

CONFORMED COPY

CREDIT NUMBER 3477-UG

Development Credit Agreement

(Second Environmental Management and Capacity Building Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 7, 2001

CREDIT NUMBER 3477-UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 7, 2001, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated December 19, 2000, describing a program of actions, objectives and policies designed to carry out activities under the Borrower's National Environment Action Plan (NEAP) and declaring the Borrower's commitment to the execution of NEAP;

(B) the Project will be carried out by the National Environment Management Authority (the Authority) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to the Authority, as set forth in this Agreement; and

(C) 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;

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 agreement of even date herewith between the Association and the Authority (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 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "CBOs" means Community-Based Organizations;

(b) "DEC" means a District Environment Committee established pursuant to Section 15 of the National Environment Statute (as hereinafter defined);

(c) "DEO" means District Environment Officer;

(d) "DTPC" means District Technical Planning Committee established pursuant to Section 37 of the Borrower's Local Governments Act of 1997;

(e) "IAPSO" means the Inter-Agency Procurement Services of the United Nations;

(f) "Lead Agency" means any ministry, department, parastatal agency, local government system or public officer in which or in whom any law of the Borrower vests functions of control or management of any segment of the environment; as defined in the National Environment Statute;

(g) "National Environment Statute" means the Borrower's National Environment Statute No. 4 of 1995, as amended to the date of this Agreement;

(h) "NEAP" means the National Environment Action Plan adopted by the Borrower on January 31, 1994;

(i) "NGO" means a non-profit and privately owned and controlled legal entity, determined by the Borrower and the Association as capable of assisting in the fulfillment of the objectives of the Project;

(j) "Prior Environmental Management and Capacity Building Project" means the Environmental Management Capacity Building Project described in Schedule 2 to the Development Credit Agreement dated November 10, 1995 (Credit No. 2777-UG) between the Borrower and the Association;

(k) "Procurement Officer" means the Procurement Officer referred to in paragraph 3 (a) of Schedule 2 to the Project Agreement;

(l) "Procurement Unit" means the Procurement Unit referred to in paragraph 3

(a) of Schedule 2 to the Project Agreement;

(m) "Project Account" means the account to be established and maintained by the Borrower in a commercial bank pursuant to Section 3.03 of this Agreement;

(n) "Project Agreement" means the agreement between the Association and the Authority 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;

(o) "Project Implementation Manual" means the Project Implementation Manual referred to in paragraph 1 (a) of Schedule 2 to the Project Agreement which includes detailed procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements to be used in the course of implementation of the Project;

(p) "Project Management Report" means each report prepared in accordance with Section 4.02 of the Project Agreement;

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

(r) "the Authority" means the National Environment Management Authority, a body corporate established in 1995 pursuant to the National Environment Statute;

(s) "TOT" means training of trainers; and

(t) "Microprojects" means small-scale activities, to be carried out under Part A.2 (ii) of the Project, which are developed by communities, through an interactive planning process, to address natural resources management problems, including agroforestry promotion parish-level nurseries, streams protection, water harvesting and valley dams.

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 seventeen million one hundred thousand Special Drawing Rights (SDR 17,100,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of 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 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006, 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 August 1 and February 1 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 semiannual installments payable on each August 1 and February 1 commencing August 1, 2011 and ending February 1, 2041. Each installment to and including the installment payable on February 1, 2021 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Authority to perform in accordance with the provisions of the Project Agreement all the obligations of the Authority 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 the Authority to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. The Borrower shall make the proceeds of the Credit available to the Authority as a grant under an agreement, satisfactory to the Association, to be entered into between the Borrower and the Association.

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall for the purposes of the Project:

(a) open and maintain in Uganda Shillings in the name of the Authority an account in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account no later than October 31, 2001 an amount equivalent to \$100,000;

(c) thereafter deposit into the Project Account on a monthly basis in each year during the carrying out of the Project, the amount necessary to replenish the Project Account to the amount of \$100,000 equivalent or such greater amount as may be required to meet expenditures for the Project; and

(d) ensure that amounts deposited into the Project Account pursuant to paragraphs (b) and (c) above shall be used only to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services for the Project not financed or to be financed out of the proceeds of the Credit.

Section 3.04. 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 3.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.06. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by the Authority 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 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 one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

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

this Section including 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 (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

- (a) the Authority shall have failed to perform any of its obligations under the Project Agreement; and
- (b) a situation shall have arisen which shall make it improbable that NEAP, or a significant part thereof, will be carried out.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

- (a) the Authority has adopted a Project Implementation Manual in form and substance satisfactory to the Association;
- (b) the Borrower has opened the Project Account; and
- (c) the Borrower has adopted an institutional restructuring plan, satisfactory to the Association, pursuant to the provisions of paragraph 3 of Schedule 2 to the Project 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 the Authority, and is legally binding upon the Authority 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 Borrower's Minister responsible for Finance 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, Planning and
Economic Development
P.O. Box 8147
Kampala, Uganda

Cable address: Telex:

FINSEC 61170

For the Association:

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

Cable address: Telex: Facsimile:

INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 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.

THE REPUBLIC OF UGANDA

By /s/ Edith Ssempala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

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) Vehicles, equipment and supplies	1,400,000	100% of foreign expenditures and 95% of local expenditures
(2) Civil Works	1,330,000	100% of foreign

expenditures and
90% of local
expenditures

(3)	Consultants' services, training and audit fees	5,430,000	100%
(4)	Goods, works and services for Microprojects	1,480,000	95%
(5)	Operating Costs	5,040,000	95%
(6)	Unallocated	2,420,000	
	TOTAL	17,100,000	

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 the incremental operating costs arising under the Project on account of maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, travel per diems and allowances, travel and accommodation, office rental and Project support staff but excluding salaries of the Borrower's civil servants.

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, in an aggregate amount not exceeding the equivalent of SDR 470,000, may be made in respect of Category 2 on account of payments made for expenditures before that date but after May 1, 2001.

4. The Association may, under such terms and conditions as the Association shall specify by notice to the Borrower, require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for:

(a) goods and works under contracts costing less than \$100,000 equivalent each; and

(b) consultants' services not exceeding: (i) \$100,000 equivalent for consulting firms; and (ii) \$50,000 equivalent for individual consultants.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) strengthen the capacity of the National Environment Management Authority (the Authority) and the Lead Agencies to carry out their environmental functions and responsibilities effectively; (ii) strengthen the capacity of local government institutions, including district and community level institutions to carry out their environmental functions at the district and community levels; and (iii) assist communities to address environmental degradation problems and use natural resources in an environmentally sustainable and prudent manner.

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: Capacity Building at Local Government and Community Levels

1. Development of environmental management capacity in 31 districts and sub-counties, through:

- (i) the carrying out of a training program for local government staff, educational institutions and NGOs; and
- (ii) the provision of logistical support and acquisition of office equipment for the DEO, DTTC and DEC in 15 new districts.

2. Assisting local governments and communities in 15 new districts to plan for, and incorporate, environmental concerns and programs as an integral part of their local level development plans, through:

- (i) the provision of specially designed environmental planning training modules, to be carried out through workshops, of personnel of local government sectoral departments, councilors, educational institutions and NGOs; and
- (ii) assisting districts to prepare and implement environmental plans through the provision of training, workshops and the identification and implementation of Microprojects.

3. Assisting local governments, NGOs and communities to undertake activities that can strengthen environmental management opportunities or reverse environmental degradation at the district and community levels through the provision of training, workshops and the acquisition of equipment.

4. Support to local governments, communities, educational institutions, CBOs, NGOs and TOTs to carry out their environmental management functions at the community level through the provision of technical advisory services.

Part B: Capacity Building in the Lead Agencies

1. Strengthening the partnership existing between the Authority and the Lead Agencies, including measures to seek the support of the heads of the Lead Agencies to engage in a constructive partnership with the Authority through the provision of training, workshops and the acquisition of equipment.;

2. The carrying out of measures and policies that will facilitate the assumption by the Lead Agencies of responsibility for addressing environmental issues;

3. Strengthening capacity in selected Lead Agencies through the imparting of in-depth environmental management skills to selected staff of the Lead Agencies, including skills in the areas of: (i) environmental information collection and analysis; (ii) environmental reporting; (iii) sectoral environmental impact assessments ; (iv) strategic environmental assessment; (v) environmental audits and regulation; (vi) environmental inspections; (vii) environmental policy and law; (viii) environmental planning; (ix) training and awareness raising; and (x) environmental standards.

Part C: The Strengthening and Consolidation of the Institutional Capacity of the Authority

1. Strengthening the Authority as the principal agency responsible for environmental management through: (i) the renovation (including furnishing and equipping) of the Authority's building in Kampala City; and (ii) strengthening the capacity of staff of the Authority through training.

2. Promoting compliance with environmental laws and regulations, through:

- (i) the building of enforcement capacity within the Lead Agencies;
- (ii) assisting communities and regulated industries to comply with environmental laws and regulations;
- (iii) strengthening the enforcement capacity of the Authority;
- (iv) provision of training to key district and sub-county staff in the formulation and enforcement of their own by-laws; and
- (v) completion of the regulatory framework established under the National Environment Statute.

3. Strengthening the environmental monitoring and reporting capacity of the

Authority through:

- (i) the preparation of environmental monitoring indicators;
- (ii) the building up of the capacity of the Lead Agencies to monitor reporting on sectoral environmental performances; and
- (iii) the development of strategic and sectoral environmental impact assessment guidelines.

4. The strengthening of environmental education and public awareness, through:

- (i) the review of the curricula and educational programs of secondary schools and tertiary institutions;
- (ii) the carrying out of a national environmental public awareness and mobilization program; and
- (iii) the training of a team of national trainers of trainers in non-formal environmental education to expedite the dissemination of environmental information knowledge, skills and practices among partners and communities.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

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 equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

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 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;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special 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 pursuant to the provisions of Section 6.02 of the General Conditions; or

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

including the General Conditions.

