

CONFORMED COPY

CREDIT NUMBER 2628 MOZ

Development Credit Agreement

(Second Economic Recovery Credit)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 1994

CREDIT NUMBER 2628 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 17, 1994, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated April 6, 1994 (hereinafter called the Letter of Development Policy), from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in the financing of urgently needed imports required during such execution; and

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in three tranches as hereinafter provided;

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

modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Credit pursuant to the provisions of Schedule 1 to the Development Credit Agreement.";

(b) Section 9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(c) the last sentence of Section 3.02 is deleted.

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) "BM" means Banco de Mocambique, the Central Bank of the Borrower established and operating pursuant to Law No.1/92 Lei Organica do Banco de Mocambique dated January 3, 1992;

(b) "BCM" means Banco Comercial de Mocambique, established and operating pursuant to its statute approved by Decree No. 3/92 of the Council of Ministers of the Borrower, dated February 25, 1992 ;

(c) "BPD" means Banco Popular de Desenvolvimento, established and operating pursuant to Law No. 6/77, dated December 31, 1977;

(d) "BSTM" means Banco Standard Totta de Mocambique, established and operating pursuant to the Despacho dated July 2, 1966 published in the Boletim Oficial No. 30, dated July 23, 1966,;

(e) "BFE" means Banco Fomento e Exterior, established and operating pursuant to the Decree No. 36/92, of October 27, 1992 of the Borrower;

(f) "BPA" means Banco Portugues do Atlantico, established and operating pursuant to Decree No. 35/92, dated October 27, 1992 of the Borrower;

(g) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 343 (1986);

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

(i) "Strategic Plans" means the Plan referred to in paragraph 1 (b) of Schedule 3 to this Agreement, prepared by BCM and BPD for the purpose of developing a strategy for their future operation.

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-one million and seven hundred thousand Special Drawing Rights (SDR 141,700,000).

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.

(b) The Borrower shall, for the purposes of the Program, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be August 30, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing September 15, 2004 and ending March 15, 2034. Each installment to and including the installment payable on March 15, 2014 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic

condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedules 3 and 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Credit.

(b) The Borrower shall:

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account 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 audits 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 IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date one hundred twenty (120) 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 Governor of Banco de Mocambique (BM) 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:

Banco de Mocambique
Departamento de Relacoes Internacionais
Avenida 25 de Setembro 1695
P.O.Box 423
Maputo
Mozambique

Cable address:	Telex:
MOBANCO Maputo	6576/7

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

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

REPUBLIC OF MOZAMBIQUE

By /s/ Hipolito Zozimo Patricio
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen Denning
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Credit may be withdrawn from the Credit Account for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semiprecious stones, unworked or worked
Group	Subgroup	Description of Items
718	718.1	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, nonmonetary (excluding gold ores and concentrates)

(b) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower, excluding, if the currency of the Borrower is also that of another country, expenditures in such currency

for goods supplied from the territory of such other country;

(c) payments made for expenditures for goods prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of twenty-eight million and three hundred and forty thousand Special Drawing Rights (SDR 28,340,000) may be made on account of payments made four months before the date of this Agreement;

(d) expenditures for goods procured under contracts costing less than \$5,000 equivalent;

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

(f) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption; and

(g) expenditures in excess of an aggregate amount equivalent to (i) SDR 28,340,000 for petroleum products, and (ii) SDR 28,340,000 for foodstuffs.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost less than \$1,000,000 may be required by the Association upon the basis of statements of expenditure under such terms and conditions as the Association shall specify.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Credit: (A) 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 fifty-six million six hundred and forty thousand Special Drawing Rights (SDR 56,640,000) unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) with the progress achieved by the Borrower in the carrying out of the Program; (ii) that the macro-economic policy framework of the Borrower is consistent with the objectives of the Program; and (iii) that the actions described in Schedule 3 to this Agreement have been taken; and (B) 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 ninety-nine million one hundred and seventy thousand Special Drawing Rights (SDR 99,170,000) unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) with the progress achieved by the Borrower in the carrying out of the Program; (ii) that the macro-economic policy framework of the Borrower is consistent with the objectives of the Program; and (iii) that the actions described in Schedule 4 to this Agreement have been taken.

5. If, after the exchange of views described in paragraph 4 above, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

SCHEDULE 2

Procurement

1. Contracts for the procurement of goods to be imported by the Borrower, its public sector entities, or its private sector, estimated to cost the equivalent of \$1,000,000 or more each shall be awarded through international competitive bidding 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 1992 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (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) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, 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) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

(d) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(e) In the procurement of goods in accordance with this paragraph 1, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

(f) Goods procured under international competitive procedures shall be exempted from pre-shipment price inspection by a third party inspection firm.

2. Contracts for procurement of goods by the public sector estimated to cost the equivalent of \$250,000 or more, but less than \$1,000,000 may be awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of qualified suppliers acceptable to the Association and eligible under the "Guidelines, and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56) thereof).

3. Except as provided in paragraph 5 of this Schedule, all contracts for goods estimated to cost less than the equivalent of \$250,000 shall be awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Contract for procurement of goods by the private sector, to cost the equivalent of less than \$1,000,000 shall be made, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation comparison of quotations obtained from suppliers from at least two countries, except that direct contracting procedures acceptable to the Association may be used where considered appropriate under paragraph 3.5 of the Guidelines.

5. Proprietary equipment and spareparts may be procured directly from the suppliers, in accordance with procedures acceptable to the Association.

6. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Association shall reasonably request. Where payments under a contract are to be made out of the proceeds of the Special Account, such copies together with the other information required to be furnished to the Association pursuant to this paragraph shall be furnished to the Association as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

7. With respect to each contract referred to in paragraphs 2 and 3 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect thereof, such documentation and information as the Association may reasonably request to support withdrawal applications in respect of such contract. Where payments under a contract are to be made out of the proceeds of the Special Account, the documentation and the information to be furnished to the Association pursuant to the provisions of this paragraph shall be furnished to the Association as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

8. The provisions of the preceding paragraph 7 of this Schedule shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

SCHEDULE 3

Actions Referred to in Paragraph 4 (A) (iii) of Schedule 1 to this Agreement

In accordance with the Program, the Borrower has:

(a) completed a final draft of a Foreign Exchange Act as referred to in paragraph 29 of the Letter of Development Policy, and has submitted it to the Assembleia da Republica (the Parliament);

(b) formally adopted the Strategic Plans referred to in paragraph 36 of the Letter of Development Policy, that shall have been prepared and approved by BCM and BPD, in form and substance acceptable to the Association;

(c) through BM, completed the first loan portfolio classification of BCM, BPD, BSTM, BFE and BPA, as referred to in paragraph 25 of the Letter of Development Policy; and completed the process of transferring large non-performing BCM and BPD clients to a "collection only" unit as referred to in paragraph 36 of the Letter of Development Policy;

(d) introduced a new system of allocating credit ceilings to the commercial banks, satisfactory to the Association, as referred to in paragraph 41 of the Letter of Development Policy;

(e) furnished to the Association: (i) the results of the Borrower's review of the implementation of the action plan undertaken by the national airline (LAM) to establish LAM on sound financial footing, as referred to in paragraph 49 of the Letter of Development Policy; and (ii) a plan for settling the debts of the Agriculture Marketing Board (Agricom) to the banking system, as referred to in paragraph 49 of the Letter of Development Policy;

(f) taken all necessary governmental action to remove the conditioned price controls in respect of eight goods referred to in paragraph 16 of the Letter of Development Policy;

(g) for the purpose of strengthening the management capacity of BCM, and in accordance with paragraph 40 of the Letter of Development Policy, initiated negotiations with potential providers of management services;

(h) introduced a broader central bank discount policy, as referred to in paragraph 21 of the Letter of Development Policy;

(i) provided, to the Association, audited 1993 financial statements for BM, as referred to in paragraph 30 of the Letter of Development Policy, in form and substance satisfactory to the Association; and

(j) allocated in the 1995 national budget, an amount equivalent to no more than 1% of gross domestic product for all subsidies to the enterprises owned by the Borrower, as referred to in paragraph 17 of the Letter of Development Policy.

SCHEDULE 4

Actions Referred to in Paragraph 4 (B) (iii) of Schedule 1 to this Agreement

In accordance with the Program, the Borrower has:

(a) designed and launched a pilot Treasury Bill auction referred to in paragraph 23 of the Letter of Development Policy;

(b) completed draft Foreign Exchange regulations for the commercial banks as referred to in paragraph 29 of the Letter of Development Policy;

(c) furnished to the Association, a progress report demonstrating that the National Railway (CFM) is implementing, in a timely fashion, a restructuring program, as referred to in paragraph 50 of the Letter of Development Policy; and

(d) taken all steps within its control to bring to the point of sale at least seven of the enterprises owned by the Borrower referred to in paragraph 48 of the Letter of Development Policy.

For the purpose of this paragraph "taking all steps within its control to bring to the point of sale" requires the Borrower to have: (i) carried out a valuation of the enterprise, if necessary; (ii) prepared a prospectus or dossier for the enterprise in question as the case may be; (iii) solicited offers directly or through advertisement(s) in appropriate newspapers or other media, for at least majority ownership in the enterprise; (iv) evaluated any offers and selected successful bidder(s), if applicable; and (v) invited the potential buyer or the successful bidder(s), as the case may be, to enter into good faith negotiations.

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 required during the execution of the Program 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 \$30,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

(b) (i) For replenishment of the Special Account, the Borrower

shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

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

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

- (b) once the total unwithdrawn amount of the Credit, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Program, 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 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.

