

CONFORMED COPY

CREDIT NUMBER 2896 BOS

Development Credit Agreement

(War Victims Rehabilitation Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 22, 1996

CREDIT NUMBER 2896 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 22, 1996, between BOSNIA AND HERZEGOVINA (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; and

(B) the Borrower intends to contract from the Council of Europe Social Development Fund (CEF) a loan (the CEF loan) in an amount equivalent to \$5,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the CEF Loan Agreement) to be entered into between the Borrower and CEF;

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

Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (1) the last sentence of Section 3.02 is deleted.
- (2) the second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories

of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) for the purpose of any payment to persons and entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "Federation" means the Federation of Bosnia and Herzegovina, a political sub-division of the Recipient, and includes any successor or successors thereto;

(b) "MOH" means the Ministry of Health of the Federation, and includes any successor or successors thereto;

(c) "PIU" means the Project Implementation Unit to be established within the MOH pursuant to paragraph 1 of Schedule 4 of this Agreement;

(d) "Procurement Review Committee" means the committee to be established pursuant to Section 5.01 (c) of this Agreement;

(e) "Subsidiary Credit Agreement" means the agreement to be entered into between the Borrower and the Federation, pursuant to Section 3.01 of this Agreement, as the same agreement may be amended from time to time and such term includes all schedules supplemental to the Subsidiary Credit Agreement; and

(f) "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 Agreement, an amount in various currencies equivalent to three million five hundred thousand Special Drawing Rights (SDR 3,500,000).

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, works and services required for the Project described in Schedule to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars, a special deposit account in a 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 5 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the

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

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

Section 2.06. Commitment charges and service charges shall be payable semi-annually on January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 1 and July 1 commencing July 1, 2006 and ending January 1, 2031. Each installment to and including the installment payable on January 1, 2016 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) (i) shall cause the Federation to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices, and to this end shall make available the proceeds of the Credit to the Federation under a Subsidiary Credit Agreement to be entered into between the Borrower and the Federation under terms and conditions which shall have been approved by the Association; (ii) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Federation to carry out the Project and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project; and (iii) shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by the Federation;

(b) shall exercise its rights under the Subsidiary Credit Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Credit Agreement or any provision of any such agreement; and

(c) without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, shall cause the Federation to carry out the Project in accordance with the Implementation Program set

forth in Schedule 4 to this Agreement.

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause the Federation to maintain 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 and the Federation responsible for carrying out the Project or any part thereof.

(b) The Borrower shall or shall cause the Federation to:

- (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 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; 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 or shall cause the Federation to:

- (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 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;
- (iii) enable the Association's representatives, based on an appropriate notice, 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:

(a) Subject to paragraph (b) of this Section:

- (i) the right of the Borrower to withdraw the proceeds of the CEF Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the CEF Loan Agreement providing

therefor, or

(ii) the CEF Loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that:

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

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

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, the event in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

ARTICLE VI

Effectiveness; Termination

Section 6.01. For purposes of Section 12.03 of the General Conditions, the following events are specified as conditions to the effectiveness of this Agreement:

(a) the Subsidiary Credit Agreement has been executed with terms and conditions satisfactory to the Association;

(b) the PIU has been established under terms of reference satisfactory to the Association and the PIU director has been appointed in accordance with paragraph 1 of Schedule 4 to this Agreement;

(c) the Procurement Review Committee has been established as set forth in paragraph 3 of Schedule 4 to this Agreement; and

(d) the clinical centers, cantonal hospitals, community-based physical and psycho-social rehabilitation centers and prostheses and orthoses production and maintenance units to be rehabilitated and upgraded under Parts A, B and C of the Project have been selected and are acceptable to the Association.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Subsidiary Credit Agreement entered into between the Borrower and the Federation has been duly authorized or ratified by, and is legally binding upon, the parties to it in accordance with the terms of such agreement.

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
Mehmeda Spahe 5
71000 Sarajevo
Bosnia and Herzegovina

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:

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

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.

BOSNIA AND HERZEGOVINA

By /s/ S. Alkalaj

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J.-M. Severino

Acting Regional Vice President
Europe and Central Asia

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 Credit, the allocations of the amount of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	1,180,000	100% (net of taxes)
(2) Goods	1,010,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' Services	340,000	100%
(4) Training	280,000	100%
(5) Incremental Operating Costs	600,000	100%
(6) Unallocated	90,000	
TOTAL	3,500,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures";

(c) the term "incremental operating costs" means the costs incurred by MOH on account of the Project for staff salaries, office facilities, services, staff travel and consumable office supplies as may be agreed by the Association; and

(d) the term "training" means expenditures incurred in connection with the training activities (other than consultants' services related to training) to be carried out under the Project, including the travel cost and per-diem of the trainees and other expenditures as shall be agreed by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 350,000, may be made on account of payments made for expenditures before that date but after January 31, 1996.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) expenditures for goods and works under contracts not exceeding \$2,000,000 equivalent except for the first three contracts awarded under Schedule 3, Section I, Parts B.3 and B.6; (b) expenditures for training; (c) Incremental Operating Costs; (d) contracts for employment of consulting firms not exceeding \$100,000 equivalent; and (e) contracts for employment of individual consultants not exceeding \$50,000 equivalent, each 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: (a) to help reintegrate people with war-related disabilities into productive life; (b) to introduce a more cost effective approach for dealing with disabilities; and (c) to support the development of local and regional capacity to manage and deliver rehabilitation services.

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: Community-Based Rehabilitation

1. Community-Based Physical Rehabilitation

Rehabilitation, repair and upgrading of the rehabilitation departments of about three clinical centers and about five cantonal hospitals and establishment, development and operation of a network of about 30 community-based physical rehabilitation centers, provision of equipment, essential pharmaceuticals, educational literature, consultants' services and training to improve physical rehabilitative services.

2. Community-Based Psycho-Social Rehabilitation

Rehabilitation, repair and upgrading of essential psychiatric service of about 14 hospitals and establishment, development and operation of a network of about 30 community-based psycho-social rehabilitation centers, provision of equipment, essential pharmaceuticals, consultants' services and training to improve service delivery to patients with post-traumatic stress disorder to prevent chronic disability and to promote social and professional reintegration.

Part B: Prostheses and Orthoses Production

Rehabilitation of about three prostheses and orthoses production units and about five maintenance units, provision of equipment and supplies, and strengthening the capacity of such units through technical assistance, consultants' services and training for the introduction of modern production techniques.

Part C: Orthopedic and Reconstructive Surgery

Rehabilitation and upgrading of orthopedic and reconstructive surgical departments of about three clinical centers and about four cantonal hospitals, provision of equipment, surgical instruments and essential pharmaceuticals, consultants' services and training to improve orthopedic and reconstructive surgical services.

Part D: Project Implementation Support

Strengthening the capacity of the PIU to oversee and coordinate the implementation of Parts A, B and C of the Project through the provision of equipment, consultants' services and training.

* * *

The Project is expected to be completed by June 30, 1998

SCHEDULE 3

Procurement and Consultants' Service

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. Limited International Bidding

Goods estimated to cost \$2,000,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines. In addition, the list of suppliers shall be derived from, inter alia, the expressions of interest received in response to the GPN. Bidding documents may provide that the bidders can send their bids by fax, in which case bid security shall not be required, subject to the satisfaction of the Association that mechanisms to ensure confidentiality of bids received by fax are in place.

2. Procurement of Works

Works shall be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

3. International Shopping

Goods estimated to cost more than \$200,000 equivalent but less than \$2,000,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines and using standard documentation agreed with the Association.

4. National Shopping

Goods estimated to cost \$200,000 equivalent or less per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance

with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Direct Contracting

Goods which are of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

6. Procurement from UN Agencies

Goods may be procured from UN agencies such as FAO, ILO, UNICEF and WHO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract to be awarded in accordance with the provisions of: (i) Section I, Part B.1 of this Schedule; (ii) Section I, Part B.5 of this Schedule; and (iii) the first three contracts awarded under each of Section I, Parts B.3 and B.6, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on 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, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant 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: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

Except as the Borrower and the Association shall otherwise agree, the Borrower shall lend the proceeds of the Credit to the Federation on the same terms and conditions as set forth in Sections 2.04, 2.05, 2.06 and 2.07 of this Agreement, and the Subsidiary Credit Agreement shall contain the following Project implementation arrangements:

1. The Federation shall establish and thereafter maintain the PIU under terms of reference and with staffing and other resources acceptable to the Association. The PIU shall be headed by a director, reporting to the executive office of the MOH, and shall have overall responsibility for Project management and coordination.

2. The Federation shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 1997, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by August 31, 1997 or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

3. For the purposes of ensuring that the procurement of goods, works and services is carried out in accordance with the procedures stipulated for that purpose, the Federation shall establish a Procurement Review Committee which shall, inter alia, be responsible for the approval of final recommendations of contract awards. The membership of the Procurement Review Committee shall include a representative from the MOH, a representative from the PIU and two representatives selected from the clinical centers or cantonal hospitals supported under the Project. The Federation shall ensure that the Procurement Review Committee shall be assisted by procurement advisors satisfactory to the Association.

4. The Federation shall select the clinical centers, cantonal hospitals, community-based physical and psycho-social rehabilitation centers and prostheses and orthoses production and maintenance units to be rehabilitated and upgraded under Parts A, B and C of the Project according to the criteria satisfactory to the Association.

5. The Federation shall, for the purposes of Section 9.06 of the General Conditions, and without limitation thereto:

(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 Federation and the Association, a plan for the future operation of the Project, and to ensure the continued achievement of the Project's objectives; and

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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, works and services 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 \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit 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, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been 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 4.01 (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 for the Special Account, minus the total amount of any 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 respective 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.

