

CONFORMED COPY

CREDIT NUMBER 2063 SO

(Farahaane Irrigation Rehabilitation Project)

between

SOMALIA DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 28, 1989

CREDIT NUMBER 2063 SO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 28, 1989, between SOMALI DEMOCRATIC REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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) "CSBS" means the Commercial and Savings Bank of Somalia;
- (b) "Der Season" means the minor rain season (October to December) in the Borrower's territory;
- (c) "DILU" means the Directorate of Irrigation and Land Use of MOA;
- (d) "Farahaane Irrigation Scheme" means an area in the Borrower's territory bounded by the Shebelli river to the north, the Wadajir canal to the east, the village of Mudhulow and the Sisab canal to the south and the Bakore canal to the west;
- (e) "Gu Season" means the main rain season (April to June) in the Borrower's territory;
- (f) "MOA" means the Ministry of Agriculture of the Borrower;
- (g) "MOH" means the Ministry of Health of the Borrower;
- (h) "Project Area" means the Farahaane Irrigation Scheme area and areas in the Borrower's territory served by the Qoryooley and Falkeerow barrages;
- (i) "Project Preparation Advances" means the project preparation advances granted by the Association to the Borrower pursuant to exchanges of letters dated September 4, 1984, and November 18, 1987, between the Borrower and the Association;
- (j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (k) "USAID" means the United States Agency for International Development.

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 twenty one million two hundred thousand Special Drawing Rights (SDR 21,200,000).

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 account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(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 Advances 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 Advances shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 1996, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from a date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one 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 February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing February 15, 2000, and ending August 15, 2029. Each installment to and including the installment payable on August 15, 2009, 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 DILU with due diligence and efficiency and in conformity with appropriate agricultural, engineering and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

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

Section 3.03. The Borrower shall: (a) for purposes of assisting farmers to purchase agricultural inputs under the Project establish and thereafter maintain in CSBS a Fund, to be known as the Revolving Inputs Fund; and (b) cause CSBS to sell agricultural inputs using the Revolving Inputs Fund, at market prices.

Section 3.04. The Borrower shall: (a) not later than December 31, 1992, submit to the Association for review the recommendations of a study assessing the functioning of the agricultural input supply mechanism; and (b) not later than June 30, 1993: (i) agree to an action plan relating to such study; and (ii) start implementing such action plan.

Section 3.05. The Borrower shall: (a) open and maintain a Project Account in the Central Bank of Somalia and deposit therein a sum of Somali shillings fifty million; and (b) quarterly replenish the said account with amounts necessary to meet local costs not eligible for financing under the Credit.

Section 3.06. The Borrower shall: (a) not later than September 30, 1989, complete formalities for the employment of consultants to supervise civil works; and (b) not later than December 31, 1989, submit to the Association for review the terms of reference for consultants required for the Project.

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 nine 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;
- (iii) furnish to the Association, as soon as available, but in any case not later than four months after the end of each such year, a copy of the report of unaudited accounts for the preceding year; and
- (iv) 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 for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives 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 events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Borrower has submitted to the Association documentary evidence satisfactory to the Association showing that the Project Account has been opened and a sum of Somali shillings fifty million deposited therein pursuant to Section 3.05 of this Agreement; and

(b) that the Borrower has submitted to the Association

documentary evidence satisfactory to the Association showing that a Project Manager with qualifications and experience acceptable to the Association has been appointed and has taken up his post.

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

Representatives of the Borrower; Addresses

Section 6.01. The Minister of the Borrower at the time responsible for Finance 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
Government of the Somali Democratic Republic
Mogadishu, Somalia

Cable address:

MINFIN
Mogadishu

Telex:

3612 MINFIN-MOG
Mogadishu

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:

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

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

SOMALI DEMOCRATIC REPUBLIC

By /s/ Mohamed S. Osman
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

| Category | Amount of the Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|--|---|--|
| (1) Civil works: | | |
| (a) under Parts A.1, A.2 and A.3 of the Project | 8,700,000 | 100% |
| (b) Other | 1,560,000 | 50% |
| (2) Vehicles, equipment and materials | 1,980,000) | 100% of foreign) expenditures,) 100% of local) expenditures) (ex-factory)) and 65% of) other local) expenditures |
| (3) Agricultural inputs | 630,000) | |
| (4) Consultants' services and training | 4,760,000 | 100% |
| (5) Operating costs | 1,150,000 | 60% through June 30, 1992, and 40% thereafter |

| Category | Amount of the Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|---|---|--|
| (6) Refunding of Project Prepara- tion Advances | 1,120,000 | Amount due pur- suant to Section 2.02 (c) of this Agreement |
| (7) Unallocated | 1,300,000 | |
| TOTAL | <u>21,200,000</u> | |

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means salaries of staff recruited for Project implementation, allowances, per diems and vehicle operation costs.

3. Notwithstanding the provisions of paragraph 1 above, no with-

drawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 60,000, may be made in respect of Categories (4) and (5) on account of payments made for expenditures before that date but after October 15, 1988; and (b) payments made for expenditures under Category (3) unless the Borrower has entered into an agreement, satisfactory to the Association, with CSBS for the operation of the Revolving Inputs Fund established pursuant to Section 3.03 of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve food production by improving the productivity of smallholders in the Project Area through better irrigation management, higher cropping intensity and provision of agricultural facilities.

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: Irrigation Development

1. Rehabilitation of barrages at Qoryooley and Falkeerow and the repair of direct diversion structures on both river banks controlled by these barrages.
2. Rehabilitation of primary and secondary irrigation canals, including replacement of water control and distribution structures in the Project Area.
3. Construction of new primary and secondary canals and drains, including a drainage pumping station with the supply and installation of pumps and diesel engines in the Project Area.
4. Rehabilitation and/or construction of tertiary canals, tertiary drainage for the pilot demonstration area and two pilot water management demonstration tertiary units.
5. Construction of field offices, workshops, stores, staff houses and other civil works at various locations in the Project Area, including coral-surfacing of roads connecting villages within the Project Area.
6. Carrying out aerial photography, preparation of topographic maps for drainage master plan of the lower Shebelli area and tertiary system in the Project Area.

Part B: Agriculture Development

1. Construction of an extension/training facility at Farahaane, extension-staff houses and the rehabilitation of stores and other buildings in the Project Area.
2. Levelling of land and construction of concrete drying floors.
3. Carrying out cadastral surveys and preparation of maps, and land registration in the Farahaane Irrigation Scheme of the Project Area.
4. Carrying out base-line surveys covering agriculture, water management and social aspects of the Project.
5. Provision of agricultural inputs and implements.
6. Promotion of agroforestry in the Project Area.

Part C: Health and Social Aspects

1. Construction of a field laboratory at Qoryooley, health posts and earth-filling of depressions around villages in the Project Area.
2. Installation of drinking water supply systems and acquisition of drugs and chemicals for spraying and treatment of diseases.
3. Acquisition of laboratory equipment and supplies for annual screening surveys.
4. Provision of tools and materials related to women development activities in three selected villages in the Project Area.

Part D: Equipment, Vehicles and Materials

Acquisition of operation and maintenance equipment, vehicles, and office equipment.

Part E: Institutional Support and Training

1. Carrying out specialized services and studies related to water management, drainage effectiveness, drainage master-plan of the lower Shebelli, organization of water user's associations, assessment of water charges, assessment of future role of various agencies dealing with operation and maintenance activities, land tenure, input supplies, agronomical and on-farm trials and integrated pest management.
2. Training of staff in irrigation engineering, water management and health.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).
2. To the extent practicable, contracts for equipment, vehicles and agricultural inputs shall be grouped in bid packages estimated to cost the equivalent of \$250,000 or more each.

Part B: 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 C: Other Procurement Procedures

1. Contracts for coral stone surfacing of roads, building facilities, drinking water supply, land levelling, earthwork to fill depressions, repair of direct river diversion structures and the construction of tertiary laterals may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
2. Contracts for equipment estimated to cost less than the

equivalent of \$50,000 per contract up to an aggregate amount not to exceed the equivalent of \$150,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Contracts for equipment estimated to cost less than the equivalent of \$20,000 per contract up to an aggregate amount not to exceed the equivalent of \$100,000 may be procured under contracts awarded on the basis of comparison of price quotation solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Medical supplies and chemicals for malaria and schistosomiasis control may be procured through the UNICEF emergency drugs import program in accordance with procedures satisfactory 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 \$250,000 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

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

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ engineering and agricultural 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.

SCHEDULE 4

Implementation Program

1. In carrying out the Project, the Borrower shall:

(a) take appropriate measures to ensure that daily water samples are taken in the primary drain upstream of the pumping station and in the Bokore canal downstream to check water salinity during the pumping period and a record is kept of the salinity and dilution of water from the Shebelli river. Such records shall be submitted to the Association for review not later than September 30 and March 31 of each year;

(b) contain, through licensing of pumps, future expansion of the irrigated areas upstream of the Genale barrage not to exceed 1,500 ha;

(c) ensure that existing as well as planned cultivation downstream of Genale and upstream of the Gayweerow barrage will not exceed 15,000 ha of annual crops during either the Gu or the Der Seasons and perennial crops area under banana plantations will not exceed 4,500 ha;

(d) restrict expansion of sugar cultivation for the Jowhar sugar factory to maximum cultivated area of 2,000 ha;

(e) supplement run-of-the-river supplies during dry periods of December to end-January from the Jowhar reservoir after establishing reservoir operations rules through a detailed simulation hydraulic model expected to be developed under the USAID assisted project. The study is expected to have adequate information to establish Jowhar reservoir operation rules by June 30, 1991. These will be reviewed by the Association and an understanding established between the Borrower and the Association by December 31, 1991, which would then be enforced by June 30, 1992;

(f) submit an annual report to the Association for review of items covered under (b) to (d) above on a format and details agreed with the Association by June 30, 1991; and

(g) carry out a mid-term review of all Project activities under terms of reference and in a format acceptable to the Association; not later than June 30, 1993, submit to the Association for comments the report of such mid-term review; and not later than December 31, 1993: (i) agree to an action plan; and (ii) start implementing such action plan.

2. In carrying out the Project the Borrower shall cause MOA to:

(a) submit to the Association for review prior to their use the types of pesticides to be procured;

(b) provide training to the plant protection staff in the use and safety of pesticides in accordance with a program satisfactory to the Association; and

(c) use only those drugs and chemicals for the malaria and schistosomiasis disease control program approved by the Association.

3. In carrying out Part A of the Project, the Borrower shall:

(a) cause MOA to establish an inter-village committee for the Gayweerow primary canal system not later than June 30, 1990;

(b) not later than June 30, 1993, submit to the Association for review: (i) a study with recommendations on the role and responsibilities of the Water Users Associations, the Village Committees; and MOA in the operation and maintenance of the Farahaane Scheme; and (ii) an assessment of the capacity of the Village Committees to assume management of the primary and secondary canals;

(c) cause MOA, not later than December 31, 1993, to enter into an agreement, satisfactory to the Association with each

Village Committee specifying their responsibilities and funding mechanism; and

(d) cause MOA to implement the study referred in (b) above not later than March 31, 1994, taking into account the Association's views.

4. In carrying out Part A of the Project, the Borrower shall:

(a) implement procedures under which Village Committees shall be: (i) responsible for the construction of the quaternary canals and the operation and maintenance of the tertiary and quaternary canals; (ii) involved in the planning of the tertiary and quaternary canals, foot bridges and watering points.

5. In carrying out Part B of the Project, the Borrower shall not later than:

(a) December 31, 1989, complete registration of three hundred hectares of land in the Project Area for which cadastral surveys have been completed;

(b) March 31, 1991, complete cadastral surveys for the remaining area; and

(c) March 31, 1992, complete registration of all plots of land in the Farahaane Irrigation Scheme of the Project Area.

6. In carrying out Part B of the Project, the Borrower shall submit to the Association for review and comments proposals for amending the land registration procedures and laws currently being drafted under the on-going Shebelli Water Management Project.

7. The Borrower shall:

(a) prior to the levying of water charges, submit to the Association for review and comments, proposals for assessing water charges currently being prepared under the ongoing Shebelli Water Management Project; and

(b) thereafter implement a system of water charges which shall cover at least the costs of the operation and maintenance of the Farahaane scheme.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 5 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

3. After the Association has received 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 made out of the Special Account for eligible expenditures.

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

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

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

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

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; 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 paragraph 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.

