

CONFORMED COPY

CREDIT NUMBER 2335 TA

(Forest Resources Management Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 24, 1992

CREDIT NUMBER 2335 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 24, 1992, between UNITED REPUBLIC OF TANZANIA (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; 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;

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 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MLHUD" means the Borrower's Ministry of Lands, Housing and Urban Development;

(b) "PMO" means the Borrower's Prime Minister's Office responsible, inter alia, for Regional Administration and Local Government;

(c) "MTNRE" means the Borrower's Ministry of Tourism, Natural Resources and Environment;

(d) "FBD" means the Forestry and Beekeeping Division of MTNRE;

(e) "NVDPC" means the National Village Demarcation Program Coordinator;

(f) "PCC" means the Project Coordination Committee referred to in paragraph 1 of Schedule 4 to this Agreement;

(g) "IRA" means the Institute of Resource Assessment at the University of Dar es Salaam;

(h) "RFO" means Regional Forest Officers;

(i) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated December 17, 1990, and December 21, 1990, between the Borrower and the Association;

(j) "Special Accounts" mean the accounts referred to in Section 2.02 (b) of this Agreement; and

(k) "DPC" means the full-time Deputy Project Coordinator in MLHUD referred to in paragraph 1 of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirteen million two hundred thousand Special Drawing Rights (SDR 13,200,000).

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 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 two special deposit accounts in its central bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Special Account A shall be used to finance Project activities for MTNRE and Special Account B shall be used to finance Project activities for MLHUD. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 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 cancelled.

Section 2.03. The Closing Date shall be June 30, 1998, 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 cancelled; 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 January 15 and July 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 semi-annual installments payable on each January 15 and July 15 commencing July 15, 2002, and ending January 15, 2032. Each installment to and including the installment payable on January 15, 2012, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's 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 Kingdom of Great Britain and Northern Ireland 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 through MTNRE and MLHUD with due diligence and efficiency and in conformity with appropriate administrative, financial and forestry management 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 annually review royalty fees and by July 1 of each year, adjust them by at least the rate of inflation for the previous year, to ensure that their real values do not decline and that the fee structure reflects the relative scarcity of the resource.

Section 3.04. The Borrower shall ensure that MTNRE and MLHUD establish independent Project Accounts in the regions and districts benefiting from the Project.

Section 3.05. The Borrower shall by May 31, 1994, complete an assessment of the long-term financing needs of the forestry subsector, and thereafter ensure that adequate provision is made in its budgets for the financing of forestry subsector activities.

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 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 Accounts 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, 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 fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Accounts 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.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) FBD has seconded a graduate forester to Mwanza and another to Tabora to work as Regional Forest Extension Officers; and
- (b) MLHUD has appointed the DPC, referred to in paragraph 1 of Schedule 4 to this Agreement.

Section 5.02. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. The Minister of the Borrower at the time responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
P.O. Box 9111
Dar es Salaam
Tanzania

Cable address:

Telex:

TREASURY
Dar es Salaam

41329

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.

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.

UNITED REPUBLIC OF TANZANIA

By /s/ Charles Nyirabu
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox
Regional Vice President
Africa

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 for Parts A and C of the Project	580,000	100% of foreign expenditures and 75% of local expenditures
(2) Vehicles and equipment:		100% of foreign expenditures and 90% of local expenditures
(a) for Parts A and C of the Project	1,810,000	
(b) for Part B of the Project	1,450,000	

(3)	Consultants' services:		100%
	(a) for Parts A and C of the Project	3,740,000	
	(b) for Part B of the Project	1,010,000	
(4)	Training and studies:		100%
	(a) for Parts A and C of the Project	580,000	
	(b) for Part B of the Project	290,000	
(5)	Incremental operating costs:		100% for the first three years of Project implementation and 80% thereafter
	(a) for Parts A and C of the Project	930,000	
	(b) for Part B of the Project	720,000	
(6)	Refunding of Project Preparation Advance	470,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	1,620,000	
	TOTAL	13,200,000	

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; and

(c) the term "incremental operating costs" means incremental operating costs associated with Project implementation including office supplies, maintenance of vehicles and computers, staff allowances for field trips, costs for Project coordination and wages for casual workers.

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the development of its forestry subsector by strengthening institutions and supporting activities to improve the management of forest and land resources in Tanzania.

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: Strengthening Natural Resource Monitoring and Forest Policies

1. Production of national reconnaissance-level land-use and natural resource maps.
2. Development of a Natural Resource Information Center located at the Institute for Resource Assessment at the University of Dar es Salaam.
3. Improvement and monitoring of the royalty collection system through development of a forest revenue reporting system, pilot implementation of a revised revenue collection system and feasibility assessment for the collection of woodfuel fees for tobacco production.
4. Identification of best practices for forest activities.
5. Preparation of an action plan for the long-term financing of the forestry subsector.
6. Construction of offices for FBD.

Part B: Strengthening Land Policy and Institutions

1. Assistance in the development of land policies including a study of the most pressing issues in land policy.
2. Continuation of the Borrower's program of surveying, demarcation, titling and registration of village lands.

Part C: Strengthening the Regional and District Forest Services

1. In Mwanza:
 - (a) surveys and planning of the forestry extension program;
 - (b) reorganization and training of the district forest service;
 - (c) development and distribution of forestry extension materials;
 - (d) development of community and farm forestry extension;
 - (e) initiation of local research and development techniques in home gardens, farms, schools and community woodland sites;
 - (f) improving revenue collecting and sharing; and
 - (g) improved management of trees, village woodlands and forest reserves.
2. In Tabora:
 - (a) carrying out vegetation mapping;
 - (b) carrying out reconnaissance surveys/inventories;
 - (c) development of a Regional Forest Resource Plan;
 - (d) implementation of forest reserve management plans for priority reserves and representative villages;
 - (e) pilot testing of new approaches to trees and village woodland management;
 - (f) carrying out applied research;

- (g) community and farm forestry extension activities;
- (h) improvement of revenue collecting and sharing; and
- (i) training for forestry staff.

* * *

The Project is expected to be completed by December 31, 1997.

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. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Tanzania 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.1 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 and items or groups of items for goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$410,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items for goods estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$280,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more and for works estimated to cost the equivalent of \$250,000 or more, 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

Accounts, 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 Accounts 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 Accounts, 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 subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. 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 carrying out 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

1. The Borrower shall establish a Project Coordination Committee (PCC) comprising the Principal Secretaries of MTNRE and MLHUD, the Regional Development Directors of Mwanza and Tabora, the Director of FBD, the Director of the Survey and Mapping Division in MLHUD and the Commissioner responsible for Local Government of the PMO. The Commissioner for Lands and the Director of IRA shall be co-opted as needed. A Project Coordinator shall be appointed by MTNRE and a DPC by MLHUD who shall form the secretariat for the PCC.

2. MTNRE shall be responsible for the implementation of Part A of the Project. Within MTNRE, FBD shall have overall responsibility for the forestry related components. At the regional level, management responsibility for component implementation shall be with the RFO, who shall be assisted by a project assistant administrator on administrative matters. The RFO shall report to FBD on all Project related matters and shall assign day-to-day responsibility to a Regional Forest Extension Officer to be seconded by FBD.

3. At the district level, the District Forestry Officer shall have overall responsibility for Project management and implementation.

4. MLHUD shall be responsible for the implementation of Part B of the Project. A National Village Demarcation Program Coordinator and DPC shall be placed within the Survey and Mapping Division of MLHUD.

5. The Borrower shall: (a) by December 1 in each year furnish to the Association an annual report on the implementation of the Project and a work program for the following year; and (b) thereafter review together with the Association, the annual budget of the forestry subsector on the basis of the work program.

6. The Borrower shall by the end of the first year of Project

implementation complete the demarcation of about 165 villages, by the end of the second year at least 250 additional villages and by the end of the third year at least 250 more villages. Targets for the following three years shall be reviewed and agreed upon during the mid-term review referred to in paragraph 14 below.

7. The Borrower shall by March 31, 1993, furnish to the Association: (a) an extension program for Mwanza; and (b) a regional forest resource plan for Tabora, all satisfactory to the Association.

8. The Borrower shall by March 31, 1993: (a) furnish to the Association the recommendations for the establishment of the forest revenue reporting system, for its review and comments; and (b) immediately thereafter commence implementation of such system taking the Association's comments into account.

9. The Borrower shall by the end of the third year of Project implementation, evaluate the pilot implementation of the revised revenue collection system and make recommendations to the Association for expansion of the new system to all regions.

10. The Borrower shall by the end of the third year of Project implementation make recommendations to the Association as to the need for and feasibility of making effective the charging of woodfuel fees for tobacco production and introduction of the other measures to compensate for the effect of tobacco production on forest resources.

11. In carrying out Part A.4 of the Project, the Borrower shall by May 31, 1993, initiate its activities for the identification of Best Practices in Forestry, and by May 31, 1994, furnish to the Association for its review a report of its findings.

12. The Borrower shall by November 30, 1992, commence natural resource mapping activities and not later than November 30, 1994, furnish to the Association for its review complete maps and related area statistics.

13. The Borrower shall by October 31, 1992, initiate its study on land policy and by March 31, 1995, furnish to the Association for its review and comments the results of this study.

14. The Borrower shall not later than September 30, 1995, carry out jointly with the Association, a mid-term review of the Project. Such review shall assess progress in achieving Project targets and addressing key issues including: (a) lessons learned from the land policy studies with respect to the securing of land rights for villages; (b) the village demarcation and titling component's success in resolving boundary disputes, securing tenure for village and individual occupancy, and in improving land and resource management; (c) the social, economic and environmental impact of the activities related to strengthening the regional and district forest services; and (d) progress made in improving royalty collection and enabling forestry to become self-financing. Based on the findings of said review, an agreed plan of action for the implementation of the remainder of the Project shall be developed.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) (a), (3) (a), (4) (a) and (5) (a) for Special Account A and Categories (2) (b), (3) (b), (4) (b) and (5) (b) for Special Account B. The Categories are set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit

allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 for each of the Special Accounts, to be withdrawn from the Credit Account and deposited into each Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Accounts 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 Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less 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 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 either 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 respective 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 respective 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 either 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 Accounts.

(d) Refunds to the Association made pursuant to paragraph 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.

