

CONFORMED COPY

CREDIT NUMBER 1962 UG

(Public Enterprises Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 2, 1988

CREDIT NUMBER 1962 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 2, 1988, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, being satisfied of 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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "MOF" means the Borrower's Ministry of Finance;

(c) "MOIT" means the Borrower's Ministry of Industry and Technology;

(d) "SCD" means the Statutory Corporations Division of MOF;

(e) "UDC" means the Uganda Development Corporation;

(f) "PIES" means MOIT's Public Industrial Sector Enterprise Secretariat; and

(g) "SARAP Study" means the Sector Administrative Reform and Planning Study to be carried out under Part A of the Project.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to eleven million seven hundred thousand Special Drawing Rights (SDR 11,700,000).

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 (a) The amount of the Credit may be withdrawn from the Credit Account, in accordance with the provisions of Schedule 1 to this Agreement, for expenditures made (or, if the Association shall so agree, to be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, through the Bank of Uganda, a special account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be May 31, 1995, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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 (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per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

(b) The commitment charge shall accrue:

(i) from a date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and

(ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates

as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.

- (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 semiannual installments payable on each April 15 and October 15 commencing April 15, 1999, and ending October 15, 2028. Each installment to and including the installment payable on October 15, 2008, 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 (5) 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, shall carry out the Project, through MOF, MOIT and UDC, 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.

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make available to UDC, as an equity contribution to UDC's capital, the proceeds of the Credit utilized for UDC and public enterprises in UDC's portfolio, under Parts D, E and F of the Project.

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.

Section 3.03. The Borrower shall ensure that:

(a) until such time as an agreement is reached with the Association on the findings of the SARAP Study, the Borrower will consult with the Association before making commitments to proceed with any investments exceeding the equivalent of \$250,000 by UDC; and

(b) by no later than May 31, 1989, PIES, SCD and UDC have appointed staff in accordance with a staffing plan 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 six (6) 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 (1) 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) as evidence of 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

##### Termination

Section 5.01. 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 VI

##### Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
PO Box 8147  
Kampala  
Uganda

Cable address:

FINSEC  
Kampala

Telex:

61170

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.

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

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

THE REPUBLIC OF UGANDA

By /s/ Stephen K. Katenta Apuli  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox  
Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Equipment, vehicles, furniture, materials and supplies	1,560,000	100% of foreign expenditures and 80% of local expenditures
(2) Training	500,000	100% of foreign expenditures and 80% of local expenditures
(3) Technical assistance and consultants' services	7,300,000	100%
(4) Unallocated	2,340,000	
TOTAL	<hr/> 11,700,000	

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.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to strengthen the Borrower's capacity to sustain economic recovery by increasing productivity and output and reducing financial losses in the public enterprise sector.

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 objective:

#### Part A: Sector Administrative Reform and Planning Study

Preparation of a comprehensive study of the public enterprise sector with proposals for a sector policy, institutional arrangements and an action program for the rehabilitation, performance improvement and longer-term divestiture or liquidation of public enterprises.

#### Part B: Statutory Corporations Division

Strengthening SCD, through technical assistance, consultants' services, training, and acquisition of vehicles, office equipment and computers, including software.

#### Part C: Public Industrial Sector Enterprise Secretariat

Strengthening PIES through technical assistance, consultants' services, training, and acquisition of vehicles, office equipment and computers, including software.

#### Part D: Uganda Development Corporation

Strengthening UDC's capacity to implement a program of divestiture, liquidation and rehabilitation of enterprises in its portfolio, through technical assistance, consultants' services, training, and acquisition of vehicles, office equipment, materials and computers, including software.

#### Part E: Management Audits, and Management and Technology Services

The carrying out of:

(1) management audits of about ten commercially sound and economically viable manufacturing public enterprises;

(2) comprehensive management, technology or other special advisory services to about five of these enterprises; and

(3) short-term advisory services required prior to the commencement of services under Part E (1) and E (2) above.

#### Part F: Divestiture Support Services

Provision of specialist consultants' services to assist SCD with the design, and MOIT and UDC with the implementation, of the program for divestiture and liquidation of selected public enterprises.

Part G: Diagnostic Studies and Improvement Plans

Carrying out about six detailed diagnostic studies and improvement plans for financially or strategically significant non-industrial public enterprises through technical assistance and consultants' services.

Part H: Project Management Support

Provision of consultants' services for procurement, contract negotiations, project accounting and general administration, including preparation of periodic progress reports.

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The Project is expected to be completed by November 30, 1994.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding:

1. Except as provided in Part B hereof, goods and works 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 1985 (the Guidelines).

Part B: Other Procurement Procedures:

1. Furniture, equipment and vehicles estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items estimated to cost less than the equivalent of \$20,000 per contract, up to an aggregate amount not to exceed the equivalent of \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers in accordance with procedures acceptable to the Association.

Part C: Review by the Association of Procurement Decisions:

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

(a) With respect to each contract 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 contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of each such contract, required to be furnished to the Association pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines, 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 contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of each such contract, together with the other information



required to be furnished to the Association pursuant to paragraph 3 of Appendix 1 to the Guidelines, shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ experts and consultants whose qualifications, experience, and terms and conditions of employment are satisfactory to the Association. Such experts and 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.

### SCHEDULE 4

#### Implementation Program

##### Project Management and Policy Review

1. (a) SCD shall be responsible for the overall implementation of the Project, including procurement, contracting, maintenance of accounting and disbursement records, and monitoring and preparation of periodic progress reports.

(b) As the focal point for the Project, SCD shall directly manage the studies to be carried out under Parts A and G of the Project, including the divestiture design study under Part F of the Project, and shall:

(i) ensure that consultants' recommendations are adequately reviewed by a working group to be set up with the approval of the Minister of Finance, which shall include the Permanent Secretary of MOIT, the Permanent Secretary of Planning and Economic Development, the Secretary to the Treasury and the Head of SCD; and

(ii) assist the appropriate line ministries in preparing and submitting to the Cabinet and the President's Economic Council proposals for policy and other reforms.

2. SCD shall submit to the Association, for its review and comments:

(a) periodic reports on the progress of Project implementation on a quarterly basis; and

(b) annual work programs for the carrying out of Project activities by SCD, UDC and PIES at least three months prior to the commencement of the calendar year in question.

##### Part A of the Project

3. SCD shall ensure that the SARAP Study on the public enterprises sector will include an assessment of the need to reform existing legislation, wage and salary policies, and institutional arrangements for the administration of parastatal enterprises, including the role and future of SCD, PIES and UDC. The terms of reference of the SARAP Study shall be satisfactory to the

Association.

4. SCD shall ensure that:

(a) the SARAP Study is completed no later than November 1, 1989, and is reviewed by a working group, which, in addition to the members referred to in paragraph 1 (b) of this Schedule, will include the permanent secretaries of ministries with significant parastatals in their portfolios, and, as appropriate, senior officials with responsibility for technical functions in legal, auditing and other relevant fields, and other present or former experienced senior officials; and

(b) by no later than March 31, 1990, the Borrower has adopted a policy and institutional framework, for the public enterprise sector, satisfactory to the Association.

Part C of the Project

5. In order to strengthen PIES, the Borrower shall appoint, for a period of up to three years, a senior technical advisor, an industrial engineer and a financial analyst. The Borrower shall also hire consultants to provide additional support, regarding legal and financial issues, for implementation of the divestiture program and assistance with management training, accounting and management systems, production engineering, technical advisory services and market studies. The terms of reference of PIES shall be satisfactory to the Association.

6. PIES shall submit quarterly reports to SCD, for use by SCD, in the preparation of a consolidated quarterly progress report to be submitted to the Association.

Part D of the Project

7. (a) The short-term restructuring plan of UDC, prior to the reaching of an agreement on the findings of the SARAP Study, envisages that, of the public enterprises in its present portfolio, about half of the enterprises are to be fully or partly divested, about one-third of the enterprises are to be liquidated and the remaining enterprises are to be rehabilitated to enhance the prospect of their eventual divestiture. In order to implement its restructuring plan, UDC shall appoint, for a period of two years, a chief operating officer and a chief financial officer whose responsibility shall include the training of counterpart staff.

(b) UDC shall also employ consultants to provide services in, inter alia, production engineering, accounting, management systems and resolution of legal issues on disputed ownership.

(c) In order to maximize the benefit of specialist inputs, the UDC team shall develop a work program with PIES defining areas of direct cooperation and joint effort.

(d) UDC shall submit quarterly reports to SCD for SCD's use in the preparation of a consolidated quarterly progress report to be submitted to the Association.

Part E of the Project

8. Short-term advisory services to be carried out under Part E (3) of the Project shall be managed:

(a) by PIES, with respect to industrial public enterprises under the direct control of MOIT; and

(b) by UDC, for those enterprises under UDC's control.

9. In close consultation with UDC, PIES shall prepare a list of industrial public enterprises, approved by the Association, which will receive management audits under Part E (1) of the Project.

The objective of the audit shall be to determine both a priority ranking for rehabilitation and the particular type of rehabilitation assistance that would render each enterprise more profitable and efficient. Thus, only enterprises which are potentially profitable, or able to further increase profitability as a result of the assistance to be provided, and enterprises which are economically efficient, based on estimates of effective protection and domestic resources cost analyses determined with the assistance of industrial economists in MOIT's planning department, shall be eligible for consideration.

10. (a) Based on the outcome of management audits and supporting analyses of PIES and UDC, PIES shall, in consultation with UDC, prepare a program of assistance to about five of these public enterprises which shall be approved by MOIT and the Association. The Borrower shall ensure that public enterprises selected to receive management and technology services are allocated adequate foreign exchange and related domestic credit required to cover the first year of such services.

(b) Performance contracts, satisfactory to the Association, shall be signed by the Borrower and the public enterprises setting out, inter alia, specific targets, quantitative and qualitative performance levels, and the obligations of the parties for the period of time during which rehabilitation is to be undertaken.

(c) The implementation of such contracts shall be supervised by PIES, for enterprises under MOIT's direct control, and by UDC, for enterprises in UDC's portfolio.

11. All management audits shall be completed, and appropriate performance contracts shall be entered into no later than March 1, 1990.

#### Part F of the Project

12. SCD shall be responsible for the selection and appointment of consultants to carry out the divestiture design study and will form a working group to review recommendations made in the study, including detailed divestiture implementation plans and proposals. In addition to the members referred to in paragraph 1 (b) of this Schedule, the working group shall include the Chairman of UDC and the Managing Director of the Uganda Commercial Bank.

13. Once agreement is reached with the Association on the public enterprises to be divested and on a divestiture implementation plan, SCD shall select consultants and coordinate the implementation of the agreed measures.

Where MOIT is unable to decide on specific measures affecting specific public enterprises, SCD shall refer the case for decision to a Divestiture Implementation Committee, with the Minister of Finance, as chairman, and including the Attorney General/Minister of Justice, and the Minister of Industry and Technology, as members. The terms of reference and the powers of the Committee shall be satisfactory to the Association.

14. The divestiture design study shall be completed and a detailed divestiture implementation plan, satisfactory to the Association, shall be submitted to the Association no later than May 31, 1989.

#### Part G of the Project

15. SCD shall be responsible for the selection and supervision of consultants who will carry out diagnostic studies of about six non-industrial public enterprises, agreed to by the Association, and selected on the basis of criteria satisfactory to the Association.

Consultants' recommendations shall be submitted by SCD to a

working group which, in addition to the members referred to in paragraph 1 (b) of this Schedule, shall include the permanent secretary of the line ministry responsible for the public enterprise in question, at least one other senior civil servant from the same ministry or from a related ministry, and, as appropriate, the general manager or chairman of the board or director of the public enterprise concerned, and a private sector representative with sufficient experience and knowledge to make an important contribution to the review process.

16. SCD shall ensure that the diagnostic studies of the first three public enterprises are completed by September 1, 1989, and those for the remaining three are completed by December 1, 1989.

Recommendations for policy reforms and rehabilitation actions, satisfactory to the Association, shall be completed by March 1, 1990, for the first three public enterprises, and by July 1, 1990, for the remaining three.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means 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 \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower,

withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for Eligible Expenditures.

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

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the Eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the Eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account:

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; and

(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), 6 (b) and 6 (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.

