

CONFORMED COPY

CREDIT NUMBER 1905 MAG

(Seventh Highway Project)

between

DEMOCRATIC REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 18, 1988

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 18, 1988, between DEMOCRATIC REPUBLIC OF MADAGASCAR (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;

(B) the Borrower intends to obtain from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution (the Swiss Contribution) in an amount of SwF 15,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland;

(C) Switzerland has appointed the Association to administer the Swiss Contribution in accordance with the provisions of a Procedural Agreement, dated April 9, 1987 (the Arrangement), between Switzerland and the Association, the Association has accepted such appointment and the Association shall administer the

Swiss Contribution in accordance with the provisions of this Agreement;

(D) the Borrower intends to contract from the African Development Fund (AfDF) a loan (the AfDF Loan) in an amount of 20,000,000 UA to assist in financing the Project on the terms and conditions set forth in an agreement (the AfDF Loan Agreement) to be entered into between the Borrower and AfDF;

(E) by an agreement, dated December 22, 1987 (the EDF Grant Agreement), the European Development Fund (EDF) has agreed to make a grant (the EDF Grant) to the Borrower in an aggregate principal amount of 25,500,000 ECU to assist in financing the Project on the terms and conditions set forth in the EDF Grant Agreement;

(F) the Borrower intends to contract from The Kingdom of Norway (NORAD) a grant (the NORAD Grant) in an amount of 16,000,000 NKr to assist in financing the Project on the terms and conditions set forth in an agreement (the NORAD Grant Agreement) to be entered into between the Borrower and NORAD;

(G) the Borrower intends to obtain from the Government of the Swiss Confederation (Switzerland) a grant (the Swiss Grant) in an amount of SwF 10,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the Swiss Grant Agreement) to be entered into between the Borrower and Switzerland; 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) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(b) "MTP" means the Borrower's Ministere des Travaux Publics;

(c) "MTMT" means the Borrower's Ministere des Transports, de la Meteorologie et du Tourisme;

(d) "SOLIMA" (Solitary Malagasy) means the Borrower's Entreprise Nationale for the refining and distribution of petroleum products, established and operating under Ordonnance No. 76-021, dated June 25, 1976; and

(e) "Swiss Contribution Account" means the account established by Switzerland for the purposes of the Swiss Contribution.

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-eight million nine hundred thousand Special Drawing Rights (SDR 28,900,000).

Section 2.02. (a) The amount of the Credit and the amount of the Swiss Contribution may be withdrawn from the Credit Account and the Swiss Contribution Account, respectively, 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 and the Swiss Contribution.

(b) Except as the Association and Switzerland shall otherwise agree, the allocation and withdrawal of the Swiss Contribution shall be governed, mutatis mutandis, by the provision of the General Conditions.

(c) The Borrower shall, for the purposes of the Project, open and maintain two special accounts, one in dollars and the other in Swiss Francs, in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1993, 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; (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 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) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing November 1, 1998, and ending May 1, 2028. Each installment to and including the installment payable on May 1, 2008, 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. 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 Parts A through G of the Project through MTP, and Part H of the Project through MTMT, with due diligence and efficiency and in conformity with appropriate engineering, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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 and the Swiss Contribution shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) By August 31, 1989, the Borrower shall furnish to the Association for approval a public expenditure program for MTP and MTMT covering the years 1990 and 1991.

(b) By August 31, 1990, and each August 31 of the following years during execution of the Project, the Borrower shall furnish to the Association for approval a three-year rolling public expenditure program for MTP and MTMT covering the following three years.

(c) By June 30, 1990 and June 30, 1993, the Borrower shall furnish to the Association for review an update of the National Transport Plan (1986-90).

Section 3.04. The Borrower shall:

- (i) maintain in its Central Bank, in accordance with procedures acceptable to the Association an account (the Road Fund Account) to be used by MTP

exclusively for road maintenance purposes;

- (ii) cause SOLIMA to deposit into the Road Fund, on a monthly basis, revenues from taxes and duties on motor fuel;
- (iii) ensure that the amounts deposited into said Road Fund for each fiscal year during execution of the Project shall be in conformity with the current public expenditure program, provided, however, that such amount shall not, for any such year, fall below the equivalent of SDR 3,600,000;
- (iv) maintain at its Central Bank as a sub-account to the Road Fund a Caisse d'Avance and replenish such Caisse d'Avance at the beginning of each quarter by the equivalent of at least SDR 360,000.

Section 3.05. By August 31, 1989, and at least annually thereafter, the Borrower shall review with the Association the adequacy of the fuel tax revenues to cover the road maintenance needs and, after any such review, if necessary, take all measures to ensure such adequacy.

Section 3.06. The Borrower shall take all necessary measures to ensure that private participants, or sponsors of any such private participants, in courses at the institut referred to in Section 6.01 (b) of this Agreement, shall pay tuition fees adequate to cover at least the average cost per trainee of salaries of local teachers and consumable goods for any such program.

Section 3.07. (a) By December 31, 1989, the Borrower shall carry out a review of its legislation and regulations pertaining to road passenger transportation.

(b) By June 30, 1990, the Borrower shall consult with the Association on: (i) the results of the review carried out under paragraph (a) above; and (ii) adequate measures to be undertaken regarding liberalization of road passenger transportation.

Section 3.08. (a) Before commencement of any training course under Parts F and H of the Project, the Borrower shall submit to the Association for approval a detailed training program for any such course.

(b) Before awarding any fellowships under Part F of the Project, the Borrower shall submit to the Association for approval a detailed training program, the qualifications of each candidate, type and cost of training and an indication of assignments to be given to the trainees on their return.

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 Accounts and the Road Fund Account for each fiscal year, audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Credit Account or the Swiss Contribution 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 or the Swiss Contribution 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:

- (i) Subject to subparagraph (ii) of this paragraph:
 - (A) The right of the Borrower to withdraw the proceeds of the Swiss Contribution, the AfDF Loan, the EDF Grant, the NORAD Grant or the Swiss 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 Swiss Contribution Agreement, the AfDF Loan Agreement, the EDF Grant Agreement, the NORAD Grant Agreement, or the Swiss Grant Agreement, or
 - (B) the AfDF 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 from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has promulgated the Charte de Gestion du Reseau Routier; such Charte to be acceptable to the Association;

(b) the Borrower shall have upgraded the Centre d'Application des Travaux Publics to the status of an institut;

(c) all conditions precedent to initial disbursement of the Swiss Contribution have been met; and

(d) the Borrower has published the decret and the two arretes relating to traffic regulation and road safety; such decret and arretes to be acceptable to the Association.

Section 6.02. 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.

Section 6.03. The obligations of the Borrower under Sections 3.04 through 3.06 of this Agreement and the provisions of Section 5.02 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date 15 years after the date of this Agreement, whichever shall be the earlier.

Section 6.04. In the event that Switzerland or the Association terminate the functions of the Association as Administrator pursuant to paragraph 5 of the Arrangement, the Association shall notify the Borrower promptly of the date on which Switzerland shall assume the rights and obligations of the Association under this Agreement.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower responsible for finance 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:

Ministere aupres de la Presidence
de la Republique charge des
Finances et de l'Economie
Antananarivo, Madagascar

Cable address:

Telex:

MINFIN
Antananarivo

22339

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.

DEMOCRATIC REPUBLIC OF MADAGASCAR

By /s/ Leon Rajaobelina
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Paul Isenman
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit
and the Swiss Contribution

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and the Swiss Contribution, the allocation of the amounts of the Credit and the Swiss Contribution 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)	Amount of the Swiss Con- tribution Allocated (Expressed in Swiss Francs Equivalent)	% of Expendi- tures to be Financed
(1) Civil works under:			
(a) Parts A, B, C, D (ii) and G			

of the Project to be financed by:			
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Swiss Contribution Allocated (Expressed in Swiss Francs Equivalent)	% of Expenditures to be Financed
(i) the Association	14,000,000		100%
(ii) Switzerland		12,100,000	100% of foreign expenditures
(b) Part D (i) of the Project	1,000,000	600,000	100% of foreign expenditures
(2) Equipment, spare parts, materials and supplies	4,000,000		100% of foreign expenditures and 70% of local expenditures
(3) Consultants' services and fellowships to be financed by:			
(a) the Association	5,500,000		100%
(b) Switzerland		1,300,000	100% of foreign expenditures
(4) Unallocated	4,400,000	1,000,000	
TOTAL	28,900,000	15,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen MTP's capacity in planning, coordination and monitoring of road works, to develop the domestic road construction industry and to strengthen MTMT in transport planning and coordination.

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: Rehabilitation and Periodic Maintenance of Paved Roads

Carrying out of rehabilitation programs on about 1,500 km of paved roads including: improving drainage systems, repairing structures, regravelling shoulders, rebuilding of subgrades, patching, resealing and execution of a single surface treatment, construction of new base courses of crushed rocks or treated local soil materials and execution of double surface treatments or asphalt concrete wearing courses.

Part B: Rehabilitation and Periodic Maintenance of Earth Roads

Carrying out of a rehabilitation program on about 500 km of engineered earth roads including: improving drainage systems, repairing structures, regravelling shoulders, rebuilding subgrades, construction of new base and rolling courses of gravelly soil materials.

Part C: Rehabilitation of Feeder Roads

Carrying out of a rehabilitation program on about 1,790 km of feeder roads including: widening of widths to about 4.5 m with shoulders of 0.5 to 1 m when economically feasible, improving drainage, partial realignment and improvement of grades and selective regravelling.

Part D: Routine Maintenance

Carrying out of a routine maintenance program on the main road and feeder road network of Madagascar, including:

- (i) clearing of shoulders, cleaning of ditches and culverts, minor repairs of bridges, patching, resealing filling of potholes, acquisition of equipment, materials and supplies; and
- (ii) rehabilitation of workshops and offices.

Part E: Development of Domestic Contractors

Carrying out a training program to assist small-scale domestic contractors in improving their ability to carry out periodic and routine road maintenance, including: training courses, seminars and training works.

Part F: Training and Manpower Development

Training of staff members of MTP, including engineers, road technicians, equipment operators, mechanics and electricians, accountants, and store clerks, acquisition of equipment, tools and supplies needed therefor, and provision of fellowships for short-

term courses.

Part G: Traffic Regulation and Safety

Construction of office buildings and acquisition of equipment needed for three road control centers.

Part H: Transport Planning and Coordination

Strengthening of MTMT in the carrying out of transport planning and coordination, and training of staff members of MTMT.

* * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

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

Part C: Preference for Domestic Contractors

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

Part D: Other Procurement Procedures

1. Contracts for works estimated to cost the equivalent of \$500,000 or less up to an aggregate amount not to exceed the equivalent of \$6.4 million may be procured under contracts awarded on the basis of the Borrower's Decree 70-089 of January 28, 1970, provided, however, that:

(a) registration of foreign bidders in the Registry of Commerce shall not be required for the acceptance of their bids;

(b) no procurement shall be made on the basis of selected tendering or direct contracting except in the case of rejection of all bids;

(c) bids shall be opened in public, i.e., bidders or their representatives shall be allowed to be present; and

(d) no special preference will be given to domestic bidders in the evaluation of bids.

2. Minor civil works under Parts C and D (i) of the Project estimated to cost the equivalent of \$100,000 or less, up to an aggregate amount not to exceed the equivalent of \$1.8 million, may

be procured under contracts awarded on the basis of the provisions set forth in paragraph 1 above and restricted to participants of the training program under Part E of the Project.

3. Contracts for equipment, spare parts, materials and supplies, estimated to cost the equivalent of \$50,000 or less, up to an aggregate amount not to exceed the equivalent of \$500,000, may be awarded on the basis of price quotations solicited from a list of at least three local suppliers.

Part E: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$35,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Accounts, 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 Accounts in respect of such contracts.

(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 contracts are to be made out of the Special Accounts, 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account or the Swiss Contribution 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 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

Special Accounts

1. For the purposes of this Schedule:

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

(b) the term "eligible Categories" means:

(i) in respect of Special Account A, Categories (1) (a) (i), (1) (b), (2) and (3) (a); and

- (ii) in respect of Special Account B, Categories (1) (a) (ii), (1) (b) and (3) (b);

(c) 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 or the Swiss Contribution allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(d) the term "Authorized Allocation" means: (i) an amount of \$750,000 in the case of Special Account A; and (ii) an amount of SwF 500,000 in the case of Special Account B. Such amounts to be withdrawn from the Credit Account or the Swiss Contribution Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Accounts 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 Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Swiss Contribution Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Accounts at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account or the Swiss Contribution Account and deposit into the Special Accounts such amounts as shall be required to replenish the Special Accounts with amounts not exceeding the amount of payments made out of the Special Accounts for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or the Swiss Contribution Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Accounts for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Accounts shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account or the Swiss Contribution Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Credit or the Swiss Contribution allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account or the Swiss Contribution Account, as the case may be, of the remaining unwithdrawn amount of the Credit or the Swiss Contribution 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 Accounts 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 Accounts: (i) was made for any expenditure or in any 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, deposit into the Special Accounts (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. No further deposit by the Association into the Special Accounts shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Accounts 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 for crediting to the Credit Account or the Swiss Contribution Account, as the case may be.

