

CONFORMED COPY

CREDIT NUMBER 2654 CHA

(Economic Law Reform Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 11, 1994

CREDIT NUMBER 2654 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 11, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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) "Implementing Entity" means a department or agency of the Borrower or another legal entity responsible for the implementation of a specific Sub-project.

(b) "MOF" means the Borrower's Ministry of Finance, and any successor thereto.

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

(d) "Sub-project" means a specific technical assistance project to be implemented under Part A or Part B 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 the Development Credit Agreement, an amount in various currencies equivalent to six million nine hundred thousand Special Drawing Rights (SDR 6,900,000).

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 (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be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 may, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank and 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 June 30, 1999 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 per cent (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 1 and October 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 April 1 and October 1 commencing April 1, 2005 and ending October 1, 2029. Each installment to and including the installment payable on October 1, 2014 shall be one and one-fourth per cent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part C of the Project through MOF and shall cause the Implementing Entities to carry out Parts A and B of the Project under the general supervision and guidance of MOF, all with due diligence and efficiency and in conformity with appropriate legislative, training and administrative 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.

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

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 months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

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

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

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

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

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower's State Council shall have approved the Development Credit Agreement.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Jin Liqun

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods	1,860,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for

			other items procured locally
(2)	Consultants' services	3,100,000	100%
(3)	Study tours	1,240,000	100%
(4)	Unallocated	700,000	
	TOTAL	6,900,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR200,000 may be made in respect of Category (2) for payments made for expenditures before that date but after June 27, 1994.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods not exceeding \$200,000 equivalent and for consultants' services not exceeding \$15,000 equivalent (except for the contracts referred to in Section II.2(a) of Schedule 3 to this Agreement), and for study tours, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in improving the legal framework in China to support economic reforms by: (a) strengthening the preparation of economic legislation in priority areas; (b) enhancing training methods, curricula and opportunities for law teachers, legal practitioners and legal, judicial and other government personnel in the theory and practice of the new legal framework; and (c) strengthening the key legal institutions responsible for legislation and the implementation of economic laws.

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: Preparation of Legislation

Carrying out of selected Sub-projects to prepare laws and their supplementary regulations and implementing rules which: (1) are included in the 1993-1998 five year legislative agenda of the Borrower's National People's Congress; and (2) support the development of a market economy.

Part B: Training

Carrying out of selected Sub-projects for the training of legal practitioners, law teachers, law students, legal, judicial and other government personnel and others in the new legal framework related to the market economy, which either: (1) have a broad impact on legal and other professionals teaching, training or implementing economic laws; or (2) demonstrate innovative approaches to meeting the changing needs

of the legal profession and the legal system in a market economy.

Part C: Institutional Support

Strengthening key legal institutions for the preparation and implementation of the new legislation, including:

- (1) modernizing the preparation and dissemination of legislative documents at the National People's Congress, and improving access to comparative legal information;
- (2) extending a database of Chinese legislation to various levels of government; and
- (3) modernizing and computerizing the examination system for lawyers and introducing a national system of continuing legal education.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

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

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D.1(a) of this Section, the Association's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items estimated to cost less than the equivalent of \$200,000 per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, except that goods estimated to cost less than the equivalent of \$100,000 may be procured under contracts awarded on the basis of comparison of price quotations

obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Contracts for goods of a proprietary nature may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part D: 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 estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 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 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 in carrying out the Project, the Borrower shall employ, and shall cause the Implementing Entities to 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). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

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 contracts estimated to cost less than \$15,000 equivalent each. However, this exception to prior Association review shall not apply: (a) to the first three contracts for consultants' services under each Sub-Project; (b) to the terms of reference for all other such contracts; (c) to single source selection of firms; (d) to assignments of a critical nature as reasonably determined by the Association; or (e) to amendments of contracts raising the contract value to \$15,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. Sub-projects under Parts A and B of the Project shall be selected in accordance with the criteria and procedures set forth below.

(a) The purpose and scope of each Sub-project, the method of its implementation and the specific allocation of proceeds of the Credit for such Sub-project shall be determined by agreement between the Borrower and the Association.

(b) Each Sub-project shall be designed to meet the criteria set out in Part A or Part B, as the case may be, of Schedule 2 to this Agreement and shall have no equally suitable financing available from the United Nations Development Programme or other external financing agencies.

(c) The Borrower shall submit, for the Association's approval, the proposal for each Sub-project in a form satisfactory to the Association. Each such proposal shall include the following information:

(i) a description of the proposed Sub-project, including a time schedule for, the purposes and objectives of, and the benefits expected from such Sub-project;

(ii) a description of the role of the department, agency or entity to be designated as the Implementing Entity for the purpose of the implementation of the proposed Sub-project;

(iii) a description of the expenditures proposed to be financed out of the proceeds of the Credit, including an estimate of the foreign and local costs of the proposed Sub-project broken down by major items and showing amounts to be financed by the Implementing Entity and out of the proceeds of the Credit, respectively, and an estimated disbursement schedule;

(iv) the manner and form in which the allocated part of the proceeds of the Credit is proposed to be made available to the designated Implementing Entity, including the terms and conditions thereof;

(v) the proposed selection procedures, qualifications, terms of reference and duration of service for any consultants to be engaged for the purposes of the proposed Sub-project;

(vi) measures to be taken to comply with paragraphs 4(a) and (b) below; and

(vii) such other information as the Association may reasonably request.

2. (a) The Borrower shall, upon approval of a Sub-project by the Association, promptly make the allocated part of the proceeds of the Credit available to the designated Implementing Entity in a manner and form and on terms and conditions satisfactory to the Association. Such terms and conditions shall include the provision of funds on a grant basis to any Implementing Entity funded from the government budget.

(b) The Borrower shall make the proceeds of the Credit allocated to Part C of the Project available to the respective departments and agencies implementing said Part C on terms and conditions satisfactory to the Association, including the provision of funds on a grant basis to any entity funded from the government budget.

3. In order to assist MOF in carrying out its functions as the coordinating agency for the Project, the Borrower shall ensure that:

(a) MOF shall employ a legal consultant to assist in the preparation, review and supervision of Sub-projects and in the coordination of Project activities, in accordance with Section II of Schedule 3 to this Agreement;

(b) MOF shall convene meetings at least semi-annually of a legislative advisory group comprised, inter alia, of senior representatives of the National People's Congress Economic and Finance Committee, Commission on Legislative Affairs, the State Council Bureau of Legislative Affairs and the State Commission for the Restructuring of the Economic System, to provide guidance on the priorities and progress in the Borrower's legislative affairs in regard to Part A of the Project;

(c) MOF shall maintain a roster of experts in legal education and training, agreed with the Association, and shall ensure that each proposed Sub-project under Part B of the Project shall be reviewed by at least three experts from said roster as part of the Sub-project approval process;

(d) annual work Project plans for each calendar year, consolidating the proposed work plans under each Sub-project, shall be provided to the Association by October 31 of the preceding year, for its approval;

(e) semi-annual progress reports shall be provided to the Association in accordance with Section 9.06 (a) (iii) of the General Conditions, by March 1 and September 1, in each year, for the six-month periods ending December 31 and June 30, respectively incorporating semi-annual Sub-project progress reports provided to MOF by the Implementing Entities; and

(f) MOF shall undertake with the Association a review of the progress of and prospects for Project implementation by December 31, 1996.

4. (a) The Borrower shall take or cause to be taken all reasonable measures to facilitate the work of consultants in the performance of their services for each Sub-project and make available to them all information relevant thereto.

(b) The Borrower shall not permit the amendment or waiver of any material terms and conditions of employment of consultants employed for any Sub-project, of the grant of any material extension of time specified for the carrying out of any Sub-project, or the grant of any material extension of time or any approval of sub-contracts or modifications thereof, or the agreement to substitute personnel of such consultants, without the prior consent of the Association. The Borrower shall promptly inform the Association if it proposes to suspend payments under or terminate any contract with such consultants.

(c) The Borrower shall furnish to the Association copies of: (i) the documents prepared by the consultants engaged for any Sub-project, including reports and drafts thereof; and (ii) the legislation prepared under Sub-projects under Part A of the Project, in such number as the Association shall reasonably request.

(d) The Borrower shall establish arrangements and procedures, satisfactory to the Borrower and the Association, for supervising and directing the work of any consultants employed for Sub-projects and reviewing the reports and recommendations of such consultants with the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (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 \$900,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,500,000.

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

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

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

(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 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, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

