

CONFORMED COPY

CREDIT NUMBER 3112 GUI

Development Credit Agreement

(Microfinance Capacity Building Project)

between

REPUBLIC OF GUINEA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 21, 1998

CREDIT NUMBER 3112 GUI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 21, 1998, between REPUBLIC OF GUINEA (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 Association has received a letter, dated September 8, 1998, from the Borrower describing a program of actions, objectives and policies designed to implement its institutional reform and development strategy in the microfinancing sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Project will be carried out by BCRG (as hereinafter defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to BCRG the proceeds of the Credit as provided in this Agreement;

(D) the Borrower has received from the Agence Française de Développement (AFD) a grant (the AFD Grant) in an amount equivalent to 21,000,000 French francs to assist in financing the Project on the terms and conditions set forth in an agreement (the AFD Grant Agreement) to be entered into between the Borrower and AFD; 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 between the Association and BCRG;

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 Association and the Borrower 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 Administrator, 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) "BCRG" means Banque Centrale de la République de Guinée, the Borrower's Central Bank, established pursuant to its Statutes;

(b) "Statutes" means the statutes of BCRG dated June 1, 1994, as amended to the date of this Agreement;

(c) "CMG" means Crédit Mutuel de Guinée, a project undertaken by the Borrower with financial support extended by Agence Française de Développement (AFD);

(d) "CRG" means Crédit Rural de Guinée, a project undertaken by the Borrower with financial support extended by Agence Française de Développement (AFD);

(e) "PRIDE" means Programme Rural Intégré pour le Développement de l'Entreprise, a credit scheme established with financial support undertaken extended by the United States Agency for International Development (USAID);

(f) "MSMU" means the Microfinance Support and Monitoring Unit established within BCRG pursuant to Section 5.01 (c) of this Agreement, and paragraph 1 (e) of Schedule 2 to the Project Agreement;

(g) "Project Agreement" means the agreement between the Association and Banque Centrale de la République de Guinée (BCRG) 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) "PIM" means the Project Implementation Manual to be adopted by the Borrower pursuant to Section 5.01 (f) of this Agreement, describing the Project reporting and monitoring procedures, plans, and other implementation arrangements and specifying the performance indicators to be followed in assessing the progress

achieved in the execution of the Project;

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

(j) "Subsidiary Grant Agreement" means the agreement to be entered into between the Borrower and BCRG 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 Grant Agreement.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to three million eight hundred thousand Special Drawing Rights (SDR 3,800,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002 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 semiannually on April 15 and October 15 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 semiannual installments payable on each April 15 and October 15 commencing October 15, 2008, and ending April 15, 2038. Each installment to and including the installment payable on April 15, 2018, 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 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 semiannual 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.

Section 2.09. BCRG is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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 to upon any of its other obligations under the Development Credit Agreement, shall cause BCRG to perform in accordance with the provisions of the BCRG Project Agreement all the obligations of BCRG 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 BCRG 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 BCRG under a subsidiary grant agreement to be entered into between the Borrower and BCRG, under terms and conditions which shall have been approved by the Association.

(c) The Borrower shall exercise its rights under the Subsidiary Grant 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 Grant Agreement or any provision thereof.

Section 3.02. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall cause BCRG to:

(a) prepare, on the basis of guidelines acceptable to the Association, and

furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the sustainability of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower and BCRG on said plan.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.4, 9.5, 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 the Project shall be carried out by BCRG pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall:

(a) ensure that, not later than December 31, 1998, CMG, CRG and PRIDE's operations are carried out under the overall supervision of MSMU without interference from any other officials or agencies of the Borrower; and

(b) take all appropriate action as required on its part to: (i) assist BCRG in implementing the recommendations of the study referred to under Part B.2 of the Project as they shall have been agreed upon with the Association; and (ii) achieve the transformation of CMG, CRG and PRIDE credit schemes into autonomous and financially viable entities as provided for under Part A.3 of the Project.

Section 3.05. (a) The Borrower shall carry out, jointly with the Association and BCRG, not later than eighteen months after the Effective Date, a mid-term review of the progress made in carrying out the Project. The said mid-term review shall cover, among other things: (i) progress in meeting the Project's objectives; and (ii) the performance by the Borrower and BCRG of their respective obligations under the Project.

(b) Not later than one month prior to the Midterm Review, the Borrower shall cause BCRG to furnish to the Borrower and to the Association, for review and comments, a report covering items specified in paragraph (a) above, including an evaluation of the progress achieved in the execution of the Project and recommendations resulting from the studies conducted under the Project.

(c) Promptly after completing such review, the Borrower shall carry out or cause BCRG to carry out the recommendations emanating from the said review, as agreed between the Borrower and BCRG and the Association.

Section 3.06. Unless it shall have been otherwise agreed upon with the Association, the Borrower shall not initiate any new microfinance credit scheme until the completion of the Project.

#### ARTICLE IV

##### Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

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

(c) 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 BCRG will be able to perform 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 BCRG or for the suspension of its operations.

(e) The AFD Grant Agreement shall have failed to become effective by December

31, 1998, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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.

(f) (i) Subject to subparagraph (ii) of this paragraph: the right of the Borrower to withdraw the proceeds of the AFD grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination 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 4.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (b) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraphs (d) and (e) of Section 4.01 of this Agreement shall occur.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. 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) The Project Coordinator referred to in paragraph 1 (e) (ii) of Schedule 2 to the Project Agreement has been appointed in accordance with the provisions of said paragraph (ii).

(b) The long term expert and two national counterparts referred to in Section 3.05 of the Project Agreement have been recruited in accordance with the provisions of Section II of Schedule 1 to the Project Agreement.

(c) MSMU has been established with qualified staff in adequate numbers in accordance with the provisions of paragraph 1 (e) of Schedule 2 to the Project Agreement.

(d) BCRG has recruited independent auditors in accordance with the provisions of Section II of Schedule 1 to the Project Agreement for the purposes of carrying out any and all of the financial audits required pursuant to the provisions of Section 4.01 of the Project Agreement;

(e) the Subsidiary Grant Agreement has been executed on behalf of the Borrower and BCRG; and

(f) the Borrower has adopted the PIM in form and substance satisfactory to the Association.

Section 5.02. The following events are specified as additional matters, 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:

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

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

Section 5.03. 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 VI

##### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Economy and Finance  
Boite Postale 579  
Conakry, Republic of Guinea

Telex:

22399 MIFIGE

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.

REPUBLIC OF GUINEA

By /s/ Mohammed Aly Thiam

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Louis Sarbib

Regional Vice President  
Africa

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) Vehicles and equipment:		100% of foreign expenditures 90% of local expenditures
(a) for BCRG	80,000	
(b) for CMG	170,000	
(c) for CRG	170,000	
(d) for PRIDE	340,000	
(2) Consultants' services, training and audits:		100%
(a) for BCRG	1,250,000	
(b) for CMG	1,200,000	
(c) for CRG	150,000	
(d) for PRIDE	70,000	
(3) Unallocated	370,000	
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TOTAL	3,800,000 =====	

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 payments made: (a) for expenditures prior to the date of this Agreement; (b) for expenditures made under Categories 1 (b) and 2 (b) unless the Association has received evidence satisfactory to it that the Borrower has made available to CMG an amount equivalent to \$8,000,000 or such other amount as the Association may agree to sustain CMG's operations; and (c) for expenditures made under Categories 1 (d) and 2 (d) unless the Borrower has submitted to the Association an action plan satisfactory to the Association describing measures and actions to be implemented in order to improve PRIDE's operations.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and services under contracts costing less than \$20,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in its endeavors to facilitate access to term credit by small businesses and microenterprises through a pilot process aimed at improving the performance of existing micro credit schemes with



a view to transforming them into autonomous and financially sustainable financial intermediation agencies.

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: Development of a Sustainable Microfinance Intermediation System

1. Establishment and equipping of a specialized unit within BCRG to be responsible for providing technical and logistical support as required to improve the management of ongoing microfinance schemes (CMG, CRG and PRIDE) so as to strengthen the profitability and sustainability of their respective operations.

2. (a) Provision of technical advisory services to: (i) strengthen BCRG's capacity to guide the development of microfinance institutions, supervise their operations and monitor their performances; and (ii) improve the management of CMG, CRG and PRIDE's financial operations.

(b) Provision of training to: (i) enhance the expertise of the relevant staff of BCRG responsible for the supervision of the financial operations of microfinance institutions; and (ii) strengthen the managerial capacity of the officials and staff responsible for managing the operations of the CMG, CRG and PRIDE credit schemes.

3. Restructuring of CMG, CRG and PRIDE credit schemes inter alia through the establishment of appropriate financial management systems, management information systems and internal auditing and inspection systems with a view to ultimately transform the said credit schemes into autonomous and sustainable microfinance agencies.

Part B: Establishment of a Legal and Institutional Framework for Microfinance Institutions

1. Preparation of appropriate draft legislation and regulations as required to promote the development of microfinance institutions in the Borrower's territory.

2. Carrying out of a study to define appropriate modalities to be followed to transform CMG, CRG and PRIDE credit schemes into autonomous and sustainable microfinance agencies.

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The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 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 \$500,000 to be withdrawn from the Credit 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 \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.

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 and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

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

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

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

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

(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 the Project Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section 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 pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the Special Account, minus the total amount of all outstanding special commitments 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

