

CONFORMED COPY

CREDIT NUMBER 2533 BHU

Development Credit Agreement

(Third Forestry Development Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 11, 1993

CREDIT NUMBER 2533 BHU

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 11, 1993, between KINGDOM OF BHUTAN (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 Borrower intends to obtain from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution in an amount of four million seventy thousand Swiss Francs (SwF 4,070,000) (the Swiss Contribution) to assist in financing the Project on the terms and conditions set forth in an agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland; and

(C) Switzerland intends to appoint the Association to administer the Swiss Contribution in accordance with the provisions of the Procedural Arrangements, dated May 9, 1990, between Switzerland and the Association (the Procedural Arrangements); 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Project Area" means the area comprising the Dzongkhags (districts) of Mongar, Lhuntshi, Tashigang, Tashiyangtse, Pemagatsel and Samdrup Jongkhar;
- (b) "MOA" means the Borrower's Ministry of Agriculture;
- (c) "PPD" means MOA's Planning and Policy Division;
- (d) "DOF" means the Borrower's Department of Forestry;
- (e) "NEC" means the Borrower's National Environment Commission;
- (f) "PFO" means the Project Facilitation Office which has been established by the Borrower at Khangma in the Tashigang District for the purposes of externally-funded projects, including the Project;
- (g) "A/R" means afforestation/reforestation;
- (h) "Special Accounts" mean the accounts referred to in Section 2.02 (b) of this Agreement, and "Special Account" means each and any of those accounts;
- (i) "Swiss Contribution Account" means the account established by Switzerland for the purposes of the Swiss Contribution;
- (j) "Ngultrums" means the currency of the Borrower;
- (k) "fiscal year" means the Borrower's fiscal year covering the period July 1 through June 30; and
- (l) "Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992.

## 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 three million nine hundred thousand Special Drawing Rights (SDR 3,900,000).

Section 2.02. (a) The amount of the Credit and the Swiss Contribution may be withdrawn from the Credit Account and the Swiss Contribution 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 and the Swiss Contribution.

(b) Except as the Association and Switzerland shall otherwise agree or to the extent the Swiss Contribution Agreement may otherwise specify, the allocation and the procedures for withdrawals of the Swiss Contribution shall be governed, mutatis mutandis, by the provisions of the General Conditions.

(c) The Borrower shall, for the purposes of the Project, open and maintain in Ngultrums two special deposit accounts, one for the Credit and the other for the Swiss Contribution, in the Bank of Bhutan 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 Accounts shall be made in accordance

with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 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 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 January 1, 2004 and ending July 1, 2033. Each installment to and including the installment payable on July 1, 2013 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (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 with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and forestry practices, and shall provide,

promptly as needed, the funds, facilities, services, staff 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.

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 and the Swiss Contribution shall be governed by the provisions of Schedule 3 to this Agreement.

#### ARTICLE IV

##### Financial and Other 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 Accounts 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 or the Swiss Contribution Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or the Swiss Contribution Account or payment out of the Special Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall, not later than August 31, 1994, furnish to the Association, for its review and comment, a recommendation on the management and operational arrangements it intends to adopt for its national forest management units, and shall thereafter but not later than July 1, 1995, implement such arrangements taking into account the views of the Association.

Section 4.03. The Borrower shall:

(a) carry out forest product pricing and marketing policy reforms satisfactory to the Association; and

(b) to that end, not later than July 1, 1994, agree with the Association on, and thereafter implement, an action plan satisfactory to the Association.

Section 4.04. The Borrower shall:

(a) not later than March 31, 1994, furnish to the Association, for its review and comment, a detailed plan for the privatization of seedling production and distribution; and

(b) thereafter but not later than July 1, 1994, implement such plan as revised to take into account the views of the Association.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that:

(a) Subject to paragraph (b) of this Section, the right of the Borrower to withdraw the proceeds of the Swiss Contribution made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such 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.

#### 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) all conditions precedent to the effectiveness of the Swiss Contribution Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) the proposed new Social Forestry Rules have been adopted in form and substance satisfactory to the Association.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. In the event that Switzerland or the Association terminates the functions of the Association pursuant to paragraph 9 of the Procedural Arrangements, the Association shall notify the Borrower promptly of the date on which Switzerland shall assume the rights and obligations of the Association under this Agreement in respect of the Swiss Contribution.

#### 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  
Tashichhodzong  
Thimphu, Kingdom of Bhutan

Cable address:

Telex:

MINISTRY OF FINANCE  
THIMPHU, BHUTAN

890-201

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.

KINGDOM OF BHUTAN

By /s/ Ugyen Tshering

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Cosmas L. Robless

Acting Regional Vice President  
South Asia

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Credit and the Swiss Contribution

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and the Swiss Contribution, the allocation of the amounts of the Credit and the Swiss Contribution 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)	Amount of the Swiss Contribution Allocated (Expressed in SwF Equivalent)	% of Expendi- tures to be Financed
(1) Civil and plantation works	1,090,000		95%
(2) Equipment,	1,370,000		100% of

vehicles and materials		foreign expendi- tures, 100% of local expendi- tures (ex- factory cost) and 85% of local expen- ditures for other items procured locally
(3) Consultants' services and training	4,070,000	100%
(4) Incremental staff salaries and other incremental operating costs	1,010,000	62%
(5) Unallocated	430,000	
TOTAL	3,900,000	4,070,000

2. For the purpose of this Schedule:

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

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

(c) the term "incremental staff salaries and other incremental operating costs" means the salaries of staff appointed to positions created, and the operating costs associated with equipment and vehicles procured, after July 15, 1993 for the purposes of carrying out the Project.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to support the Borrower's efforts to develop an approach for sustainable protection, management and use of its forest resources in line with its national development plans; and (b) to that end, to establish in the Project Area the necessary mechanisms for (i) carrying out of sustainable forest management in selected government forest areas; (ii) involvement of local people in the rehabilitation of degraded forest areas and their subsequent management; (iii) integration of trees into farming systems thereby improving the viability of the local economy; (iv) introduction of a criteria-based approach to afforestation and reforestation (A/R); and (v) strengthening of the government's capacity for effective and efficient implementation of such programs.

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: National Forest Management

1. Taking of detailed forest resource inventory and preparation and implementation of forest management plans for four selected sites covering a total area of about 21,500 ha. to meet local timber and fuelwood needs on a sustainable yield basis,

including the establishment of distribution depots.

2. Carrying out of an overall forest resource assessment to facilitate the extension of the concept of planned forest management to other sites in the Project Area.

Part B: Social Forestry

1. Establishment of village forest management, including the organization of rural communities to improve and manage selected government forest land sites handed over to them for their use, the preparation of village forest management plans and the provision of village forest extension services.

2. Carrying out of agroforestry activities, including the establishment of private nurseries for seedling production, the establishment of demonstration nurseries and demonstration plantation areas and the preparation and distribution of extension packages for farm forestry, all with a view to introducing fodder and fuelwood trees on farmlands.

Part C: Afforestation/Reforestation

Natural regeneration and establishment of plantations with suitable species in selected ecologically critical areas, including development of appropriate technologies for seed resource selection, seed collection, storage and testing, advanced nursery operations, site selection, site and species matching, planting and tending, grazing management and fire control.

Part D: Institutional Strengthening

Strengthening of:

- (1) PPD's planning and policy analysis capability; and
- (2) DOF's project implementation capabilities both at the central and divisional levels, in particular in relation to the Project Facilitation Office (PFO).

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The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: Procurement Procedures

1. All plantation works, and certain minor civil works estimated to cost up to an aggregate amount equivalent to \$100,000, may be carried out by force account.
2. All other civil works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
3. Equipment, vehicles and materials may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines or after direct negotiations with suppliers, all in accordance with procedures acceptable to the Association.

Part B: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:
  - (a) With respect to each contract for civil works estimated to cost the equivalent of \$50,000 or more and each contract for equipment, vehicles and materials estimated to cost the equivalent of \$75,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Accounts



in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

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

## Section II. Employment of Consultants

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

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single-source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

## SCHEDULE 4

### Implementation Program

1. The Project Facilitation Office (PFO) shall be: (a) generally responsible for approving and overseeing all field activities to be carried out under the Project; and (b) specifically responsible for activities to be carried out for strengthening DOF's Divisional Forest Offices under Part D (2) of the Project and, through a regional Forest Management Division to be established within PFO not later than January 1, 1994, for assisting in the preparation and implementation of forest management plans under Part A.1 of the Project. To these ends, the Project Facilitation Officer heading PFO shall act as the Project Manager and shall be assisted by an Assistant Project Facilitation Officer (Forestry), who shall be of the rank of a Senior Forestry Officer.

2. The Borrower shall, with respect to the A/R activities to be carried out under Part C of the Project:

(a) not later than July 31 in each fiscal year, agree with the Association on the program of such activities to be carried out in the next following fiscal year; and

(b) ensure that no such activities will be permitted to be carried out unless they satisfy one or more of the following criteria:

(i) they shall have a clear objective which will be either to (aa) protect village/township water sources; or (bb) protect settlement sites, infrastructure and agricultural property; or (cc) supply the timber, fuelwood, fodder and grazing needs of the local village or township; or (dd) remedy incipient soil erosion or slope degradation problems;

(ii) they shall make cost-effective use of appropriate technology to produce products or to provide services;

- (iii) they shall promote participation by local persons in the sharing of benefits, costs and responsibilities;
- (iv) they shall be based upon a careful matching of species with site characteristics; and
- (v) they shall have proximity or functional relevance to a demand center.

3. The Borrower shall ensure that NEC will annually monitor the environmental aspects of the Project in accordance with a memorandum of understanding, to be signed between NEC and MOA not later than December 31, 1993, setting out the scope and modalities of such monitoring in a manner satisfactory to the Association.

4. The Borrower shall, at least once every other year, starting with 1995, organize a meeting of the key donors involved in the forestry sector in order to assess the contribution of the Project in achieving the objectives of the Borrower's Forestry Sector Program Framework.

5. The Borrower shall furnish to the Association semi-annual progress reports on the Project, in form and substance satisfactory to the Association, not later than March 31 and September 30 in each year.

6. The Borrower shall, jointly with the Association and Switzerland and not later than December 31, 1996, carry out and complete a mid-term review of the Project, and shall, thereafter make such adjustments in the activities being carried out under the Project and the related organizational and operational arrangements, including the technical assistance requirements of the Project, as may be warranted in the light of such review and agreed with the Association.

#### SCHEDULE 5

##### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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 or the Swiss Contribution 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 (i) for the Credit an amount equivalent to \$100,000, and (ii) for the Swiss Contribution an amount of SwF 150,000 to be withdrawn from the Credit Account and the Swiss Contribution Account, respectively, and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Accounts 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 a Special Account has been duly opened, withdrawals of the relevant 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 or the Swiss Contribution Account, as the case may be, and deposit in 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 or the Swiss Contribution Account, as the case may be, 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 or the Swiss Contribution 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 a 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 a 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 or the Swiss Contribution, as the case may be, 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 or the Swiss Contribution Account, as the case may be, of the remaining unwithdrawn amount of the Credit or the Swiss Contribution, as the case may be, 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 a 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 a 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 a 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 or the Swiss Contribution Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.



