

CONFORMED COPY

CREDIT NUMBER 2644 MAG

Development Credit Agreement  
(Second Irrigation Rehabilitation Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 13, 1994

CREDIT NUMBER 2644 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 13, 1994, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower has issued an irrigation sector policy statement, dated May 31, 1994, describing a program of actions, objectives and policies designed to achieve an adjustment of the Borrower's irrigation sector (hereinafter referred to as "the Program"); and

(B) the Borrower has declared its commitment to the execution of the Program and, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

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) "Coordinating Committee" means the Coordinating Committee established under paragraph 1 (a) of Schedule 4 to this Agreement;
- (b) "DGR" means Direction du Genie Rural of MEADR;
- (c) "MEADR" means the Borrower's Ministere d'Etat a l'Agriculture et au Developpement Rural;
- (d) "national project coordinator" means the national project coordinator appointed under paragraph 2 (a) of Schedule 4 to this Agreement;
- (e) "previous project" means the first Irrigation Rehabilitation Project, for the financing of which a Credit (Credit 1589 MAG) was extended by the Association to the Borrower;
- (f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter of agreement, dated May 13, 1994, between the Borrower and the Association;
- (g) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (h) "WUA" means a water users association established under the laws of the Borrower.

## 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 fifteen million Special Drawing Rights (SDR15,000,000).

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 a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, 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.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2000 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 (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 from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 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 semiannual installments payable on each June 1 and December 1, commencing December 1, 2004, and ending June 1, 2034. Each installment to and including the installment payable on June 1, 2014, 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 through MEADR with due diligence and efficiency and in conformity with appropriate administrative, financial and agricultural 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, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause 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

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified: namely, a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions,



Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

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

SCHEDULE 1  
(Section 2.02 (a))

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) Civil works	7,240,000	100%
(2) Consultants' services	1,850,000	100%
(3) Vehicles and equipment	780,000	100% of foreign expenditures and 85% of local expenditures
(4) Studies	440,000	100%
(5) Travel costs and training	810,000	100%
(6) Operating costs	2,000,000	100%
(7) Refunding of Project Preparation Advance	530,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	1,350,000	
TOTAL	15,000,000 =====	

2. For the purposes of this Schedule, the term "operating costs" means the incremental operating costs incurred by the Borrower under the Project on account of local staff salaries and allowances, maintenance of vehicles, fuel and equipment, and office rent, supplies and utilities.

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.

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 civil works not exceeding \$50,000 equivalent, and contracts for goods and services, and expenditures for operating costs, training and travel costs, not exceeding \$20,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

(Preamble, para. (B))

#### Description of the Project

The objectives of the Project are to provide improved income levels and food security for the rural population, strengthen environmental management, and enhance project implementation capacity through the establishment of operational procedures for the transfer of responsibility for the operation and maintenance of public irrigation schemes to water users.

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: Transfer of Operation and Maintenance of Public Irrigation Schemes

1. Organization of local workshops to explain and discuss the contents and implications of new regulations on the transfer of irrigation schemes.
2. Implementation of corrective works and environmental mitigation works to ensure the satisfactory operation of rehabilitated schemes.
3. Intensification of extension measures in support of agricultural operations on the rehabilitated schemes, through the introduction of a methodology adapted to local requirements.

##### Part B: Environmental Protection

1. Completion of an environmental study of irrigated schemes rehabilitated under the previous project, in three phases as follows:
  - (a) identification of environmental problems of each scheme;
  - (b) definition of proposed solutions; and
  - (c) implementation of recommendations.
2. Based on the findings of the study referred to in paragraph 1 of this Part, preparation of an environmental assessment guide to be used and applied in the design of any further rehabilitation of irrigated schemes in the future, and including a synthesis of approaches and techniques of watershed management currently known and applied in the four main ecological regions to be found in the territory of the Borrower.
3. Training of local consultants in environmental impact assessment and in the design of environmental mitigation measures, thereby strengthening the national capacity for environmental assessment.
4. Completion of a study designed to propose guidelines for the creation, financing arrangements, and operation, of a permanent emergency rehabilitation fund, to deal with damage caused to irrigation schemes as a result of natural disasters.

##### Part C: Rehabilitation of New Irrigation Schemes

1. Selection of new irrigated schemes to be rehabilitated.
2. Rehabilitation of irrigated schemes referred to in paragraph 1 of this Part, in successive phases as follows:
  - (a) completion of in-depth orientation studies, providing appropriate details of an irrigation master plan, and giving particulars of such works as can be undertaken immediately by the water users; and
  - (b) actual implementation of the works, based on the orientation studies referred to in subparagraph (a) of this paragraph.

##### Part D: Strengthening of MEADR

Strengthening the institutional capacity of units and departments of MEADR involved in the implementation of the Project, thereby enabling MEADR

to provide more professional and effective technical support services for the operation and maintenance of irrigation schemes, and the transfer of agricultural technology.

Part E: Training

1. Training of field staff, regional technical and administrative staff, and national level technical and coordination staff.
2. Training in financial management, including computerization, and monitoring and evaluation, for the benefit of local, regional and central level staff.

Part F: Monitoring and Evaluation

Monitoring and evaluation of the impact of the Project, having regard, in particular, to field results, adoption rates of extension messages, and the performance of the WUAs, both in terms of the collection of dues for operation and maintenance, and for purposes of implementation of the operation and maintenance of the rehabilitated schemes.

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The Project is expected to be completed by December 31, 1999.  
SCHEDULE 3

(Section 3.02)

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. (a) Except as provided in Part D 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 1992 (the Guidelines).

(b) For fixed price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when the contract is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(c) In the procurement of goods and works 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.

2. To the extent practicable, contracts for civil works and goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

3. Goods procured in accordance with the procedures described in paragraph 1 (a) above shall be exempted from preshipment price inspection by third parties.

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 Madagascar 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Civil works estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$1,000,000, and goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$460,000, 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 the equivalent of \$30,000 or less per contract, up to an aggregate amount equivalent to \$200,000, 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.

Part E: 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 goods and works 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 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 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.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of

consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 4

(Section 3.01 (b))

#### Implementation Program

1. (a) For purposes of the Project, the Borrower shall maintain the Coordinating Committee, chaired by the Secrétaire General of MEADR, and consisting of representatives of units and departments of MEADR involved in the implementation of the Project, and such other representatives, including representatives of external donors, as may be co-opted or invited to attend as observers.

(b) The Coordinating Committee shall meet not less than twice a year, and shall be responsible for the overall coordination of the Project, including approval of the annual work program referred to in paragraph 4 (a) (i) of this Schedule.

2. (a) The Borrower shall appoint an official of MEADR, whose qualifications and experience shall be acceptable to the Association, to be the national project coordinator and, as such, to be responsible for the day-to-day management of the Project.

(b) The national project coordinator shall, in particular:

- (i) act as secretary to the Coordinating Committee;
- (ii) facilitate exchanges between the various units and departments involved in the implementation of the Project;
- (iii) be the focal point for coordination with external donors;
- (iv) be responsible for:
  - (A) supervision of the day-to-day implementation of the Project;
  - (B) preparation of the annual work program, and semiannual progress reports, referred to in subparagraphs (a) (i) and (b), respectively, of paragraph 4 of this Schedule;
  - (C) consolidation of the accounts referred to in Article IV of this Agreement;
  - (D) centralization of monitoring and evaluation of the activities of the Project; and
  - (E) preparation of the subsequent phases of the Project.

3. (a) In each of the regions covered under the Project, the Borrower shall appoint a regional coordinating committee and a regional project coordinator.

(b) The provisions of paragraph 1 and 2 of this Schedule, relating to the role and functions of the coordinating committee and the national project coordinator, respectively, shall apply, subject to such modifications as may be necessary or appropriate, to the regional coordinating committee and the regional project coordinator.

4. The Borrower shall submit to the Association, for review:

- (a) not later than October 31 of each year:
  - (i) a proposed annual work program, including the proposed budget and financing plan, and training proposals and

proposed procurement procedures, under the Project for the forthcoming fiscal year; and

- (ii) details of its proposed public expenditure program for the agricultural sector for the forthcoming fiscal year; and

(b) not later than March 31 and September 30 of each year, progress reports on the status of each component of the Project.

5. (a) DGR shall be responsible for the execution of irrigation rehabilitation works, including environment protection measures, under Parts A.2, B and C of the Project and, to this end, shall:

- (i) prepare detailed tender documents for the rehabilitation of irrigation schemes;
- (ii) launch tenders for civil engineering and for surveillance contracts by consultant engineers;
- (iii) provide technical support for staff in the regional offices; and
- (iv) supervise the implementation of the Project at the local and regional levels.

(b) Upon completion of the works referred to in subparagraph (a) of this paragraph, DGR shall be responsible for the execution of a formal transfer agreement between the Borrower and the WUAs, giving details of the respective functions and responsibilities of the WUAs and the Borrower, including their respective financial liabilities, under the transfer.

6. For purposes of the selection of schemes to be rehabilitated under Part C.1 of the Project, the Borrower shall have regard to (a) the level of commitment demonstrated by prospective WUAs, (b) the economic viability of the proposed schemes, (c) the environmental assessment of such schemes, and (d) the likelihood, if any, that land tenure issues may arise in relation to any proposed scheme and prevent the successful transfer of such scheme to WUAs.

7. The Borrower shall, not later than December 31, 1994, establish a common policy governing travel allowances payable under projects falling within the competence of MEADR.

8. (a) The Borrower and the Association shall, not later than October 31, 1996, undertake, in conjunction with representatives of WUAs, a midterm review of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower of its respective obligations under this Agreement and, in particular:

- (i) the progress achieved by the Borrower during the current fiscal year, having regard to the performance indicators agreed upon between the Borrower and the Association;
- (ii) the status of financial and procurement performance under the Project; and
- (iii) the performance of WUAs under the Project and, in particular, the extent to which the transfer of responsibility for the operation and maintenance of irrigated schemes under the Project has been effective.

(b) Not later than one month prior to the midterm review, the Borrower shall furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project, and giving details, in particular, of the various matters to be discussed at the said review.

(c) Following the midterm review, the Borrower undertakes to act promptly and diligently, in order to take any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement such other measures as may have been agreed upon

between the parties in furtherance of the objectives of the Project.

9. (a) The Borrower shall open, in a commercial bank and on terms and conditions satisfactory to the Association, an advance account in local currency, to be operated and maintained by MEADR, into which it shall deposit from time to time its local counterpart contribution to the cost of the Project.

(b) The Borrower shall:

- (i) make an initial deposit of the equivalent of \$100,000 into the account referred to in subparagraph (a) of this paragraph; and
- (ii) have such account replenished on a bimonthly basis, or whenever the balance thereof equals not more than one third of the amount of the initial deposit, whichever occurs first.

#### SCHEDULE 5

(Section 2.02 (b))

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 not exceeding the equivalent of \$300,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit 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 paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit

Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

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

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

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

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

