

CONFORMED COPY

CREDIT NUMBER 3018 IN

Development Credit Agreement

(Uttar Pradesh Forestry Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 30, 1997

CREDIT NUMBER 3018 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 30, 1997, between INDIA, acting by its President (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 State of Uttar Pradesh (Uttar Pradesh) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Uttar Pradesh 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 the Project Agreement;

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.

(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 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."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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

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

(b) "Project Implementation Plan" means the implementation plan for the Project prepared by Uttar Pradesh, dated August 1997, and, including time-bound action plans, procedures and criteria agreed with the Association;

(c) "Project Preparation Advance" means the Project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated June 20, 1996 and July 24, 1996, between the Borrower and the Association;

(d) "Project Unit" means the unit established within UPFD (as hereinafter defined) for assisting in the implementation of the Project;

(e) "Protected Area or PA" means any sanctuary or national park declared as a protected area by Uttar Pradesh in accordance with the provisions of the Borrower's Wildlife Act, 1972, as amended to date;

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

(g) "UPFD" means the Uttar Pradesh Forest Department and any successor thereto;

(h) "NGOs" means non-governmental organizations; and

(i) "Uttar Pradesh" means the State of Uttar Pradesh, a State of the Borrower, and any successor thereto.

## 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-nine million Special Drawing Rights (SDR 39,000,000).

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) 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 be utilized for financing expenditures for preparation of a forestry project in the Indian State of Kerala.

(c) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Reserve Bank of India 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.

Section 2.03. The Closing Date shall be July 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 or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment 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 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 May 15, 2008 and ending November 15, 2032. Each installment to and including the installment payable on November 15, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the

level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first 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.

#### ARTICLE III

##### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project 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 Uttar Pradesh to perform in accordance with the provisions of the Project Agreement all the obligations of Uttar Pradesh 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 Uttar Pradesh to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without any limitation or restriction upon the provisions of Section 3.01 (a) of this Agreement, the Borrower shall provide, or cause to be provided, to Uttar Pradesh in a prompt and efficient manner all clearances and approvals required for the purpose of enabling Uttar Pradesh to carry out the activities included in the Project.

(c) The Borrower shall make the proceeds of the Credit available to Uttar Pradesh in accordance with the Borrower's standard arrangements for developmental assistance to the states of India.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Project Agreement.

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

#### ARTICLE IV

##### Financial Covenants

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

shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
  - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures be 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 audited for each fiscal year in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
  - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
  - (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

#### ARTICLE V

##### Remedies of the Association

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

- (a) Uttar Pradesh 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 Uttar Pradesh will be able to perform its obligations under the Project Agreement.

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

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions to be included in the opinion or opinions to be furnished to the Association namely, that the Project Agreement has been duly authorized or ratified by Uttar Pradesh and is legally binding upon Uttar Pradesh in accordance with its terms.

Section 6.02. 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

##### Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary, and Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower are each 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:

The Secretary to the Government of India  
Department of Economic Affairs  
Ministry of Finance  
New Delhi, PIN 110001  
India

Cable address:

ECOFAIRS  
New Delhi

Telex:

953-3166175

For the Association:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable address:

INDEVAS  
Washington, DC

Telex:

248423 (RCA),  
82987 (FTCC),  
64145 (WUI) or  
197688 (TRT)

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.

INDIA

By /s/ Sudhakar Rao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mieko Nishimizu

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:

| Amount of the<br>Credit Allocated | % of |
|-----------------------------------|------|
|-----------------------------------|------|

| Category   | (Expressed in SDR Equivalent) | Expenditures to be Financed  |
|--|-------------------------------|--|
| (1) Civil works (except for Part D.3 of the Project)                                       | 4,200,000                     | 85%  |
| (2) Forest operations  | 16,500,000                    | 90%  |
| (3) Equipment, materials and vehicles (except for Part D.3 of the Project)                 | 6,600,000                     | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items purchased locally |
| (4) Incremental operating costs  | 8,400,000                     | 80% through March 31, 2000, 55% through March 31, 2001, and 35% thereafter   |
| (5) Consultants' services (including NGOs' services) and training                          | 1,000,000                     | 100%   |
| (6) Civil works and equipment for the ecodevelopment program under Part D.3 of the Project | 1,900,000                     | 85%  |
| (7) Refunding of Project Preparation Advance   | 400,000                       | Amount due pursuant to Section 2.02 (b) of this Agreement  |
| TOTAL  | 39,000,000                    |  |

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 operating costs" means the costs of operation and maintenance of additional buildings, equipment and vehicles incurred by Uttar Pradesh for the purposes of carrying out the Project; and

(d) the term "forest operations" means expenditures for land preparation, (excluding land purchase) including labor, inputs for tree plantations, maintenance and protection, and development of nurseries, seed production areas, clonal seed orchards, and multiplication gardens.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 3,700,000 may be made on account of payments made for expenditures before that date but after March 31, 1997.

4. The Association may require withdrawals from the Credit Account to be made on

the basis of statements of expenditure for expenditures for: (a) goods or works under contracts not exceeding \$200,000 equivalent; (b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, respectively; (c) training and fellowships; (d) works procured under force account; and (e) incremental operating costs, all 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 Uttar Pradesh in the implementation of its strategy for the development of its forestry sector through improvement of sector management, increasing forest cover and productivity, and conservation of biodiversity, in an environmentally and socially sustainable manner, as a first phase of long-term support to the forest sector in Uttar Pradesh.

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 objective:

#### Part A: Institutional Development

##### 1. Sector Management

(a) Management Process: Improvement of management processes of the forest sector in Uttar Pradesh through provision of consultants' services to assist with analysis of management processes and procedures, staffing levels and skills, and staff training.

(b) Planning: Provision of consultants' services and staff training to assist in (i) improvement of forest management plans and the introduction of site specific plans, (ii) preparation of a code of forest practice, and (iii) preparation of a strategic analysis of the impact of different management systems for sal (*Shorea robusta*) forests in the Terai Region of Uttar Pradesh on markets, revenue, forest sector expenditures, environment and conservation of biodiversity.

(c) Monitoring and Evaluation: Introduction of monitoring and evaluation procedures for the forest sector, based on (i) monitoring of key performance indicators, and (ii) program information and independent evaluation studies, including assessment of beneficiary participation in forest management programs.

(d) Environmental Analysis: Carrying out, with the assistance of consultants' services, of an environmental analysis as part of site specific forest management plans.

(e) Policy Analysis: Carrying out, with the assistance of consultants' services, of policy analysis studies in the forest sector in Uttar Pradesh.

##### 2. Human Resources Development

(a) Development, with the assistance of consultants' services, of a human resources development plan for UPFD.

(b) Training of selected UPFD's staff, including training of trainers, human resource development, participatory management skills for joint forest management and ecodevelopment, and forest technology and other specialized training.

(c) Improvement of the training facilities at the Forest Training Institutes and Forest Schools in Uttar Pradesh through infrastructure improvements, provision of equipment and consultants' services for course coordinators, resource persons and technical support for the establishment and operation of the Center for Forest and Natural Resource Management Development.

##### 3. Forest Management Information System

Design and development of a forest management information system to integrate information technology into all UPFD's activities, through provision of consultants' services, computers, software, digital data sets and staff training.

##### 4. Project Unit



(a) Strengthening the Project Unit within UPFD, through the provision of necessary office equipment, vehicles and buildings.

(b) Preparation, with the assistance of consultants' services, of a follow-up forestry project in Uttar Pradesh.

Part B: Forest Development

1. Joint Forest Management

(a) Implementation of a joint forest management program between UPFD and the village forest committees, with the assistance of NGOs, involving about 1,000 committees for management and protection of about 250,000 hectares (ha) of forest land, based on village microplans developed through community participatory planning.

(b) Implementation of a community forestry program between UPFD and the village forest committees, with the assistance of NGOs, for management and protection of about 7,000 ha on community land, based on village microplans developed through community participatory planning.

2. UPFD Management

(a) Assisted Natural Regeneration: Promotion of assisted natural forest regeneration by UPFD over an area of about 21,000 ha, through control of fire and grazing, improved soil and moisture conservation and improved forest cultural operations, based on site specific plans and associated environmental analysis.

(b) Plantation Forestry: Development of about 12,500 ha of plantations using improved planting materials and plantation management practices.

(c) Forest Protection: (i) Implementation of the forest fire management strategy in Uttar Pradesh through contractual arrangements between UPFD and the local communities, (ii) development, with the assistance of consultants' services, of a silvipasture program and a strategy for grazing management in the forests of Uttar Pradesh, and implementation of such strategy, and (iii) establishment of a fire and grazing management unit within UPFD, and provision of necessary equipment and training.

(d) Strip Plantations: Establishment and management of about 2,000 row km of strip plantations along selected roads, canals and railways in the plains of Uttar Pradesh.

(e) Urban Forestry: Carrying out of a program of planting, protection and maintenance of trees in selected urban areas in Uttar Pradesh.

3. Farm Forestry

(a) Nursery Technology: Introduction of improved nursery technology through the establishment of 10 demonstration nurseries with the necessary infrastructure and equipment, and associated training for private sector entrepreneurs.

(b) Extension Services: Improvement of farm forestry extension services (i) by UPFD in six forest divisions in Uttar Pradesh through provision of extension materials, vehicles, equipment and demonstration plots, and (ii) by private sector agencies and NGOs in four other forest divisions on the basis of contractual arrangements with UPFD.

4. Operational Support

Improvement of housing and office facilities for UPFD, and provision of vehicles, equipment, elephants and draft animals to support forest operations throughout Uttar Pradesh.

Part C: Research and Technology

1. Research

(a) Development of linkages between UPFD research wing and other forestry research databases through provision of computers and software.

(b) Formulation, with the assistance of consultants' services, of a

prioritized research program for the forest sector in Uttar Pradesh.

(c) Carrying out of research programs for production of improved planting material, and the production and utilization of non-timber forest products.

2. Planting Material

(a) Improvement of existing tree seed selection handling and treatment equipment and facilities through provision of new equipment and repair of existing equipment, construction of six seed sub-centers and staff training.

(b) Development of three research nurseries through provision of consultants' services for nursery design, infrastructure and equipment, and staff training.

Part D: Biodiversity Conservation

1. Strategic Planning

Preparation, with the assistance of consultants' services, of a long-term strategy and action plan for conservation of biodiversity in Uttar Pradesh.

2. Management and Consolidation of PA System

Improving the planning, management and monitoring in nine clusters of priority PAs made up of 18 individual PAs through survey and demarcation, development of infrastructure and provision of vehicles, communication and field equipment and consultants' services.

3. Ecodevelopment

(a) Support for an eco-development program, based on village microplans, consisting of the development, with the involvement of NGOs, of alternative resources, or income generating opportunities for communities resident in village areas peripheral to the PAs, including provision of works and equipment.

(b) Provision of training and field operation for eco-development planning teams.

4. Research, Training and Public Awareness

(a) Carrying out of research on aspects of biodiversity and PA management.

(b) Provision of staff training in biodiversity conservation and eco-development, and development of the training facilities for the wildlife wing of UPFD through provision of infrastructure and equipment.

(c) Carrying out of public awareness and extension campaigns for biodiversity conservation and construction of nature interpretation centers in selected PAs and zoological gardens.

\* \* \*

The Project is expected to be completed by January 31, 2002.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) 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 \$4,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits 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 in the Special Account such amount or amounts as the Association 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.

