

CONFORMED COPY

CREDIT NUMBER 2912 NEP

Development Credit Agreement

(Rural Water Supply and Sanitation Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 23, 1997

CREDIT NUMBER 2912 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 23, 1997, between KINGDOM OF NEPAL (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 Project will be carried out by the Rural Water Supply and Sanitation Fund Development Board (the Board) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Board 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 the Board;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development

Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) the last sentence of Section 3.02 is deleted; and
- (b) the second sentence of Section 5.01 is modified to read as follows:

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

(a) "Board" means the Rural Water Supply and Sanitation Fund Development Board established by the Borrower's Formation Order (as hereinafter defined) pursuant to Section 3 of the Development Board Act, 2013 (1956), as amended from time to time;

(b) "Formation Order" means the Borrower's Formation Order dated March 14, 1996 establishing the Board;

(c) "Grant Agreement" means the agreement to be entered into between the Borrower and the Board 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 Grant Agreement;

(d) "Project Agreement" means the agreement between the Association and the Board 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;

(e) "Scheme" or "Schemes" means improvements of water supply and sanitation services for selected communities to be implemented under the Project;

(f) "Implementation Manuals" means the Board's Operations Manual, Training Manual, Monitoring and Evaluation Manual, Technical Manual, Board Accounting Manual, Support Organization Accounting Manual, and Standard Unit Price System Manual to be prepared and adopted by the Board pursuant to paragraph 3 (b) (ii) of Schedule 1 to this Agreement;

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

(h) "Support Organization" means any organization registered under the relevant laws of the Borrower and selected by the Board to develop a Scheme and to provide necessary support to the User Group (as hereinafter defined) in planning and implementing a scheme;

(i) "User Group" means a group registered under the Borrower's Water Resources Act, 2049 (1992) consisting of people who would benefit from a Scheme and would be willing to contribute to the implementation and operation of such Scheme;

(j) "Rules" means the Rules to be promulgated by the Board under the Formation Order, pursuant to paragraph 3 (b) (i) of Schedule 1 to this Agreement;

(k) "First batch Schemes" means the Schemes planned for about

107 communities under the Project;

(l) "Second batch Schemes" means the Schemes planned for about 213 communities under the Project after the First batch Schemes;

(m) "Third batch Schemes" means the Schemes planned for about 299 communities under the Project after the Second batch Schemes;

(n) "Fourth batch Schemes" means the Schemes planned for about 416 communities under the Project after the Third batch Schemes;

(o) "Batch" means any batch defined in paragraphs (k) to (n);

(p) "Fiscal Year" means the fiscal year of the Borrower and the Board, starting on or about July 16 of a calendar year and ending on or about July 15 of the following calendar year;

(q) "Development Phase" means the phase in which the Schemes under Part B of the Project are selected, planned and designed;

(r) "Implementation Phase" means the phase in which the construction of Schemes selected, planned and designed under the Development Phase is carried out and completed; and

(s) "Project Preparation Advance" means the Project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated June 17, 1996 between the Borrower and the Association.

## 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 twelve million eight hundred thousand Special Drawing Rights (SDR 12,800,000).

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 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 Nepal Rastra 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 3 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 amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be March 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 per cent ( $3/4$  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 May 15 and November 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 semiannual installments payable on each May 15 and November 15 commencing November 15, 2006, and ending May 15, 2036. Each installment to and including the installment payable on May 15, 2016 shall be one per cent (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.

Section 2.09. The Executive Director of the Board 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 upon any of its other obligations under the Development Credit Agreement, shall cause the Board to perform in accordance with the provisions of the Project Agreement all the obligations of the Board 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 the Board 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 the Board, under a grant agreement to be entered into between the Borrower and the Board, under terms and conditions satisfactory to the Association, including provisions requiring the Board to utilize the proceeds of the Credit to provide grants for carrying out Part B of the Project in accordance with the provisions of the Formation Order, the Rules and the Implementation Manuals.

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

(d) Without limitation to the provisions of paragraph (a) of this Section, the Borrower shall take all action necessary on its part to enable the Board to formulate and implement principles and procedures for the recruitment, employment and compensation of its staff.

(e) Without limitation to the provisions of paragraph (a) of this Section, the Borrower shall make available each Fiscal Year on a grant basis such portion of the annual budget of the Board approved to be financed by the Borrower at such intervals and in such amounts as shall be required for the efficient operation of the Board.

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 the Board pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall, no later than July 16, 1997, in its Central and Western Development Regions, no later than July 16, 1998, in its Eastern Development Region, and no later than July 16, 1999 in its Mid-Western and Far-Western Development Regions, phase out the rural water supply and sanitation service delivery activities of its Department of Water Supply and Sewerage through reduction in the yearly budgetary allocation of said Department in order to eliminate its role in delivering services in communities with a population of less than 500 where such services are funded from the Borrower's own resources.

#### 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 expenditures, 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 and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
  - (ii) furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year 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 (h) of the General Conditions, the following additional events are specified:

- (a) the Board 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 the Board will be able to perform its obligations under the Project Agreement;
- (c) any provision of the Formation Order, the Rules or the Implementation Manuals shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Board to perform any of its obligations under the Project Agreement; and
- (d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Board or for the suspension of its operations.

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

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 the Grant Agreement has been executed on behalf of the Borrower and the Board.

Section 6.02. The following 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 the Board, and is legally binding upon the Board in accordance with its terms; and

(b) that the Grant Agreement has been duly authorized or ratified by the Borrower and the Board and is legally binding upon the Borrower and the Board 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 Secretary, Ministry 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  
His Majesty's Government of Nepal  
Kathmandu, Nepal

Cable address:	Telex:
ARTHA Kathmandu Nepal	2249-ARTHA NP

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	197688 (TRT), 248423 (RCA), 64145 (WUI) or 82987 (FTCC)

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

KINGDOM OF NEPAL

By /s/ Bhekh Bahadur Thapa

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Harold Messenger

Acting Regional Vice President  
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods, works and services for the Schemes:		
(a) Development Phase Board	2,343,000	100% of grants
(b) Implementation Phase made by the Board	5,660,000	100% of grants
(2) Equipment and materials for the Board	230,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of other items procured locally
(3) Operating costs	590,000	65%
(4) Consultants' services and training	1,369,000	100%
(5) Monitoring and audits (other than the audit required under Section 4.01 of this Agreement and the Project Agreement) and publicity and water quality testing	1,370,000	100%
(6) Refunding of Project Preparation Advance	368,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	870,000	
TOTAL	<u>12,800,000</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;

(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; and

(c) the term "operating costs" means staff salaries, allowances, office operating expenses, repairs and maintenance and miscellaneous expenses of the Board.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement; and

(b) under Category 1 set forth in the table in paragraph 1 of this Schedule unless:

(i) the Board has promulgated Rules under the Formation Order satisfactory to the Association; and

(ii) the Board has prepared and adopted the Implementation Manuals satisfactory to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts: (i) not exceeding the equivalent of \$50,000 for equipment and materials for the Board, for works, goods and related services for the Schemes and for the services of individual consultants; (ii) not exceeding the equivalent of \$100,000 for services of consulting firms, under such terms and conditions as the Association shall specify by notice to the Borrower; and (iii) for operating costs, training, monitoring and audits, and publicity and water quality testing.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (i) deliver sustainable health and hygiene benefits to the rural population through improvements in the water supply and sanitation facilities; (ii) improve rural real income by assisting women identify ways to earn income from time saved in carrying water; and (iii) strengthen governmental and non-governmental capabilities to undertake and sustain said efforts.

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: Rural Water Supply and Sanitation Fund Development Board

Strengthening of the Board through the provision of technical assistance, staff and operating costs.

Part B: Schemes

The carrying out of a program of selection and construction of Schemes for about 900 communities as follows:

(i) the promotion of participation of communities in the planning, construction and management of their Schemes, including community mobilization and nonformal education, hygiene and sanitation education, and technical support services to women;

- (ii) the construction of Schemes, including gravity flow systems, installation of shallow and deep tubewells, dug wells, and catchment protection; and
- (iii) the construction of sanitation facilities, including community grants for making loans to households for latrine construction, and a pilot scheme for construction of institutional latrines for selected schools and health centers.

Part C: Technical Assistance

The carrying out of, and provision of technical assistance for:

- (i) sector assessment and monitoring through the Borrower's National Planning Commission and the Ministry of Housing and Physical Planning;
- (ii) a detailed demand study for rural water supply and sanitation sector;
- (iii) a study for the identification of criteria for selection of Schemes and cycle in Terai region of the Borrower;
- (iv) monitoring and evaluation of the Project, and based on the results thereof, carrying out special studies for the purpose of improving the capacity of delivery services in the rural water supply and sanitation sector; and
- (v) the preparation of a follow-up project in the water supply and sanitation sector.

\* \* \*

The Project is expected to be completed by September 30, 2001.

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 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 \$800,000 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 \$500,000 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 5,000,000.

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 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 this 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, 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.

