

**CONFORMED COPY**

**CREDIT NUMBER 3608 BOS**

# **Development Credit Agreement**

**(Private Sector Credit Project)**

**between**

**BOSNIA AND HERZEGOVINA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated April 19, 2002**

**CREDIT NUMBER 3608 BOS**

## **DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated as of April 19, 2002, between BOSNIA AND HERZEGOVINA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by Republika Srpska (RS) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the RS the proceeds of the Credit as provided in this Agreement;

(C) the Borrower intends to contract from other sources of finance (the Cofinanciers) grants in an aggregate amount equivalent to about one million Dollars (\$1,000,000) to assist in the financing of Part B of the Project on the terms and conditions set forth in agreements to be entered into between the Borrower and the Cofinanciers; 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, the Project Agreement of even date herewith between the Association and RS, and the Subsidiary Finance Agreement between the Borrower and RS;

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 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country 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) “Beneficiary” means any eligible private enterprise duly established and operating under the laws of RS to which a PFI (defined hereafter) proposes to make or has made a PFI Sub-loan (defined hereafter); and “Beneficiaries” means all said Beneficiaries, collectively;

(b) “DEF” means the Development and Employment Foundation operating under the auspices of the Ministry of Finance of RS;

(c) “Euro” or sign means the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(d) “Financial Intermediary” means a credit worthy private bank duly licensed and operating in RS; and “Financial Intermediaries” means all said Financial Intermediaries, collectively;

(e) “Financial Management Report” means each report prepared in accordance with Section 3.02 of the Project Agreement;

(f) “Memorandum of Understanding or MOU” means the agreement referred to in Part C.2 of Annex A to Schedule 1 to the Project Agreement between the DEF and a Financial Intermediary that is provisionally qualified, in accordance with the criteria set forth in Part C.1 of Annex A to Schedule 1 to participate in the Project for extending PFI Sub-loans out of the proceeds of the Credit;

(g) “Operational Guidelines” means the guidelines referred to in paragraph 2 of Schedule 1 to the Project Agreement setting out the operational and administrative procedures, in respect of the preparation, approval, processing, financing, implementation and supervision of Sub-loans;

(h) “Participating Financial Intermediary” or “PFI” means any Financial Intermediary agreed between RS (defined hereafter) and the Association to participate in the Project on the basis of criteria acceptable to the Association for purposes of extending Sub-loans out of the proceeds of the Credit; and “Participating Financial Intermediaries” or “PFIs” means all said Financial Intermediaries, collectively;

(i) “PFI Sub-loan” means a loan made or proposed to be made by a PFI out of the proceeds of the Credit to a Beneficiary for a Sub-project (defined hereafter) under Part A of the Project; and “PFI Sub-loans” means all said Sub-loans, collectively;

(j) “PFI Sub-loan Agreement” means any agreement entered into between a PFI and a Financial Intermediary for a PFI Sub-loan pursuant to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the PFI

Sub-loan Agreement;

(k) “Private Enterprise” means any commercial entity registered according to the applicable laws and regulations of RS, in which the management is not directly or indirectly controlled by RS, and more than sixty-five percent (65%) of the shareholding is held by persons or entities other than RS, the local authorities or any subdivision thereof, or entities controlled by RS;

(l) “Project Agreement” means the agreement between the Association and RS 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;

(m) “RS” means Republika Srpska, a political subdivision of the Borrower, and includes any successor or successors thereto;

(n) “RS Banking Agency” means the agency, established pursuant to Law on Republika Srpska Banking Agency, dated March 20, 1998, to supervise the banks in RS;

(o) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(p) “Sub-loans” means collectively PFI Sub-loans and TA Sub-loans;

(q) “Sub-project” means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan; and “Sub-projects” means all said Sub-projects, collectively;

(r) “Subsidiary Finance” means the loan made pursuant to the Subsidiary Finance Agreement;

(s) “Subsidiary Finance Agreement” means the agreement entered into between the Borrower and RS pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Finance Agreement;

(t) “Subsidiary Loan” means a loan made by DEF to a PFI under a Subsidiary Loan Agreement for Part A of the Project; and “Subsidiary Loans” means all said loans, collectively;

(u) “Subsidiary Loan Agreement” means any agreement entered into between RS, through DEF, and a PFI pursuant to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan Agreement;

(v) “TA Recipient” means a PFI, the RS Banking Agency or a private commercial bank that receives technical assistance under Part B of the Project, and “TA Recipients” means all said recipients, collectively;

(w) “TA Sub-loan” means a loan made or proposed to be made by DEF out of the proceeds of the Credit for technical assistance, including training, to a TA Recipient under Part B

of the Project; and “TA Sub-loans” means all said Sub-loans, collectively; and

(x) “TA Sub-loan Agreement” means any agreement entered into between DEF and a TA Recipient for a TA Sub-loan pursuant to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the TA Sub-loan 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 eight million Special Drawing Rights (SDR 8,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made under a PFI Sub-loan to meet the reasonable cost of goods and services for the Sub-project under Part A of the Project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required under a TA Sub-loan under Part B of 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 Euro a special deposit account in a commercial bank, acceptable to the Association, 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 June 30, 2005, 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 (60) 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 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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing April 1, 2012 and ending October 1, 2036. Each installment to and including the installment payable on October 1, 2021, 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 (6) 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 (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. Euro 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 this Agreement, shall cause RS to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall relend the proceeds of the Credit to RS under Subsidiary Finance Agreement to be entered into between the Borrower and RS under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the Borrower shall relend to RS an amount in Euro equivalent to the amount of the Credit;
- (ii) the term of the Subsidiary Finance shall be 35 years, including a 10 year grace period;
- (iii) the Borrower shall charge RS a commitment charge at a rate equal to the rate payable to the Borrower pursuant to Section 2.04 of this Agreement, on the principal amount of the Subsidiary Finance not withdrawn from time to time;
- (iv) the Borrower shall charge RS a service charge on the principal amount of the Subsidiary Finance withdrawn and outstanding from time to time at a rate equal to the rate payable by the Borrower pursuant to Section 2.05 of this Agreement;
- (v) the principal amount of the Subsidiary Finance shall be repaid by RS in Euro and shall be the equivalent in Euro (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account or account of expenditures for the Project; and
- (vi) the Borrower shall have the right to require modification in the repayment terms of the Subsidiary Finance in conformity with the provisions of Section 2.07 (b) of this Agreement.

(c) Except as the Association shall agree otherwise, the Subsidiary Finance Agreement shall contain the following Project implementation arrangements for purposes of the Project. RS shall maintain or cause to be maintained a separate credit line section within the DEF, with staff and other resources and terms of reference satisfactory to the Association, to be responsible for the carrying out of the Project. RS shall also establish and maintain a credit committee of the credit line section which shall be responsible for approval of Subsidiary Loans

applied for by the PFIs.

(d) The Borrower shall exercise its rights under the Subsidiary Finance Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, shall not assign, amend, abrogate or waive the Subsidiary Finance Agreement or any provision thereof.

Section 3.02. The Borrower shall ensure that there shall not be any administrative interference in the: (a) banking market and the banks shall be free to set interest rates that shall correspond to the level of risk and efficiency in RS; and (b) lending decisions of the banks which shall be made in accordance with prudent banking practices.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods 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 2 to the Project Agreement.

Section 3.04. 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 RS pursuant to Section 2.04 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 separate 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 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 (l) of the General Conditions, the following additional events are specified:

(a) RS shall have failed to perform any of its obligations under the Project Agreement or the Subsidiary Finance Agreement; and

(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 RS will be able to perform its obligations under the Project Agreement or the Subsidiary Finance Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. 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) that the Subsidiary Finance Agreement shall have been executed by the Borrower and RS, on terms and conditions satisfactory to the Association; and

(b) that the Subsidiary Loan Agreement shall have been executed on behalf of RS and at least one PFI, on terms and conditions satisfactory to the Association;

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by and is legally binding upon RS in accordance with its terms;

(b) that the Subsidiary Finance Agreement has been duly authorized or ratified by and is legally binding upon the Borrower and RS 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.

Section 6.04. The obligations of the Borrower under Article III of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. The Minister of Foreign Trade and Economic Relations and the Minister of Treasury of Institutions of the Borrower are severally designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Treasury of Institutions  
of Bosnia and Herzegovina  
TrgBiH  
71000 Sarajevo  
Bosnia and Herzegovina

Facsimile:

387 33 205 345

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS

248423 (MCI),

(202) 477 6391

Washington, D.C. (202) 477 6391  
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 Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

**BOSNIA AND HERZEGOVINA**

By /s/ Jadranko Prlic

Authorized Representative

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

By /s/ Joseph Ingram

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

A. General

1. The table below sets forth the Category 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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) PFI Sub-loans under Part A of the Project.	5,530,000	100% of amounts disbursed
(2) TA Sub-loans under Part B of the Project	2,310,000	90% of amounts disbursed
(3) Incremental	160,000	75%

operating costs

TOTAL 8,000,000

2. For the purposes of this Schedule the term “incremental operating costs” means the incremental expenses incurred on account of Project implementation, management and monitoring, office supplies, communication and travel from the date the Development Credit Agreement is declared effective by the Association in accordance with its terms to December 31, 2004.

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) PFI Sub-loans in an amount not exceeding \$250,000 each with the exception of PFI Sub-loans on contracts financed under Part C.2 of Schedule 2 to the Project Agreement; (b) TA Sub-loans not exceeding \$100,000 each for firms and not exceeding \$50,000 each for individuals; and (c) for incremental operating costs.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) improve access to finance for the private sector, provide medium and long term finance to address critical private sector needs and improve the private sector supply response in manufacturing, related services, food production and agro-processing; and (b) stimulate credit market competition, strengthen the institutional capacity of major banks and assist in improving the regulatory and supervisory framework for the banking system.

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: Line of Credit

Establishment and operation by RS of a credit facility for the financing, through the PFI Sub-loans to Beneficiaries, of specific development projects, including investments and working capital in manufacturing, food production and agro-processing, and in related services.

#### Part B: Technical Assistance to the Banking Sector

Strengthening the institutional capacity and the regulatory and supervisory framework of the banking sector through provision of technical assistance and training to the PFIs, the RS Banking Agency and private commercial banks duly licensed and operating in RS.

\* \* \*

The Project is expected to be completed by December 31, 2004.

## **SCHEDULE 3**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2) and (3) 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 1,000,000 to be withdrawn from the Credit 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 500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 700,000.

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 and deposit into 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 payments in respect

of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the

Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

