

CONFORMED COPY

CREDIT NUMBER 3693 YF

Development Credit Agreement

(Export Finance Facilitation Project)

between

FEDERAL REPUBLIC OF YUGOSLAVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 31, 2002

CREDIT NUMBER 3693 YF

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT dated October 31, 2002, between FEDERAL REPUBLIC OF YUGOSLAVIA (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, requested the Association to assist in the financing of the Project;

(B) the Republic of Italy (Italy) has provided a grant in an amount equal to ten million euro (€10,000,000) (the Italian Grant) to assist in financing the Project, and Italy has requested the Association to administer on its behalf the Italian Grant towards the financing of the Project;

(C) by an agreement of even date between the Borrower and the Association (the Italian Grant Agreement), the Association has agreed to make the proceeds of the Italian Grant available to the Borrower on terms and conditions set forth in the Italian Grant Agreement;

(D) the Project will be carried out by the Serbia and Montenegro Export Credit Agency (SMECA) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to SMECA, as set forth 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;

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 (as amended through October 6, 1999), with the modifications set forth in Schedule 3 to this Agreement (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) “Charter” means the Law on The Fund for Insurance and Financing of Foreign Trade Activities of January 16, 2002, published in the Official Gazette of the Borrower No. 03/02, establishing SMECA, as well as the Articles of Association of SMECA adopted on June 21, 2002 by the Managing Board of SMECA acting pursuant to Article 13, paragraph 1 of the aforementioned Law, together with the procedures manual and other similar instruments of SMECA;

(b) “Contract Bond(s)” means an undertaking, guarantee, or indemnity of a financial institution or insurer in support of obligations from an Exporting Enterprise under one or more contracts for the export of goods and/or services under the Exporter Performance Insurance Facility (as hereinafter defined) under Part C of the Project;

(c) “Covered Risks” means the risks defined in the General Conditions of Insurance (as hereinafter defined) included in the Standard Form of Insurance Contract (as hereinafter defined) and covered by a contract or a policy for Political Risk Insurance, Exporter Performance Insurance, or Credit Insurance (as these terms are hereinafter defined) under Parts A, C, and D, respectively, of the Project, and includes such other similar risks as may be agreed upon by the Managing Board of SMECA and the Association at any time;

(d) “Credit Insurance” means an insurance policy or a guarantee provided by SMECA or the Insurers (as hereinafter defined) other than SMECA, as the case may be, under Part D of the Project with respect to the payment of a loan or credit, or a portion thereof, extended for the purchase of goods and/or services from an Exporting Enterprise;

(e) “Eligible Investments” has the meaning given to such expression in paragraph 2 under the heading “General” of Schedule 4 of this Agreement;

(f) “Euro” or the sign “€” means the lawful currency of the member States of the European Union that have adopted the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on the European Union;

(g) “Export Project” or “Export Projects” means, singularly, the specific export development project and, collectively, the specific export development projects to be carried out by an Exporting Enterprise under the Project utilizing the proceeds of a Subloan/Subloans (as hereinafter defined), Working Capital Loans (as hereinafter defined), or the proceeds of a loan that is the subject of a Guarantee (as hereinafter defined), for the export of goods and/or services from the territory of the Borrower;

(h) “Exporter Performance Insurance” means an insurance policy or a guarantee provided by SMECA or the Insurers (as hereinafter defined) other than SMECA, as the case may be, under Part C of the Project with respect to the performance by an Exporting Enterprise under a contract for the export of goods and/or services, which expression includes, without limitation, a Contract Bond;

(i) “Exporting Enterprise” means an enterprise selected in accordance with Section 2.07 of the Project Agreement for Export Performance Insurance, Credit Insurance, or as a beneficiary of a Working Capital Loan (as hereinafter defined) or a Guarantee (as hereinafter defined) under the Project, and “Exporting Enterprises” means, collectively, all said enterprises;

(j) “Facility Escrow Account” and “Facility Escrow Accounts” mean one or more interest-bearing accounts referred to in Section 2.01 (b) of the Project Agreement, as the Project needs may require, opened and maintained by SMECA in an offshore commercial bank(s), acceptable to the Association, for deposit therein of the proceeds of the Credit withdrawn by SMECA in accordance with the terms and conditions of this Agreement and thereafter to be managed in accordance with the terms and conditions of the relevant Insurance Facility Agreement;

(k) “General Conditions of Insurance” means the general conditions of insurance applicable to Insurance Contracts (as hereinafter defined) under Parts A, C, and D, respectively, of the Project incorporated into the Operations Manual (as hereinafter defined), as may be adopted or amended from time to time by the Managing Board of SMECA with the prior written consent of the Association;

(l) “Guarantee” means a guarantee extended by SMECA to a Participating Financial Institution (as hereinafter defined) under Part B of the Project, whereby SMECA guarantees the repayment to the PFI (as hereinafter defined) of an agreed percentage of funds due under a loan for Working Capital made by the PFI to an Exporting Enterprise;

(m) “Guarantee Agreement” means an agreement between SMECA and a PFI for the Guarantee (as the term is defined in this Section) extended by SMECA to the PFI;

(n) “Insurance Contract” means any contract or policy for the provision of insurance against Covered Risks issued under the Insurance Facility (as hereinafter defined) to an Insured (as hereinafter defined) by SMECA or the Insurers (as hereinafter defined) other than SMECA, as the case may be, and which contains terms and conditions substantially similar to those specified in the Standard Form of Insurance Contract, and “Insurance Contracts” means, collectively, all such contracts and policies;

(o) “Insurance Facility” or “Insurance” means the Political Risk Insurance Facility, the Exporter Performance Insurance Facility, and the Credit Insurance Facility specified in Parts A, C, and D of the Project, respectively;

(p) “Insurance Facility Agreement” means the agreement referred to in Section 2.01(b)(ii) of the Project Agreement between the Insurers other than SMECA and SMECA, as such agreement may be amended with the prior written approval of the Insurers other than SMECA, SMECA, and the Association, pursuant to which the Insurers

other than SMECA provide Insurance for the Covered Risks, and “Insurance Facility Agreements” means, collectively, all such agreements;

(q) “Insured” means a natural or a juridical person to whom SMECA has or the Insurers other than SMECA have, as the case may be, issued an Insurance Contract in accordance with the Operations Manual (as hereinafter defined);

(r) “Insurer” and “Insurers” mean SMECA or one or more insurers, whether acting alone or participating in a syndicate of insurers, as the case may be, that subscribe to the Insurance Facility from time to time, and include any other insurers approved by SMECA and the Association;

(s) “Loan” and “Loans” mean, singularly, a loan for Working Capital made by a PFI from funds other than the Credit and the Italian Grant to an Exporting Enterprise under Part B of the Project and, collectively, all such Loans made by PFIs;

(t) “Operations Manual” means SMECA’s Operations Manual, dated May 22, 2002, consisting of Part I – Project Description, Working Capital Facility and Exporter Performance Insurance Facility, Part II – Due Diligence and Portfolio Management Guidelines, Part III – Credit Insurance Facility, Part IV – Political Risk Insurance Facility, Part V – Consulting Services Facility, Part VI – Financial Management System, Part VII – Environmental Manual, and Part VIII – Attachments, as agreed by the Managing Board of SMECA and the Association, which sets out the operating policies, rules and procedures to be applied and observed by SMECA in connection with the operation of the Insurance Facility and related matters, and as said manual may be amended from time to time with the prior written concurrence of the Managing Board of SMECA and the Association;

(u) “PFI” and “PFIs” mean, singularly, a Participating Financial Institution and, collectively, the Participating Financial Institutions;

(v) “Participating Financial Institution” and “Participating Financial Institutions” mean, singularly, a local bank in the territory of the Borrower and, collectively, the banks selected in accordance with Part A of Schedule 2 to the Project Agreement for participation in Working Capital Loans Facility under Part B (a) of the Project;

(w) “Participation Agreement” and “Participation Agreements” mean, singularly, the Participation Agreement and, collectively, the Participation Agreements entered or to be entered into between SMECA and each of the Participating Financial Institutions pursuant to paragraph B.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time with the prior written approval of the Association, and such term includes all schedules supplemental to the Participation Agreement(s);

(x) “Participation Loan” and “Participation Loans” mean, singularly, a loan made by SMECA to a PFI under a Participation Agreement for incorporation into a Subloan (as hereinafter defined), and, collectively, all such loans made under the relevant Participation Agreement(s);

(y) “Payment” means any payment to an Insured or a PFI, as the case may be, made by SMECA or the Insurers other than SMECA, as the case may be, in respect of a claim under an Insurance Contract or a Guarantee Agreement;

(z) “Political Risk Insurance” means insurance provided by SMECA or the Insurers other than SMECA, as the case may be, to eligible foreign enterprises covering political risks specified under Part A of the Project;

(aa) “Project Accounts” means, collectively, the Insurance Facility Escrow Account, the Working Capital Guarantee and Credit Insurance Escrow Account, and the Revolving Project Account;

(bb) “Project Agreement” means the agreement between the Association and SMECA of even date, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(cc) “Project Documents” means, collectively, this Development Credit Agreement, the Project Agreement, Guarantees/Guarantee Agreements, Insurance Facility Agreements, Insurance Contracts, Participation Agreements, Recourse Agreements, Security Trust Agreements, and the Operations Manual;

(dd) “Project Support Agreements” means, collectively, the agreements entered into or to be entered into between the Borrower and Republic of Serbia, on the one hand, and the Borrower and Republic of Montenegro, on the other hand, specified in Section 3.04 of this Agreement, and such term includes all schedules and agreements supplemental to each of the Project Support Agreements;

(ee) “Recourse Agreement” means the agreement requiring an Exporting Enterprise to indemnify SMECA and/or the Insurers other than SMECA against any loss arising from any Payment under Exporter Performance Insurance, and referred to in Part A.3 of Schedule 3 to the Project Agreement;

(ff) “Revolving Project Account” means the account opened and maintained by SMECA for the purposes of the Project and referred to in Section 2.06 of the Project Agreement;

(gg) “Secured Amount(s)” means the amount(s) of the Credit withdrawn from the Credit Account or the Special Account and deposited into the Facility Escrow Account(s) from time to time to secure the repayment to the Insurers other than SMECA of Payments made by the Insurers other than SMECA;

(hh) “Security Trust Agreement” and “Security Trust Agreements” means, singularly, a security agreement, and collectively, the security agreements, among SMECA, the Insurers other than SMECA and the commercial bank(s) holding the Facility Escrow Account(s) as a trustee and referred to in Section 2.01(c)(i) of the Project Agreement, pursuant to which, inter alia, the Insurers other than SMECA shall have access to the Facility Escrow Account(s) to pay valid claims under Insurance Contracts, as the Security Trust Agreement(s) may be amended from time to time with prior written approval of the Association;

(ii) “Serbia and Montenegro Export Credit Agency” or “SMECA” means the legal entity established pursuant to the Charter and operating under the laws and regulations of the Borrower, and includes any successor or successors thereto acceptable to the Association;

(jj) “Special Account” means the account referred to in Schedule 5 of this Agreement;

(kk) “Standard Form of Insurance Contract” means the standard form of Insurance Contract or Contracts, including the General Conditions of Insurance, approved by the Insurers other than SMECA, SMECA, and the Association, which contains all the standard terms and conditions to be included in the Insurance Contracts, as said standard form may be amended, from time to time, with the prior written concurrence of the Insurers other than SMECA, the Managing Board of SMECA, and the Association;

(ll) “Subloan” means any loan, credit, or deposit made or proposed to be made by a Participating Financial Institution to an Exporting Enterprise for Working Capital (as hereinafter defined) for an Export Project, which includes the proceeds of the relevant Participation Loan, and “Subloans” means all said loans, credits, or deposits, collectively;

(mm) “Subloan Agreement” and “Subloan Agreements” mean, singularly, any of the agreements for Subloans, and, collectively, all the agreements for Subloans, entered or to be entered into between the Participating Financial Institutions and the Exporting Enterprises pursuant to Part C.1 (a) of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subloan Agreement(s);

(nn) “War or Civil Disturbance” has the meaning given to such expression in the Operations Manual;

(oo) “Working Capital” means the capital used for the cost of goods, including materials, labor and overheads, and any credit or financial accommodation provided by an Exporting Enterprise to a buyer in the performance of an Export Project;

(pp) “Working Capital Guarantee and Credit Insurance Escrow Account” means the interest bearing account referred to in Section 2.01 (d)(i) of the Project Agreement;

(qq) “Working Capital Loan” and “Working Capital Loans” mean, singularly, any loan or credit made or proposed to be made directly by SMECA for Working Capital to an Exporting Enterprise for an Export Project, which includes the proceeds of the Credit, and, collectively, all Working Capital Loans;

(rr) “Working Capital Loan Agreement” and “Working Capital Loan Agreements” mean, singularly, any of the agreements for Working Capital Loans and, collectively, all the agreements for Working Capital Loans entered or to be entered into between SMECA and the Exporting Enterprises pursuant to Part C.1 (b) of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Working Capital Loan Agreement(s); and

(ss) “Working Capital Loan Facility” means the facility for Working Capital Loans to Exporting Enterprises and Participation Loans to PFIs by SMECA under Part B (a) of the Project.

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 Nine Million One Hundred Thousand Special Drawing Rights (SDR 9,100,000).

Section 2.02. (a) The amounts of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) Part A of the Project, in accordance with the provisions of Part A of Schedule 4 to this Agreement, for amounts necessary to cover SMECA’s obligations for Insurance Contracts to be issued;
- (ii) Part B (a) of the Project, in accordance with the provisions of Part B. 1 (b) and (c), as the case may be, of Schedule 4 to this Agreement, for amounts approved by SMECA for Participation Loans to PFIs and for Working Capital Loans to Exporting Enterprises, respectively, and to be financed out of the proceeds of the Credit;

- (iii) Part B (b) of the Project, in accordance with the provisions of Part B.1 (a) of Schedule 4 to this Agreement, for the amounts to cover the maximum liability of SMECA for Guarantees;
- (iv) Part C of the Project, in accordance with the provisions of Part C of Schedule 4 to this Agreement and Schedule 3 of the Project Agreement, for liabilities incurred by SMECA under the relevant Insurance Contracts and for the liabilities to be incurred by the Insurers other than SMECA under the Insurance Contracts to be issued;
- (v) Part D of the Project, in accordance with the provisions of Part D of Schedule 4 to this Agreement, for amounts insured in accordance with the provisions of Part A of Schedule 4 to the Project Agreement; and
- (vi) Parts E, F, and G of the Project, for expenditures made (or if the Association shall so agree, to be made) in respect of the reasonable cost of goods, services, and operating costs required therefor, and to be financed out of the proceeds of the Credit.

(b) Notwithstanding the provisions of paragraph 1 of Schedule 1 to this Agreement, the Borrower shall ensure that SMECA shall not make any withdrawals under the Credit in respect of:

- (i) payments made for expenditures prior to the date of this Agreement;
- (ii) Category 1 of paragraph 1 of said Schedule 1, unless the requirements set forth in Part A.1 (a) of Schedule 4 to this Agreement have been met for the issuance of the Political Risk Insurance;
- (iii) Category 2 of paragraph 1 of said Schedule 1, for a Subloan or a Working Capital Loan unless the Subloan or the Working Capital Loan has been made in accordance with the criteria, procedures, and on the terms and conditions set forth or referred to in Parts B, C, and D of Schedule 2 to the Project Agreement, and for a Guarantee unless SMECA has issued the Guarantee to the Participating Financial Institution in accordance with the criteria, procedures, and on the terms and conditions set forth in Part B.3 (b) of Schedule 2 to the Project Agreement;
- (iv) Category 3 of paragraph 1 of said Schedule 1, unless the policy or policies of Exporter Performance Insurance has or have been

issued in accordance with the procedures and on the terms and conditions set forth or referred to in Part A.3 of Schedule 3 to the Project Agreement; and

- (v) Category 4 of paragraph 1 of said Schedule 1, unless SMECA has or the Insurers other than SMECA have issued a policy or policies of Credit Insurance to an Exporting Enterprise in accordance with the criteria, procedures, and on the terms and conditions set forth or referred to in Part A of Schedule 4 of the Project Agreement.

(c) The Borrower may, for the purposes of the Project, open and maintain in Euro a special deposit account in a commercial bank, acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007, 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 and service charges shall be payable semi-annually on February 15th and August 15th in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15th and August 15th commencing August 15, 2012, and ending February 15, 2022. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. The currency of Euro is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. (a) The Managing Director of SMECA, or any person duly authorized by him or her, 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.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts SMECA with responsibility for the preparation and submission of withdrawal applications under the Credit and for the collection of the documents and other evidence to be furnished to the Association in support of such applications.

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 SMECA to perform in accordance with the provisions of the Project Agreement all the obligations of SMECA 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 SMECA 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 and the Italian Grant, respectively, available to SMECA, each under a grant agreement to be entered into between the Borrower and SMECA on a non-refundable grant basis, under such other terms and conditions which shall have been approved by the Association.

Section 3.02. The Borrower shall take all measures necessary on its part to ensure that SMECA shall exercise its rights and comply with its obligations under the Project Documents in such a manner as to protect the interests of the Borrower, the Association and SMECA, and to accomplish the purposes of the Credit.

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 SMECA pursuant to Section 2.09 of the Project Agreement.

Section 3.04. The Borrower shall enter into a Project Support Agreement, on terms and conditions satisfactory to the Association, with each of the Republic of Serbia and the Republic of Montenegro, respectively, pursuant to which each said Republic shall undertake, *inter alia*, obligations to: (a) support the Borrower's commitment to the Project as set forth in this Agreement; (b) agree to contribute its proportionate share toward the payment and repayment obligations of the Borrower in accordance with this Agreement; and (c) support and enable SMECA to carry out the Project in accordance with its obligations under the Project Agreement and the Operations Manual.

Section 3.05. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts B, E, and F of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 5 to the Project Agreement.

Section 3.06. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, 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 designed to ensure the continued achievement of the Project's objectives; and

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

Section 3.07. The Borrower shall ensure that:

(a) SMECA shall carry out the environmental reviews concerning the environmental mitigation, monitoring and institutional measures for the Project in a timely manner and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental protection, and shall include adequate information on the carrying out of such measures in the quarterly progress reports referred to in paragraph (b) of this Section.

(b) SMECA shall carry out an environmental impact assessment (EIA) for all Sub-projects in accordance with the requirements of Part VII of the Operations Manual (entitled 'Environmental Manual'), in a timely manner and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws

and regulations of the Borrower relating to health, safety and environmental protection. In addition, SMECA shall include adequate information on the carrying out of such EIAs in quarterly progress reports to be submitted to the Borrower and the Association, with the first EIA quarterly report to be provided not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the first Sub-project through the end of such first calendar quarter; thereafter, each EIA quarterly report shall be furnished to the Borrower and the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the implementation by the Borrower and SMECA of the Project.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the status of implementation of the Project, in such detail as the Association shall reasonably request.

Section 4.02. Except as the Association shall otherwise agree, and notwithstanding any terms of the Charter to the contrary, the Borrower shall ensure that SMECA shall conduct only the business and activities, and shall make only the investments, contemplated by or referred to in this Agreement. In addition, the Borrower shall also ensure that SMECA shall carry out its operations and conduct its affairs in accordance with sound administrative, financial and insurance practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.03. The Borrower shall ensure that, except as the Association shall otherwise agree, all funds at the disposal of SMECA from the Credit and the Italian Grant shall be used exclusively for purposes authorized by this Agreement.

Section 4.04. Except as the Association shall otherwise agree, in the event that an Insurer or a PFI shall have failed to perform any of its obligations under an Insurance Facility Agreement or a Participation Agreement, as the case may be, the Borrower shall ensure that SMECA shall exercise its rights in the circumstances thereunder, in such manner as to protect the interests of the Borrower, the Association, and SMECA, and to accomplish the purposes of the Credit.

ARTICLE V

Financial Covenants

Section 5.01. (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 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 (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.

Section 5.02. The Borrower shall prepare and furnish to the Association a financial monitoring report (FMR), in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit and the Italian Grant, respectively, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) SMECA shall have failed to perform any of its obligations under any of the Project Documents to which it is a party or by which it is bound, or to properly carry out its responsibilities under the Operations Manual;

(b) as a result of events which have occurred after the date of this Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that SMECA will be able to perform its obligations under the Project Agreement, or that SMECA, an Insurer or a PFI will be able to perform their respective obligations under any of the Insurance Facility Agreements or the Participation Agreements, as the case may be;

(c) the occurrence of War or Civil Disturbance;

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SMECA, or for the suspension of its operations;

(e) any provision of the Charter shall have been amended, suspended, abrogated, terminated or waived without the prior written consent of the Association;

(f) Republic of Serbia or Republic of Montenegro shall have suspended or terminated their respective Project Support Agreement, or shall not have complied with any of the respective provisions thereof;

(g) any material or substantial provision of the Operations Manual shall have been amended without the prior written consent of the Association;

(h) any provision of the Standard Form of Insurance Contract shall have been amended without the prior written consent of the Association;

(i) any provision of any of the Insurance Contracts or any of the Participation Agreements shall have been amended, assigned, suspended, abrogated, terminated or waived without the prior written consent of the Association;

(j) any Payment shall have been made under an Insurance Contract for Political Risk Insurance; or

(k) SMECA shall have failed to invoke arbitration proceedings under an Insurance Facility Agreement when in the reasonable opinion of the Association such proceedings were warranted to determine the validity of a claim under an Insurance Contract.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 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; or

(b) any of the events specified in paragraphs (d), (e), (f), (g), (h), (i), (j) or (k) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as an additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Project Support Agreements, each satisfactory to the Association, have been entered into between the Borrower and Republic of Serbia, on the one hand, and the Borrower and Republic of Montenegro, on the other hand;

(b) that the grant agreements referred to in Section 3.01(b) of this Agreement have been concluded; and

(c) that the Italian Grant Agreement, satisfactory to the Association, has been entered into between the Borrower and the Association.

Section 7.02. 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 and executed by SMECA, and is legally binding upon SMECA in accordance with its terms;

(b) that the Project Support Agreements, referred to in Section 7.01 (a) hereof, have been duly authorized and executed by the parties thereto, and are legally binding upon them in accordance with their respective terms; and

(c) that the grant agreements referred to in Section 7.01 (b) hereof, have been duly authorized and executed by the parties thereto, and are legally binding upon them in accordance with their respective terms.

Section 7.03. 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 7.04 The obligations of the Borrower under Article III of this Agreement shall cease and determine on the date on which this Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be earlier.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. Except as provided in Section 2.09 (a) 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Federal Ministry of Finance of
the Federal Republic of Yugoslavia
Bulevar Mihajla Pupina 2
Belgrade 11000
Federal Republic of Yugoslavia

Facsimile:

(381 11) 311-2979

With a copy to: (381 11) 311-4120

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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 City of Belgrade, Federal Republic of Yugoslavia, as of the day and year first above written.

FEDERAL REPUBLIC OF YUGOSLAVIA

By /s/ Miroljub Labus

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Rory O'Sullivan

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth 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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Political Risk Insurance Facility	1,000,000	100%
(2) Working Capital Guarantees/Loans		
(a) Guarantees	2,830,000	100%
(b) Loans	3,090,000	100%
(3) Exporter Performance Insurance Facility	1,090,000	100%
(4) Credit Insurance Facility	1,090,000	100%
(5) Goods	0	95% of foreign expenditures, 80% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(6) Consultants' services		
(a) Foreign firms	0	80%
(b) Foreign individuals	0	70%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(7) Operating costs of SMECA	0	86% for the first year, 75% for the first half of the second year, and 50% for the second half of the second year
TOTAL	<u>9,100,000</u>	

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 the operating costs incurred by SMECA on account of staff salaries, office facilities, staff travel, audit costs, consumable office supplies, and fuel costs for transport vehicles, as may be agreed by the Association. In addition, for the purposes of Category 7, SMECA’s operations shall be deemed to have commenced on the date of effectiveness of the Project.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) with the exception of the first two contracts, goods under contracts costing less than \$50,000 equivalent; (b) services under contracts costing less than \$100,000 equivalent each for consultant firms and less than \$50,000 for individual consultants; (c) SMECA’s operating costs; and (d) all expenditures under Category 4, except where the Covered Risk is not reinsurable; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to support sustainable economic growth of the Borrower by catalyzing and facilitating trade transactions associated with productive activity in the country by assisting its domestic export credit agency (SMECA) to facilitate: (a) exports through credit insurance, working capital loans and guarantees, exporter performance insurance, and technical assistance to the Borrower's Exporting Enterprises on export procedures and marketing; (b) imports through political risk insurance, and comprehensive import credit insurance; and (c) information availability on domestic and foreign exporting enterprises and financial institutions.

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: Political Risk Insurance Facility

Provision of support for an insurance facility against the following political risks: (i) Inability to Convert and Transfer Currency; (ii) Inability to Purchase Foreign Exchange in the Marketplace of the Borrower; (iii) Cancellation of Licenses and Imposition of Restrictions on Imports and Exports; (iv) Imposition or Increase of Import or Export Taxes; (v) Expropriation; (vi) Seizure of Goods for Sale, or Prevention of Export; (vii) Interference with the Carriage of Goods; (viii) Embargo; and (ix) War or Civil Disturbance.

Part B: Working Capital Loans and Guarantee Facilities

(a) Working Capital Loans Facility

Provision of Participation Loans to PFIs and Working Capital Loans to Exporting Enterprises by SMECA directly.

(b) Working Capital Guarantee Facility

Provision of Guarantees by SMECA of Working Capital Loans made or to be made by PFIs to Exporting Enterprises.

Part C: Exporter Performance Insurance Facility

Provision of Exporter Performance Insurance for Exporting Enterprises allowing them to obtain insurance policies from financial institutions and/or insurance companies approved by the Association, through the provision of security or guarantees to financial institutions and insurance companies acceptable to the Association that issue Contract

Bonds and/or insurance policies in support of exports of goods and services by Exporting Enterprises.

Part D: Credit Insurance Facility

Provision of Credit Insurance in support of export activities to Exporting Enterprises and guarantees of insurance to foreign trade credit insurance corporations or financial institutions and business enterprises covering the supply of essential goods and services to Exporting Enterprises.

Part E: Credit Information

Provision of credit information in respect of the Borrower's banks and enterprises for the benefit of foreign banks and enterprises, and vice versa.

Part F: Institution Strengthening

1. Strengthening the institutional capacity of SMECA through the provision of technical assistance (including assistance for marketing its financial services, enhancing its credit assessment capacity, and developing its export credit services), training, studies, audit, accounting, legal services (other than services related to arbitration and litigation proceedings), software information systems, office equipment and vehicles, and operating expenses for Project management and implementation.

2. Strengthening the capacity of Exporting Enterprises through the provision of technical assistance and training to improve export procedures and marketing skills.

Part G: Operating Support

Financing for operating costs, as defined in paragraph 2 (c) of Schedule 1 to this Agreement, of SMECA.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Modifications of General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

- (a) The following sentence is added to Section 4.01:

“For the purposes of Parts A, B (b), C and D of the Project, except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the relevant Facility Escrow Account and Working Capital Guarantee and Credit Insurance Escrow Account, as relevant, specified in Sections 2.01(b) and (c)(i) of the Project Agreement.”;

- (b) At the end of Section 6.01, following the words “Section 5.02” the words: “or in respect of which an Insurance Contract (as such term is defined in the Development Credit Agreement) has been issued and remains outstanding” are added; and

- (c) In Section 6.02, at the end of the first phrase which precedes subparagraph (a), ending with the word “Account”, the words “with respect to any amount of the Credit which has not been committed under an Insurance Contract” (as such term is defined in the Development Credit Agreement) are added.

SCHEDULE 4

Project Accounts

General

1. Subject to the terms of the Insurance Facility Agreements in this respect, if any, the amounts on deposit from time to time in the Facility Escrow Accounts, the Working Capital Guarantee and Credit Insurance Escrow Account, and the Revolving Project Account, respectively, may from time to time, pending utilization as specified in: (i) sub-paragraph (b) of paragraph 1 of Part A of this Schedule; (ii) sub-paragraph (a) of paragraph 2 of Part B of this Schedule; (iii) sub-paragraph (a) of paragraph 2 of Part C of this Schedule; and (iv) sub-paragraph (a) of paragraph 2 of Part D of this Schedule, be used to make Eligible Investments.

For the purposes of this Agreement, “Eligible Investments” means investments made with the prior written approval of the Association by SMECA, which investments shall: (i) not be speculative in nature, (ii) be such that the capital thereof not be susceptible to depreciation or otherwise at risk of loss, and (iii) be liquid in nature so as to ensure that funds are available for the purpose of making Payments, which investments shall be held in one or more segregated accounts on terms and conditions acceptable to the Association.

Part A: Political Risk Insurance Facility

1. After the Association has received evidence satisfactory to it that at least one Facility Escrow Account has been duly opened, withdrawals of amounts from the Credit Account, for deposit in a Facility Escrow Account, shall be made as follows:

(a) After SMECA has received from the Insurers a statement addressed to it and the Association that an Insurance Contract shall be issued when such amount as is necessary to cover SMECA’s obligations to deposit funds into the relevant Facility Escrow Account, in accordance with the Insurance Facility Agreement, has been duly deposited on behalf of the Borrower, it shall furnish promptly to the Association upon its receipt from the Insurers other than SMECA a request for a deposit of such amount into the relevant Facility Escrow Account, accompanied by a copy of the proposed Insurance Contract and no objection notice from the Association. On the basis of such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the relevant Facility Escrow Account such amount as SMECA shall have requested.

(b) For each Payment out of a Facility Escrow Account in accordance with the terms of the relevant Insurance Facility Agreement and the relevant Security Trust Agreement, SMECA on behalf of the Borrower shall, at such time as the Association shall

reasonably request, furnish to the Association such documents and such other evidence as the Association may request, including evidence from the Insurers other than SMECA.

- (c) (i) If the Association shall have determined at any time that any withdrawal out of a Facility Escrow Account: (i) was made for other than making an eligible Payment or an Eligible Investment; or (ii) was not justified by the evidence furnished to the Association, SMECA, on behalf of the Borrower, shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) refund to the Association an amount equal to the amount of such withdrawal or the portion thereof not so eligible or justified.
- (ii) Subject to the terms and conditions of the relevant Insurance Facility Agreements, if the Association shall have determined at any time that any amount remaining on deposit in a Facility Escrow Account will not be required to cover Political Risk Insurance contracts then in effect and outstanding, the Borrower shall ensure that SMECA shall, on behalf of the Borrower, promptly upon receipt of notice from the Association, transfer to the Revolving Project Account such outstanding amount.
- (iii) Refunds to the Association made pursuant to subparagraph (c)(i) of this paragraph 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.

Part B: Working Capital Loans/Guarantee Facilities

1. After the Association has received evidence satisfactory to it that the Working Capital Guarantee and Credit Insurance Escrow Account has been duly opened, withdrawals of amounts from the Credit Account for deposit in the Working Capital Guarantee and Credit Insurance Escrow Account shall be made as follows:

- (a) Working Capital Loan Guarantees: SMECA, on behalf of the Borrower, shall furnish promptly to the Association, upon receipt of the application for a Guarantee by relevant PFIs and a copy of the relevant Guarantee Agreement for the Guarantee, a request for a deposit of an amount to cover the maximum liability assumed under the Guarantee. On the basis of such request, but only after the Association has provided a no objection notice in respect of the relevant Guarantee, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Working Capital Guarantee and Credit Insurance Account such amount as SMECA shall have requested.

(b) Participation Loans: SMECA, on behalf of the Borrower, shall furnish to the Association, promptly following approval of a request from a PFI for a Participation Loan, a request to deposit funds with the PFI for the amount of the approved Participation Loan accompanied by a copy of the application by the PFI for the Participation Loan and a copy of the approval by SMECA of such Participation Loan. On the basis of such request, but only after the Association has provided a no objection notice in respect of the relevant Participation Loan, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Working Capital Guarantee and Credit Insurance Account amount equal to the amount of the Participation Loan to the PFI.

(c) Working Capital Loans: SMECA shall furnish to the Association, promptly following approval of a request from an Exporting Enterprise for a Working Capital Loan, a request to deposit funds with the Exporting Enterprise for the amount of the approved Working Capital Loan accompanied by a copy of the application by the Exporting Enterprise for the Working Capital Loan and a copy of the approval by SMECA of such Working Capital Loan. On the basis of such request, but only after the Association has provided a no objection notice in respect of the relevant Working Capital Loan, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Working Capital Guarantee and Credit Insurance Account amount equal to the amount of the Working Capital Loan to the Exporting Enterprise.

2. (a) For each Payment made by SMECA out of the Working Capital Guarantee and Credit Insurance Escrow Account in accordance with the terms of a Guarantee Agreement, the Borrower shall cause SMECA, at such time as the Association shall reasonably request, to furnish to the Association such documents and other evidence as the Association may require in respect of such Payment, including evidence in support of the claim from the relevant PFI and/or the relevant Guarantee holder;

- (b) (i) If the Association shall have determined at any time that any withdrawal out of the Working Capital Guarantee and Credit Insurance Escrow Account: (i) was made for other than making an eligible Payment or an Eligible Investment, or (ii) was not justified by the evidence furnished to the Association, SMECA, on behalf of the Borrower, shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) refund to the Association an amount equal to the amount of such withdrawal or the portion thereof not so eligible or justified.
- (ii) Subject to the terms and conditions of the Guarantee Agreement(s), if the Association shall have determined at any time that any amount remaining on deposit in the Working Capital Guarantee and Credit Insurance Escrow Account will not be required to cover the Guarantees then in effect and

outstanding, the Borrower shall ensure that SMECA shall, on behalf of the Borrower, promptly upon receipt of notice from the Association, transfer to the Revolving Project Account such outstanding amount.

- (iii) Refunds to the Association made pursuant to sub-paragraph (b)(i) of this paragraph 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.

Part C: Exporter Performance Insurance Facility

1. After the Association has received evidence satisfactory to it that the Working Capital Guarantee and Credit Insurance Escrow Account and a Facility Escrow Account have been duly opened, withdrawals of amounts from the Credit Account, for deposit in the Working Capital Guarantee and Credit Escrow Account and a Facility Escrow Account shall be made as follows:

- (a) Where SMECA is the Insurer under the Exporter Performance Insurance, it shall, on behalf of the Borrower, furnish to the Association, upon incurring a liability under the relevant Insurance Contract, a request for a deposit of an amount to cover the amount of that liability, accompanied by a copy of the issued Insurance Contract and copies of the application by the Exporting Enterprise and form of approval by SMECA addressed to the Exporting Enterprise and a no objection notice from the Association. On the basis of such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Working Capital Guarantee and Credit Insurance Escrow Account such amount as SMECA shall have requested.

- (b) Where the Insurers under Exporter Performance Insurance are other than SMECA, SMECA, on behalf of the Borrower, shall furnish to the Association, upon the issue by the Insurers other than SMECA of a statement that the relevant Insurance Contract shall be issued when such amount as is necessary to cover SMECA's obligations to deposit funds into the relevant Facility Escrow Account in accordance with the relevant Insurance Facility Agreement has been duly deposited, a request for deposit of such amount into such Facility Escrow Account, accompanied by a copy of the proposed Insurance Contract and a no objection notice from the Association. On the basis of such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the relevant Facility Escrow Account such amount as SMECA shall have requested.

2. (a) For each Payment out of the Working Capital Guarantee and Credit Insurance Escrow Account and/or a Facility Escrow Account in accordance with the terms of a Insurance Facility Agreement, SMECA, on behalf of the Borrower shall, at

such time as the Association shall reasonably request, furnish to the Association such documents and other evidence relating to such Payment.

(b) If the Association shall have determined at any time that any withdrawal out of the Working Capital Guarantee and Credit Insurance Escrow Account and/or a Facility Escrow Account: (i) was made for other than an eligible Payment for a valid claim, or an Eligible Investment; or (ii) was not justified by the evidence furnished to the Association, SMECA, on behalf of the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) refund to the Association an amount equal to the amount of such withdrawal or the portion thereof not so eligible or justified.

- (c)
 - (i) Subject to the terms and conditions of the relevant Insurance Facility Agreements, if the Association shall have determined at any time that any amount outstanding in the Working Capital Guarantee and Credit Insurance Escrow Account and/or a Facility Escrow Account, respectively, will not be required to cover further Insurance Contracts or Payments, the Borrower shall ensure that SMECA, on behalf of the Borrower, shall, promptly upon receipt of notice from the Association, transfer to the Revolving Project Account such outstanding amount.
 - (ii) Refunds to the Association made pursuant to sub-paragraph (b) of this paragraph 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.

Part D: Credit Insurance Facility

1. After the Association has received evidence satisfactory to it that the Working Capital Guarantee and Credit Insurance Escrow Account and a Facility Escrow Account have been duly opened, withdrawals of amounts from the Credit for deposit in the Working Capital Guarantee and Credit Insurance Escrow Account and a Facility Escrow Account, shall be made as follows:

(a) Where SMECA is the Insurer under Credit Insurance, it shall, on behalf of the Borrower, furnish to the Association, upon incurring a liability under the relevant Insurance Contract, a request for a deposit of an amount to cover the amount of that liability, accompanied by a copy of the issued Insurance Contract and, also where applicable, copies of buyer credit limit approvals pursuant to issued Insurance Contracts, and a no objection notice from the Association where the Covered Risk is not reinsurable. On the basis of such request, the Association shall, on behalf of the Borrower, withdraw

from the Credit Account and deposit in the Working Capital Guarantee and Credit Insurance Escrow Account such amount as SMECA shall have requested.

(b) Where the Insurer under Credit Insurance is other than SMECA, SMECA, on behalf of the Borrower, shall furnish to the Association, upon the issue by the Insurers other than SMECA of a statement that the relevant Insurance Contract shall be issued when such amount as is necessary to cover SMECA's obligations to deposit funds into the Facility Escrow Account in accordance with the relevant Insurance Facility Agreement has been duly deposited, a request for deposit of such amount into such Facility Escrow Account, accompanied by a copy of the proposed Insurance Contract and a no objection notice from the Association. On the basis of such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the relevant Facility Escrow Account such amount as SMECA shall have requested.

2. (a) For each Payment out of the Working Capital Guarantee and Credit Insurance Escrow Account and/or a Facility Escrow Account, SMECA, on behalf of the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence relating to such Payment.

(b) If the Association shall have determined at any time that any withdrawal out of the Working Capital Guarantee and Credit Insurance Escrow Account and/or a Facility Escrow Account: (i) was made for other than an eligible Payment for a valid claim, or an Eligible Investment; or (ii) was not justified by the evidence furnished to the Association, SMECA, on behalf of the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) refund to the Association an amount equal to the amount of such withdrawal or the portion thereof not so eligible or justified.

- (c) (i) Subject to the terms and conditions of the relevant Insurance Facility Agreements, if the Association shall have determined at any time that any amount outstanding in the Working Capital Guarantee and Credit Insurance Escrow Account and/or a Facility Escrow Account, respectively, will not be required to cover further Insurance Contracts or Payments, the Borrower shall ensure that SMECA, on behalf of the Borrower, shall, promptly upon notice from the Association, transfer to the Revolving Project Account such outstanding amount.
- (ii) Refunds to the Association made pursuant to sub-paragraph (b) of this paragraph 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.

Part E: Payments

. A Payment under an Insurance Facility shall be made only with the prior written approval of the Association and the Borrower shall ensure that SMECA shall seek such prior written approval of the Association for any such a Payment.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2) (a), (2) (b), (3), (4), (5), (6) and (7) 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, services and operating costs required for the Project and to be financed out of the amount 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 □ 1,600,000 to be withdrawn from the Credit 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 □ 1,000,000 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 2,000,000.

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, SMECA, on behalf of 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 and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, SMECA, on behalf of 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, SMECA, on behalf of 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 SMECA, on behalf of 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 5.01 (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, minus the total amount of all outstanding special commitments 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.