

CONFORMED COPY

CREDIT NUMBER 3011-COM

Development Credit Agreement

(Social Fund Project)

between

ISLAMIC FEDERAL REPUBLIC OF THE COMOROS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 30, 1997

CREDIT NUMBER 3011-COM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 30, 1997, between ISLAMIC FEDERAL REPUBLIC OF THE COMOROS (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by Fonds d'Appui au Développement Communautaire (FADC) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to FADC the proceeds of the Credit as provided in this Agreement;

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 and in the Project Agreement of even date herewith between the Association and FADC;

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 modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) Section 6.03 is modified to read: "Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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) "Beneficiary" means beneficiary of a Loan, Subloan or Grant;

(b) "Beneficiary Contract" means any contract referred to as such in paragraph 4 (f), 5 (f) or 6 (e) of Schedule 1 to the Project Agreement;

(c) "FADC" means Fonds d'Appui au Développement Communautaire, an entity established and existing pursuant to the Borrower's Presidential Ordinance No. 93-001/PR, issued on January 6, 1993;

(d) "FADC Convention" means the agreement to be entered into between the Borrower and FADC pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the FADC Convention;

(e) "Franc de la République Fédérale Islamique des Comores" or "KMF" means the currency of the Borrower;

(f) "Grant" means a grant made, or to be made, out of the proceeds of the Credit to finance a Subproject under Part A or Part C of the Project;

(g) "Implementation Plan" means the implementation plan referred to in

paragraph 2 (a) of Schedule 1 to the Project Agreement, as same may be amended from time to time, and such term includes any schedules to the Implementation Plan;

(h) "Income-Generating Activity" means an income-generating activity, having a projected financial rate of return deemed acceptable to the Association, in terms of criteria acceptable to the Association and specified in the Procedures Manual;

(i) "Loan" means a loan made, or to be made, out of the proceeds of the Credit to be used to make one or more Subloans under Part B of the Project;

(j) "NGO" means a non-governmental organization;

(k) "Operating Costs" means the incremental operating costs incurred under the Project by FADC on account of (i) local contractual staff salaries, benefits and other incidental employment costs, (ii) travel costs and allowances, (iii) insurance, operation and maintenance of vehicles and equipment, (iv) banking charges, and (v) office rent, utilities and communications charges;

(l) "Procedures Manual" means the Procedures Manual of FADC, dated February 12, 1994, and referred to in paragraph 2 (b) of Schedule 1 to the Project Agreement, as same may be amended from time to time, and such term includes any schedules to the Procedures Manual;

(m) "Project Agreement" means the agreement between the Association and FADC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

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

(o) "Subloan" means a loan made, or to be made, out of the proceeds of a Loan to finance an income-generating activity under Part B of the Project;

(p) "Subproject" means an activity under Part A, Part B or Part C of the Project, in respect of which a Subloan or a Grant, as the case may be, has been, or may be, provided to a Beneficiary.

## 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 eight million five hundred thousand Special Drawing Rights (SDR 8,500,000).

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: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made for the benefit of a Beneficiary under a Loan or Grant to meet the reasonable cost of eligible expenditures related to such Loan or Grant, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in KMF a special deposit account in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and 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 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 May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing May 1, 2008 and ending November 1, 2037. Each installment to and including the installment payable on November 1, 2017 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 French Republic is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. FADC is designated as representative of the Borrower for the

purposes of taking any action required or permitted to be taken under the Project and the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause FADC to carry out the Project with due diligence and efficiency, and in conformity with appropriate administrative, financial, environmental and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) For the purposes of Parts A, B and C of the Project, the Borrower shall conclude a convention with FADC (hereinafter referred to as the FADC Convention), whereby it shall agree to transfer to FADC on a non-reimbursable basis:

(i) in the case of Part A of the Project, an amount of the Credit not exceeding such amount as may be allocated from time to time to Category (3) (a) of the table in paragraph 1 of Schedule 1 to this Agreement, to be used to provide Grants to Beneficiaries to finance Subprojects on the terms and conditions specified in paragraph 4 of Schedule 1 to the Project Agreement, and on such other terms and conditions as shall be acceptable to the Association; and

(ii) in the case of Part B of the Project, an amount of the Credit not exceeding such amount as may be allocated from time to time to Category (3) (b) of the table in paragraph 1 of Schedule 1 to this Agreement, to be used to provide Loans to Beneficiaries on the terms and conditions specified in paragraph 5 of Schedule 1 to the Project Agreement, and on such other terms and conditions as shall be acceptable to the Association;

(iii) in the case of Part C of the Project, an amount of the Credit not exceeding such amount as may be allocated from time to time to Category (3) (c) of the table in paragraph 1 of Schedule 1 to this Agreement, to be used to provide Grants to Beneficiaries to finance Subprojects on the terms and conditions specified in paragraph 6 of Schedule 1 to the Project Agreement, and on such other terms and conditions as shall be acceptable to the Association.

(b) The Borrower shall exercise its rights under the FADC Convention in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, shall not assign, amend, abrogate or waive the FADC Convention or any provision thereof.

Section 3.03. 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 2 to the Project Agreement.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by FADC pursuant to Section 2.04 of the Project Agreement.

Section 3.05. (a) The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators referred to in paragraph 2 (a) of Schedule 1 to the Project Agreement, the carrying out of the Project and the achievement of the objectives thereof.

(b) The Borrower shall, not later than November 30 of each year, beginning November 30, 1998, undertake, in conjunction with the Association and FADC, a joint annual review of the Project or, in the case of the review to be undertaken not later than November 30, 2000, a mid-term review, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower and FADC of their respective obligations under this Agreement, or arising thereunder, and, in particular:

(i) the progress achieved by the Borrower and FADC, having regard to indicators referred to in paragraph (a) of this Section and paragraph 2 (a) of Schedule 1 to the Project Agreement;

(ii) a review of the proposed work plans and budget for the forthcoming fiscal year;

(iii) a review of the progress achieved in the implementation of Subprojects, and an assessment of the impact of such Subprojects; and

(iv) a review of the level of involvement of Beneficiaries, and the status of maintenance of completed works.

(c) Not later than one month prior to each 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 such review.

(d) Following each review, the Borrower undertakes to act promptly and diligently in order to take, or cause FADC to take, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement, or cause FADC to implement, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall cause FADC to:

(a) maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(b) 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 was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(d) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of Section 4.01 of the Project Agreement, 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 events are specified:

(a) FADC shall have failed to perform any of its obligations under the Project Agreement or the FADC Convention;

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that FADC will be able to perform its obligations arising under the Project Agreement or the FADC Convention;

(c) the Borrower's Presidential Ordinance No. 93-001/PR establishing FADC, issued on January 6, 1993, or Presidential Decree No. 93-068 establishing the organizational structure and procedures of FADC, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of FADC to perform any of its obligations arising under the Project Agreement or the FADC Convention;

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of FADC, or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraph (c) and (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of Association within the meaning of Section 12.01 (b) of the General Conditions:

(a) the FADC Convention has been executed on behalf of the Borrower and FADC;

(b) the Procedures Manual has been duly amended, pursuant to paragraph 2 (b) of Schedule 1 to the Project Agreement, to take account of the specific objectives of the Project;

(c) the Implementation Plan has been duly approved by the Borrower and the Association, and adopted by FADC;

(d) FADC has recruited auditors, in accordance with Section II of Schedule 2 to the Project Agreement, to audit the accounts of the Project pursuant to Article IV of this Agreement and Article IV of the Project Agreement; and

(e) the National Executive Director and Regional Directors referred to in paragraph 1 of Schedule 1 to the Project Agreement have been recruited, in accordance with Section II of Schedule 2 to the Project Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by FADC, and is legally binding upon FADC in accordance with its terms; and

(b) that the FADC Convention has been duly authorized or ratified by and is legally binding upon FADC in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04 The obligations of the Borrower under Section 4.01 of this Agreement shall cease and determine on the date on which the Development Credit

Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 (a) of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministère des Finances, du Budget et du Plan  
B.P. 324  
Moroni  
Comores

Telex:

245-MIEF-CAB KO

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 (MCI) or  
64145 (MCI)

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.

ISLAMIC FEDERAL REPUBLIC OF THE COMOROS

By /s/ Mohamed Ali Soilihi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Sarris

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) Equipment, vehicles and supplies	300,000	100%
(2) Training, technical assistance, studies and audits	1,400,000	100%
(3) Loans/Grants:		100% of amounts of Loans or Grants disbursed
(a) under Part A of the Project	5,300,000	
(b) under Part B of the Project	700,000	
(c) under Part C of the Project	200,000	
(4) Operating costs	300,000	100%
(5) Unallocated	300,000	
	8,500,000	
TOTAL	8,500,000	

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 ;

(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:

(a) in respect of payments made for expenditures prior to the date of this Agreement

(b) in respect of a Loan or Grant, unless the Loan or Grant has been provided in accordance with procedures, and on the terms and conditions set forth or referred to, in this Agreement and the Project Agreement.

4. It is understood that the percentages in the table in paragraph 1 of this Schedule have been calculated on the basis of the provisions in Arrêté No. 97-231/CFB-DGCRC, of the laws of the Borrower, which exempt the goods and works to be financed from taxes and customs duties levied by the Borrower. If any change is made to said Arrêté which has the effect of levying taxes or customs duties on such goods or works, the percentages referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and works under contracts not exceeding \$60,000 equivalent, consultants' services (firms) under contracts not exceeding \$50,000 equivalent, consultants' services (individuals) under

contracts not exceeding \$30,000 equivalent, operating costs, Loans and Grants, 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 address the incidence of poverty amongst the Borrower's poorer communities through the replenishment of a social fund designed to support demand-driven initiatives developed by such communities and, in so doing, to create employment and improve access to basic social services.

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: Construction and Rehabilitation of Basic Social Infrastructure

Provision of grants for the benefit of communities, particularly in rural areas, to finance the construction and rehabilitation of basic social infrastructure needed to restore essential community services

Part B: Income-Generating Activities

Provision of loans to village committees, NGOs and other financial intermediaries to be used to provide subloans to finance income-generating activities for the benefit of the beneficiaries of such subloans.

Part C: Capacity Building

Provision of grants to finance training programs in the preparation and evaluation of Subprojects under Parts A and B of the Project, implementation of labor-intensive works, procurement activities, works management, contract administration, and accounting and financial management, for the benefit of communities, village committees, NGOs, and prospective consultants and contractors.

Part D: Project Management

Provision of technical advisory services, and acquisition of equipment and materials, to strengthen the capacity of FADC to implement the Project, and undertake the monitoring and evaluation of Subprojects.

\* \* \*

The Project is expected to be completed by June 30, 2002.

## SCHEDULE 3

### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project, as well as amounts paid or to be paid under Loans, Subloans and Grants, 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 KMF 450,000,000 to be withdrawn from the Credit Account and deposited into 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 KMF 225,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments

entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

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 deposit into the Special Account of an amount or amounts 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;

(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 the Project Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(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, minus the total amount of all outstanding special commitments 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.

