

CONFORMED COPY

CREDIT NUMBER 2457-CHA

(Changchun Water Supply and Environmental Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 18, 1993

CREDIT NUMBER 2457-CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 18, 1993, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out or caused to be carried out, by Changchun Municipality (Changchun) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Changchun the proceeds of the Credit as provided in this Agreement; and

(C) by subsidiary loan agreements to be entered into between Changchun and Changchun Water Supply Company (CWSC) for purposes of carrying out Parts A, D.1(a) and (b), and E of the Project, and between Changchun and Changchun Sewerage Company (CSC) for purposes of carrying out Parts B, D.1(c) and (d), and E of the Project, a portion of the proceeds of the Credit provided for under the Credit Agreement will be relent by Changchun to CWSC and CSC, respectively, on terms and conditions set forth in said Subsidiary Loan Agreements; 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, in the Changchun Project Agreement, and in the CWSC and CSC Project Agreement, all of even date herewith;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Changchun" means Changchun Municipality in Jilin Province of the Borrower;

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

(c) "Changchun Water Supply Contract" means the contract to be entered into between Changchun and CWSC, pursuant to Part B, Paragraph 1 of Schedule 2 to the Changchun Project Agreement, for purposes, among other things, of providing water from the Shitoukoumen Reservoir to CWSC;

(d) "Charters" mean the CSC Charter and the CWSC Charter, and "Charter" means any of the Charters;

(e) "Companies" means CSC and CWSC, "Company" means any one of the Companies;

(f) "CSC" means Changchun Sewerage Company, a state enterprise established by Changchun on May 12, 1992, registered with the Changchun Bureau of Industry and Commerce on June 29, 1992, and operating pursuant to the CSC Charter;

(g) "CSC Charter" means the Charter of CSC approved by Changchun on October 4, 1992 through its Urban Construction Bureau;

(h) "CSC Subsidiary Loan Agreement" means the agreement to be entered into pursuant to Section 2.01(c)(ii) of the Changchun Project Agreement for relending a portion of the proceeds of the credit to CSC for purposes of carrying out Parts B, D.1(c) and (d), and E of the Project;

(i) "CWSC" means Changchun Water Supply Company, a state enterprise established by Changchun on November 20, 1948, registered with the Changchun Bureau of Industry and Commerce on March 10, 1949, and operating pursuant to the CWSC Charter;

(j) "CWSC Charter" means the Charter of CWSC approved by Changchun on November 6, 1992 through its Utility Bureau;

(k) "CWSC Subsidiary Loan Agreement" means the agreement to be entered into pursuant to Section 2.01(c)(i) of the Changchun Project Agreement for relending a portion of the proceeds of the credit to CWSC for purposes of carrying out Parts A, D.1(a) and (b), and E of the Project;

(l) "CWSC and CSC Project Agreement" means the project agreement between the Association and CWSC and CSC, of even date herewith, as the same may be amended from

time to time and such term includes all schedules and agreements supplemental to the CWSC and CSC Project Agreement;

(m) "CWRC" means Changchun Water Resources Company, a state enterprise established by Changchun on May 12, 1992, registered with the Changchun Bureau of Industry and Commerce on June 29, 1992, and operating pursuant to the CWRC Charter which was approved by Changchun, through its Water Conservancy Bureau, on December 26, 1992;

(n) "CWRC O & M Contract" means the contract to be entered into between CWSC and CWRC pursuant to Section 2.09 of the CWSC and CSC Project Agreement, for purposes of assisting in carrying out operation and maintenance of facilities constructed under Part A.1 of the Project;

(o) "Jilin" means Jilin Province of the Borrower;

(p) "Jilin Water Supply Contract" means the contract to be entered into between Jilin Province and CWSC, pursuant to Section 2.08(b) of the CWSC and CSC Project Agreement for purposes, among other things, of providing water from the Xinlicheng Reservoir to CWSC;

(q) "Renminbi" means the currency of the Borrower; "fen" means one one-hundredth of a Renminbi;

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

(s) "Subsidiary Loans" means the subsidiary loans to be made by Changchun to CSC and CWSC, pursuant to Section 2.01(c) of the Changchun Project Agreement; "Subsidiary Loan" means any one of the Subsidiary Loans;

(t) "Subsidiary Loan Agreements" means the CSC Subsidiary Loan Agreement and the CWSC Subsidiary Loan Agreement; "Subsidiary Loan Agreement" means any one of the Subsidiary Loan Agreements; and

(u) "Water Supply Contracts" means the Jilin Water Supply Contract and the Changchun Water Supply Contract; "Water Supply Contract" means any one of the Water Supply Contracts.

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 eighty-six million six hundred thousand Special Drawing Rights (SDR 86,600,000).

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

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 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 January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2003 and ending January 15, 2028. Each installment to and including the installment payable on January 15, 2013 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and to this end, without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause Changchun to perform all its obligations

set forth in the Changchun Project Agreement, and shall cause CWSC and CSC to perform all of their respective obligations set forth in the CWSC and CSC Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Changchun, CWSC and CSC 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 onlend the proceeds of the Credit to Changchun on the following principal terms and conditions: (i) the term for repayment of such proceeds shall not exceed fifteen years, including five years of grace; (ii) interest shall be paid on all outstanding amounts of such proceeds from time to time at a fixed rate of 5.1 percent per annum; (iii) a commitment charge shall be paid by Changchun on the amount of the Credit proceeds not withdrawn from time to time at a fixed rate of one-half of one percent; and (iv) all foreign exchange risks incurred during the period of repayment by Changchun shall be born by Changchun.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Parts C, D.2 and E of the Project shall be carried out by Changchun pursuant to Section 2.03 of the Changchun Project Agreement, and by CWSC in respect of Parts A, D.1(a) and (b), and E of the Project and by CSC in respect of Parts B, D.1(c) and (d), and E of the Project pursuant to Section 2.03 of the CWSC and CSC Project Agreement.

Section 3.04. Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower agrees that:

(a) all funds made available by the Borrower (other than the proceeds of the Credit) shall be made available through Changchun in Renminbi and that:

(i) for purposes of carrying out Parts A and D.1(a) and (b) of the Project such funds shall be considered equity capital of CWSC; and

(ii) for purposes of carrying out Parts B and D.1(c) and (d) of the Project such funds shall be considered equity capital of CSC;

(b) it shall cause Jilin to make available funding through Changchun in Renminbi and that:

(i) for purposes of carrying out Parts A and D.1(a) and (b) of the Project such funds shall be considered equity capital of CWSC; and

(ii) for purposes of carrying out Parts B, D.1(c) and (d) of the Project such funds shall be considered equity capital of CSC.

Section 3.05. The Borrower shall cause Jilin to enter into and perform all its obligations under the Jilin Water Supply Contract.

ARTICLE IV

Financial Covenants

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

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such

expenditures;

(ii) retain or cause to be retained, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; 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) of this Section, and those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, 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, 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, accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

(a) Changchun shall have failed to perform any of its obligations under the Changchun Project Agreement;

(b) a Company shall have failed to perform any of its obligations under the CWSC and CSC Project Agreement;

(c) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Changchun will be able to perform its obligations under the Changchun Project Agreement, or that a Company will be able to perform its obligations under the CWSC and CSC Project Agreement;

(d) any Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of a Company to perform any of its obligations under a Subsidiary Loan Agreement, or the CWSC and CSC Project Agreement; and

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

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

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

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

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower's State Council shall have approved the Development Credit Agreement, the Changchun Project Agreement and the CWSC and CSC Project Agreement; and

(b) the Water Supply Contracts and the Subsidiary Loan Agreements shall have been executed.

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

(a) that the Changchun Project Agreement and the CWSC and CSC Project Agreement have been duly authorized or ratified by Changchun, and by CWSC and CSC, respectively, and that each such Project Agreement is legally binding upon the parties thereto in accordance with their respective terms; and

(b) that the Water Supply Contracts and the Subsidiary Loan Agreements have each been duly executed and authorized or ratified by each of the parties thereto, and that each such contract or agreement is legally binding upon the parties thereto in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

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

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhao Xixin

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji

Regional Vice President
East Asia and Pacific

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) Goods	34,900,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Civil Works	38,200,000	40%
(3) Consultants' services and training under Parts C, D.1, and D.2 of the Project	6,200,000	100%
(4) Unallocated	7,300,000	
TOTAL	86,600,000 =====	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 2,200,000, may be made on account of payments made for expenditures before that date but after May 31, 1992.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve water supply in Changchun in order to meet its household and industrial water supply needs; (b) to reduce household and industrial water pollution in Changchun; (c) to strengthen Changchun's institutional, regulatory and policy framework for water supply; and (d) to create a model demonstration by which appropriate water and sewerage practices can be shared with other cities in China.

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: Water Transmission and Supply

1. Raw Water Transmission. Construction of intake works and a low-lift pumping station on the Second Songhua River at Maja, upstream from Jilin City, a low pressure conduit from Maja to the Tuanshanzi Reservoir booster pumping station; a tunnel at Laoyeling, a second booster pumping station at Dasuihe, a water transmission pipeline from Dasuihe to the discharge point on the Chalu River upstream of the Shitoukoumen Reservoir, and an access road to the pipeline discharge point on the Chalu River.

2. Urban Water Supply. Construction of additional capacity to an existing new raw water pumping station at Shitoukoumen Reservoir, a water transmission pipeline from Shitoukoumen to Fangniugou, a booster pumping station at Fangniugou, a water transmission pipeline to Water Treatment Plant No. 1 in Changchun, an intake and raw water pumping station at Xinlicheng Reservoir, a third water treatment plant, a twin water transmission pipeline from Xinlicheng Reservoir to the third water treatment plant, a pumping station at Water Treatment Plant No. 1 and a booster pumping station at Zhengyang, and new and replacement water mains in the Changchun water distribution system.

3. Equipment and Vehicles. Provision of vehicles and supply and installation of communications, environmental monitoring and other equipment for water operations and maintenance.

Part B: Sewage Collection and Treatment

1. Sewage Collection and Treatment. Construction of an interceptor sewer and primary sewage treatment plant.

2. Equipment and Vehicles. Provision of vehicles and supply and installation of communications, environmental monitoring and other equipment for sewerage operations and maintenance.

Part C: Technical Assistance for Project Management

Provision of technical assistance in designing detailed implementation plans, and carrying out quality control and construction supervision for the Project.

Part D: Institutional Strengthening and Studies

1. Provision of technical assistance and training: (a) to improve the management, technical and financial operation and maintenance of CWSC; (b) to strengthen water pollution control regulations and enforcement mechanisms; (c) to improve the management, technical and financial operation and maintenance of CSC; and (d) to prepare for implementation of a second phase of Changchun's sewage disposal master plan.
2. Carrying out studies: (a) of hazardous and toxic waste management; and (b) industrial relocation.

Part E: Resettlement

Carrying out the resettlement of approximately 500 persons affected by construction of works under the Project.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories (1) through (3) 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 \$7,000,000 (seven million dollars) 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 in the Special Account such amount or amounts as the Borrower shall have requested; and

(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; and

(ii) prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence

to have been paid out of the Special Account for eligible expenditures.

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

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

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

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