

CONFORMED COPY

CREDIT NUMBER 2952-IN

Development Credit Agreement

(Third Andhra Pradesh Irrigation Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 3, 1997

CREDIT NUMBER 2952-IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 3, 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 Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an amount equal to one hundred seventy-five million dollars (\$175,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan are made;

(D) the Project will be carried out by the State of Andhra Pradesh (Andhra Pradesh) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Andhra Pradesh the proceeds of the Credit as provided in this

Agreement, and the proceeds of the Loan as provided in the Loan Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith among the Association, the Bank and Andhra Pradesh;

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."

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

(a) "Andhra Pradesh" means the State of Andhra Pradesh, a State of the Borrower, or any successor thereto;

(b) "Escrow account" means the account referred to in paragraph 4 of Schedule 2 to the Project Agreement;

- (c) "ha" means hectares;
- (d) "ICADD" means the Irrigation and Command Area Development Department of Andhra Pradesh;
- (e) "km" means kilometers;
- (f) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;
- (g) "NGOs" means non-governmental organizations;
- (h) "PPMU" means the Project Preparation and Monitoring Unit, established within ICADD for assisting in the implementation of the Project;
- (i) "Project Agreement" means the agreement among the Association, the Bank and Andhra 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;
- (j) "Second Andhra Pradesh Irrigation Project" means the Second Andhra Pradesh Irrigation Project financed under Development Credit Agreement No. 1665-IN, between India and the Association dated May 28, 1986, and Loan Agreement No. 2662-IN, of same date, between India and the Bank;
- (k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (l) "SRBC Sub-project" means the works to be carried out under Part A of the Project in the Srisailam Right Branch Canal Irrigation Scheme in Andhra Pradesh to serve about 65,000 ha of cultivable command area;
- (m) "SRSP Subproject" means the works to be carried out under Part B of the Project in the Sriramasagar Irrigation Scheme in Andhra Pradesh to rehabilitate about 253,000 ha of cultivable command area;
- (n) "WALAMTARI" means Andhra Pradesh Water and Land Management Training and Research Institute; and
- (o) "WUAs" means water users' associations, established or to be established, under the Project.

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 one hundred eight million one hundred thousand Special Drawing Rights (SDR 108,100,000).

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, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in 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 January 31, 2003 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 semi-annually 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 semiannual installments payable on January 15 and July 15 commencing July 15, 2007 and ending January 15, 2032. Each installment to and including the installment payable on January 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 installations, 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 objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Andhra Pradesh to perform in accordance with the provisions of the Project Agreement all the obligations of Andhra 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 Andhra 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) The Borrower shall make the proceeds of the Credit available to Andhra 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 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by Andhra 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 are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than 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) Andhra 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 Andhra 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 the event specified in Section 5.01 (a) 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 event is specified as an additional condition to effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that, all the conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. 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 Andhra Pradesh, and is legally binding upon Andhra Pradesh in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary, or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

Telex:

ECOFAIRS
New Delhi

953-3166175

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.

INDIA

By /s/ Sudhakar Rao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Robert S. Drysdale

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Civil works	92,400,000	149,800,000	76%
(2) Afforestation costs under Part E (i) of	6,400,000	10,300,000	95%

the Project

(3)	Goods foreign	4,600,000	7,400,000	100% of expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures
				for other items procured locally
(4)	Consultants' services (including NGOs' services), studies and training	3,700,000	5,900,000	100% of foreign expenditures; 95% of local expenditures
(5)	Incremental operating costs	1,000,000	1,600,000	90% through March 31, 1998; 80% through March 31, 2000; 55% through March 31, 2002 and 25% thereafter
	TOTAL	108,100,000	175,000,000	

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 "afforestation costs" means the cost of nurseries, land preparation, including labor, inputs for tree plantation, maintenance and protection; and

(d) the term "incremental operating costs" means (i) operation and maintenance works costs of the canals under Parts A and B of the Project, and of additional vehicles, equipment, office space, administration, and salaries of additional staff, incurred by PPMU for the Project; and (ii) the cost of hiring of vehicles for the Project.

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 30,500,000 may be made on account of payments made for expenditures before that date but after February 28, 1995.

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 under contracts not exceeding \$200,000 equivalent, and works under contracts not exceeding \$300,000 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 direct contracting and 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 objectives of the Project are to: (i) complete ongoing irrigation development works and schemes begun under the Second Andhra Pradesh Irrigation Project; (ii) pilot implementation of management reforms to improve public irrigation performance by facilitating beneficiary participation in the operation and maintenance of major irrigation schemes, and upgrade Andhra Pradesh capacity to improve irrigation services and command area management; (iii) retrospectively mitigate the adverse impacts of land acquisition under the Second Andhra Pradesh Irrigation Project and provide economic rehabilitation for those families still to be affected by completion of SRBC works; (iv) ensure the safety and sustainability of three dams of regional importance in the Krishna and Godavari river basins; (v) implement a regional program of environmental improvements, safeguards and natural resources conservation; and (vi) improve Andhra Pradesh's monitoring and evaluation capability for large externally aided irrigation projects.

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: SRBC Subproject

Completion of the works for the SRBC Subproject begun under Second Andhra Pradesh Irrigation Project, covering about 65,000 ha, including:

- (i) completion of sections of the main supply canal and Gorakulu By-pass Siphon;
- (ii) construction of about 1.9 km Owk Tunnel, and 1.9 thousand million cubic feet (TMC) capacity Owk seasonal storage reservoir;
- (iii) construction of lined irrigation network for about 65,000 ha;
- (iv) construction of drainage system and provision of on-farm development works;
- (v) completion of feeder roads begun under Second Andhra Pradesh Irrigation Project, and about 50 km of new feeder roads;
- (vi) provision of equipment for communications, construction quality assurance and vehicles; laboratories operation and maintenance (O&M) works
- (vii) provision of construction quality assurance training for construction staff; supervision staff and irrigation training for O&M staff;
- (viii) establishment of a computerized Management and Information System (MIS); and
- (ix) provision of surveys, investigations, technical assistance and studies.

Part B: SRSP Subproject

Rehabilitation of about 165,000 ha of irrigation system above the Lower Mannair Dam (LMD), and about 88,000 ha of existing network of SRSP below LMD up to km 234 of Kakatiya Canal through:

- (i) rehabilitation and modernization of Kakatiya Canal up to km 234;
- (ii) rehabilitation and modernization of the existing irrigation network above and below LMD, including provision of on-farm development and drains;

- (iii) provision of equipment for communications, construction quality assurance and vehicles; laboratories, operation and maintenance (O&M) works
- (iv) provision of construction quality assurance training for construction staff; supervision staff and irrigation training for O&M
- (v) establishment of a computerized Management and Information System (MIS);
- (vi) provision of surveys, investigations, technical assistance and studies; and
- (vii) completion of feeder roads begun under Second Andhra Irrigation Project, and about 50 km of new feeder roads.

Part C: Agricultural Support Services

Supporting programs for irrigated agriculture, WUAs promotion for participatory irrigation management and training, comprising:

1. Irrigation Agronomy Program: (i) carrying out of applied research and demonstrations of irrigation practices and irrigation agronomy to improve irrigation practices and crop yields in SRBC and SRSP; (ii) upgrading of the agricultural extension services in SRSP; and (iii) carrying out of a program of applied research, demonstrations and extension to promote high value horticultural crops in SRBC and SRSP.
2. WUAs Promotion Program: (i) completion of a pilot program to develop WUAs framework, training modules, joint system management modalities involving 32 WUAs in SRSP; (ii) implementation of an action plan to establish WUAs for the total Project-supported command area of SRBC and SRSP; (iii) provision of NGOs services for WUAs' formation, and (iv) carrying out of studies on indigenous irrigation institutions in SRBC and SRSP.
3. Training: (i) construction of two farmers' training centers in SRBC and one center in SRSP, and provision of equipment and materials for those centers; (ii) provision of training courses in irrigation and agronomy to ICADD staff and farmers; and (iii) provision of irrigation and management courses for ICADD staff and WUAs' officials.

Part D: Resettlement and Rehabilitation Program

Carrying out a resettlement and rehabilitation program for the Project Affected Persons (PAPs) under SRBC and SRSP, comprising:

- (i) provision of productive asset grants for procurement of goods and equipment for income generating schemes and vocational training for about 6,000 PAPs, including about 2,300 major children and their respective family members, affected by land acquisition under Second Andhra Pradesh Irrigation Project;
- (ii) provision of economic rehabilitation for about 500 PAPs including about 250 major children to be affected by SRBC and SRSP canal and feeder road works under the Project;
- (iii) provision of residual economic rehabilitation assistance for about 780 below poverty line families which had not been fully rehabilitated under the Second Andhra Pradesh Irrigation Project;
- (iv) construction of village infrastructure and community facilities, and provision of house plots in about 104 resettlement villages not completed or provided for under the Second Andhra Pradesh Irrigation Project; and

(v) provision of vocational training for PAPs to assist in the implementation of individual income generating schemes and orientation training for rehabilitation officers and NGOs.

Part E: Environmental Management Plan

Supporting a regional program of environmental safeguards and nature conservation in command area districts of SRBC and SRSP through:

- (i) provision of compensatory afforestation in degraded areas;
- (ii) carrying out of eco-restoration programs including bird and wildlife sanctuary improvements, habitat protection, afforestation of degraded areas and improvements in six forests reserves, and establishment of anti-poaching units;
- (iii) carrying out of catchment area treatment programs, including afforestation and small structures, to mitigate reservoir sedimentation in four reservoirs;
- (iv) carrying out of prophylactic programs for prevention of waterborne diseases, including vaccination, provision of mobile health units and drugs;
- (v) carrying out of canal plantation and construction site restoration;
- (vi) construction of a bird sanctuary and a fish farm at LMD;
- (vii) establishment of Project environmental monitoring units in SRBC and SRSP; and
- (viii) carrying out an agro-forestry program in SRSP.

Part F: Dam Rehabilitation and Safety Assurance

Provision of equipment, vehicles and training, and carrying out of works and studies to maintain the structural and mechanical safety of Sriramasagar, Lower Mannair and Srisailam dams, and to prevent structural failure of the spillway structure of Srisailam Dam.

Part G: Project Monitoring and Evaluation

Strengthening PPMU through provision of office equipment, vehicles and incremental staff.

* * *

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

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to the Development Credit 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to

\$15,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$8,500,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR 60,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan 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 or the Loan 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 the Development Credit Agreement or from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto;

(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, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 or the Loan Account pursuant to the provisions of 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 or the Bank) 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 or the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association or the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association or the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement or the Loan Agreement, including the General Conditions applicable thereto.

