

CONFORMED COPY

CREDIT NUMBER 2973 MOG

Development Credit Agreement

(Ulaanbaatar Services Improvement Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1997

CREDIT NUMBER 2973 MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 1997 , between MONGOLIA (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) Municipality of Ulaanbaatar (MUB) shall carry out the Project, or cause the Project to be carried out, with the Borrower 's assistance, and as part of such assistance, the Borrower will make available to the MUB the proceeds of the Credit as provided in this Agreement;

(C) the Borrower intends to contract from the Commonwealth of Australia (Australia) a grant (the Australian Grant) in an amount equivalent to about four million nine hundred thousand dollars (\$4,900,000) to assist in financing part C of the Project on the terms and conditions set forth in an agreement (the Australian Grant Agreement) to be entered into between the Borrower and Australia; 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 and in the Project Agreement of even date herewith between the Association and MUB;

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 Association 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 Development 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 have the respective meanings therein set forth and the following additional terms have the following meanings wherever used in this Agreement:

(a) "Environmental Management Plan" means the environmental management plan of October 1996 including mitigation measures, prepared for the Project as an integral part of the Environmental Assessment, as such plan may be revised from time to time in agreement with the Association;

(b) "Ger Infrastructure Improvement Program" means the program for the improvement of ger infrastructure dated May 7, 1997 and referred to in Part E.1 of Schedule 2 to the Project Agreement, as such program may be revised from time to time in agreement with the Association;

(c) "km" means kilometers;

(d) "MUB" means Municipality of Ulaanbaatar, an administrative sub-division of the Borrower and any successor thereto;

(e) "MUB Parts of the Project" means Parts C, D.1 D.2 and D.3 of the Project as described in Schedule 2 to this Agreement;

(f) "MUB Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and MUB pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the MUB Subsidiary Loan Agreement; and "MUB Subsidiary Loan" means the loan provided under the MUB Subsidiary Loan Agreement;

(g) "PMU" means MUB's project management unit responsible for Project supervision and coordination as referred to in Part A of Schedule 2 to the Project Agreement;

(h) "Project Agreement" means the agreement between the Association and MUB 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;

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

(j) "Sector Improvement Action Plan" means MUB's plan to improve urban services in MUB, dated May 7, 1997, as the same may be revised from time to time in agreement with the Association;

(k) "Tugrik" means the currency of the Borrower;

(l) "USAG" means Water Supply and Sewerage Company of Ulaanbaatar, a limited liability company established and operating in accordance with the laws of the Borrower;

(m) "USAG Institutional Development Plan" means the action plan for the strengthening of USAG's organization, dated May 7, 1997, as the same may be revised from time to time in agreement with the Association;

(n) "USAG Parts of the Project" means Parts A, B and D.4 of the Project, as described in Schedule 2 to this Agreement;

(o) "USAG Subsidiary Loan Agreement" means the agreement to be entered into between MUB and USAG pursuant to Part D of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the USAG Subsidiary Loan Agreement; and "USAG Subsidiary Loan" means the loan provided under the USAG Subsidiary Loan Agreement; and

(p) "Subsidiary Loan Agreements" means, collectively, the MUB Subsidiary Loan Agreement and the USAG Subsidiary Loan 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 the Development Credit Agreement, an amount in various currencies equivalent to twelve million three hundred thousand Special Drawing Rights (SDR 12,300,000).

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 may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against 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 June 30, 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 15 and November 15 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 semi-annual installments payable on each May 15 and November 15, commencing November 15, 2007 and ending May 15, 2037. Each installment to and including the installment payable on May 15, 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 United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause MUB to perform in accordance with the provisions of the Project Agreement all of the obligations of MUB therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources necessary or appropriate to enable MUB to perform such obligations, and shall not take or permit to be taken any action which would interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit to MUB under a subsidiary loan agreement to be entered into between the Borrower and MUB (the MUB Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Association. Such terms and conditions shall include the following:

(i) the principal amount of the MUB Subsidiary Loan repayable by MUB shall be the equivalent in SDR (determined as of the date, or respective dates, of the value of the currency or currencies of the value of the currency or currencies Account; withdrawal) withdrawn from the Credit Account;

(ii) the principal amount of the MUB Subsidiary Loan shall be repaid by MUB to the Borrower in Dollars in semi-annual installments over forty years, including a grace period of 10 years;

(iii) interest shall be charged on the outstanding balance of the MUB Subsidiary Loan at a rate equal to 1% per annum; and

(iv) the Borrower shall charge a commitment charge on such principal amount, not withdrawn from time to time at the rate set forth in Section 2.04(a) of the Development Credit Agreement.

(c) The Borrower shall exercise its rights under the MUB Subsidiary Loan Agreement 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 MUB Subsidiary Loan Agreement or any provision thereof.

Section 3.02. 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 MUB pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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, in accordance with paragraph (a) of this Section, records and accounts reflecting such

expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account 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 expenditures 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.

(b) The Borrower shall:

(i) have its records, accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) 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 such records, accounts and financial statements and the audit thereof as the Association shall from time to time reasonably request.

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) MUB shall have failed to perform any of its obligation under the Project Agreement.

(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 MUB will be able to perform its obligations under the Project Agreement.

(c) The Australian Grant Agreement shall have failed to become effective by April 1, 1998, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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.

(d) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the Australian Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Australian Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination 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 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.

ARTICLE VI

Effective date; Termination

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

(a) the Subsidiary Loan Agreements have been executed on behalf of the parties thereto;

(b) USAG shall have been registered as a limited liability company in accordance with the Borrower's Company and Partnership Law, on the basis of a charter acceptable to the Association;

(c) MUB shall have entered into an agreement, acceptable to the Association and in accordance with Section II of Schedule 1 to the Project Agreement, with a consultancy firm for the provision of technical assistance for project management under Part D.1 of the Project; and

(d) MUB shall have established the project management unit (PMU) referred to in Part A 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 and ratified by MUB and is legally binding upon MUB in accordance with its terms;

(b) that each Subsidiary Loan Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon said parties in accordance with its terms; and

(c) that USAG has been registered as a limited liability company in accordance with the Borrower's Company and Partnership Law.

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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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:

Ministry of Finance
Khudaldaany gudamj - 4
Ulaanbaatar 11
Mongolia

Telex:

719-79241

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INDEVAS 248423 (MCI) or
Washington, D.C. 64145 (MCI)

IN WITNESS WHERE OF, 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.

MONGOLIA

By /s/ P. Tsagaan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ngozi Okonjo-Iweala

Authorized Representative

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 under Part A of the Project	1,000,000	90%
(2) Goods under Parts A, B and D of the Project	500,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services		

and training:

(a) for Part D.1 of 2,200,000
the Project;

(b) for Part D.4 of 12,300,000
the Project

TOTAL 16,000,000

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures:

(a) for works, goods and consultants services under contracts not exceeding \$20,000 equivalent each; and

(b) for training regardless of the cost thereof, all 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 assist the Borrower and MUB to: (a) alleviate inequity in the delivery of urban services in MUB between ger and formal housing areas; (b) restore levels and quality of water supply to MUB and make water supply accessible to ger areas; and (c) strengthen the capacity of USAG and MUB with a view to increasing efficiency and performance orientation.

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: Water Supply

1. Distribution Network

Improvement of MUB's water supply distribution network through the completion of the southern section of the main distribution loop around MUB, including: (a) construction of about 15 km of pipelines for the southern transmission main; (b) construction of links (about 7 km) between existing reservoirs and links (about 10 km) to water distribution network main; (c) rehabilitation of the North East and 'X' reservoirs, including the installation of a telemetry system to optimize reservoir use; (d) repair and replacement of existing reservoir valves and installation of regulating valves to control pressures on secondary networks; and (e) provision of workshop and laboratory equipment and spares.

2. Ger Area Water Supply

Improvement of water distribution to ger areas through: (a) construction of a primary water supply distribution network to serve ger areas, consisting of about 98 km of insulated pipes; (b) construction of links between the ger distribution network and MUB's network, consisting of two transmission pipelines (of about 9 and 3 km in length, respectively); (c) construction of four semi-buried reservoirs at Hailast,

Yarmag, Baiyankoshu and Shar Had with a combined capacity of 3,000 cubic meters; (d) establishment of an independent groundwater supply at Yarmag, Shar Had and Bayankoshu through the drilling of boreholes; and (e) construction of about 25 water supply kiosks and rehabilitation of about 110 existing water kiosks to serve the ger areas.

3. Water Wastage Reduction

Reduction of water wastage through: (a) provision and installation at apartments of about 22,000 cold and hot water meters; (b) provision and installation of fixtures and pipes for apartments and other buildings; and (c) provision and installation of meter testing and repair facilities.

Part B: Sewerage System Repairs

Enhancing capacity of MUB's sewerage system through provision of equipment to assess sewer conditions, clear sewer blockages and clean sewers.

Part C: Ger Area Infrastructure Upgrading

Improving the infrastructure of ger areas through the implementation of the Ger Infrastructure Improvement Program, including (1) construction of about 23 km of footpaths; (2) construction of about four bridges and about 11 km of roads; (3) construction of about 2.6 km of drains and 2.2 km of levees; (4) installation of about 650 solid waste refuse bins; (5) supply of mobile equipment for solid waste collection and disposal; and (6) construction of about 5 laundries and bathhouses in each of the abovementioned ger areas.

Part D: Project Management and Institutional Development

1. Strengthening the capacity of the PMU in project management with an emphasis on financial management, procurement, disbursement and monitoring skills.
2. Foster community commitment to and enhance participation in ger area infrastructure improvements to be undertaken under Part C of the Project, through implementation of community awareness activities, including review of design of infrastructure improvements at the community level.
3. Carrying out of the studies regarding: (a) medium-term development and planning of ger areas, to improve land use management and integrate ger areas into the overall urban development plan; and (b) ger refuse collection, with a view to identify alternatives to fund such collection.
4. Strengthening the institutional capacity of USAG, through the implementation of the USAG Institutional Development Action Plan including:
 - (a) strengthening of the capacity of USAG in financial management, engineering and maintenance including the provision of training and consultants' services; and
 - (b) development and installation of a computerized billing and collection system and the training of USAG staff in the operation of that system.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 3 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out

of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 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 1,200,000.

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 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 this 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.

