

CONFORMED COPY

CREDIT NUMBER 1816 BD

Development Credit Agreement

(Industrial Sector Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 1987

CREDIT NUMBER 1816 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 22, 1987, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; 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 (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "SEM" means the Borrower's Secondary Exchange Market;
- (b) "DFIs" mean the development finance institutions, being the Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS);
- (c) "NCBs" mean the relevant nationalized commercial banks, being the Agrani

Bank, Janata Bank and Sonali Bank;

(d) "SITC" means the United Nations Standard International Trade Classification, 1974 Revision (SITC, Rev. 2), published in Commodity Indexes for the Standard International Trade Classification, Revised, Statistical Papers, Series M. No. 38/Rev. 2 (1981);

(e) "FY" means the fiscal year of the Borrower, beginning July 1 and ending June 30; and

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

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred forty-seven million eight hundred thousand Special Drawing Rights (SDR 147,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project 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 account in the Bangladesh Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1989, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one per cent ($1/2$ of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($3/4$ 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 1 and December 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 1 and December 1 commencing December 1, 1997, and ending June 1, 2037. Each installment to and including the installment payable on June 1, 2007, shall be one-half of one per cent ($1/2$ of 1%) of such principal amount, and each installment thereafter shall be one and one-half per cent ($1-1/2\%$) of such principal amount.

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 with due diligence and efficiency and in conformity with appropriate administrative and financial 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 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.

Section 3.03. The Borrower and the Association shall, not later than January 31, 1988, exchange views on the progress achieved in the carrying out of the industrial policy reforms under the Project. Prior to such exchange of views, the Borrower shall furnish to the Association for its review and comments a report on the progress achieved in the carrying out of said policy reforms, in such form and in such detail as the Association shall reasonably request.

Section 3.04. The Borrower shall not utilize any funds in excess of \$20,000,000 equivalent in the aggregate out of the proceeds of the Credit for the purchase of goods referred to in Part B.2 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 six (6) 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 for the fiscal year in which the last withdrawal from the Credit 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

Effective Date

Section 5.01. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. The Secretary or any Additional Secretary, Joint Secretary, Deputy Secretary or Assistant Secretary of the External Resources Division of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

External Resources Division
Ministry of Finance
Government of the People's
Republic of Bangladesh
Dhaka, Bangladesh

Cable address:

BAHIRSAMPAD
Dhaka, Bangladesh

Telex:

SETU BJ 64226

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ A. Z. M. Obaidullah

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell J. Cheetham

Acting Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. All goods imported into the People's Republic of Bangladesh may be financed out of the proceeds of the Credit, except that no withdrawals shall be made in respect of:

(a) expenditures for goods for which payments shall not have been made through releases to, and consistent with the procedures governing the operation of, SEM, except as the Association shall otherwise agree;

(b) expenditures for goods to be supplied under a contract which a national or international financing institution or any other agency shall have financed or agreed to finance;

(c) expenditures for goods intended for a military or para-military purpose or for luxury consumption;

(d) without limitation to the foregoing paragraphs (a), (b) and (c), expenditures for items included in the following SITC groups or sub-groups:

Group	Sub-Group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco manufactured
667	-	Pearls, precious and semi-precious stones, unworked or worked
688	-	Uranium depleted in U235 and thorium, and alloys, unwrought or wrought, and articles thereof, n.e.s.; waste and scrap of uranium depleted in U235 and of thorium
718	718.7	Nuclear reactors, and parts thereof, n.e.s.
897	897.3	Jewelry of gold, silver or platinum group (except watches and watch cases) and wares (including set gems)
-	971.0	Gold, non-monetary (excluding gold ores and concentrates)

(e) expenditures for items under SITC Group 661, Sub-group 661.2, in the form of clinker;

(f) expenditures for items under SITC Group 672, Sub-group 672.5, other than billets imported exclusively for use in rerolling mills;

(g) expenditures for items in any single SITC Division in excess of 25% of the total amount of the Credit;

(h) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of SDR 14,900,000, may be made on account of payments made for expenditures before that date but after January 1, 1987;

(i) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower; and

(j) payments for taxes levied by, or in the territory of, the Borrower on goods, or on the importation, procurement or supply thereof.

2. Without limitation or restriction upon any other provisions of this Schedule, no withdrawals (except for withdrawals under prior commitments by the Association) shall

be made and no commitments shall be entered into by the Association (to pay amounts to the Borrower or others), in respect of expenditures to be financed out of the proceeds of the Credit after the aggregate of the proceeds of the Credit withdrawn from the Credit Account and the total amount of such commitments shall have reached the equivalent of SDR 77,800,000, unless and until:

(a) the Duty Exemption-Drawback Office referred to in paragraph 1 of Schedule 4 to this Agreement shall have been established and brought into operation, to the satisfaction of the Association;

(b) the measures referred to in paragraph 2 of Schedule 4 to this Agreement shall have been taken, to the satisfaction of the Association;

(c) the mechanisms referred to in paragraph 3 of Schedule 4 to this Agreement shall have been implemented, to the satisfaction of the Association;

(d) the measures referred to in paragraph 4 of Schedule 4 to this Agreement shall have been taken, to the satisfaction of the Association;

(e) provision shall have been made in the FY88 budget for reduction of customs duty rates on luxury consumption goods pursuant to paragraph 6 (a) of Schedule 4 to this Agreement, to the satisfaction of the Association;

(f) provision shall have been made in the FY88 budget for the restructuring of tariffs and the reduction of quantitative restrictions pursuant to paragraph 7 of Schedule 4 to this Agreement, to the satisfaction of the Association;

(g) provision shall have been made in the FY88 Import Policy Order for the reduction of the items in the Borrower's Negative List and Restricted List pursuant to paragraph 8 of Schedule 4 to this Agreement, to the satisfaction of the Association;

(h) the relevant collection targets set for DFIs and NCBs for the period January 1, 1987 through December 31, 1987 pursuant to paragraph 11 of Schedule 4 to this Agreement shall have been achieved;

(i) progress shall have been made, satisfactory to the Association, in implementing the measures for DFIs referred to in paragraph 13 of Schedule 4 to this Agreement;

(j) the technical assistance program for DFIs referred to in paragraph 14 of Schedule 4 to this Agreement shall have been initiated, to the satisfaction of the Association; and

(k) the Borrower shall continue to have in operation an exchange rate system satisfactory to the Association.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the extension and refinement of its industrial policy reforms and to strengthen the administrative arrangements necessary for their implementation.

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: Export Policy and Administration

1. Relaxation of import restrictions on inputs for direct and indirect exports and rationalization and extension of the duty exemption-drawback system, permitting direct and indirect exporters access to duty-free imports.
2. Modernization and strengthening of the Borrower's export financing and export credit guarantee systems.
3. Application of export incentives to indirect exporters.
4. Strengthening of the Borrower's Export Monitoring Unit.

Part B: Tariff and Import Regime

1. Rationalization of the tariff structure by the reduction of the numbers of customs duty and sales tax rates.
2. Reduction of customs duty rates for luxury consumption goods.
3. Restructuring of tariffs and reduction of quantitative restrictions on imports of textile, steel and engineering products.
4. Removal of items from the Borrower's Negative List and Restricted List.
5. Simplification of customs valuation and clearance procedures.

Part C: Public Sector Industrial Enterprises

1. Development and implementation of a system for monitoring and evaluating the performance of individual public sector enterprises.
2. Increase in the operational autonomy of individual public sector enterprises.

Part D: Financial Sector

1. Development and implementation of a program to improve the rate and level of collections by DFIs and NCBs.
2. Increase in the operational autonomy of DFIs.
3. Financial restructuring and institutional strengthening of DFIs.

SCHEDULE 3

Procurement

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, 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. The Guidelines are hereby modified as follows:

(a) By the deletion of paragraph 2.8 and the substitution therefor of the following:

"2.8 Notification and Advertising

The international community should be notified in a timely manner (see also para. 2.44) of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, prequalify, or bid, in at least one newspaper of general circulation in the Borrower's country and by at least one of the following methods:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) notice to local representatives of countries and territories referred to in these Guidelines, that are potential suppliers of the goods required."

(b) By the addition at the end of paragraph 2.21 of the following:

"As an alternative, the bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) By the deletion of paragraph 2.55 and Appendix 2.

Part B: Other Procurement Procedures

1. Contracts for commonly traded commodities may be awarded on the basis of price quotations available from organized international commodity markets.

2. Whenever the Borrower and the Association shall be satisfied that goods of a specific type, design or manufacture shall be required in the interest of equipment standardization or of other valid considerations relating to the efficient utilization of existing productive capacity, such goods, up to an aggregate amount not to exceed the equivalent of \$20,000,000, may be procured under contracts awarded on a negotiated basis under terms and conditions satisfactory to the Association.

3. Other goods, estimated to cost less than the equivalent of \$2,000,000 per contract, may be procured under contracts awarded on the basis of the normal procurement procedures of the purchaser of such goods.

Part C: 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 goods referred to in Part B.2 of this Schedule estimated to cost the equivalent of \$200,000 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 for goods referred to in Part A.1 of this Schedule, and each contract for goods referred to in Parts B.1 and B.3 of this Schedule estimated to cost the equivalent of \$500,000 or more, 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) With respect to each contract not governed by the preceding paragraphs, the procurement decisions may be reviewed by the Association on a random basis, in which event 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.

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

SCHEDULE 4

Implementation Program

1. In implementing Part A.1 of the Project, the Borrower shall establish in the National Board of Revenue of the Ministry of Finance a Duty Exemption-Drawback Office (DEDO). As the principal agency responsible for all policy-related and technical tasks pertaining to duty-free imports, DEDO shall: (a) prepare guidelines and administrative orders for duty-free imports; (b) approve input coefficients for application to duty-free imports; and (c) monitor the implementation of the duty-free system.

2. For purposes of Part A.2 of the Project, the Borrower shall take suitable measures to rationalize the structure of export financing. Such measures shall: (a) enable indirect exporters to have access to pre-shipment financing; and (b) provide exporters with a choice of method of payment for imported inputs. The Borrower shall also take measures to modernize and strengthen its Export Credit Guarantee Scheme. Such measures shall include the provision of necessary capital, staff and management.

3. In carrying out Part A.3 of the Project, the Borrower shall implement administrative mechanisms, satisfactory to the Association, for the application of

export incentives to indirect exporters.

4. In carrying out Part A.4 of the Project, the Borrower shall staff and equip the Export Monitoring Unit, so as to enable it to monitor the export of items subject to external quota limitations in a manner satisfactory to the Association.

5. To implement Part B.1 of the Project, the Borrower shall introduce, not later than July 1, 1988, a revised tariff schedule, reducing the number of customs duty rates to seven (namely, 2.5%, 5%, 10%, 20%, 50%, 75% and 100%) (except as provided in paragraph 6 of this Schedule) and the number of sales tax rates to one (namely, 20%), with the customs duty rates for raw materials not to exceed 20%, for intermediate products not to exceed 75%, and for final products not to exceed 100%.

6. The Borrower shall lower the effective protection for the domestic production of luxury goods with a view to discouraging such production. To that end, the Borrower under Part B.2 of the Project shall: (a) in FY88, reduce all customs duty rates above 150% to 150%; and (b) in FY89, reduce all customs duty rates above 100% to 100%, except in the case of tobacco products, beverage concentrate, furs and fur apparel, perfumes and cosmetic products, and precious and semi-precious stones, for which the rates shall not exceed 200%, and in the case of whisky and spirits and luxury motorcars, for which the rates shall not exceed 300%.

7. In implementing Part B.3 of the Project, the Borrower shall over a three-year period beginning FY88 restructure tariffs and reduce quantitative restrictions on imports of textile, steel and engineering products through a reduction in total nominal tariffs, in amounts to be agreed for each year between the Borrower and the Association, so that at the end of said period such tariffs fall within a range of 0% to 85% provided, however, that, if at any time the excise duty rates for locally manufactured products are increased significantly (i.e., by 5% or more), such tariffs shall be adjusted correspondingly.

8. Under Part B.4 of the Project, the Borrower shall remove items from its Negative List and Restricted List as follows:

(a) by reducing the number of items in the Negative List by about 20% each year beginning FY88, but giving priority to the textiles and steel and engineering sectors so that the bans in these sectors are completely removed by FY90; and

(b) by reducing the number of items relating to industrial inputs in the Restricted List by about 33% each year beginning FY88 so that the restrictions are completely removed and such items become commercially importable by FY90.

9. In implementation of Part B.5 of the Project, the Borrower shall, not later than September 30, 1987, agree with the Association on a timetable for implementing reform measures on the basis of studies carried out by the Borrower.

10. To carry out Part C of the Project, the Borrower shall, not later than September 30, 1987, strengthen the Autonomous Bodies Wing in the Ministry of Finance, in a manner satisfactory to the Association, to oversee a system of performance indicators for, and a program for the monitoring and evaluation of, public enterprises and to coordinate the work of the various ministries and agencies in setting performance targets. During FY87 the Borrower shall apply said performance indicators to one industrial enterprise on a pilot basis and during FY88 shall extend said monitoring and evaluation program to three additional industrial enterprises to be agreed with the Association.

11. For purposes of Part D.1 of the Project, the Borrower shall cause, and shall take all measures necessary to enable, DFIs and NCBs to achieve certain minimum collection targets, as may be agreed between the Borrower and the Association, during FY87 and FY88.

12. In carrying out Part D.1 of the Project, the Borrower shall, by June 30, 1988, eliminate all arrears due from public sector enterprises to BSRS.

13. In carrying out Part D.3 of the Project, the Borrower shall:

(a) cause DFIs to make increased provisions for bad and doubtful debt in their financial statements for FY87;

(b) cause DFIs to reschedule individual loans, as appropriate, and to selectively write off loans having no realistic prospects of being serviced; and

(c) recapitalize DFIs with a view to maintaining each DFI's debt/equity ratio at not more than 3 to 1.

14. For purposes of Part D.3 of the Project, the Borrower shall provide additional technical assistance to DFIs to enable them to strengthen their appraisal, loan collection and supervision, and portfolio rehabilitation functions, and their accounting and personnel management systems, in accordance with terms of reference and within a time-frame satisfactory to the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) 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 in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to SDR 23,400,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account in the equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) the Association shall have determined that all further withdrawals should be made directly by the Borrower 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

(ii) the total unwithdrawn amount of the Credit, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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 have been or will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

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

