

CONFORMED COPY

CREDIT NUMBER 2197 KE

(Export Development Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 21, 1990

CREDIT NUMBER 2197 KE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 21, 1990, between REPUBLIC OF KENYA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated November 1, 1990, from the Borrower describing a program of actions, objectives and policies designed to stimulate a supply response for non-traditional exports (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower, having committed itself to the execution of the Program and, as part of the Program, having undertaken to carry out the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project and of urgently needed imports required during the execution of the Program; 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 modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) 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 Project and 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

(b) 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) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986);

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

(c) "EPZ" means an Export Processing Zone;

(d) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 20 and April 24, July 25 and August 2, and September 26 and October 16, 1990, respectively, between the Borrower and the Association;

(e) "Special Project Preparation Advance" means the special project preparation advance granted by the Bank pursuant to an exchange of letters dated June 19, 1989, and June 21, 1989, between the Borrower and the Bank;

(f) "MOF" means the Borrower's Ministry of Finance;

(g) "PCU" means the Project Coordination Unit within MOF;
and

(h) "VAT" means Value Added Tax.

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 this Agreement, an amount in various currencies equivalent to sixty-nine million five hundred thousand Special Drawing Rights (SDR 69,500,000).

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: (i) of goods, works and services required for Parts A, B and C of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) of goods imported during the execution of the Program and to be financed out of the proceeds of the Credit.

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

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

Section 2.03. The Closing Date shall be June 30, 1995, 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 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 April 15 and October 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 April 15 and October 15 commencing April 15, 2001, and ending October 15, 2030. Each installment to and including the installment payable on October 15, 2010, 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 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, shall carry out the Project through MOF with due diligence and efficiency and in conformity with appropriate administrative, financial and economic practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (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 Schedule 4 to this Agreement.

(b) Prior to each such exchange of views as referred to in paragraph (a) of this Section, 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, including, inter alia, monitoring of: (i) utilization of the export compensation, import duty/VAT exemption and manufacturing under bond schemes; (ii) progress in regulatory reform, including the number of products for which prices have been decontrolled; (iii) status of the studies under Part C.2 of the Project; (iv) product coverage under the import duty/VAT exemption scheme, both in terms of actual utilization and number of export products eligible under the scheme; and (v) status of construction and procurement of goods and services for Part A of the Project.

Section 3.03. The Borrower shall: (a) establish and maintain until completion of the Project, a Project Coordination Unit within MOF, which shall, inter alia, oversee Project implementation planning and procurement; and (b) appoint a Project Coordinator, with experience and qualifications satisfactory to the Association.

Section 3.04. The Borrower shall: (a) establish a unit reporting to the Permanent Secretary of MOF, to administer the facility referred to in Part C.1 of the Project, such unit shall, inter alia: (i) identify potential exporters, (ii) agree on an

enterprise level export development program, and (iii) thereafter, based on a fifty percent cost-sharing with the recipient of such assistance, the facility shall fund the technical and consultants' services required to achieve the export development objectives of the enterprise; and (b) furnish to the Association for its approval the eligibility criteria for the grant assistance under the facility.

Section 3.05. The Borrower shall by December 31, 1991, furnish to the Association for its review and comments the study referred to in Part C.2 (d) of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause the Central Bank of Kenya to maintain with respect to Part D of the Project, records and accounts adequate to reflect in accordance with 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 six 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

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister at the time responsible for finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
P.O. Box 30007
Nairobi
Kenya

Cable address:

FINANCE
Nairobi

Telex:

22921
MINFIN-KE

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
197688 (TRT)
64145 (WUI) or
82987 (FTCC)

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 KENYA

By /s/ D. D. Agande

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

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

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works and supplies for Part A of the Project	13,550,000	100% of foreign expenditures and 80% of local expenditures
(2) Goods and equipment for Part B of the Project	1,740,000	100% of foreign expenditures
(3) Consultants' services and studies:		100%
(a) for Part C. of the Project	1,390,000	
(b) for the other Parts of the Project	800,000	

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Goods imported during the execution of the Program	51,430,000	100% of foreign expenditures
(5) Refunding of Project Preparation Advance and Special Project Preparation Advance	590,000	Amounts due pursuant to Section 2.02 (c) of this Agreement

TOTAL
69,500,000
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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; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments: (a) for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of SDR 6,950,000, may be made in respect of Category (4) of paragraph 1 above, on account of payments made for expenditures before that date but after September 30, 1990; (b) for expenditures in respect of Category (1) until (i) the Borrower has enacted the EPZ Legislation and completed the formulation and publication of implementing regulations, and (ii) established the PCU referred to in Section 3.03 of this Agreement; (c) for expenditures in respect of Category (2) until the Borrower has completed the study referred to in Part C.2 (f) of the Project and commenced implementation of an action plan acceptable to the Association to introduce private sector management to air cargo handling operations at the Jomo Kenyatta International Airport; (d) for expenditures in respect of Category (3) (a) until the Borrower has formulated eligibility criteria acceptable to the Association for assistance under the facility referred in Part C.1 of the Project; and

(e) under Category (4) for

(i) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower

Group	Sub-group	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 semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
Group	Sub-group	Description of Items
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, non-monetary (excluding gold ores and concentrates)

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

(iii) 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,

- (iv) expenditures for goods intended for a military or para-military purpose or for luxury consumption, and
- (v) expenditures in excess of an aggregate amount equivalent to SDR 10,425,000 for petroleum products and foodstuffs.

4. 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 Category (4) after the aggregate of the proceeds of the Credit withdrawn from the Credit Account under Category (4) of paragraph 1 above and the total amount of such commitments shall have reached the equivalent of SDR 27,715,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.02 of this Agreement based on evidence satisfactory to the Association: (a) with the progress achieved by the Borrower in the carrying out of the Program; (b) that the actions described in Schedule 4 to this Agreement have been taken and are satisfactory to the Association; and (c) that the macro-economic policy framework of the Borrower is consistent with the objectives of the Program.

5. If, after the exchange of views referred to in paragraph 4 above, the Association shall have given notice to the Borrower that the progress achieved and the 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 remaining amount of the Credit allocated to Category (4) of paragraph 1 above, or any part thereof.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in stimulating a supply response for non-traditional exports.

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 Processing Zone

Construction of the first stage of an EPZ at Athi River, near Nairobi, including on-site and off-site infrastructure consisting of access roads, water supply, sewerage and waste disposal facilities, power lines, common production and handling facilities, and basic structures and services for business and worker housing areas.

Part B: Export Facilitation Equipment

Upgrading and expansion of air cargo handling facilities at Jomo Kenyatta International Airport in Nairobi.

Part C: Technical Assistance and Studies

1. Establishment of a facility to make available funds on a grant basis to exporters to finance the employment of consultants' services.

2. Carrying out the following studies:

(a) evaluation of the need for continuing the export compensation scheme in view of the introduction of the import duty/VAT exemption program, and the design of subsequent phases of the latter for direct exporters;

(b) design of alternative schemes, including common bonded

warehouses, to extend free trade status to indirect exporters;

(c) design of additional phases of development of export financing facilities;

(d) evaluation of the effectiveness and efficiency of official tourism sector institutions, including the Kenya Tourism Development Corporation;

(e) review of tariff exemptions extended to non-exporters and the formulation of an action plan to reduce revenue losses from such exemptions; and

(f) review of factors constraining cargo handling capacities at Jomo Kenyatta International Airport and design of an approach to introduce private sector management to air cargo handling operations.

Part D: General Imports

Imports urgently required during the execution of the Program.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works for Parts A through C of the Project

Part A: International Competitive Bidding

Goods and works 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).

Part B: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part C: Review by the Association of Procurement Decisions

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

With respect to each contract, 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.

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

Section II. Procurement of Goods for Part D of the Project

1. Contracts for the procurement of goods estimated to cost the equivalent of \$2,000,000 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 1985 (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 Business; 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.

2. Contracts for the procurement of goods by the Borrower or public sector entities estimated to cost less than the equivalent of \$2,000,000 each may be procured under contract awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Contracts for the procurement of goods by the private sector entities estimated to cost less than the equivalent of \$2,000,000 each may be awarded, to the extent practicable, on the basis of comparison of price quotations solicited from a list of at least two suppliers from at least two different countries eligible under the Guidelines, or on the basis of the normal procurement procedures of the purchaser of such goods.

4. 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.

5. With respect to each contract referred to in paragraphs 2 and 3 above, 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.

6. The provisions of the preceding paragraph 4 of this Schedule

shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure.

Section III. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Actions Referred to in Paragraph 4 of Schedule 1 to this Agreement

1. The Borrower has extended automatic licensing to the remaining Schedule 3C items by shifting these to Schedule 3B, with exceptions only for environment, public health and public safety reasons.
2. The Borrower has implemented the second phase of tariff reductions similar in scope to those implemented in June 1990, so as to reduce the level and variability of effective protection and reduce revenue losses stemming from the extension of import duty exemption to non-exporters.
3. The Borrower has commenced implementation of the facility referred to in Part C.1 of Schedule 2 to this Agreement.
4. The Borrower has implemented the following reforms of enterprise regulations: (a) consolidation of all registrations required under the Industrial Regulation, Statistics and Factories Acts, as well as those required by the Kenya Bureau of Standards and the National Social Security Fund; (b) consolidation of licenses required under the Trade Licensing Act, into three categories and elimination of distinctions made between different forms of trade; and (c) implementation of the proposals approved by the Borrower's Cabinet Sub-Committee in December 1989, to eliminate redundancies, speed approvals and increase transparency in processing and approving of investment and operating licences and permits.
5. The Borrower has agreed with the Association on action plans to implement the recommendations of the studies on the export compensation scheme, alternative schemes to extend free trade status to indirect exporters and subsequent phases of development of export financing facilities.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (3) 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, works 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.

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) the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify; and

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

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

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

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

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

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

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

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

