

CONFORMED COPY

CREDIT NUMBER 2819 YEM

DEVELOPMENT CREDIT AGREEMENT

(Transport Rehabilitation Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 6, 1996

CREDIT NUMBER 2819 YEM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 6, 1996 between REPUBLIC OF YEMEN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) The Association has received letters, dated November 20, 1995, and December 13, 1995 describing programs of actions, objectives and policies for the development of the Borrower's road and civil aviation sectors (hereinafter referred to as the "Programs");

(C) the Borrower intends to contract from a bilateral aid development organization ("Cofinancier") a loan or grant ("Cofinancing") in an amount equivalent to \$5,000,000 to assist in financing Part B of the Project on terms and conditions to be set forth in an agreement (the "Cofinancing Agreement") to be entered into between the Borrower and the Cofinancier; 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 modifications thereto 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."

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) "CAMA" means the Civil Aviation and Meteorological Authority, a semi-autonomous governmental authority established and operating under the Borrower's Law No. 12 of 1991, and any successor thereto;
- (b) "MOCHUP" means the Borrower's Ministry of Construction, Housing and Urban Planning;
- (c) "GCRB" means the General Corporation for Roads and Bridges of the Borrower, a semi-autonomous governmental authority established and operating under the Borrower's Decree No. 16 of 1972, and any successor thereto;
- (d) "YRFB" means the Yemen Road Fund Board, a semi-autonomous governmental authority established under the Borrower's Law No. 1-44-95-81 of 1995, and any successor thereto;
- (e) "Road User Surcharge" means a surcharge on the sale of all petrol and diesel fuel in the territory of the Borrower, initially set at Yemeni Riyal .50 per liter of petrol sales, to be deposited into the Road Maintenance Fund established pursuant to Law No.1-44-95-81 of 1995 of the Borrower; and
- (f) "Special Accounts" means the accounts referred to in Section 2.02 (b) of 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 the Development Credit Agreement, an amount in various currencies equivalent to twenty-four million seven hundred thousand Special Drawing Rights (SDR 24,700,000).

Section 2.02. (a) The amount of the Credit may be

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

(b) The Borrower may, for the purposes of Part A and Part B of the Project, open and maintain in United States Dollars two special deposit accounts in the Central Bank of Yemen. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent ($1/2$ of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next 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 per cent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 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 May 1 and November 1 commencing May 1, 2006 and ending November 1, 2035. Each installment to and including the installment payable on November 1, 2015 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 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. 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 Part A of the Project through MOCHUP; and shall carry out Part B of the Project through CAMA; all with due diligence and efficiency and in conformity with appropriate aviation, engineering, financial and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

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, including CAMA.

(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 six 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 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.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause CAMA and the YRFB:

- (a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;
- (b) to carry on their respective operations and conduct their respective affairs in accordance with sound transport, aviation, administrative, and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (c) at all times to operate and to maintain their

respective offices, facilities, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound aviation, engineering, and financial practices.

Section 5.02. (a) The Borrower shall ensure that all revenues from the Road User Surcharge are collected and deposited into the Road Maintenance Fund in accordance with the procedures and objectives set forth in Law No. 1-44-95-81 of 1995 establishing the Road Maintenance Fund and the YRFB.

(b) The Borrower shall cause the YRFB to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of the Road Maintenance Fund.

(c) The Borrower shall cause the YRFB to:

- (i) have the records, accounts and financial statements of the YRFB and the Road Maintenance Fund (balance sheets, statements of income and expenses and related statements) 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 six 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 such records, accounts and financial statements and the audit thereof as the Association shall from time to time reasonably request.

Section 5.03. The Borrower shall, by December 31, 1996, ensure that regular axle load surveys are conducted at the three weigh bridges at Hodeidah, Mokha and Harad in a manner satisfactory to the Association.

Section 5.04. The Borrower shall, by December 31, 1996, cause the YRFB to appoint in accordance with Section II of Schedule 3 to this Agreement: (i) the Consultants to carry out the study for planning and prioritizing road maintenance needs under Part A (2) of the Project, and (ii) the Consultants to assist the YRFB and the Road Maintenance Fund under Part A (3) of the Project.

Section 5.05. Without limitation upon the provisions of Section 9.06 of the General Conditions:

(a) by November 30, 1999, the Borrower shall prepare and furnish to the Association for its review and comments, a report on the progress achieved in carrying out the Project, in such detail as the Association shall reasonably request; and

- (b) (i) the Borrower and the Association shall, not later than December 31, 1999, hold a mid-term exchange of views on the progress achieved in the carrying out of the Project and the actions described in the Action Plan; and
- (ii) the Borrower shall thereafter take all measures necessary to ensure the efficient completion of the Project and the achievement of the objectives thereof, taking into

consideration the results and conclusions of the report referred to in paragraph (a) hereof and the Association's views on the matter.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) Law No. 12 of 1991 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CAMA to perform any of its obligations under this Agreement;

(b) Law No. 1-44-95-81 of 1995 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the YRFB to perform any of its obligations under this Agreement;

(c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CAMA or the YRFB or for the suspension of their respective operations;

(d) that a situation has arisen which shall make it improbable that the Programs, or a significant part thereof, will be carried out; and

(e) the Cofinancing Agreement shall have failed to become effective by December 31, 1996 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any of the loans or grants included in the Cofinancing shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Cofinancing Agreement providing therefor, or

(B) any of the loans, included in the Cofinancing, shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) that the events specified in paragraphs (a), (b) and (c) of Section 6.01 of this Agreement shall occur; and

(b) that the event specified in paragraph (f) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of that Section.

ARTICLE VII

Termination

Section 7.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Planning and Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Planning and Development
P. O. Box 175
Sana'a
Republic of Yemen

Cable address:

CENPLAN
Sana'a

Telex:

2266 CENPLAN YE

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF YEMEN

By/s/ Mohsin A. Alaini

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Inder K. Sud

Acting Regional Vice President

Middle East and North 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) (a) Civil Works Under Part A of the Project	10,000,000	70%
(b) Civil Works Under Part B of the Project	7,000,000	80%
(2) (a) Consultants' Services Under Part A of the Project	3,000,000	100% of foreign expenditures and 95% of local expenditures
(b) Consultants' Services Under Part B of the Project	1,300,000	100% of foreign expenditures and 95% of local expenditures
(3) (a) Equipment under Part A of the Project	700,000	100% of foreign expenditures
(b) Equipment under Part B of the Project	700,000	100% of foreign expenditures
(4) Unallocated	2,000,000	
TOTAL	24,700,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) expenditures under Category (1) (a) until consultants for the supervision of Part A (1) of the Project shall have been appointed in accordance with Section II of Schedule 3 to this Agreement; and (c) expenditures under Categories (1) (b) and 3(b), until: (i) consultants for the design and supervision of Part B (1) and (2) of the Project shall have been appointed in accordance with Section II of Schedule 3 to this Agreement; and (ii) civil aviation tariff increases, satisfactory to the Association, have been implemented.

4. The Association may require withdrawals from the Credit

Account to be made on the basis of statements of expenditure for each contract for works and goods estimated to cost less than the equivalent of \$200,000; for each contract for the employment of consulting firms estimated to cost less than the equivalent of \$100,000; and for each contract for the employment of individual consultants estimated to cost less than \$50,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) assist the Borrower in carrying out high priority rehabilitation works in the road transport and civil aviation sectors; (b) improve the institutional capacity for maintenance of the road network; (c) develop the civil aviation sector; and (d) strengthen transport policies and regulations in the road transport and civil aviation sectors.

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: Road Sector

1. Rehabilitation and reconstruction of the Hodeidah-Salif Road and the Am Ayn-Naqabah Road.
2. Preparation of an inventory of the existing condition of the road network; preparation of a plan for maintenance thereof; and development of detailed designs for rehabilitation of the highest priority maintenance needs of the road network.
3. Provision of technical assistance for: (i) operation of the YRFB to manage the funds generated by Road User Surcharges to be deposited in the Road Maintenance Fund; and (ii) establishment of a cost accounting system for the YRFB and improvement of GCRB's cost accounting systems.
4. Strengthening the institutional capacity of the YRFB to manage the Borrower's road network through: (i) provision of technical assistance to establish an appropriate planning system for maintenance of the road network; (ii) supply of survey and test equipment, computer systems and computer software to plan a road maintenance program; and (iii) provision of training for use of such equipment.

Part B: Civil Aviation Sector

1. Reconstruction of Aden International Airport Terminal.
2. Replacement of the air traffic control tower and technical building at Aden International Airport; provision of communications and nav aids equipment and repair facilities and training in use of such equipment; and provision of fire fighting equipment.
3. Carrying out a strategy and policy study for the civil aviation sector.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and Works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Association in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(c) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than the equivalent of \$200,000 per contract and \$1,000,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works and each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of

Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Association in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means with respect to Part A of the Project Categories (1) (a), (2) (a), and (3) (a) and with respect to Part B of the Project Categories (1) (b), (2) (b) and (3) (b) 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 with respect to the special account to be established under Part A of the Project an amount equivalent to \$500,000 and with respect to the special account to be established under Part B of the Project, an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited in such Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocations shall be limited to an amount equivalent to \$250,000 each until the aggregate amount of withdrawals under the respective categories for each Part of the Credit shall be equal to or exceed the equivalent of \$2,000,000 for such Part of the Project.

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 each Special Account has been duly opened, withdrawals of the respective 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 in such Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposits into the Special Accounts 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 Accounts 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 Accounts, 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 Accounts:

(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, 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 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 Accounts (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 Accounts 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 Accounts 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 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.

