

CONFORMED COPY

CREDIT NUMBER 3165 CHA

Development Credit Agreement

(Anning Valley Agricultural Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 11, 1999

CREDIT NUMBER 3165 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 11, 1999, between PEOPLE'S REPUBLIC OF CHINA (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 has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to ninety million dollars (\$90,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) Sichuan (as defined in Section 1.02 (i) of this Agreement) will carry out the Project and, as part of such assistance, the Borrower will make available to Sichuan the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan 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 among the Association, the Bank and Sichuan;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

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

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Agricultural Bank of China" means the Agricultural Bank of China established under the laws of the Borrower and operating pursuant to the Circular of the Borrower's State Council on the Restoration of the Agricultural Bank of China, dated February 23, 1979 (State Council Document No. (1979) 56) and the Decision of the Borrower's State Council on the Exclusive Exercise of Central Bank Functions by the People's Bank of China, dated September 17, 1983 (State Council Document No. (1983) 146), as said Circular and Decision may be amended from time to time.

(b) "Anning River Basin Water Resources Management Committee" means the committee established by Sichuan on April 16, 1998, to coordinate the exploitation and utilization of water resources in the Anning river basin, and to provide services in relation thereto.

(c) "Dam Safety Review Panel" means the Dam Safety Review Panel established by Sichuan's Water Conservancy Bureau in September 1997 to provide independent expert review and inspection services with respect to the dams and related structures associated with the Project.

(d) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(e) "Minority Nationality Development Plan" means the Minority Nationality Development Plan for the Project dated June 26, 1998 prepared by the Task Force for Minority Nationality Development established by Sichuan on March 18, 1998.

(f) "PPMO" means the Project Management Office at the provincial level

referred to in paragraph 1 (a) of Part A of Schedule 2 to the Project Agreement.

(g) "Project Agreement" means the agreement among the Association, the Bank and Sichuan 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.

(h) "Resettlement Action Plans" means: (i) the resettlement action plan prepared by Sichuan's Daqiao Hydropower Development Corporation for Part A.1 of the Project and dated November 1997; and (ii) the resettlement action plan prepared by the Panzhihua Task Group for Part A.3 of the Project and dated November 1997, as the same may be revised from time to time in accordance with Part D of Schedule 2 to the Project Agreement.

(i) "Sichuan" means the Borrower's Province of Sichuan and any successor thereto.

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

(k) "Sub-loan" means a loan made or proposed to be made by Sichuan out of the proceeds of the Credit or the Loan to an enterprise for a Sub-project.

(l) "Sub-project" means a specific investment project to be carried out under Part D or F of the Project utilizing the proceeds of a Sub-loan.

## 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-one million four hundred thousand Special Drawing Rights (SDR 21,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue:

(i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and

(ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next

date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid:

(i) at such places as the Association shall reasonably request;

(ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and

(iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semi-annually on January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 1 and July 1 commencing July 1, 2009, and ending January 1, 2034. Each installment to and including the installment payable on January 1, 2019 shall be one and one-fourth percent ( $1-1/4\%$ ) of such principal amount and each installment thereafter shall be two and one-half percent ( $2-1/2\%$ ) of such principal amount.

(b) Whenever:

(i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and

(ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semi-annual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower,

further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (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, shall cause Sichuan to perform in accordance with the provisions of the Project Agreement all the obligations of Sichuan 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 Sichuan 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 make the proceeds of the Credit available to Sichuan on the following principal terms and conditions:

(i) the principal amount so made available shall be equivalent in SDRs (determined on the dates of withdrawal from the Credit Account, or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out;

(ii) Sichuan shall repay in Dollars the principal amount so made available to it over a period of seventeen (17) years, including five (5) years of grace;

(iii) the Borrower shall charge a service charge on such principal amount withdrawn and outstanding from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum; and

(iv) the Borrower shall charge a commitment charge on the principal amount not withdrawn from time to time at a rate equal to one-half of one percent (1/2 of 1%) per annum.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. 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) shall be carried out by Sichuan pursuant to Section 2.03 of the Project Agreement.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has

received the audit report for the fiscal year \_\_\_\_\_ in which the last withdrawal from the Credit Account was made; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

#### ARTICLE V

##### Remedies of the Association

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

(a) Sichuan 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 Sichuan will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 (a) 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.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that all conditions precedent to the effectiveness of the Loan Agreement, other than the effectiveness of the Development Credit Agreement, have been fulfilled.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by Sichuan, and is legally binding upon Sichuan 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 Minister of 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  
Sanlihe  
Beijing 100820  
People's Republic of China

Cable address:

FINANMIN  
Beijing

Telex:

22486 MFPRC CN

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 (MCI) or  
64145 (MCI)

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Zhaoxing

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Michel Severino

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
1. Civil works	14,280,000	41,470,000	50%
2. Equipment and expendi- Vehicles  (ex-factory  local expenditures for other items procured locally	2,280,000	17,860,000	100% of foreign  tures, 100% of local expenditures  cost) and 75% of
3. Materials expen-  local  (ex-factory  local  other  locally	3,700,000	15,410,000	100% of foreign  ditures, 100% of expenditures  cost) and 50% of expenditures for items procured
4. Research, overseas training, study tour and consulting services	710,000	1,880,000	100%
5. Domestic training	430,000	570,000	50%
6. Fee  Loan		900,000	Amount due under Section 2.04 of the  Agreement
7. Unallocated		11,910,000	
TOTAL:	<u>21,400,000</u> =====	<u>90,000,000</u> =====	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the People's Republic of China for goods and services supplied from such region shall be deemed to be "foreign expenditures"; 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 made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR5,700,000 may be made on account of payments made for expenditures before that date but on or after April 15, 1998.

4. The Association may require withdrawals from the Credit Account, and the Bank



may require withdrawals from the Loan Account, to be made on the basis of statements of expenditure for expenditures for:

- (a) goods and works under contracts costing less than \$200,000 equivalent each;
- (b) services provided by consulting firms under contracts costing less than \$100,000 equivalent each;
- (c) services provided by individual consultants under contracts costing less than \$50,000 equivalent each; and
- (d) research, training and study tours;

all under such terms and conditions as the Association or the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to support the development of the Anning Valley in Sichuan Province, by increasing the production, productivity, marketability and value-added of agriculture, horticulture and animal husbandry in the area, and to reduce the poverty of farmers in remote areas of said valley.

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: Water Resource Development

##### 1. Manshuiwan Subcomponent

Construction of: (i) headworks, including a weir across the Anning River; (ii) conveyance and distribution systems to supply water for irrigation of an area of approximately 15,000 hectares, for industrial, urban and rural use and for the generation of electricity in Liangshan Prefecture; and (iii) a hydroelectric power generation station of 18 megawatt capacity at Huangtupo in Liangshan Prefecture.

##### 2. Shengli Subcomponent

Completion of conveyance and distribution systems to supply water for irrigation of approximately 3,000 hectares of crops in Renhe District of Panzhihua City.

##### 3. Huangqiao Subcomponent

Construction: of (i) Huangqiao Dam; (ii) a hydroelectric power generation station; (iii) conveyance and distribution systems to supply water for irrigation of about 2,700 hectares and for other uses in Miyi County in Panzhihua City; and (iv) a related water supply facility.

#### Part B: Crop Development

Reclamation of marginal land and improvement of existing land, supply of new and improved seeds and other agricultural inputs, improvement of agricultural extension services, and provision of training and research in order to increase the quantity and improve the quality of grain and vegetable production in Anning Valley.

#### Part C: Orchard Development

Development of marginal land, improvement of existing orchards, establishment of seedling nurseries, and provision of training and research in order to increase the quality and variety of fruit production in Anning Valley.

#### Part D: Sericulture Development

Financing, through the provision of loans, of specific investment projects to introduce new sericulture production and processing technologies to mulberry and cocoon-production households, and establish and upgrade silkworm egg grainages, young silkworm rearing centers and silk reeling mills.

Part E: Livestock Development

Supporting poor households through the improvement of livestock production, including by:

- (a) improvement of breeds of sheep, goats and ducks;
- (b) introduction of ducks and rabbits as additional income sources;
- (c) provision of supporting pasture and feed development; and
- (d) strengthening of animal husbandry support services.

Part F: Agro-Processing

Financing, through the provision of loans, of specific investment projects to establish, expand and upgrade agricultural production, processing and marketing facilities, including rice processing mills, seed mills, wholesale markets, post-harvest facilities, orchard houses with fruit grading equipment, fruit storage facilities and cold stores.

Part G: Institutional Strengthening

Strengthening the institutional capacity of the Anning River Basin Water Resources Management Committee and the extension service capacity and institutional capacity of village extension facilities and project management offices at all levels through provision of office equipment and training.

\* \* \* \* \*

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$8,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$4,500,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to Categories (1) through (5) plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR20,000,000.

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

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan 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 or the Loan 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 or the Loan 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 from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Loan Account pursuant to the provisions of Section 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 or the Bank) 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 or the Bank 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 or the Loan Account, as the case maybe, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement or the Loan Agreement, including the General Conditions applicable thereto.

