

CONFORMED COPY

CREDIT NUMBER 1921 GH

(Mining Sector Rehabilitation Project)

between

REPUBLIC OF GHANA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 14, 1988

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 14, 1988, between REPUBLIC OF GHANA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to obtain from the United Nations Development Programme (UNDP) a grant in an amount of four hundred eighty thousand dollars (\$480,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the UNDP Project Document) to be entered into between the Borrower and UNDP;

(C) Part A of the Project will be carried out by State Gold Mining Corporation (SGMC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SGMC

part of the proceeds of the Credit as provided in this Agreement;
and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and SGMC;

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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

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

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SGMC pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(c) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(d) "Project Preparation Advances" means the project preparation advances granted by the Association to the Borrower pursuant to exchanges of letters dated June 29, 1987 and August 5, 1987, and March 19, 1988 and April 28, 1988, respectively, between the Borrower and the Association;

(e) "GNMC" means the Ghana National Manganese Corporation;

(f) "GCD" means the Ghana Consolidated Diamonds Corporation;

(g) "MLNR" means the Borrower's Ministry of Lands and Natural Resources; and

(i) "Cedi" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty-nine million three hundred thousand Special Drawing Rights (SDR 29,300,000).

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

(b) The Borrower shall open and maintain in dollars in a commercial bank on terms and conditions satisfactory to the Association: (i) a special account (Special Account A) for the purposes of Part A of the Project; and (ii) a special account (Special Account B) for the purposes of Parts B and C of the Project. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 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 the amount required to repay the principal amounts of the Project Preparation Advances withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amounts of the Project Preparation Advances shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1993, 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 a 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; (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 as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988 shall be applied as of July 1, 1988.

(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 February 15 and August 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 February 15 and August 15 commencing August 15, 1998 and ending February 15, 2028. Each installment to and including the installment payable on February 15, 2008 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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement: (i) shall carry out or cause to be carried out Parts B and C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and mining practices, and shall provide promptly as needed, the funds, facilities, services and other resources required for Parts B and C of the Project; and (ii) shall cause SGMC to perform in accordance with the provisions of the Project Agreement all the obligations of SGMC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SGMC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend, out of the proceeds of the Credit, an amount not exceeding the equivalent of SDR 26,250,000 to SGMC under a subsidiary loan agreement to be entered into between the Borrower and SGMC, under terms and conditions which shall have been approved by the Association and which shall include repayment over twenty years, including six years of grace, interest at the rate of 8.50% per annum and the foreign exchange risk to be borne by SGMC.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts B and C of 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.

(b) Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of the Schedule to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by SGMC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall, for purposes of carrying out Part C of the Project:

(a) take all measures required on its part to establish, not later than December 31, 1988, the Gold Exploration Company (GEC) under terms and conditions satisfactory to the Association; and

(b) make available to GEC, as an equity contribution, under arrangements satisfactory to the Association, an amount, out of the proceeds of the Credit, not to exceed in the aggregate the equivalent of \$1,500,000, such proceeds to be used exclusively for goods and consultants' services required for the establishment of GEC and the start of its operations.

Section 3.05. The Borrower shall prepare and furnish to the Association, not later than December 31, 1988, a study to assess the adequacy of the level of salaries of the staff of the Mines Department and the means to adjust it so as to retain adequate qualified and experienced staff.

Section 3.06. The Borrower shall relocate the Chief Inspector of Mines in the Mines Department to Accra not later than December 31, 1989.

Section 3.07. The Borrower, acting through its Mines Department, shall commence, not later than December 31, 1989, to monitor the quality of underground air at the major underground mines.

Section 3.08. The Borrower shall:

(a) prepare and furnish to the Association for its review, not later than July 1, 1989, a study on the environmental impact of surface mining, including the reclamation of surface mines; and

(b) based on the findings of this study, establish, not later than July 1, 1990, appropriate environmental and reclamation regulations acceptable to the Association.

Section 3.09. The Borrower shall:

(a) prepare and provide to the Association, not later than December 31, 1988, an action plan, satisfactory to the Association, for establishing legal and competitive sales channels for the gold produced by small scale miners; and

(b) implement such action plan not later than June 30, 1989.

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 Parts B and C of the Project of the departments or agencies of the Borrower responsible for carrying out Parts B and C of 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 Accounts 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.

Section 4.02. The Borrower shall ensure that SGMC has adequate access to foreign exchange funds, taking into account SGMC's imported input needs and debt service requirements.

Section 4.03. Within six months after completion of negotiations on joint ventures regarding the mines, the Borrower shall convert into equity contributions 50 percent of the amounts lent by the Borrower to SGMC under the Export Rehabilitation Project and Export Rehabilitation Technical Assistance Project out of the proceeds of the funds provided by the Association and the Government of Canada under the Development Credit Agreements, dated February 9, 1984, the Special Fund Credit Agreement, dated February 9, 1984, and the Canadian Contribution Agreement, dated March 19, 1987, respectively.

Section 4.04. The Borrower shall, not later than December 31, 1988, prepare and furnish to the Association, a study of methods to convert SGMC's debt to the Volta River Authority and the Ghana Commercial Bank into equity.

ARTICLE V

Remedies of the Association

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

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

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that SGMC will be able to perform its obligations under the Project Agreement.

(c) The State Gold Mining Corporation Legislative Instrument No. 1144, dated June 23, 1978, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SGMC to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SGMC or for the suspension of its operations.

(e) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and SGMC; and

(b) the Borrower and SGMC have made progress satisfactory to the Association in establishing management and financing arrangements for the rehabilitation of the three mines.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions:

(a) that the Project Agreement has been duly authorized or ratified by SGMC, and is legally binding upon SGMC in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and SGMC and is legally binding upon the Borrower and SGMC in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The PNDC Secretary for Finance and Economic Planning 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:

PNDC Secretary for Finance
and Economic Planning
Ministry of Finance and
Economic Planning
P.O. Box M40
Accra, Ghana

Cable address:

ECONOMICON
Accra

Telex:

2205 MIFAEP GH

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.

REPUBLIC OF GHANA

By /s/ Eric K. Otoo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Caio Koch-Weser
Acting 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
Part A of the Project:		
(1) Equipment, spare parts, vehicles and materials	15,210,000	100% of foreign expenditures and 90% of local expenditures
(2) Consultants' services and training	7,320,000	100%
Part B of the Project:		
(3) Equipment, spare parts, vehicles and materials	850,000	100% of foreign expenditures and 90% of local expenditures
(4) Consultants' services and training	410,000	100%
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
Part C of the Project:		
(5) Equipment, spare parts, vehicles and materials	880,000	100% of foreign expenditures and 90% of local expenditures
(6) Consultants' services and training	220,000	100%
(7) Refunding of Project Preparation Advances	1,070,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	3,340,000	

TOTAL

29,300,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; 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: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,900,000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after January 16, 1988; (b) payments for expenditures under Categories (1) and (2) after the aggregate of the proceeds of the Credit withdrawn from the Credit Account under these Categories and the total amount of commitments entered into to pay amounts to the Borrower or others in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories shall have reached the equivalent of SDR 16,800,000, unless: (i) the Borrower and SGMC have concluded the financing and restructuring arrangements, satisfactory to the Association, required for the completion of the rehabilitation of the mines at Tarkwa, Prestea and Dunkwa; and (ii) the Borrower has converted all the outstanding amounts of the loans, made to SGMC by the Borrower out of funds not provided by other donors, into equity contributions; and (c) payments for expenditures under Categories (5) and (6) after the aggregate of the proceeds of the Credit withdrawn from the Credit Account under these Categories and the total amount of commitments entered into to pay amounts to the Borrower or others in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories shall have reached the equivalent of SDR 200,000, unless: (i) the actions referred to in sub-paragraph (b) above have been taken, and (ii) the Gold Exploration Company has been established under terms and conditions satisfactory to the Association.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to rehabilitate the SGMC mines at Tarkwa, Prestea and Dunkwa; (ii) to strengthen the Borrower's mining sector institutions; and (iii) to attract the participation of private investors in that sector.

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: Rehabilitation of SGMC's Mines

1. Acquisition of mining equipment, spare parts and materials for the mines at Tarkwa, Prestea and Dunkwa.
2. Provision of management assistance, consultants' services and training for the operation of the three mines.
3. Evaluation studies for the Tarkwa and Prestea mines.

Part B: Support of the Mining Sector

1. Strengthening of the Borrower's mining sector agencies (MLNR, its Mines Department and Geological Survey Department, and the Minerals Commission) through the provision of consultants'

services and training and the acquisition of vehicles and testing, prospecting and office equipment.

2. Improving the productivity of small scale miners through:

(a) the provision of consultants' services for the Minerals Commission to develop and regularize the small scale mining industry; and

(b) the acquisition of training equipment and vehicles for mine wardens.

3. Evaluation studies for GCD and GNMC.

Part C: Gold Exploration Company

Establishment of the Gold Exploration Company.

* * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C 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. To the extent practicable, contracts shall be grouped in bid packages estimated to cost the equivalent of \$350,000 or more each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Ghana may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Goods may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

Part D: 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, 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) The provisions of the preceding subparagraph (a) 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. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

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

Section II. Employment of Consultants

In order to assist in the carrying out of Parts B and C of the Project, the Borrower shall employ, and cause GNMC and the Minerals Commission to 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

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in the case of Special Account A, Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and (ii) in the case of Special Account B, Categories (3) through (6) set forth in said table;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount, to be withdrawn from the Credit Account and deposited in each of the Special Accounts pursuant to paragraph 3 (a) of this Schedule, equivalent to \$1,500,000 in the case of Special Account A, and equivalent to \$500,000 in the case of Special Account B.

2. Except as the Association shall otherwise agree, payments out of any 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 corresponding Authorized Allocation and subsequent withdrawals to replenish the respective 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 concerned, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of such 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 such Special Account such amounts as shall be required to replenish such Special Account with amounts not exceeding the amount of payments made out of such 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 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 any 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 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 any 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 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
- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 aggregate Authorized Allocations.

(b) 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 any 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 a 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 to the Association, the Borrower shall, promptly upon notice from the Association deposit into said 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 any of the Special Accounts 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 a 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.

