

CONFORMED COPY

CREDIT NUMBER 3097 CHA

Development Credit Agreement

(Guangxi Urban Environment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1998

CREDIT NUMBER 3097 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 1998, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) 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 equal to seventy-two million dollars (\$72,000,000) (the Loan); and

(C) 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 expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) the Project will be carried out by Guangxi Zhuang Autonomous Region (Guangxi) with the Borrower 's assistance, and as part of such assistance, the Borrower will make available to the Guangxi the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided 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 of even date herewith among the Association, the Bank and Guangxi; and

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 December 2, 1997) (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, wherever used in this Agreement, have the following meanings:

(a) "Affected Persons" means persons who on account of the execution of the Project had or would have their: (a) standard of living adversely affected; or (b) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (c) business, occupation, work or place of residence or habitat adversely affected, and "Affected Person" means any of the Affected Persons;

(b) "Environmental Action Plans" means the environmental mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures set forth in the Guilin Environmental Impact Assessment, the Nanning Environmental Impact Assessment and the Sub-project EAPs, collectively;

(c) "Guangxi" means Guangxi Zhuang Autonomous Region, a political subdivision of the Borrower;

(d) "Guangxi Sugar Pollution Control Project Unit" means the Project Unit to be established and maintained pursuant to paragraph G(2) of Schedule 2 to the Project Agreement;

(e) "Guilin Environmental Impact Assessment" means the environmental impact assessment of Parts B and C of the Project, dated April 1997 (as clarified by an addendum dated August 7, 1997), which includes environmental mitigation measures and the administrative and monitoring arrangements to ensure the implementation of such measures;

(f) "Guilin Industrial Pollution Reduction Action Plan" means the Guilin Industrial Pollution Reduction Action Plan dated June 1997 and includes a plan of actions to reduce industrial pollution discharges to major urban waterways in Guilin Municipality, as referred to in Part B (1) (e) of the Project;

(g) "Guilin Municipality" means Guilin municipality in Guangxi;

(h) "Guilin Prefecture" means Guilin prefecture in Guangxi;

(i) "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 for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(j) "Nanning Environmental Impact Assessment" means the environmental impact

assessment of Part A of the Project, dated April 1997 (as clarified by an addendum dated August 7, 1997), which includes environmental mitigation measures and administrative and monitoring arrangements to ensure the implementation of such measures;

(k) "Nanning Industrial Pollution Reduction Action Plan" means the Nanning Industrial Pollution Reduction Action Plan, dated June 1997, and includes a plan of actions to reduce industrial pollution discharges to major urban waterways in Nanning Municipality, as referred to in Part A (1) (f) of the Project;

(l) "Nanning Municipality" means Nanning municipality in Guangxi;

(m) "Participating Enterprise" means an enterprise to which Guangxi proposes to make, or has made, a Pollution Control Sub-loan;

(n) "Pollution Control Sub-loan" means a loan made, or to be made by Guangxi, out of the proceeds of the Loan, to a Participating Enterprise for a Pollution Control Sub-project;

(o) "Pollution Control Sub-project" means a specific development project under Part D of the Project to be carried out by a Participating Enterprise utilizing the proceeds of a Pollution Control Sub-loan;

(p) "Project Administrations" means, collectively, Guilin Municipality, Guilin Prefecture and Nanning Municipality; and "Project Administration" means any of the Project Administrations;

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

(r) "Resettlement Action Plan" means the Chaoyang Resettlement Action Plan or Chaoyang RAP, dated July 4, 1997 (as supplemented on March 1, 1998), which sets out the procedures governing land acquisition, resettlement and compensation for Affected Persons for Part A of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as such Chaoyang RAP may be revised from time to time in agreement with the Association;

(s) "Respective Part of the Project" means:

(i) for Guangxi: Parts D, E(1)(a) and E(3);

(ii) for Guilin Municipality: Parts B, C(4), C(5), E(1)(c) and E(2);

(iii) for Guilin Prefecture: Parts C(1), C(2), C(3) and E(1)(d); and

(iv) for Nanning Municipality: Parts A and E(1)(b);

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

(u) "Sub-project EAPs" means, collectively, the environmental action plans prepared pursuant to paragraph B(2)(c) of Schedule 3 to the Project Agreement; and "Sub-project EAP" means, individually, any of the Sub-project EAPs; and

(v) "Yuan" and "¥" mean the currency of the Borrower.

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 fourteen million nine hundred thousand Special Drawing Rights (SDR 14,900,000).

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 Parts A, B, C and E of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004 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 June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing December 15, 2008, and ending June 15, 2033. Each installment to and including the installment payable on June 15, 2018, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the

modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Guangxi to perform in accordance with the provisions of the Project Agreement all the obligations of Guangxi therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Guangxi 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 make available to Guangxi the proceeds of the Credit on the following principal terms:

(i) The principal amount so made available: (A) shall be the equivalent in terms of Special Drawing Rights (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn; and (B) shall be repaid in a foreign currency selected by the Borrower in amounts equivalent (determined as of the date or respective dates of repayment) to the amount referred to in subparagraph (A) above.

(ii) The Borrower shall recover from Guangxi such principal amount over a period of seventeen (17) years, inclusive of a grace period of five (5) years.

(iii) The Borrower shall charge a service charge on such principal amount withdrawn and outstanding from time to time at a rate equal to the service charge applicable to the Credit pursuant to the provisions of Section 2.05 of this Agreement.

(iv) The Borrower shall charge a commitment fee on such principal amount not withdrawn from time to time at a rate equal to one half of one percent (0.5%) per annum.

(c) The Borrower shall make the proceeds of the Loan available to Guangxi on the following principal terms:

(i) The principal amount so made available shall be the amount in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn.

(ii) The Borrower shall recover from Guangxi such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years.

(iii) The Borrower shall charge interest on such principal amount

withdrawn and outstanding from time to time at a rate
equal to the rate applicable from time to time to the Loan
pursuant to the provisions of Section 2.05 of the Loan
Agreement.

(iv) The Borrower shall charge a commitment fee on such principal not
withdrawn from time to time at a rate equal to three
fourths of one percent (0.75%) per annum.

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 1 to
the 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
and Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions referred
to in Section 1.01 of the Loan Agreement (relating to insurance, use of goods and
services, plans and schedules, records and reports, maintenance and land acquisition,
respectively) shall be carried out by Guangxi pursuant to Section 2.03 of the Project
Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from
the Credit Account were made on the basis of statements of expenditure, the Borrower
shall:

(i) 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;

(ii) ensure that such records and accounts are included in the annual
audit referred to in paragraph (b) of this Section and that
the report of such audit contains a separate opinion by said
auditors as to whether the statements of expenditures
submitted during such fiscal year, together with the procedures
and internal controls involved in their preparation, can be relied upon to
support the related withdrawals.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) 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 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) Guangxi shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Guangxi will be able to perform its obligations under the Project 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 Section 5.01(a) 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 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 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 is specified as an additional matter, 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, namely, that the Project Agreement has been duly authorized or ratified by Guangxi and is legally binding upon Guangxi 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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Liu Xiaoming

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jane Loos

Acting Regional Vice President
East Asia and Pacific

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 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 Dollars)	% of Expenditures to be Financed
(1) Works:			
(a) for Project Part A(1)	2,160,000	23,540,000	53%
(b) for Project Parts B(1), C(4) and C(5)	1,530,000	16,980,000	50%
(c) other works	190,000	2,200,000	45%
(2) Goods:			
(a) for Project Parts A(2) and B(2)	3,880,000	--	100% of foreign expenditures, 100% local expenditures (ex-factory cost) and 75% of local expenditures for other items pro- cured locally

(b) for Project Parts E	2,270,000	--	100% of foreign expenditures, 100% local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(3) Pollution Control Sub-loans	--	2,000,000	100% of amounts disbursed
(4) Consultants' services and training	3,080,000	--	100%
TOTAL	14,900,000	72,000,000	

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 provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be "foreign expenditures"; 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: (a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,500,000 and \$3,600,000 may be made on account of payments made for expenditures before that date but after December 31, 1997; and (b) under Category 1(b) until Guilin Municipality shall have introduced and is implementing residential and non-residential sewerage tariffs that result in a weighted average sewerage tariff of not less than Yuan 0.18 per cubic meter.

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

(a) for works under contracts not exceeding \$2,000,000 equivalent;

(b) for goods under contracts not exceeding \$200,000 equivalent;

(c) for consultants' services under contracts awarded to consulting firms and not exceeding \$100,000;

(d) for consultants' services under contracts awarded to individual consultants and not exceeding \$50,000; and

(e) for training regardless of the cost thereof, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the environment of Guangxi and support sustainable economic growth and poverty alleviation in Guangxi through the:

(i) improvement of the quality of the major water bodies in Nanning Municipality, Guilin Municipality and Guilin Prefecture;

- (ii) implementation of a pilot participatory approach to improve the environment of small area neighborhoods;
- (iii) regulation of the flow of the Li River;
- (iv) implementation of pilot subprojects for the reduction of sugar refinery pollution; and
- (v) improvement of Guangxi's institutional and financial capacity for environmental protection services.

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: Nanning Municipality

Improving the quality of surface and groundwater in Nanning Municipality, through:

1. Sewerage and Drainage

(a) Dredging of the Chaoyang Stream, repair and construction of Chaoyang Stream embankments and construction of about 6 kilometers (km) of sewage interceptors;

(b) construction and rehabilitation of main and secondary sewers and drains of about 70 km in length citywide;

(c) construction of associated pumping stations;

(d) construction of a primary sewage treatment plant with a capacity of about 180 mega liters per day and a main conveyor sewer of about 4 km and a river crossing;

(e) provision of equipment and information systems for nightsoil management; and

(f) strengthening enforcement of surface water discharge standards through the implementation of an action plan to reduce water pollution by industries.

2. Small Area Improvement

Improvement of infrastructure facilities in selected neighborhoods, including the construction and upgrading of drains, sewers, latrines, access roads and footpaths and the provision of garbage collection services.

Part B: Guilin Municipality

Improving the quality of surface and groundwater in Guilin Municipality, through:

1. Sewerage and Solid Waste

(a) Construction of about 30 km of main and secondary sewers and 2 associated pumping stations;

(b) construction of about 30 mega liters per day additional capacity for a secondary sewage treatment plan in the northwestern part of Guilin Municipality;

(c) construction of a primary sewage treatment plant in the town of Xicheng with a capacity of about 40 mega liters per day and oxidation ponds in the towns of Yangshuo, Xingping and Baisha;

(d) construction of a sanitary landfill of about 500 ton per day capacity and a transfer station, and expansion of the solid waste truck fleet; and

(e) strengthening enforcement of industrial pollution standards through the implementation of an action plan to reduce pollution in Guilin Municipality's

watercourses.

2. Small Area Improvement

Improvement of infrastructure facilities in selected neighborhoods, including the construction and upgrading of drains, sewers, latrines, access roads and footpaths and the provision of garbage collection services.

Part C: Li River Flow Regulation

Improving the flow of the Li River through: (1) lining and extension of a canal of about 26 km in length to convey water from the existing Wulixia reservoir in Guilin Prefecture to the Li River; (2) construction of a hydro-power generators with a capacity of about 800 kilowatt at the canal outlet; (3) planting of trees and bamboos on about 700 hectares in the Wulixia reservoir catchment area; (4) planting trees and bamboos on about 1,300 hectares in Guilin, along the Li River, and associated civil works; and (5) construction and repair of about 28 km of embankment along the Li River.

Part D: Sugar Refinery Pollution Abatement

Reducing sugar production pollution by financing, through Pollution Control Sub-loans, specific development projects for the installation or upgrading of in-plant installations to treat spillage from the sugar refinery process in order to reduce pollutants.

Part E: Institutional Development

Enhancing institutional capacity for environmental management by:

1. Strengthening the environmental monitoring and enforcement capacity of environmental protection bureaus and the technical, financial and management capacity of sewerage and drainage management institutions, in: (a) Guangxi, (b) Nanning Municipality, (c) Guilin Municipality, and (d) Guilin Prefecture; and
2. Strengthening Guangxi's capacity to manage the water resources of the Li river, all through the provision of consultants' services, training and equipment.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to the Development Credit 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 \$5,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,500,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent to SDR14,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan 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 or the Loan 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 or the Loan 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 the Development Credit 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 the Development Credit 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 Account;

(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 or the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the respective 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 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 an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association or the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association or the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association or the Bank made pursuant to paragraphs 6(a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan Account (as the case may be) for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement or the Loan Agreement, including the General Conditions applicable thereto.

