

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3779 BOS

Development Credit Agreement

(Forest Development and Conservation Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 7, 2003

Public Disclosure Authorized

CREDIT NUMBER 3779 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 7, 2003, between BOSNIA AND HERZEGOVINA (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) Part A of the Project will be carried out by the Federation of Bosnia and Herzegovina (the Federation) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Federation a part of the proceeds of the Credit as provided in this Agreement;

(C) Part B of the Project will be carried out by Republika Srpska (RS) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to RS a part of the proceeds of the Credit as provided in this Agreement;

(D) the Government of the Italian Republic (Italy) intends to provide a grant in an amount of six hundred thousand Euro (€600,000) (the Italian Grant) to assist in financing Part A. 3 (a), (b) and (c) and Part B. 3 (a), (b) and (c) of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreements of even date herewith between the Association and the Federation and the Association and Republika Srpska;

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 (as amended through October 6, 1999) (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) “Entity” means either the Federation (defined hereafter) or Republika Srpska (defined hereafter), as the case may be, and “Entities” means the Federation and Republika Srpska, collectively;

(b) “Euro” or sign “€” means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(c) “Federation” means the Federation of Bosnia and Herzegovina, a political subdivision of the Borrower, and includes any successor or successors thereto;

(d) “Federation PIU” means the project implementation unit within the Ministry of Agriculture, Water Management and Forestry of the Federation;

(e) “Federation Project Agreement” means the agreement between the Association and the Federation 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 Federation Project Agreement;

(f) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 3.02 of the Federation Project Agreement and the RS Project Agreement;

(g) “Konvertible Marka” or “KM” means the lawful currency of the Borrower;

(h) “Project Account” means the account referred to in paragraph 2 of Schedule 1 to each Project Agreement for deposit of counterpart funds for the Project;

(i) “Project Agreement” means either the Federation Project Agreement or the RS Project Agreement, as the case may be, and the term “Project Agreements” means said project agreements collectively;

(j) “Republika Srpska” or “RS” means Republika Srpska, a political subdivision of the Borrower, and includes any successor or successors thereto;

(k) “RS PIU” means the project implementation unit within the Ministry of Agriculture, Forestry and Water Resources of Republika Srpska;

(l) “RS Project Agreement” means the agreement between the Association and Republika Srpska 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 RS Project Agreement;

(m) “Special Accounts” means the accounts referred to in Section 2.02(b) of this Agreement; and

(n) “Subsidiary Credit Agreement” means either agreement to be entered into between the Borrower and each Entity pursuant to Section 3.01 (b) or (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to each Subsidiary Credit Agreement, the term “Subsidiary Credit Agreements” means said agreements collectively, and “Subsidiary Credit” means a credit to be made out of the proceeds of the Credit provided to each Entity under a Subsidiary Credit 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 two million eight hundred thousand Special Drawing Rights (SDR 2,800,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of each of Parts A and B of the Project, open and maintain in Euro two separate special deposit accounts, namely the Federation Special Account and the Republika Srpska Special Account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be February 28, 2007, 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 January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15, commencing July 15, 2013 and ending January 15, 2023. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. Euro 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 the Development Credit Agreement, shall cause the Federation and Republika Srpska to perform in accordance with the provisions of the Federation Project Agreement and the RS Project Agreement, respectively, all of the obligations of the Federation and Republika Srpska therein set forth, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources necessary or appropriate to enable the Federation and Republika Srpska to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of Part A of the Project, the Borrower shall enter into a subsidiary credit agreement with the Federation (the Subsidiary Credit Agreement) under

terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the Borrower shall relend to the Federation an amount in Euro equivalent to the amount of the Credit allocated from time to time to Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iii) the Borrower shall charge the Federation a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;
- (iv) the Borrower shall charge the Federation a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (v) the principal amount of the Subsidiary Credit shall be repayable in KM and shall be the equivalent in Euro (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project.

(c) For the purposes of Part B of the Project, the Borrower shall enter into a subsidiary credit agreement with Republika Srpska (the Subsidiary Credit Agreement) under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the Borrower shall relend to the Republika Srpska an amount in Euro equivalent to the amount of the Credit allocated from time to time to Categories (5) through (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the term of the RS Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iii) the Borrower shall charge the Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the RS Subsidiary Credit not withdrawn from time to time;

- (iv) the Borrower shall charge the Republika Srpska a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (v) the principal amount of the Subsidiary Credit shall be repayable in KM and shall be the equivalent in Euro (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project.

(d) The Borrower shall exercise its rights under the Subsidiary Credit Agreements 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, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Credit Agreements or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Federation Project Agreement, and procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the RS Project Agreement.

Section 3.03. 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) in respect of Part A of the Project shall be carried out by the Federation pursuant to Section 2.05 (a) of the Federation Project Agreement and in respect of Part B of the Project shall be carried out by RS pursuant to Section 2.05 (a) of the RS 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 or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;

- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
 - (iii) enable the Association's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section including and those for the Special Accounts 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and
 - (iii) furnish to the Association such other information concerning said records and accounts 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 (l) of the General Conditions, the following additional events are specified:

(a) Either Entity shall have failed to perform any of its obligations under its respective Project Agreement or Subsidiary Credit Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that either Entity shall be able to perform its obligations under its respective Project Agreement or Subsidiary Credit Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that, the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) 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 this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) a Project Agreement has been executed on behalf of the Association and an Entity; and
- (b) for the Entity referred to in paragraph (a) of this Section 6.01:
 - (i) a Subsidiary Credit Agreement has been executed on behalf of the Borrower and said Entity; and
 - (ii) the Project Account has been opened by said Entity and an initial amount of \$20,000 equivalent has been deposited into such account.

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

- (a) that the Project Agreement has been duly authorized or ratified by the Entity concerned, and is legally binding upon the said Entity in accordance with its terms; and
- (b) that the Subsidiary Credit Agreement referred to in Section 6.01 (b) (i) of this Agreement has been duly authorized or ratified by and is legally binding upon the Borrower and said Entity in accordance with its terms.

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

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

terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Treasury of Bosnia and Herzegovina 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 and Treasury
Trg Bih 1
71000 Sarajevo
Bosnia and Herzegovina

Facsimile:

387 33 471 822

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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 city of Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Ljerka Maric

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Ingram

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:

<u>Category</u>	Amount of the <u>% of</u> (Expressed in <u>SDR Equivalent</u>)	<u>Expenditures</u> <u>to be Financed</u>
A. <u>Part A of the Project (the Federation)</u>		
(1) Goods	320,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 85% of local expenditures for other items procured locally
(2) Consultants' services, audit and training		100% of foreign consulting firms and foreign individual consultants, and 80% of local consulting firms and local individual consultants
(a) under Parts A.1, 2 (b), 3 and 4 of the Project	950,000	
(b) hardware and software for the forest management information system under Part A.2 (a) of the Project	300,000	
(3) Incremental Operating Costs	150,000	70%
(4) Unallocated	150,000	

SUBTOTAL 1,870,000

Amount of the

Credit Allocated

% of

<u>Category</u>	<u>(Expressed in SDR Equivalent)</u>	<u>Expenditures to be Financed</u>
B. <u>Part B of the Project (Republika Srpska)</u>		
(5) Goods	15,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 85% of local expenditures for other items procured locally
(6) Consultants' services, audit and training		100% of foreign consulting firms and foreign individual consultants, and 84% of local consulting firms and local individual consultants
(a) under Parts B.1, 2 (b), 3 and 4 of the Project	400,000	
(b) hardware and software for the forest management information system under Part B.2 (a) of the Project	300,000	
(7) Incremental Operating Costs	130,000	70%
(8) Unallocated	85,000	
SUBTOTAL	<u>930,000</u>	
TOTAL	<u>2,800,000</u>	

2. For the purposes of this Schedule:

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

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) the term “foreign consulting firm” means a consulting firm which is registered or incorporated in the territory of any country other than that of the Borrower;

(d) the term “foreign individual consultant” means an individual consultant who is not a citizen of the territory of the Borrower;

(e) the term “local consulting firm” means a consulting firm which is registered or incorporated in the territory of the Borrower;

(f) the term “local individual consultant” means an individual consultant who is a citizen of the territory of the Borrower;

(g) the term “incremental operating costs” means the incremental expenses incurred by the Federation PIU or the RS PIU on account of Project implementation, management and monitoring, including the cost of transport and travel, fuel and repairs made on account of maintenance and operation of vehicles, office supplies, and communication; and

(h) the term “training” means training activities (other than consultants’ services) to be carried out under the Project, including the cost of workshops and the travel costs and per diem of the trainees.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 60,000 may be made in respect of Categories A(2), (3) and B(7) on account of payments made for expenditures before that date but after March 31, 2003, provided that the Entity, responsible for implementing either Part A or Part B of the Project from which the withdrawals may be made under this paragraph, shall have fulfilled the conditions set forth in Section 6.01 of this Agreement; and

- (b) under the Categories allocated to Part A or Part B of the Project unless:
 - (i) a Project Agreement between the Association and the Entity responsible for implementing Part A or Part B of the Project, as the case may be, has been executed;
 - (ii) a Subsidiary Credit Agreement between the Borrower and such Entity has been executed with terms and conditions satisfactory to the Association; and
 - (iii) the Project Account has been opened by said Entity and an initial amount of 20,000 equivalent has been deposited into such account.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) contracts for goods costing less than \$100,000 equivalent each; (ii) contracts for consulting firms costing less than \$100,000 equivalent each; (iii) contracts for individual consultants costing less than \$25,000 equivalent each; and (iv) incremental operating costs and contracts for training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in the implementation of reforms in forest organization and management, both at the Entity and canton level.

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: The Federation

1. Accelerating the implementation of the legal, institutional and economic framework

(a) Support in the establishment and capacity building of the forest administrations, forest enterprises, forest guards and forest inspectors, through the provision of goods, consultants' services and training.

(b) Strengthening the capacity of the working groups responsible for the forest sector reform to facilitate consensus building among different institutions, assist in preparation of an action plan for the transition period and develop business plans for forest management, through the provision of goods, consultants' services and training.

(c) Support to improve the economic and financing framework of the forest sector, including: (i) reviewing accounting procedures and financial management practices; (ii) identifying alternative options for financing of the activities of the forest institutions and enterprises; and (iii) developing options for improving timber pricing and grading, and effective use of non-timber forest products, through the provision of goods, consultants' services and training.

2. Strengthening of Technical Capacity for Sustainable Forest Management

(a) Development and implementation of a forest management information system for the forest sector, through the provision of goods, consultants' services and training.

(b) Support in the implementation of a national forest inventory, and development of forest management standards, through the provision of goods and consultants' services.

3. Promoting Biodiversity and Forest Conservation

(a) Development of a national biodiversity strategy, including formulation and adoption of actions for the protection and sustainable use of biodiversity by involving public and private sector, and civil society, through the provision of consultants' services and training.

(b) Identification of areas for biodiversity conservation to create foundation for national forest and environment land-use planning, through the provision of goods, consultants' services and training.

(c) Carrying out of socio-economic assessments and setting up procedures for a comprehensive consultation process which will include all stakeholders in the decision-making on establishing of any new protected area, through the provision of goods, consultants' services and training.

4. Project Management

Strengthening the institutional capacity of the Federation PIU through the provision of consultants' services, goods and training for Project implementation, monitoring and evaluation.

Part B: Republika Srpska

1. Accelerating the implementation of the legal, institutional and economic framework

(a) Strengthening the institutional capacity of the forest guards and forest inspectors, through the provision of goods, consultants' services and training.

(b) Strengthening the capacity of the working groups responsible for the forest sector reform to develop business plans for forest management, through the provision of goods, consultants' services and training.

(c) Support to improve the economic and financing framework of the forest sector, including: (i) reviewing accounting procedures and financial management practices; (ii) identifying alternative options for financing of the activities of forest institutions and enterprises; and (iii) developing options for improving timber pricing and grading, and effective use of non-timber forest products, through the provision of goods, consultants' services and training.

2. Strengthening of Technical Capacity for Sustainable Forest Management

(a) Development and implementation of a forest management information system for the forest sector, through the provision of goods, consultants' services and training.

(b) Support in the implementation of a national forest inventory, and development of forest management standards, through the provision of goods and consultants' services.

3. Promoting Biodiversity and Forest Conservation

(a) Development of a national biodiversity strategy, including formulation and adoption of actions for the protection and sustainable use of biodiversity by involving public and private sector, and civil society, through the provision of consultants' services and training.

(b) Identification of areas for biodiversity conservation to create foundation for national forest and environment land-use planning, through the provision of goods, consultants' services and training.

(c) Carrying out of socio-economic assessments and setting up procedures for a comprehensive consultation process which will include all stakeholders in the decision-making on establishing of any new protected area, through the provision of goods, consultants' services and training.

4. Project Management

Strengthening the institutional capacity of the RS PIU, through the provision of consultants' services, goods and training for Project implementation, monitoring and evaluation.

* * *

The Project is expected to be completed by August 31, 2006.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (3) in case of the Federation Special Account, and Categories (5) through (7) in case of the RS Special Account 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 □270,000 in respect of the Federation Special Account and an amount equivalent to □130,000 in respect of the RS Special Account, to be withdrawn from the Credit Account and deposited into the Special Accounts 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 □185,000 in respect of the Federation Special Account and an amount equivalent to □65,000 in respect of the RS Special Account, until (i) in respect of the Federation Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Part A of the Project plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part A of the Project shall be equal to or exceed the equivalent of SDR 300,000; and (ii) in respect of the RS Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Part B of the Project plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part B of the Project shall be equal to or exceed the equivalent of SDR 150,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 for the respective Special Account, 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.