

CONFORMED COPY

CREDIT NUMBER 1859 IN

(Second National Dairy Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 13, 1988

CREDIT NUMBER 1859 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 13, 1988, between INDIA, acting by its President (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 has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to two hundred million dollars (\$200,000,000) (the Loan);

(C) the Project will be carried out by the National Dairy Development Board (NDDB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to NDDB

the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan Agreement;

(D) by an agreement of even date herewith among the Association, the Bank and NDDDB (the Project Agreement), NDDDB has agreed to undertake certain obligations in respect of the carrying out of the Project;

(E) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of eligible expenditures for the Project before disbursements are made of the proceeds of the Loan provided for in the Loan Agreement; 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;

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

(b) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(c) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and NDDDB pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time;

(d) "NDDDB" means the National Dairy Development Board, incorporated under the Borrower's National Dairy Development Board Act, 1987 (No. 37 of 1987), the successor to (i) the National Dairy Development Board registered in 1965 under the Bombay Societies Registration Act, 1860; and (ii) the Indian Dairy Corporation incorporated under the Borrower's Companies Act, 1956;

(e) "NDDDB Act" means the Borrower's National Dairy Development Board Act, 1987 (Act No. 37 of 1987);

(f) "DCS" means Dairy Cooperative Society, a village-level cooperative society of milk producers registered under the Cooperative Societies Act of the concerned state;

(g) "MPU" means Milk Producers' Union, a cooperative society of DCSs within a defined area registered under the Cooperative Societies Act of the concerned state;

(h) "State Federation" means a cooperative society of MPUs within a state or, where there is only one MPU in a state, such MPU, registered under the Cooperative Societies Act of the concerned state;

(i) "NCDFI" means the National Cooperative Dairy Federation of India, a cooperative society of State Federations, registered in 1985 under the Borrower's Multi-State Cooperatives Act;

(j) "sub-project" means a project for which a sub-loan is made or proposed to be made to a MPU or State Federation by NDDDB under the Project out of the proceeds of the Credit or the Loan made available to NDDDB by the Borrower under the Subsidiary Loan Agreement;

(k) "sub-loan" means a loan to finance a sub-project made or proposed to be made by NDDDB to a MPU or State Federation out of the proceeds of the Credit or Loan made available to NDDDB by the Borrower under the Subsidiary Loan Agreement; and

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

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred twenty-one million two hundred thousand Special Drawing Rights (SDR 121,200,000).

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 shall, for the purposes of the Project, open and maintain in dollars a special account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1994 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 at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing March 15, 1998 and ending September 15, 2022. Each installment to and including the installment payable on September 15, 2007 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) 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. (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 NDDB to perform in accordance with the provisions of the Project Agreement all the obligations respectively set forth therein, shall take and cause to be taken all action, including the provision of funds, facilities, services, land and other resources, necessary or appropriate to enable NDDB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit and the proceeds of the Loan (except the amount passed on to NDDB pursuant to Section 3.02 of this Agreement) to NDDB for the purpose of making sub-loans to MPUs and State Federations under a subsidiary loan agreement to be entered into between the Borrower and NDDB under terms and conditions which shall have been approved by the Association which shall include those set forth in Schedule 3 to this Agreement.

(c) The Borrower shall exercise its rights under the 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, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. The Borrower shall make available as a grant to NDDB four million dollars (\$4,000,000) equivalent of the proceeds of the Credit and the Loan for the purposes of carrying out Part D of the Project.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by NDDB pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other 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 expenditures, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and 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 two years 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 and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than six 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.

Section 4.02. The Borrower shall continue to ensure that NDDB shall be afforded managerial and financial autonomy.

Section 4.03. The Borrower shall cause concerned states to take necessary action to ensure that: (i) DCSs, MPUs and State Federations which are beneficiaries under the Project are established, and carry out their operations in accordance with the principles set out in Schedule 2 to the Project Agreement; and (ii) State Federations carry out on a timely basis their obligations pursuant to Section 2.13 of the Project Agreement.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) NDDB shall have failed to perform any of its obligations under the Project Agreement or the Subsidiary Loan 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 NDDB will be able to perform its obligations under the Project Agreement or the Subsidiary Loan Agreement.

(c) The NDDB Act shall have been amended or repealed so as to affect materially and adversely the ability of NDDB to perform any of its obligations under the Project Agreement or the Subsidiary Loan Agreement.

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

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

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

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

- (i) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and NDDB, respectively; and
- (ii) all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

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

(a) that the Project Agreement has been duly authorized or ratified by NDDB, and is legally binding upon NDDB in accordance

with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and NDDB and is legally binding upon the Borrower and NDDB in accordance with its terms.

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

Section 6.04. The obligations of the Borrower under Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen (15) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry 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:

The Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-313546

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.

INDIA

By /s/ N. Misra

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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 Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	12,000,000	22,000,000	25% of local expenditures
(2) Equipment, materials and vehicles	68,000,000	126,000,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost) and 25% of local expenditures for other items procured locally
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Turnkey contracts for the establishment of dairies under Part C of the Project	21,000,000	27,000,000	
(a) civil works, equipment and materials			100% of foreign expenditures; 100% of local expenditures (ex-factory cost)
(b) services			100%
(4) Local training, studies and incre-	5,300,000	10,000,000	25% of local expenditures

mental
salaries
for estab-
lishing or
strengthening
DCSs, MPUs and
State Federa-
tions

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Consultants' services and overseas training	1,500,000	2,000,000	100%
(6) Unallocated	13,400,000	13,000,000	
TOTAL	121,200,000	200,000,000	

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 except that withdrawals: (i) in an aggregate amount not exceeding the equivalent of SDR 7,200,000, may be made on account of payments made for certain expenditures before that date but after January 1, 1986 and approved by the Association and the Bank as eligible for financing under the proceeds of the Credit and the Loan; and (ii) in an aggregate amount not exceeding the difference between the equivalent of SDR 27,300,000 and the SDR equivalent of the amount withdrawn from the Credit Account and Loan Account pursuant to paragraph 3(i) of this Schedule, may be made on account of payments made for expenditures before that date but after April 14, 1987.

SCHEDULE 2

Description of the Project

The objectives of the Project are to promote the establishment of viable cooperative businesses, owned and managed by producers, for collecting, processing and marketing milk from rural hinterlands; increase the sale of milk and milk products in order to expand rural incomes; and improve milch animal productivity. The Project will support the third phase of Operation Flood, India's national dairy cooperative development program.

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: Development of Dairy Cooperatives

The further expansion of cooperatives involved in Operation Flood by the establishment and development of about 23,000 new DCSs and about 20 new MPUs, as well as the further consolidation and development of existing MPUs and their associated DCSs.

Part B: Improvement of Animal Productivity

1. Development and improvement of veterinary services provided to dairy cooperative members through the provision of necessary works, equipment, materials and vehicles; and the carrying out of a pilot program for vaccination against Foot and Mouth Disease;
2. development and improvement of animal husbandry extension services;
3. increasing the production of feed and fodder by the expansion of balanced cattle feed production capacity through the construction of new feed mills as well as the expansion of existing feed mills and the establishment of urea/molasses block plants; the distribution of fodder minikits; the establishment of silvipasture; the provision of fodder demonstration units; the provision, as necessary, of fodder seed processing facilities; and the development and promotion of techniques to improve the nutritive value of crop residues; and
4. genetic upgrading of cattle and buffaloes through the further development of artificial insemination services, provision of bulls and strengthening of the sire evaluation program.

Part C: Milk Collection, Processing, Storage and Distribution

1. Increasing the milk processing capacity of dairy cooperatives by the establishment of new dairies and the expansion of existing dairies to create inter alia incremental capacity of about 7 million liters per day (mlpd), as well as by the expansion of milk powder manufacturing capacity;
2. establishment of new chilling centers and the expansion of existing chilling centers; and
3. provision of infrastructure, equipment and vehicles for expanding distribution and marketing facilities for milk and milk products by about 5.6 mlpd, including those of the National Milk Grid, and including the expansion of the capacity of metro dairies and the provision of road and rail tankers as well as facilities for the storage of milk and milk products.

Part D: Institution Strengthening

1. Establishment of new training centers and the strengthening of existing training centers managed by MPUs and State Federations; and the provision of supplementary equipment, materials and services to training facilities managed by MPUs, State Federations and NDDB;
2. provision of training for staff of DCSs, MPUs, State Federations and NDDB (including overseas training) in a variety of relevant areas including, in particular, animal husbandry, dairy processing, business management, marketing, and monitoring and evaluation;
3. further development of uniform accounting, auditing and management information systems and strengthening investment analysis procedures at the levels of MPUs, State Federations and NDDB;
4. provision of assistance to NDDB in carrying out an applied research and development program related, in particular, to animal

productivity, dairy processing and product development;

5. provision of assistance to NDDB in strengthening field monitoring and evaluation of the Operation Flood program; and

6. development of milk marketing strategies and promotional programs by NDDB, NCDFI, State Federations and MPUs.

* * *

The Project is expected to be completed by June 30, 1994.

SCHEDULE 3

Terms of On-lending to NDDB

1. Interest Rate 7.5 percent per annum
2. Amortization Period 15 years (including three years' grace on principal and interest); interest accruing during grace period to be capitalized.
3. Foreign exchange risk to be borne by the Borrower

Terms of NDDB Re-Lending to Cooperatives

1. Interest rate on sub-loans 10 percent per annum with interest rates on working capital to be at least 1.5 percent above the rate for investment projects.
2. Amortization Period on sub-loans up to 15 years (including three years' grace on principal and interest); interest accruing during grace period to be capitalized.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" mean Categories (1), (2), (3), (4) and (5) 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to SDR 22,700,000 to be withdrawn from the Credit Account or the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 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 Loan Account and deposit in 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 Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or from the Loan Account under the 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 Account 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 Account 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 in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of the Development Credit Agreement or from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto; or
- (ii) the total unwithdrawn amount of the Credit and of the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower

shall, promptly upon notice from the Association, deposit into the Special Account (or, if the Association shall so request, refund to the Association or the Bank) 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 Account 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 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 or the Bank such outstanding amount for crediting to the Credit Account or to the Loan Account, as the case may be.

