

CONFORMED COPY

CREDIT NUMBER 1814 NEP

(Sunsari Morang Irrigation II Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 20, 1987

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 20, 1987, between the KINGDOM OF NEPAL (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Develop-

ment Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

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

(b) "Project Area" means the cultivable command area of about 58,000 ha of the Chatra Main Canal irrigation scheme located in the Borrower's administrative districts of Sunsari and Morang;

(c) "Stage I Area" means the cultivable command area of about 9,750 ha within the Project Area;

(d) "Stage II Area" means the cultivable command area of about 16,700 ha within the Project Area;

(e) "SMIDB" means the Sunsari Morang Irrigation Development Board established by the Borrower's Sunsari Morang Irrigation Development Board Order as amended to the date of this Agreement, issued pursuant to the Borrower's Development Board Act, 2013 (1956), as amended to the date of this Agreement;

(f) "Nepal Rastra Bank" means the Borrower's central bank established and operating pursuant to the Borrower's Nepal Rastra Bank Act, 2012 (1955) as amended to the date of this Agreement;

(g) "NRs" means Nepalese rupees, the currency of the Borrower;

(h) "Water Users' Group" means a group of farmers sharing water from a single canal outlet of the irrigation schemes in the Project Area; and

(i) "Borrower's Fiscal Year" or "FY" mean the Financial Years commencing on or about July 16 of each Gregorian Calendar Year and ending twelve months thereafter.

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 thirty one million two hundred thousand Special Drawing Rights (SDR 31,200,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, 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 shall, for the purposes of the Project, open and maintain in Dollars a special account in the 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 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 1995 or such later date as the Association shall establish. The

Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one per cent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 1997, and ending May 15, 2037. Each installment to and including the installment payable on May 15, 2007 shall be one-half of one percent (1/2 of 1%) of such principal amount, and each installment thereafter shall be one and one-half percent (1-1/2%) of such principal amount.

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, shall carry out the Project with due diligence and efficiency and in conformity with appropriate engineering, agricultural and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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 3 to this Agreement.

Section 3.03. The Borrower shall, or shall cause the SMIDB to take all such measures as may be considered necessary to minimize the risk of malaria and other water-related diseases within the Project Area.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be

maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of SMIDB and the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each of the Borrower's 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 twelve months after the end of each such Fiscal Year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the Borrower's Fiscal Year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. On March 31 of each year, commencing on March 31, 1988 and thereafter, the Borrower shall, or shall cause the SMIDB to, furnish to the Association, for its review and comments, its estimates for the forthcoming Borrower's Fiscal Year of salaries and allowances of Project staff, and operation and maintenance costs (excluding establishment costs) of the irrigation schemes and related facilities in the Project Area, and, thereafter, taking into account the Association's comments, if any, make the required budgetary allocations to adequately cover such operation and maintenance costs, including salaries and allowances of Project staff.

Section 4.03. The Borrower shall:

(a) by August 1, 1988 cause the SMIDB and its Land Revenue Department to adopt procedures, satisfactory to the Association, for assessing, billing and collecting water charges;

(b) except as otherwise agreed between the Borrower and the Association, charge and collect a flat rate of not less than NRS 200 per hectare per year on all irrigated land in the Project Area where the irrigation and drainage system has been improved;

(c) commencing from 1988, and in each year thereafter, review performance of the collection of water charges in the Project Area by July 15 of each said year, and promptly after such review, furnish to the Association the results thereof; and

(d) commencing from 1989, and every two years thereafter by August 31 of each such year: (i) review and, if required, revise the collection procedures of water charges in the Project Area; and (ii) adjust, as required, the rates of such water charges to cover the full costs of operation and maintenance of the works in the Project Area on a pro-rata basis for 58,000 ha, and a reasonable portion of capital expenditures, therein, taking into account farmers' payment capacity.

Section 4.04. The provisions of Section 4.03 of this Agreement supersede the provisions of: (a) Section 4.02 of the Development Credit Agreement dated July 7, 1978, entered into between the Borrower and the Association for purposes of Credit No. 812-NEP; and (b) Section 4.02 of the Special Action Credit Agreement dated August 9, 1979, entered into between the Borrower and the Association as Administrator of the Special Action Account for purposes of the Special Action Credit No. 23-NEP.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that the Borrower shall have taken any action to alter the organization or functions of SMIDB and such action shall have materially and adversely affected the carrying out of the Project.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Termination

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The 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
Bag Durbar
Kathmandu, Nepal

Cable address:

Telex:

ARTHA

2249

Kathmandu, Nepal

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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

KINGDOM OF NEPAL

By /s/ Bishwa Pradhan
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu
Regional Vice President
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) Civil works	20,850,000	85%
(2) Equipment and vehicles	4,280,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local ex- penditures for other items pro- cured locally
(3) Technical Support:		
(a) Consul- tancies and studies	2,260,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(b) Training	320,000	100%
 (4) Incremental Operation and Maintenance costs:		
(a) Incremental staff	240,000	FY 87/88:100% FY 88/89:100% FY 89/90:100% FY 90/91:100% FY 91/92:75% FY 92/93:50% FY 93/94:25%
(b) Maintenance	1,560,000	FY 87/88:55% FY 88/89:55% FY 89/90:55% FY 90/91:55% FY 91/92:65% FY 92/93:45% FY 93/94:25%
(5) Unallocated	1,690,000	
TOTAL	31,200,000	

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;

(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;

(c) the term "incremental staff" means the Borrower's additional staff retained after the date of this Agreement for purposes of carrying out the investment and operation and maintenance work under the Project; and

(d) the term "maintenance" means: the expenditure, other than for staff salaries and related allowances, for: (i) the incremental costs of maintenance needed to maintain flows from the Kosi River to the Chatra Main Canal headworks; (ii) operation and maintenance of desilting facilities; and (iii) maintenance of the irrigation and drainage below the Chatra Main Canal Headworks.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 800,000 may be made on account of expenditures made before that date but on or after December 16, 1986; and (b) commencing April 30, 1990 and thereafter, no withdrawals shall be made and no commitment shall be entered into to pay amounts to the Borrower or others in respect of expenditures to be financed out of the proceeds of the Credit, unless the Association shall be satisfied that the Borrower has complied with the provisions of paragraph (m) of Schedule 4 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase agricultural production and farmers' income through rehabilitation and improvement of the existing irrigation and drainage systems in the Project Area and the efficient utilization of the available resources.

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:

Improvements to the Chatra Main Canal.

Part B:

Improvements to desilting operations in the Project Area.

Part C:

Rehabilitation and improvements of the existing irrigation distribution and drainage systems in Stage II Area.

Part D:

Improvement to the irrigation and drainage systems in Stage I Area.

Part E:

Construction of buildings for offices and staff quarters in the Project Area.

Part F:

Provision of equipment and vehicles for the operation and maintenance of the irrigation schemes, including spare parts and related facilities in the Project Area.

Part G:

Provision of a radio communication system in the Project Area.

Part H:

Provision of technical support for monitoring and evaluation, training, construction supervision, and studies on agro-economic, water management, and desilting facilities in the Project Area.

Part I:

Management, operation and maintenance of the irrigation schemes and related facilities in the Project Area.

* * *

The Project is expected to be completed by September 30, 1994.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the

"Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Bidders for works estimated to cost the equivalent of \$1,000,000 or more, shall be prequalified as described in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

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

Part C: Preference for Domestic Contractors

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

Part D: Other Procurement Procedures

1. Civil works contracts not to exceed in the aggregate the equivalent of \$500,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Workshop tools and other miscellaneous equipment, bicycles and motorcycles estimated to cost in the aggregate the equivalent of \$400,000, may be procured under contracts awarded either through limited international bidding procedures on the basis of evaluation and comparison of bids invited from at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof), or on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Operation and maintenance and minor construction work not exceeding in the aggregate the equivalent of \$1,400,000, may be carried out by force account.

Part E: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for works estimated to cost the equivalent of \$500,000 or more and with respect to each contract for goods, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such

procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

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

Section II. Employment of Consultants

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

SCHEDULE 4

Implementation Program

The Borrower shall:

(a) issue or cause to be issued, by July 1, 1988, all the necessary authorizations and permits to enable SMIDB to commence operation of the radio communication system under Part G of the Project;

(b) at all times, maintain the position of Project Manager of the Project with an officer whose qualifications, experience and terms of reference shall be satisfactory to the Association;

(c) cause SMIDB to: (i) by January 1, 1988, furnish to the Association for its review and comments, an overall training program under Part H of the Project; (ii) by January 1 of each year, commencing on January 1, 1988, and thereafter, furnish to the Association for its review and comments, the annual training program for the following Borrower's Fiscal Year, including the syllabi and course materials; and (iii) on July 16 of each year, commencing on July 16, 1988 and thereafter, implement such training programs;

(d) cause SMIDB to: (i) by June 30, 1989, conduct an agro-economic survey in Stage I Area and Stage II Area under terms of reference satisfactory to the Association, and by September 30, 1989, furnish to the Association, for its review and comments, a report summarizing the results and conclusions of the survey; (ii) taking into account the Association's comments, if any, carry out similar surveys by June 30, 1992 and June 30, 1994, and by September 30, 1992 and September 30, 1994, furnish to the Association, for its review and comments, reports summarizing the results and conclusions of such surveys; and (iii) thereafter, taking into account the results of each survey and the Association's comments, if any, promptly take all such action as shall be required to increase agricultural production in such areas;

(e) by December 31, 1987, take all such action as shall be

necessary to constitute the Water Users' Groups as statutory bodies with sufficient rights and duties to: (i) supervise the distribution of water amongst its members in proportion to the size of their landholding; and (ii) cause its members to construct and maintain the required field channels, including field drainages, adjoining their holdings and any other section of the field channels and field drainages that do not skirt commandable areas;

(f) by December 31, 1987, complete the establishment of a Water Users' Group in each watercourse command currently receiving irrigation water in the Project Area, and, not later than six months prior to commencing delivery of irrigation water to any new watercourse command in the Project Area, establish a Water Users' Group;

(g) without limitation to the provision of Section 9.06 of the General Conditions, commencing on January 1, 1988, and thereafter every six months, until the completion of the Project, furnish to the Association semiannual reports of such scope and in such detail as the Association shall reasonably request on the progress of the Project, such reports to be furnished within two months after the end of each reporting period;

(h) cause SMIDB to position all the Project staff required to carry out the Project in FY 87/88 by September 30, 1987, in a manner satisfactory to the Association, and, thereafter assign and maintain staff, all in accordance with organization and staffing schedules to be agreed between the Borrower and the Association;

(i) provide appropriate staffing, facilities, and other resources required for carrying out agricultural extension services, satisfactory to the Association, throughout the Project Area;

(j) (a) by September 1, 1990, furnish to the Association, for its review and comments, draft terms of reference for undertaking a mid-term review of the Project; (b) taking into account the Association's comments, if any, carry out such mid-term review, and by March 1, 1991, furnish to the Association, for its review and comments, the results of such mid-term review; and (c) thereafter subject to the Association's prior concurrence, carry out the required adjustments to the Project;

(k) under terms of reference satisfactory to the Association, cause SMIDB to carry out a study for evaluating the design concepts and operation of the existing systems for applying rotational water supply in the Project Area, and by March 31, 1989, furnish to the Association, for its review and comments, the results of such study; and thereafter, taking into account the Association's comments, if any, take all such action as shall be necessary to improve water management in the Project Area;

(l) without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall carry out, or cause SMIDB to carry out, the planning, design, construction, and operation and maintenance of the works under the Project in accordance with standards, criteria, and quality control satisfactory to the Association; and

(m) for purposes of carrying out Part B of the Project, carry out, or cause SMIDB to carry out, under terms of reference satisfactory to the Association, studies to determine an efficient method for protecting the irrigation distribution systems in the Project Area from siltation; by November 30, 1988, furnish to the Association, for its review and comments, the results of such studies; by July 31, 1989, taking into account the results of the studies and the Association's comments, if any, complete the detailed design, plans and time-table for implementing desilting facilities in the Project Area satisfactory to the Association; and, except as otherwise agreed between the Borrower and the Association, by April 30, 1990, commence implementing the

establishment of such desilting facilities.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means any of the Categories 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 SDR 2,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

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

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

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in 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 for crediting to the Credit Account.

