dated May 30, 1995, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.
- (e) "PMB" means the Project management bureau referred to in Part A.1 of Schedule 2 to the Project Agreement.
- (f) "Project Agreement" means the agreement among the Association, the Bank and Gansu 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.
- (g) "Resettlement Action Plan" means (i) the Report on Resettlement Program of Changma Reservoir and Resettlement Implementation Plan of the Changma Reservoir, both dated October 1995, and prepared by the Gansu Surveying and Designing Institute of Water Conservancy and Electricity, and (ii) the letters dated February 18, 1996 and March 18, 1996 from Gansu to the Association relating to additional measures to ensure the improvement of the productive capacity and income levels of the persons resettled under the Project.
- (h) "Settlers" means all persons who emigrate to, and settle in, the Irrigation Areas pursuant to the voluntary emigration program included in Part D of the Project.
- (i) "Special Account" means the account referred to in Section 2.02(b) of this Agreement.

(j) "Voluntary Land Settlement Plan" means (i) the Report on Implementation of In-Migration Settlement and its Appendix, both dated October 1995 and prepared by the Gansu Provincial Water Conservancy Bureau, Gansu World Bank Loan Project Implementation Office, Construction Administration Bureau of Comprehensive Development Project of Hexi Corridor (Shule River), Agriculture, Irrigation and Resettlement Bureau (CAB) and Northwest Demographic Research Institute of Lanzhou University, and (ii) the Migrant Notice dated February 1996 and prepared by CAB.

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 sixty-one million eight hundred thousand Special Drawing Rights (SDR 61,800,000).

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 described in Schedule 2 to this Agreement 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 financial institution acceptable to the Association and 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 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006 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 (60) 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and 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 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 percent (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 January 15 and July 15 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 semi-annual installments payable on each January 15 and July 15 commencing July 15, 2006 and ending January 15, 2031. Each installment to and including the installment payable on January 15, 2016 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) 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.

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

(b) The Borrower shall make the proceeds of the Credit available to Gansu on the following principal terms:

(i) The principal amount so made available: (A) shall be the equivalent in terms of Special Drawing Rights (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn; and (B) shall be recovered by the Borrower in a currency selected by the Borrower in an amount equal to the equivalent (determined as of the date or respective dates of repayment) of the amount referred to in sub-paragraph (A) above.

(ii) The Borrower shall recover from Gansu the principal amount referred to in paragraph (b)(i)(B) of this Section over a period of twenty (20) years, inclusive of a grace period of seven years.

(iii) The Borrower shall charge interest on the principal amount referred to in paragraph (b)(i)(B) of this Section and withdrawn and outstanding from time to time at a rate equal to the service charge applicable to the Credit pursuant to the provisions of Section 2.05 of this Agreement.

(iv) The Borrower shall charge a commitment fee on the principal amount referred to in paragraph (b)(i) of this Section not withdrawn from time to time at a rate equal to one half of one percent (0.5%) per annum.

(c) The Borrower shall make the proceeds of the Loan available to Gansu on

the following principal terms:

(i) The principal amount so made available shall be denominated and recovered in Dollars.

(ii) The Borrower shall recover from Gansu the principal amount referred to in paragraph (c)(i) of this Section over a period of twenty (20) years, inclusive of a grace period of five years.

(iii) The Borrower shall charge interest on the principal amount referred to in paragraph (c)(i) of this Section and withdrawn and outstanding from time to time at a rate equal to the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.05 of the Loan Agreement.

(iv) The Borrower shall charge a commitment fee on the principal amount referred to in paragraph (c)(i) of this Section not withdrawn from time to time at a rate equal to three fourths of one percent (0.75%) per annum.

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. 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 and Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions referred to in Section 1.01 of the Loan Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Gansu pursuant to Section 2.03 of the Project Agreement.

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 expenditures, 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 and those for the Special Account for each fiscal year 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 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) Gansu shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Gansu will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(d) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01(a) 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.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions, namely, that all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following is specified as an additional matter, 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, namely, that the Project Agreement has been duly authorized or ratified by Gansu, and is legally binding upon Gansu 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 provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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

Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Harold Messenger

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
----------	-----------------------------------------------------------------------	--------------------------------------------------------------	----------------------------------------

(1) Works for:

(a) Parts A, B (1), B(3), C D(1)(b) and F of the Project	26,710,000	25,960,000	65%
(b) Parts B(2),	18,110,000	17,600,000	45%

D(1)(a) and E
of the Project

(2) Goods	11,560,000	11,240,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services and training	3,130,000	3,040,000	100%
(4) Operating Costs	2,290,000	2,160,000	80%
	_____	_____	
TOTAL	61,800,000 =====	60,000,000 =====	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Operating Costs" means expenditures for fuel, vehicle and equipment maintenance and repair, supplies and materials, and transportation incurred by Project entities in their management of the Project.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 3,430,000 may be made on account of payments made for expenditures before that date but after October 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) works under contracts costing less than \$2,000,000 equivalent each, (b) goods under contracts costing less than \$200,000 equivalent each, (c) Operating Costs, (d) training, (e) consultants' services under contracts awarded to firms and costing less than \$100,000 equivalent each, and (f) consultants' services under contracts awarded to individuals and costing less than \$50,000 equivalent each; all 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 (1) to alleviate poverty of farmers in resource-poor areas of central and southeast Gansu through voluntary emigration of such farmers, and settlement by such farmers in, the Irrigation Areas, (2) to increase agricultural production in Gansu and (3) to protect and restore degraded environments in Gansu.

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: Changma Dam

Construction on the Shule River of (1) a dam with height of about 55 meters, crest length of about 365 meters, zoned earthfill embankment with a clay core, (2) a side channel regulated spillway with discharge capacity of about 1,655 cubic meters per second, (3) a concrete-lined diversion tunnel with diameter of about 8 meters and length of about 300 meters, (4) a water intake concrete-lined tunnel with diameter of about 5.5 meters and length of about 500 meters and (5) a powerhouse with a total installed capacity of 14.25 megawatts; and resettlement of about 570 persons residing and farming in the vicinity of said dam and its reservoir.

Part B: Irrigation and Drainage

(1) Upgrading and expansion of irrigation and drainage facilities covering about 98,000 hectares in the Irrigation Areas, including construction and upgrading of trunk, main, sub-main and branch canals and drains, bridges and culverts, tubewells and mini-hydro power stations.

(2) Reclamation and development of about 55,000 hectares of land, including about 39,000 hectares of saline and salinized soils, in the Irrigation Areas through land leveling, salt leaching, construction of on-farm irrigation and drainage systems with lateral and sub-lateral canals and drains, ancillary structures and rural and farm roads.

(3) Construction of office facilities and buildings required for the operation and maintenance of the Irrigation Areas.

Part C: Agricultural Development

(1) Development of systems to provide agricultural support to Settlers, consisting of:

(a) construction, equipping and operation of sixteen township agri-machinery service stations, including workshop repair facilities and fuel depots;

(b) expansion of seed production, storage, processing and distribution facilities and equipping of a seed analysis laboratory;

(c) establishment and expansion of extension centers and stations, provision of vehicles required for the provision of extension services, and implementation of training programs to enhance the extension skills of staff of these centers and stations; and

(d) carrying out of on-farm applied research to support agricultural production in the Irrigation Areas and provision of equipment required therefor.

(2) Development of livestock production in the Irrigation Areas through the:

(a) establishment, expansion and equipping of animal husbandry and veterinary service centers and stations;

(b) provision of training to farmers in livestock production techniques;

(c) establishment of livestock production facilities and farms; and

(d) establishment of feed processing and fodder production facilities, and pasture seed farms, and development and management of grassland and rangeland.

Part D: Land Settlement

Implementation of a program for the voluntary emigration of about 200,000 people living in the poorest counties of central and southeast Gansu and their settlement in the Irrigation Areas, so as

to reduce the incidence of absolute poverty in Gansu, such program to include the:

- (1) establishment of 16 townships and 160 settlement villages, including provision of (a) infrastructure, water and electricity supply systems and utility connections, and (b) educational and health facilities;
- (2) allotment of developed land to the Settlers for housing and farming;
- (3) provision of relocation services, housing construction materials, fuel, agricultural tools and production inputs to Settlers; and
- (4) development and operation of a credit facility to assist Settlers in financing the purchase of production inputs and the establishment and operation of rural enterprises and family businesses.

Part E: Afforestation

Implementation of a program of afforestation in the Irrigation Areas to protect land from wind erosion, enhance eco-environments for crop production and human habitation, provide a source of fuel energy for Settlers, and provide for soil and water, including:

- (1) the plantation of: (a) about 240 kilometers of fringe forest belts covering about 290 hectares; (b) about 700 kilometers of primary and secondary windbreaks covering about 500 hectares; (c) on-farm windbreaks covering about 3,800 hectares; (d) fruit trees and orchards covering about 3,333 hectares; (e) a fuelwood forest covering about 1,000 hectares; and (f) shrubs and trees in gullies and along eroded river banks and slopes of the Shule River at three locations in its catchment area to reduce soil erosion; and
- (2) establishment of a protected forest area in Gansu's Qilian mountain range, for the catchment area of the dam to be constructed under Part A of the Project.

Part F: Institutional Development

- (1) Development and implementation of a program of training to improve the skills of the Project staff in the areas of (a) drainage and water and soil salinity control, (b) operation, maintenance and management of the Irrigation Areas, (c) water resources monitoring, simulation and dispatch, (d) management of large-scale human settlements and (e) optimization of the production of crops, livestock and forestry in arid areas.
- (2) Development of a basin-wide system network for the monitoring, simulation, control and dispatch of surface irrigation water integrated with the extraction and use of groundwater.
- (3) Development of a basin-wide system for environmental monitoring of land and water resources, including monitoring of salinity levels of water in Shuang Ta reservoir area of the Irrigation Areas.
- (4) Development of a system for the monitoring and evaluation of the socio-economic well being of the Settlers.
- (5) Construction of office facilities for the PMB and county training centers and provision of office equipment and vehicles required for Project implementation and management.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

- (a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set

forth in the table in paragraph 1 of Schedule 1 to the Development Credit 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into 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 \$6,000,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR 30,000,000.

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 deposit into the Special Account of an amount or amounts 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 or the Loan Account and deposit into 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 or 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 paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account or 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 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 the Development Credit 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 the Development Credit 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 or the Loan 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, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 or the Bank such outstanding amount.

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

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

