

CONFORMED COPY

CREDIT NUMBER 1985 GUI

(Second Water Supply Project)

between

REPUBLIC OF GUINEA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 3, 1989

CREDIT NUMBER 1985 GUI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 3, 1989, between the REPUBLIC OF GUINEA (the Borrower) and the 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 Project will be carried out by SONEG, as hereinafter defined, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SONEG the proceeds of the Credit as provided in this Agreement; and

(C) the Borrower intends to contract from Caisse Centrale de Cooperation Economique (CCCE) a loan (the CCCE Loan) in an amount of about FF 100 million to assist inter alia in financing Part D

of the Project on the terms and conditions set forth in an agreement (the CCCE Loan Agreement) to be entered into between the Borrower and CCCE; and

(D) the Borrower intends to contract from the European Investment Bank (EIB) a loan (the EIB Loan) in an amount of about ECU 10 million to assist in financing Part D of the Project on the terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between the Borrower and EIB;

(E) the Borrower intends to contract from the African Development Bank Group (the AfDB Group) loans (the AfDB Group Loans) in an amount of FUA 5 million and UA 12 million to assist in financing Part D of the Project on the terms and conditions set forth in agreements (the AfDB Group Loan Agreements) to be entered into between the Borrower and AfDB;

(F) the Borrower intends to request additional financing, if need be, from other donors to assist in financing Part D of the Project;

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 SONEG;

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 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) "DEG" means Entreprise Nationale de Distribution d'Eau de Guinee, a public enterprise of the Borrower, dissolved pursuant to Ordonnance No. 045/PRG/88 of October 1, 1988;

(b) "Contrat-Plan" means the contract referred to in Section 3.04 of this Agreement, as the same may be amended from time to time as set forth in said Section;

(c) "Fiscal Year" means, depending on the context, the Borrower's or SONEG's fiscal year, which coincide with the calendar year;

(d) "Lease contract" means the contract entered into pursuant to Section 5.01 (b) of this Agreement between SONEG and SEEG for the operation of SONEG's urban water supply systems, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to said contract;

(e) "Project Agreement" means the agreement between the Association and SONEG 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;

(f) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to exchanges of letters dated March 29, 1985, March 18, 1987 and May 18, 1987 between the Borrower and the Association;

(g) "SEEG" means Societe d'Exploitation des Eaux de Guinee, a joint venture company established pursuant to Section 5.01 (b) of this Agreement;

(h) "SONEG" means Societe Nationale des Eaux de Guinee, a public enterprise of the Borrower established and operating pursuant to Ordonnance No. 045/PRG/88 of October 1, 1988;

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

(j) "Subsidiary Financing Agreement" means the agreement to be entered into between the Borrower and SONEG pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Financing Agreement.

## 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-nine million three hundred thousand Special Drawing Rights (SDR 29,300,000).

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 shall, for the purposes of the Project, authorize SONEG to open and maintain in dollars a special account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be October 31, 1996, 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 a 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 as of 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 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 semiannual installments payable on each January 15 and July 15, commencing July 15, 1999 and ending January 15, 2029. Each installment to and including the installment payable on January 15, 2009 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. The Director General of SONEG is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement: (i) shall cause SONEG to perform in accordance with the provisions of the Project Agreement all the obligations of SONEG therein set forth; (ii) shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources,

necessary or appropriate to enable SONEG to perform such obligations; and (iii) 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 SONEG as follows: (i) the proceeds allocated to Categories (2)(d), (3)(a), (3)(c) and (5) as a contribution to SONEG's equity; and (ii) the remaining proceeds under a subsidiary financing agreement to be entered into between the Borrower and SONEG, under terms and conditions satisfactory to the Association which shall include bearing of the foreign exchange risk by SONEG, an annual interest rate of 2.0%, a repayment period of thirty (30) years, including a grace period of six (6) years.

(c) The Borrower shall exercise its rights under the Subsidiary Financing Agreement 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 Subsidiary Financing Agreement or any provision thereof.

(d) The Borrower shall periodically approve the adjustments in the structure and levels of water rates required to enable SONEG to perform its obligation under Article IV of the Project 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 the Schedule 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 (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by SONEG pursuant to Section 2.03 of the Project Agreement.

Section 3.04. (a) The Borrower shall, not later than December 31 of each year, enter into a Contrat-Plan with SONEG covering the following three years, which shall be satisfactory to the Association.

(b) The Contrat-Plan shall inter alia stipulate the detailed inventory of the urban water supply sector's debt and the budgetary allocations to be made in the Borrower's budget to cover the service of such debt.

(c) Such allocations shall cover:

- (i) the full amount of the annual debt service related to suppliers' credits entered into prior to the date of this Agreement; and
- (ii) 100% of the annual debt service, excluding suppliers' credits, due in 1989 and 1990, 80% of said debt service in 1991, 60% in 1992, 40% in 1993, 20% in 1994 and 0% starting in 1995, the balance to be covered by SONEG.

Section 3.05. (a) The Borrower shall, not later than June 30 in each year, transmit, or cause to be transmitted, to SONEG and SEEG the list of administrative service connections for which water consumption should be billed to the Borrower, the prefectures or other public entities;

(b) the Borrower shall cause SEEG to submit to the Borrower, not later than September 30 in each year, the estimated billing amount of such connections for the following year;

(c) the Borrower shall appropriate, and cause the prefectures and other public entities to appropriate, the necessary funds in each fiscal year to cover their respective estimated water bills;

(d) the Borrower shall disburse, and cause the prefectures and other public entities to disburse, their annual appropriation in four quarterly installments of 30% of their estimated bill for the first three quarters and 10% for the final quarter, the difference between estimated and actual consumption to be settled in the following fiscal year; and

(e) the Borrower authorizes the suspension in the delivery of water to any department of the Borrower, the prefectures or other public entities which has arrears in excess of four months on its payments of water bills.

Section 3.06. The Borrower shall not, until the Project shall have been completed, make any new investment in the urban water supply sector estimated to cost more than the equivalent of \$1,000,000, unless such investment shall in the opinion of the Association be technically, financially and economically viable, based on detailed financing plans and forecasts submitted to the Association.

Section 3.07. The Borrower shall:

(a) cause DEG to cease all its operations in Conakry not later than three months after the Effective Date; and

(b) complete the liquidation of DEG, including termination of staff and sale of assets, not later than December 31, 1989.

#### ARTICLE IV

##### Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) SONEG 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 this Agreement, an extraordinary situation shall have arisen which shall make it improbable that SONEG will be able to perform its obligations under the Project Agreement.

(c) The Borrower's Ordonnances No. 045/PRG/88 of October 1, 1988 creating SONEG or No. 028/PRG/89 of April 10, 1989 ratifying the creation of SEEG or any other instrument taken in execution thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of SONEG to perform any of its obligations under the Project Agreement.

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

(e) The Lease Contract shall have been amended, suspended, abrogated, replaced or waived without the Association's prior consent.

(f) Any loan or grant agreement for the financing of Part D of the Project shall have failed to become effective by June 30, 1990, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for Part D of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 4.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;

(b) any of the events specified in paragraphs (c), (d) and (e) of Section 4.01 of this Agreement shall occur; and

(c) any event specified in paragraph (g)(i)(B) of Section 4.01 of this Agreement shall occur, subject to the proviso of paragraph (g)(ii) of that Section.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. 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 Subsidiary Financing Agreement has been executed on behalf of the Borrower and SONEG;

(b) SEEG has been established, the first two tranches of its initial capital have been fully paid-up (including the effective transfer of the buildings in Conakry), the Lease Contract has been signed and the standard subscription contract between SEEG and its subscribers adopted, all of which shall be satisfactory to the Association; and

(c) SONEG has selected its personnel.

Section 5.02. 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 SONEG, and is legally binding upon SONEG in accordance with its terms;

(b) that the Subsidiary Financing Agreement has been duly authorized or ratified by the Borrower and SONEG, and is legally binding upon the Borrower and SONEG in accordance with its terms; and

(c) that the Lease Contract has been duly authorized or ratified by SONEG and SEEG, and is legally binding upon SONEG and SEEG in accordance with its terms.

Section 5.03. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister or Secretary of State of the Borrower at the time responsible for urban water supply is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Secretariat d'Etat aux Energies  
B.P. 1217  
Conakry  
Republic of Guinea

Telex:

22366 SEE

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:

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

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

REPUBLIC OF GUINEA

By /s/ Kekoura Camara  
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) Civil works:		
(a) for Part A.3	260,000	75%
(b) for Part C	1,050,000	100%
(c) for Part D	4,850,000	100%
(2) Goods:		
(a) for Part A	150,000	100%
(b) for Part C	2,120,000	100%
(c) for Part D	2,000,000	100%
(d) for Part E.2	120,000	100%
(3) Consultants' services and training:		
(a) for Part A	2,430,000	95%
(b) for Part D	1,080,000	65%
(c) for Part E.1	270,000	95%
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Lease Contract	10,700,000	100% of foreign expenditures in contract years 1, 2, 3 and 4, 80% of foreign expenditures in contract year 5 and 60% of foreign expenditures in contract year 6
(5) Refunding of Project Preparation Advance	970,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	3,300,000	

TOTAL 29,300,000

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; and

(b) the term "contract year" means a twelve month period starting on the first day of the month following the effectiveness of the Lease Contract or any twelve month period after such period.

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

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

(b) payments made for expenditures to be financed out of the proceeds of the Credit allocated to Categories (1)(c) and (2)(c), unless all loan or grant agreements for the financing of Part D of the Project have become effective.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to improve the delivery of urban water while laying the basis for the self-sustained development of the Borrower's urban water supply system.

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: Management Support to SONEG

1. Support to SONEG's institutional development, including the areas of sector planning and policy-making, rate-setting, financial management and supervision of the execution of the Lease Contract.

2. Development of SONEG's capacity to prepare urban water supply investment projects and carry out related procurement and supervision.

3. Preparation of preliminary and detailed designs and tender documents for SONEG's offices (about 600 m<sup>2</sup>), construction and equipment of said offices and supervision of construction.

4. Acquisition of about six service vehicles.

5. Training of SONEG staff.

#### Part B: Restructuring and Rehabilitation of Sector Operations

1. Creation of SEEG, a water management company jointly owned by the Borrower and a foreign partner.

2. Conclusion and implementation of the Lease Contract between SONEG and SEEG.

#### Part C: Rehabilitation of Existing Facilities

Rehabilitation of existing facilities, including treatment plants, pumping stations, transmission and distribution pipes, reservoirs and individual connections and water meters.

#### Part D: Expansion of the Conakry Water Supply System

1. Partial doubling of the Grandes Chutes - Yessoulou - Conakry transmission line.
2. Construction of a treatment plant at Yessoulou (40,000 m3/day).
3. Construction of water storage reservoirs at Kipe and Simbaya.
4. Extension of the water distribution network, including about 300 km of pipes and 15,000 new domestic connections.
5. Supervision of construction.

Part E: Other Activities

1. Preparation of preliminary and final designs and tender documents for the expansion of water supply in selected secondary urban centers.
2. Training of DEG staff not selected by SONEG or SEEG in the fields of inter alia plumbing, air conditioning and electricity.

\* \* \* \*

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

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 one million five hundred thousand dollars (\$1,500,000) to be withdrawn from the Credit 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 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 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 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 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; or

(b) 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.

