

CONFORMED COPY

CREDIT NUMBER 2225 MAI

(Fisheries Development Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 24, 1991

CREDIT NUMBER 2225 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 24, 1991, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to contract from Nordic Development Fund (NDF) a loan (the NDF Loan) in an amount equivalent to \$3,500,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the NDF Loan Agreement) to be entered into between the Borrower and NDF;

(C) the Borrower intends to contract from the Icelandic International Development Agency (ICEIDA) a grant (the ICEIDA Grant) in an amount equivalent to \$1,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the

ICEIDA Grant Agreement) to be entered into between the Borrower and ICEIDA; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MFNR" means the Borrower's Ministry of Forestry and Natural Resources;

(b) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated January 31, 1991, February 8, 1991 and February 15, 1991 between the Borrower and the Association;

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

(d) "MOA" means the Borrower's Ministry of Agriculture;

(e) "EP&D" means the Borrower's Department of Economic Planning and Development;

(f) "FD" means the Fisheries Department within MFNR;

(g) "SACA" means the Smallholder Agricultural Credit Administration within MOA; and

(h) "RBM" means the Reserve Bank of Malawi, the Borrower's Central Bank.

#### 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 six million two hundred thousand Special Drawing Rights (SDR 6,200,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in 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, the Special Account shall be made in accordance with the provisions of

Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2001 and ending January 15, 2031. Each installment to and including the installment payable on January 15, 2011 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (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, shall carry out the Project through FD with due diligence and efficiency and in conformity with appropriate financial, administrative and fishery development and management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that the NDF Loan Agreement or the ICEIDA Grant Agreement shall have failed to become effective by December 31, 1991 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.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that, pursuant to paragraph 7 (b) of Schedule 4 to this Agreement, the Borrower: (i) has appointed a manager for the Mpwapwe boatyard; and (ii) has adopted a plan, satisfactory to the Association, for restructuring the boatyard .

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representatives 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  
P.O. Box 30049  
Capital City

Lilongwe 3, Malawi

Cable address: FINANCE  
Malawi

Telex: 44407 MI

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 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

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

REPUBLIC OF MALAWI

By /s/ Robert B. Mbaya  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox  
Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works	2,100,000	90%
(2) Goods, including Vehicles and Equipment, under Parts A, B, C.1 (a) and D of the Project	1,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
		procured locally
(3) Consultants' Services, Training and Studies	830,000	100%
(4) Goods and services under Parts C.1 (b) and C.2 (b) of the Project	350,000	100%
(5) Operating Costs	1,050,000	80%
(6) Refunding Project Preparation Advance	70,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	600,000	
	<hr/>	
TOTAL	6,200,000 =====	

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means incremental recurrent expenditures incurred for fuel and repair and maintenance of vehicles, vessels and equipment financed under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) Category 4 in the table set forth in paragraph 1 above, unless SACA has adopted procedures, satisfactory to the Association, for channeling credit under Part C.1 (b) and C.2 (b) of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) increase fish production to improve nutrition and protein supply for the population; (b) generate additional off-farm employment and income to reduce poverty among women and the rural population; (c) conserve the natural resource base of Malawi's water bodies and prevent environmental degradation; and (d) improve the institutional capacity for policy formulation, research, planning, monitoring and control of the fisheries sub-sector.

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: Institution Building

Strengthening of FD's capability in policy formulation, research,

extension, monitoring, evaluation and enforcement including the construction and rehabilitation of office buildings, the acquisition of office equipment and vehicles, and training and technical assistance.

Part B: Research

Strengthening FD's capability to undertake research on fish-stocks assessment, pilot programs on lake conservation and management, and research on aquaculture by developing pilot fish-farming models, including technical assistance and training, civil works and the acquisition of equipment, vehicles and a research vessel.

Part C: Fish Production

1. (a) Rehabilitation and development of existing capture fisheries in the artisanal, semi-commercial and commercial sub-sectors through rehabilitation of the Mpwepe boatyard and the facilities of MALDECO Fisheries Ltd., the refurbishing of a trawler, the acquisition of a multi-purpose fishing vessel, and the acquisition of boats and trucks with appropriate fishing and refrigeration equipment and plants.

(b) Provision of credit to artisan fishermen for the acquisition of boats, engines and fishing gear.

2. (a) Establishment of a pilot program to increase the involvement of women in fish processing and marketing through training and the acquisition of basic fish processing and marketing equipment and facilities.

(b) Provision of credit to women fish traders for working capital and the acquisition of fish storage and processing equipment.

Part D: Infrastructure

Rehabilitation and construction of access roads, jetties for fish landing and shore-based facilities at Monkey Bay, Nkata Bay and at Mpwepe boatyard.

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The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

2. To the extent practicable, contracts for the procurement of goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures



1. Civil works up to an aggregate amount equivalent to \$3,400,000 and items or groups of items for goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$300,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, including the opening of bids in public.

2. Items or groups of items for training aids, equipment and spare parts may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Small off-the-shelf items, needed urgently for project implementation estimated to cost the equivalent of \$20,000 or less per contract may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Contracts for scientific journals, textbooks and spare parts which are proprietary in character, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

5. The aggregate value of items procured under paragraphs 2, 3 and 4 above shall not exceed the equivalent of \$100,000.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for civil works estimated to cost the equivalent of \$250,000 or more, and goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consul-

tants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

#### SCHEDULE 4

##### Implementation Program

###### Project Coordination

1. The Principal Secretary, MFNR, assisted by a Project Coordination Committee (PCC), shall have overall responsibility for the coordination and monitoring of the Project. PCC, chaired by the Principal Secretary MFNR, shall include representatives of MFNR, RBM, EP&D and the Ministry of Finance as members. The Chief Fisheries Officer of FD shall serve as member and secretary of the Committee.

2. Under the overall guidance and supervision of the Principal Secretary, MFNR, FD shall be responsible for the implementation of the Project. FD, headed by the Chief Fisheries Officer (CFO), and with the assistance of a financial and management advisor and two senior staff of FD, will be responsible for day-to-day implementation of Project activities, coordination with other Ministries and agencies, credit institutions, and Project beneficiaries.

3. FD shall be responsible for the preparation of annual work programs, including operating budgets, financial plans and detailed implementation schedules for each Project component, and for submission of: (a) work program proposals to the Association for its comments and review, by January 31 of each year of Project implementation; and (b) adopt and furnish to the Association a final work program incorporating the Association's comments, by March 31 of the same year.

4. FD shall prepare and furnish to the Association detailed annual and semiannual reports covering the physical and financial implementation of the Project, by April 30 of each year, including FD's budget for that financial year.

5. FD shall, by not later than June 30, 1995, carry out a mid-term review of overall Project implementation, including progress in the performance of women and private sector beneficiaries of the Project. After obtaining the Association's views on the mid-term report, FD shall, by December 31, 1995, furnish to the Association an action program, satisfactory to the Association, including recommendations made after the review, for the further implementation of the Project.

###### Part A of the Project

6. FD shall, with effect from April 1, 1992, carry out the action plan for reorganizing FD, including the manpower development program, in accordance with an implementation schedule satisfactory to the Association.

7. FD shall carry out its action plan to divest all its commercial operations, except the Mpwapwe boatyard, in accordance with an implementation schedule satisfactory to the Association, which shall include:

(a) the divestiture: (i) by not later than September 30, 1991, of commercial fishing at Monkey Bay and Nkhata Bay, of gill net fishing at Nkhota-Kota, the sale of fishing gear at Karonga, Nkhata Bay, Nkhota-Kota and Salima and the sale of spares of outboard motor engines at Mangochi; and (ii) by not later than March 31, 1992, of the sale of ice at Namiasi and Salima, the sale of diesel fuel at Namiasi and Malembo, commercial fishing at Mpwapwe and Salima and the construction of boats at Salima;

(b) with respect to the boatyard at Mpwapwe: (i) the appointment of (A) a manager of the boatyard with qualifications and

terms of reference satisfactory to the Association, (B) a consultant to assist the manager in the drawing up of a plan for restructuring the boatyard, and (C) an interministerial committee to oversee the restructuring plan on behalf of the Borrower; (ii) the preparation and adoption of a restructuring plan, satisfactory to the Association, and the full implementation thereof by not later than March 31, 1992; and (iii) the appointment, by not later than June 30, 1992, of a consultant to assist the Borrower in the drawing up of a scheme, satisfactory to the Association, for the privatization of the boatyard.

#### Part B of the Project

8. FD shall, with effect from April 1, 1992, carry out its research program in accordance with an implementation schedule satisfactory to the Association.

#### Part C of the Project

9. SACA shall be responsible for the provision of credit, pursuant to Part C.1 (b) and Part C.2 (b) of the Project, to artisanal fishermen and women engaged in fish processing, storage and marketing, under terms and conditions which shall be approved by the Association.

10. The Borrower shall annually review and revise, as appropriate, interest rates on credit referred to in paragraph 9 above, to ensure that such rates are market determined and are in line with the overall interest rate structure in Malawi.

11. The Borrower shall, by not later than June 30, 1992, furnish to the Association a satisfactory action program for involving women in the implementation of the pilot program on fish processing and marketing.

### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (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 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 of \$300,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit 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 which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (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.

