

CONFORMED COPY

CREDIT NUMBER 2566 CV

Development Credit Agreement

(Public Sector Reform & Capacity Building Project)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 16, 1994

CREDIT NUMBER 2566 CV

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 16, 1994, between REPUBLIC OF CAPE VERDE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Association has received a letter dated November 17, 1993 from the Borrower describing a program of actions, objectives and policies designed to strengthen the Borrower's public sector (hereinafter called the Program), and declaring the Borrower's commitment to the execution of the Program;

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; 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, 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 have the respective meanings therein set forth, and the following additional terms have the following meanings:

- (a) "Directorate General of Statistics" means the Borrower's Statistics Department within MEC;
- (b) "ELECTRA" means the Borrower's Electricity and Water Utility Company;
- (c) "MEC" means the Borrower's Ministry of Economic Coordination;
- (d) "MIA" means the Borrower's Ministry of Internal Administration;
- (e) "MOC" means the Borrower's Ministry of Culture and Communications ;
- (f) "MOF" means the Borrower's Ministry of Finance;
- (g) "MOJ" means the Borrower's Ministry of Justice and Labor;
- (h) "MPA" means the Borrower's Ministry of Public Administration;
- (i) "Patrimonio" means the Department of Government Assets and Goods Acquisition within MOF;
- (j) "PCU" means the Project Coordination Unit established within MEC and headed by a project coordinator (the Project Coordinator) to coordinate the implementation of the Project;
- (k) "Planning Directorate General" means the Department of Planning within MEC;
- (l) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 5, 1993 and November 16, 1993 between the Borrower and the Association;
- (m) "RAIMB" means the Reform Advisory and Implementation Monitoring Board presided over by the ministers of MEC and MPA; and
- (n) "Special Account" means the account referred to in Section 2.02 (b) of this 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 this Development Credit Agreement, an amount in various currencies equivalent to five million seven hundred thousand Special Drawing Rights (SDR 5,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account (the Special Account) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection

against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(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 December 31, 1998 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15, commencing April 15, 2004 and ending October 15, 2033. Each installment to and including the installment payable on October 15, 2013 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.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A, B, D and E of the Project through MPA, MIA, MOJ and MOF, respectively, and Part C of the Project through MEC, MOF and MOC, as appropriate, with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower, through MEC:

(a) shall establish, and thereafter maintain, the PCU within MEC with qualified staff in sufficient numbers, and with functions and responsibilities satisfactory to the Association; the PCU shall be headed by a Project Coordinator, under terms of reference and with experience and qualifications satisfactory to the Association, who shall have the responsibility, inter alia, of ensuring that the coordination of all Project activities is managed by the PCU; and

(b) shall maintain RAIMB, throughout the duration of the implementation of the Project, under terms of reference and with members, satisfactory to the Association.

Section 3.04. By October 31 in each year, commencing with October 31, 1994, the Borrower shall:

(a) provide to the Association for its review and comments the proposed annual public sector reform program for the following year to include, without limitation:

(i) a statement of objectives to be achieved and of activities to be undertaken;

(ii) detailed investment and operating budgets for such activities;

(iii) explicit targets to be achieved in such year in respect of proposed actions and reforms;

(iv) an implementation schedule including monitoring targets to assess progress achieved throughout the year;

(v) training and other technical assistance plans; and

(vi) a procurement program detailing goods (including all equipment) and services to be procured;

(b) afford the Association a reasonable opportunity to review and comment on the proposed annual public sector reform program;

(c) incorporate, in a manner satisfactory to the Association, the

Association's comments on the proposed program; and

(d) adopt a final annual public sector reform program satisfactory to the Association by no later than the first working day of each calendar year of the Project.

Section 3.05. In each quarter ending on March 31, June 30, and September 30, or on such other dates and for such other periods as the Association may otherwise agree, the PCU shall prepare a progress report, comparing actual and forecast progress and evaluating such progress against project monitoring indicators agreed with the Association including, inter alia, standard agreed performance indicators monitoring the physical, financial and operational progress of individual subcomponents and aggregating performance of all components of the Project; and shall provide such progress report to the Association no later than thirty days after each such quarter; and shall prepare an annual progress report including information concerning the quarter ending December 31 in each year, and shall provide such annual progress report to the Association by no later than March 1 in the following year.

Section 3.06. Without limitation to Section 3.01 of this Agreement, in each fiscal year throughout implementation of the Project, the Borrower shall make adequate allocation in its annual budget to provide, promptly as needed, the funds, facilities, services and other resources required for the carrying out of retraining under Part A of the Project, and for the PCU.

Section 3.07. (a) By no later than October 31 in each year, commencing on October 31, 1994, the Borrower shall carry out, jointly with the Association, a review (being, in the case of 1996, the midterm review,) of the progress made in carrying out the Project and the Program. This review shall cover, among other things:

- (i) the performance of MEC, MIA, MOC, MOF, MOJ and MPA in implementing the Project;
- (ii) the effectiveness of the PCU;
- (iii) the availability of the Borrower's counterpart funding and the adequacy of its budgetary allocations for the Project;
- (iv) the results of the studies undertaken under the Project;
- (v) the effectiveness of training provided under the Project; and
- (vi) the degree of achievement of the Project's objectives in light of the monitoring indicators agreed upon with the Association.

(b) The Borrower shall transmit to the Association, at least thirty days prior to each such review described in paragraph (a) above, a report in such scope and detail as the Association shall request, describing, inter alia, the status of the items listed in such paragraph and of Project and Program implementation generally.

(c) Based on the review undertaken in accordance with (a) above, the Borrower shall promptly prepare an action plan acceptable to the Association for the further implementation of the Project and the Program and shall thereafter implement such action plan in a manner satisfactory to the Association.

#### ARTICLE IV

##### Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including 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 three months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) 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 paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, 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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains 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.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

## ARTICLE VI

### Effective Date; Termination

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

(a) the Borrower shall have established the PCU in accordance with Section 3.03 (a) of this Agreement;

(b) the Borrower shall have established a financial management and accounting system for the Project, satisfactory to the Association;

(c) the Borrower shall have selected an independent auditor acceptable to the Association to audit the Project Account;

(d) the Borrower and the Association shall have agreed on a detailed work

program for the first year of the Project; and

(e) the Association shall have received an audit report of ELECTRA, satisfactory to the Association.

Section 6.02. 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.

#### ARTICLE VII

##### Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
CP 506  
Praia  
Cabo Verde

Cable address:

FINANCAS  
Cabo Verde

Telex:

6056 MFGCV

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

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

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

REPUBLIC OF CAPE VERDE

By /s/ Jose E. Barbosa

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

Regional Vice President

## 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) Training	920,000	100%
(2) Retraining	140,000	49%
(3) Advisory services and studies	1,050,000	100%
(4) Goods	2,600,000	100%
(5) Operating costs	140,000	100%
(6) Public information campaigns	70,000	77%
(7) Preinvestment studies	140,000	100%
(8) Refunding of Project Prepara- tion Advance	140,000	Amounts due pur- suant to Section 2.02 (c) of this Agreement
(9) Unallocated	500,000	
	5,700,000	
TOTAL	5,700,000	=====

2. For the purposes of this Schedule:

(a) the term "operating costs" means the incremental operating costs arising under the Project on account of salaries of local contractual staff (including auditing staff), establishment and maintenance of a financial and accounting management system, maintenance of vehicles and fuel, and office supplies and utilities; and

(b) the term "public information campaigns" means the campaigns to be carried out under Part A and Part C (d) of the Project.

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and services under contracts not exceeding \$25,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

## Description of the Project



The objectives of the Project are to assist the Borrower in the carrying out of its program for economic and social reform through implementation of public sector institutional development and capacity building activities and enhancement of the environment for private sector development.

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: Modernization of the Civil Service

Improvement of human resource planning and management systems in the Borrower's civil service through: (i) the provision of short-term advisory services training and equipment; and (ii) the carrying out of studies and public information campaigns, including:

(a) design and implementation of a training program for managers, administrators and support staff in public administration and sector policy and analysis;

(b) support for the modernization of human resources management by MPA; and

(c) assistance in design of a civil service retrenchment program and of the implementation of training and retraining schemes for participants in the Borrower's voluntary departure program.

Part B: Decentralization and Municipal Strengthening

Provision of short-term advisory services, equipment and training and the carrying out of studies in all of the Borrower's municipalities and in MIA, as appropriate, to:

(a) assist in institution capacity building, further detailing guidelines for the decentralization process and strengthening communications between municipalities to promote the sharing of technical support and equipment and communication between municipal authorities and local population; and

(b) develop fiscal administration and management practices, planning and budgetary systems and procurement procedures for expenditure control at the local level;

(c) assist municipalities in recruitment, staff training and personnel management; and

(d) strengthen the municipalities, in particular, in the organization of provision of services to the community.

Part C: Economic Management

The carrying out of studies and public information campaigns and the provision of advisory services, training, equipment, books and internal publications to MEC, MOF and MOC and their agencies and the private media, so as to:

(a) restructure the national accounts and statistics system;

(b) strengthen economic policy formulation and impact analysis capacity of the Planning Directorate General, establish a multi-year rolling investment program and provide the initial finance necessary to set up a preinvestment studies fund;

(c) support the Public Finance Department within MOF, undertake a study on methods of public resource mobilization, and assist in developing debt and aid coordination and management systems;

(d) improve communication of economic and social policies (by public information campaigns);

(e) test pilot schemes for the involvement of non-resident nationals to assist in economic and social development;

(f) improve intragovernment communications; and

(g) design a shared information data system for government operations.

Part D: Legal Framework and Judicial Reform

Provision of equipment and materials, textbooks and internal publications and advisory services and training to MOJ and its agencies, including:

(a) training for the Judiciary, the Registrar of Companies, the Registrar of Deeds and the legal services departments of key ministries and assistance in the preparation of draft commercial, labor and civil procedures legislation;

(b) training for magistrates and other lawyers in business law;

(c) strengthening of drafting skills of MOJ;

(d) development of arbitration facilities and preparation of processes and procedures, including those for commercial law matters; and

(e) provision of equipment to improve efficiency and computerization in relation to certain legal services, such as company registration, notarial services and business facilitation.

Part E: Public Procurement Reform

Provision of training, equipment and advisory services to Patrimonio and selected government administration departments for preparing revisions of procurement procedures and legislation, improving staff performance through training and modernization of the procurement process.

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The Project is expected to be completed by July 31, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part B hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitations to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where

no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

(c) Goods shall be exempted from preshipment price inspection by a third party inspection firm.

Part B: Other Procurement Procedures

1. Goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$770,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Goods up to an aggregate amount equivalent to \$300,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$30,000 or more.

Part C: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

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

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

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

2. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Association, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the

Association, the Borrower shall use other standard forms agreed with the Association.

3. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants' Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$50,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association or to amendments of contracts raising the contract value to \$50,000 equivalent or above, and to the first ten contracts to be awarded.

#### SCHEDULE 4

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (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 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 \$250,000 to be withdrawn from the Credit Account and deposited in 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 replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

