

CONFORMED COPY

CREDIT NUMBER 2586 LA

(Forest Management and Conservation Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 29, 1994

CREDIT NUMBER 2586 LA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 29, 1994, between LAO PEOPLE'S 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;

WHEREAS: (B) The Borrower intends to obtain from the Finnish International Development Agency ("FINNIDA") a grant (the "FINNIDA Grant") in an amount equivalent to twenty-eight million Finnish Marks (FIM 28,000,000) to assist in financing of Part C (1) of the Project on the terms and conditions set forth in an agreement (the "FINNIDA Grant Agreement") to be entered into between the Borrower and FINNIDA;

WHEREAS: (C) The Borrower intends to obtain from the Global Environment Trust Fund ("GET") a grant (the "GET Grant") in an amount equivalent to three million seven hundred Special Drawing Rights (SDR 3,700,000) to assist in financing Parts B (3), B (4), C (2) and C (3) of the Project on the terms and conditions set forth in an agreement (the "GET Grant Agreement"), of even date herewith, entered into between the Borrower and the International Bank for Reconstruction and Development acting as trustee of the GET; and

WHEREAS: (D) 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) "Decrees" means, collectively, each of (i) the Borrower's Prime Ministerial Interim Decree On The Forest Land Use Management No. 169/PM, dated November 3, 1993, for the reform of the Borrower's forestry sector, and (ii) the Borrower's Prime Ministerial Decree On The Establishment of National Forest Reserves No. 164/PM, dated October 29, 1993, establishing eighteen (18) separate national forest reserves;

(b) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences on October 1 and ends on September 30 in each calendar year;

(c) "MAF" means the Ministry of Agriculture and Forestry of the Borrower, and the term MAF includes any successor thereto;

(d) "PCC" means the Project Coordination Committee to be established by the Borrower pursuant to Section 3.05 of this Agreement; and

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

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 this Agreement, an amount in various currencies equivalent to six million three hundred thousand Special Drawing Rights (SDR 6,300,000).

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 the Banque pour le Commerce Exterieur Lao, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be September 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 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 January 15 and July 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 January 15 and July 15 commencing July 15, 2004 and ending January 15, 2034. Each installment to and including the installment payable on January 15, 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 seven hundred and ninety dollars (\$790) in constant 1985 dollars for five (5) 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. 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 MAF with due diligence and efficiency and in conformity with appropriate administrative, agricultural, economic, engineering, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources

required for the Project.

Section 3.02. The Borrower shall issue implementing regulations to the Decrees which shall be satisfactory to the Association and shall set forth, inter alia, the specific modalities and procedures for consulting and reaching agreement with forest villagers, and other affected indigenous people residing within the Borrower's forest lands, for defining, recognizing, preserving and protecting their customary rights to residing within, and using the resources of, said forestry lands.

Section 3.03. The Borrower shall, not later than September 30, 1997, present for adoption by its National Assembly comprehensive draft legislation satisfactory to the Association governing: (i) land ownership, transfer and use rights; and (ii) forestry exploitation, commerce, production and conservation.

Section 3.04. The Borrower shall take all necessary measures satisfactory to the Association to establish, not later than June 30, 1995, a uniform pricing and taxation system to ensure the parity of prices for the sale of logs for both its domestic and export markets.

Section 3.05. (a) The Borrower shall establish a Project Coordination Committee (the "PCC") with terms of reference and membership which at all times shall be satisfactory to the Association. The PCC shall be headed by an MAF Vice Minister, and shall be responsible for, inter alia, the day-to-day supervision and coordination of the implementation of the Project and for the formulation of general forestry sector policies.

(b) Not later than December 31, 1994, the PCC shall form an advisory Consultative Forum with membership in consultation with the Association (including without limitation state and local provincial governmental officials of the Borrower and representatives of non-governmental organizations and bilateral and multilateral donor agencies) for independently advising the PCC on the overall progress of Project implementation and the Borrower's policies for the development of its forestry sector.

Section 3.06. The Borrower shall, not later than March 31, 1996, award at least two (2) separate contracts, based on competitive bidding and contract award procedures satisfactory to the Association, for the management, development, rehabilitation and conservation of its forest resources so as to ensure inter alia, appropriate related sustained yield and conservation practices.

Section 3.07. Not later than October 31, 1997, the Borrower and the Association shall carry out a mid-term review of the progress achieved to date by the Borrower in carrying out the Project, and promptly thereafter, taking into account the Association's recommendations and, without any limitation or restriction upon any of the provisions of this Agreement, the Borrower shall carry out the Project with due diligence and efficiency and at all times shall take all necessary measures to achieve the objectives thereof.

Section 3.08. 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 separate 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 (6) 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 (1) 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 events are specified:

(a) The Decrees shall have been amended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under either this Agreement or the GET Grant Agreement; or

(b) (i) Subject to subparagraph (ii) of this paragraph:

- (A) The right of the Borrower to withdraw the proceeds of the FINNIDA Grant or the GET Grant, or any loan or grant made to the Borrower for the financing of the Project, shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
- (B) Any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower

Cable address:

Telex:

INDEVAS
Washington, D.C.

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

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

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Hiem Phommachanh

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1)	Civil works	2,170,000	100%
(2)	Goods (including vehicles)	2,170,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expen- ditures for other items procured locally
(3)	Incremental operating costs in respect of fuel and materials	580,000	100% of expenditures incurred prior to September 30, 1997 and 50% thereafter
(4)	Incremental opera- ting costs in respect of salaries	510,000	100% of expenditures incurred prior to September 30, 1997,

	and allowances		and 50% thereafter
(5)	Unallocated	870,000	
	TOTAL	SDR 6,300,000	

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; and

(c) The term "incremental operating costs" means payments made for expenditures on account of the operation and maintenance of the MAF's equipment including, inter alia, expenditures in respect of the purchase of materials, fuel, spare parts and Project forestry personnel operating salaries and allowances.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditures under Category (4) set forth in the table in paragraph 1 of this Schedule 1, unless the Borrower shall have issued the implementing regulations to the Decrees, pursuant to the provisions of section 3.02 of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in reforming its forestry sector and implementing a more sustainable natural resource management system and a conservation regime in respect of its forest resources.

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: Forestry Policy Reform

Establishing an incentive system, satisfactory to the Association, for improving the management of the exploitation of Borrower's forest resources by its users.

Part B: Forestry Field Programs

1. Carrying out of a program, satisfactory to the Association, on forest resource inventory and planning principally within the Borrower's central and southern regions through, inter alia, the provision of: civil works in respect of forestry personnel offices and housing; vehicles, fuel, equipment and materials; and support for operating personnel salaries and allowances.

2. Carrying out of a program, satisfactory to the Association, on forest resource management and conservation principally within the Borrower's central and southern regions through, inter alia, the provision of: civil works in respect of forestry personnel offices and housing, and small-scale agricultural and other rural infrastructure schemes; vehicles, fuel, equipment and materials; and support for operating personnel salaries and allowances.

3. Carrying out of a program, satisfactory to the Association, for establishing and managing at least four (4) specific protected areas within the Borrower's forest lands through, inter alia, the provision of: civil works in respect of forestry personnel offices and housing, protected area infrastructure, small-scale agricultural and other rural

infrastructure schemes; vehicles, fuel, equipment and materials; and support for operating personnel salaries and allowances.

4. Establishing environmental monitoring and evaluation mechanism covering the vital signs of environmental changes in the Borrower's forest resources.

Part C: Institutional Strengthening

1. Provision of technical assistance services to assist the Borrower in carrying out the forest resource inventory and planning program and the management and conservation program referred to in Parts A, B (1) and (2) above, respectively, including training of Project forestry personnel and forest communities in the implementation and management of said programs.

2. Provision of technical assistance services to assist the Borrower in carrying out the protected areas program referred to in Part B (3) above and the environmental monitoring and evaluation mechanism referred to in Part B (4) above, including training of Project forestry personnel and forest communities in the implementation and management of said program and mechanism.

3. Provision of technical assistance services to assist the Borrower in designing and establishing a forestry conservation trust fund.

* * * * *

The Project is expected to be completed by September 30, 1999.

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 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").

2. For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two (2) pre-disclosed 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.

3. 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.

4. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of fifty thousand dollars (\$50,000) or more.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

Local Competitive Bidding

1. Contracts for goods estimated to cost the equivalent of fifty thousand dollars (\$50,000) or less per contract, up to an aggregate amount not to exceed the equivalent of five hundred thousand dollars (\$500,000), and contracts for civil works estimated to cost the equivalent of more than ten thousand dollars (\$10,000) per contract, up to an aggregate amount not to exceed the equivalent of eight hundred thousand dollars (\$800,000), 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 civil works estimated to cost the equivalent of ten thousand dollars (\$10,000) or less per contract, up to an aggregate amount not to exceed the equivalent of three million dollars (\$3,000,000) may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and each contract for works estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or more per contract, up to an aggregate amount equivalent to three million seven hundred thousand dollars (\$3,700,000) 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 4 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 fifteen percent (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, Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the "Consultant Guidelines").

2. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

3. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior review by the Association, or approval of budgets, short lists, selection procedures,

letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than the equivalent of twenty thousand dollars (\$20,000) per contract. However, this exception to prior review by the Association shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to the equivalent of thirty thousand dollars (\$30,000) or more per contract.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) The term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit 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 eight hundred thousand dollars (\$800,000) to be withdrawn from the Credit Account and deposited in 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 in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures.

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

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the

Association shall not be required to make further deposits into the Special Account:

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

