

CONFORMED COPY

CREDIT NUMBER 2228 PAK

(Rural Water Supply and Sanitation Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1991

CREDIT NUMBER 2228 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 1991, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Province of Sindh (Sindh), the Province of Balochistan (Balochistan) and Azad Jammu and Kashmir (AJK) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Sindh, Balochistan and AJK the proceeds of the Credit as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Sindh" means the Province of Sindh, a political subdivision of the Borrower, or any successor thereto;

(b) "Balochistan" means the Province of Balochistan, a political subdivision of the Borrower, or any successor thereto;

(c) "AJK" means the territory of Azad Jammu and Kashmir, or any successor thereto;

(d) "PHED" means the Public Health Engineering Department;

(e) "RDD" means the Rural Development Department;

(f) "LGRDD" means the Local Government and Rural Development Department;

(g) "P&D" means the Planning and Development Department;

(h) "DOH" means the Department of Health;

(i) "RWSS scheme" means a rural water supply and sanitation scheme;

(j) "Project Agreement" means the agreement among the Association and Sindh, Balochistan and AJK 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;

(k) "Special Accounts" mean collectively the accounts referred to in Section 2.02 (b) of this Agreement and more fully defined in paragraphs (l) through (n) of this Section, and "Special Account" means each and any such account;

(l) "Sindh Special Account" means the Special Account which Sindh shall open and maintain pursuant to Section 2.02 (b) of this Agreement and Section 2.01 (c) of the Project Agreement;

(m) "Balochistan Special Account" means the Special Account which Balochistan shall open and maintain

pursuant to Section 2.02 (b) of this Agreement and Section 2.01 (c) of the Project Agreement;

(n) "AJK Special Account" means the Special Account which AJK shall open and maintain pursuant to Section 2.02 (b) of this Agreement and Section 2.01 (c) of the Project Agreement;

(o) "Rs" and "rupees" mean the currency of the Borrower; and

(p) "FY" and "fiscal year" mean the period July 1 through June 30.

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 ninety-six million four hundred thousand Special Drawing Rights (SDR 96,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of their respective parts of the Project, cause Sindh, Balochistan and AJK to open and maintain in dollars special deposit accounts in the National Bank of Pakistan on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date 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 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 January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 15 and July 15 commencing July 15, 2001 and ending January 15, 2026. Each installment to and including the installment payable on January 15, 2011 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 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.

Section 2.09. The Additional Chief Secretary, LGRDD, Sindh, the Secretary, PHED, Balochistan, and the Secretary, LGRDD, AJK are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions, in respect of the parts of the Project to be carried out in Sindh, Balochistan and AJK, respectively.

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 Sindh, Balochistan and AJK to perform in accordance with the provisions of the Project Agreement all the obligations of Sindh, Balochistan and AJK 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 Sindh, Balochistan and AJK 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 as follows:

- (i) to Sindh, in an amount equivalent to about SDR 50,000,000, for the purposes of Parts A.1 and B.1 of the Project;
- (ii) to Balochistan, in an amount equivalent to about SDR 26,600,000, for the purposes of Parts A.2 and B.2 of the Project; and
- (iii) to AJK, in an amount equivalent to about SDR 19,800,000, for the purposes of Parts A.3 and B.3 of the Project.

(c) Without limitation to the generality of paragraph (a) of this Section, the Borrower shall maintain within its Ministry of Local Government and Rural Development a Policy Investment Review Committee, with composition and terms of reference satisfactory to the Association, to provide policy guidance and coordination at the federal level to the departments and agencies of Sindh, Balochistan and AJK responsible for carrying out 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 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) shall be carried out pursuant to Section 2.03 of the Project Agreement as follows:

- (a) in respect of Parts A.1 and B.1 of the Project, by Sindh;
- (b) in respect of Parts A.2 and B.2 of the Project, by Balochistan; and
- (c) in respect of Parts A.3 and B.3 of the Project, by AJK.

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 expenditures, 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 for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year 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) Sindh, Balochistan or AJK 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 Sindh, Balochistan or AJK will be able to perform its obligations under the Project Agreement.
- (c) The Sindh Finance (Amendment) Ordinance (Sindh Ordinance No. III of 1991) shall have been amended,

suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Sindh to perform any of its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) that the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the PC-1 documents with respect to the Project have been approved by the Executive Committee of the National Economic Council (ECNEC); and

(b) the Project consultants required for the purposes specified in (a), (b), (c), (d) and (e) of Section II of Schedule 1 to the Project Agreement have been appointed pursuant to the provisions of that Section.

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 Sindh, Balochistan and AJK, respectively, and is legally binding upon Sindh, Balochistan and AJK, respectively, 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 the provisions of Section 5.02 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

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary, or Section Officer of that Division 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:

(c) AJK	915,000	75%
(2) Equipment and materials for:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 50% of local expenditures for other items procured locally
(a) Sindh	1,690,000	
(b) Balochistan	8,455,000	
(c) AJK	9,160,000	
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Consultants' services and training for:		100%
(a) Sindh	9,585,000	
(b) Balochistan	7,190,000	
(c) AJK	4,085,000	
(4) Incremental staff costs for:		100%
(a) Sindh	2,045,000	
(b) Balochistan	0	
(c) AJK	1,340,000	
(5) Unallocated for:		
(a) Sindh	10,815,000	
(b) Balochistan	4,830,000	
(c) AJK	4,230,000	
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TOTAL	96,400,000	
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2. For the purposes of this Schedule:

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

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

(c) the term "incremental staff costs" means the salaries, allowances and other emoluments of, and other

costs related to, the additional staff recruited or reassigned for carrying out the Project.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 4,000,000, in the case of Sindh, SDR 2,800,000, in the case of Balochistan and SDR 1,060,000, in the case of AJK, may be made out of the proceeds of the Credit on account of payments made for expenditures before that date but after December 1, 1989; and (b) payments made for expenditures for RWSS schemes which do not satisfy the criteria set forth in paragraph 3 of Schedule 2 to the Project Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve the health and productivity of the population, particularly women and children, thereby reducing poverty and deprivation, in the Project areas; and, to this end (b) to increase the coverage and service levels of water supply and sanitation facilities in those areas; (c) to strengthen the implementation and coordination capacity of the institutions involved in the rural water supply and sanitation sector; and (d) to assist in the implementation of a sustainable and financially viable policy under which responsibility for the operation and maintenance of rural water supply and sanitation facilities would pass from government agencies to the communities benefitting from such facilities.

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: Development of Infrastructure

1. In Sindh:

- (a) Construction of about 300 new village mechanized water supply schemes in Sukkar, Tharparker, Sanghar, Dadu, Larkana, Khairpur, Jacobabad, Hyderabad, Karachi and Thatta districts;
- (b) Construction of about 1800 new village non-mechanized water supply schemes in Sukkar and Larkana districts;
- (c) Construction of about 730 new village non-mechanized water supply schemes in the Arid Zones, based on hand-dug wells, and including construction or rehabilitation of about 110 check dams and related structures;
- (d) Carrying out of a pilot water supply program, based on development of scavenger wells;
- (e) Construction of about 60 new village drainage schemes, associated with piped water supply systems, in Sukkar, Sanghar, Larkana, Khairpur, Jacobabad and Hyderabad districts, and about 40 new village drainage schemes, associated with mechanized private well water supply systems, in Nawabshah and Shikarpur districts, all based on open drains to carry

sullage water to oxidation ponds for treatment before disposal;

- (f) Provision of about 110 individual on-site drainage units and about 25 small communal drainage systems for sullage water disposal;
- (g) Rehabilitation of about 480 village water supply and drainage schemes;
- (h) Construction, integrally with the water supply schemes to be carried out under (a) and (c) above, of about 3,000 demonstration latrines, and provision of essential materials for another about 17,500 latrines to be constructed by householders; and
- (i) Construction, integrally with the water supply schemes to be carried out under (b) above, of about 3,500 demonstration latrines, and provision of essential materials for another about 10,000 latrines to be constructed by householders.

2. In Balochistan:

- (a) Construction of about six new rural township water supply schemes, and, integrally with them, about seven new drainage schemes, in Hub, Ziarat, Mastung, Kuchlak, Nok Kundi, Kharan and Gwadar townships;
- (b) Rehabilitation of about 70 rural township and village water supply schemes in Quetta, Kalat, Zhob, Sibi, Nasirabad and Mekran districts;
- (c) Construction of about 160 tubewells in rural townships and villages; and
- (d) Construction, integrally with the water supply schemes to be carried out under (a) above, of about 80 demonstration latrines, and provision of essential materials for another about 11,200 latrines to be constructed by householders.

3. In AJK:

- (a) New construction, rehabilitation and/or augmentation of about 1,600 water supply schemes, including provision of cattle troughs and community bathing, as appropriate, in about 500 villages; and
- (b) Construction, integrally with the water supply schemes to be carried out under (a) above, of about 3,200 demonstration latrines, and provision of essential materials for another about 9,700 latrines to be constructed by householders.

Part B: Institution Building

1. In Sindh:

- (a) For PHED:
 - (i) Establishment of Training Coordination and Planning, Monitoring and Evaluation Units and a Hydrogeological Cell;
 - (ii) Strengthening of capability to design and

supervise construction of projects, and to bring about village community participation in implementation and operation and maintenance of water supply and drainage schemes, including the establishment for that purpose of a Community Development Unit and provision of training in income-generating activities;

- (iii) Construction and rehabilitation of office, work-shop and laboratory facilities;
 - (iv) Provision of specialized and operational vehicles, equipment and materials, including drilling equipment, spare parts and mobile workshops;
 - (v) Carrying out of a Management and Finance Study; and
 - (vi) Preparation of future projects and programs and carrying out of other studies as required.
- (b) For RDD:
- (i) Establishment of a Water and Sanitation Unit and Training Coordination, Planning, Monitoring and Evaluation, Sanitation Technology, Handpump Development and Maintenance and Hygiene Education Cells;
 - (ii) Strengthening of capability to bring about village community participation in implementation and operation and maintenance of water supply and drainage schemes, including for that purpose the establishment of a Community Development Unit, and to provide training in sanitation and hygiene and in income-generating activities;
 - (iii) Construction and rehabilitation of office, workshop and laboratory facilities;
 - (iv) Provision of specialized and operational vehicles, equipment and materials, including drilling equipment, spare parts and mobile workshops;
 - (v) Review and strengthening of accounting and cost recovery practices; and
 - (vi) Preparation of future projects and programs and carrying out of other studies as required.

2. In Balochistan:

- (a) For PHED:
- (i) Strengthening of capability to design and supervise construction of projects, and to bring about village and rural township community participation in implementation and operation and maintenance of water supply and drainage schemes, including the provision for that purpose of training in income-generating activities;

- (ii) Construction and rehabilitation of office and laboratory facilities;
 - (iii) Provision of specialized and operational vehicles, equipment and materials, including drilling and borehole logging equipment, spare parts and mobile workshops;
 - (iv) Review and strengthening of accounting and financial management practices; and
 - (v) Preparation of future projects and programs and carrying out of other studies as required.
- (b) For LGRDD:
- (i) Strengthening of capability to impart training to artisans, and in sanitation and hygiene and income-generating activities;
 - (ii) Provision of operational vehicles and latrine materials; and
 - (iii) Review and strengthening of accounting practices.
- (c) For P&D:
- Strengthening of capability to prepare development plans, including provision of assistance in preparing about 5 district development plans, for the rural water supply and sanitation sector.

3. In AJK:

- (a) For LGRDD:
- (i) Strengthening of capability to design and supervise projects, including establishment of Technical Advisory and Monitoring and Evaluation Units;
 - (ii) Strengthening of capability to impart sanitation and hygiene training to LGRDD's own staff, to village communities and to artisans;
 - (iii) Strengthening of capability to bring about village community participation in implementation and maintenance of water supply and drainage schemes and to provide for that purpose training in income-generating activities;
 - (iv) Construction and rehabilitation of office facilities;
 - (v) Provision of operational vehicles, equipment and materials;
 - (vi) Review and strengthening of accounting and cost recovery practices;
 - (vii) Establishment of a water resource program; and
 - (viii) Preparation of future projects and pro-

grams and carrying out of other studies as required.

(b) For DOH through LGRDD:

Strengthening of capability to impart sanitation and hygiene training, through strengthening of the Health Education Unit, production of training materials, training of trainers, conducting of workshops and field-testing of messages.

* * * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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, in respect of Sindh, an amount equivalent to \$4,000,000 to be withdrawn from the Credit Account and deposited into the Sindh Special Account; in respect of Balochistan, an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Balochistan Special Account; and in respect of AJK, an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into the AJK Special Account, all pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, Sindh, Balochistan or AJK, as the case may be, 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 Sindh, Balochistan or AJK, as the case may be, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as Sindh, Balochistan or AJK, as the case may be, shall have requested.

(b) (i) For replenishment of the Special Account, Sindh, Balochistan or AJK, as the case may be, 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, Sindh, Balochistan or AJK, as the case may be, 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 Sindh, Balochistan or AJK, as the case maybe, withdraw from the Credit Account and deposit into the Special Account such amount as Sindh, Balochistan or AJK, as the case may be, 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 Sindh, Balochistan or AJK, as the case maybe, out of a Special Account, Sindh, Balochistan or AJK, as the case may be, 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 a Special Account:

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the parts of the Project for which Sindh, Balochistan or AJK, as the case may be, is responsible 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 such parts of the Project, shall equal the equivalent of twice the amount of the relevant Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for such parts of the Project shall follow such procedures as the Association shall specify by notice to Sindh, Balochistan or AJK, as the case may be. 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 such 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 a 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, Sindh, Balochistan or AJK, as the case may be, 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 Sindh, Balochistan or AJK, as the case may be, 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 a Special Account will not be required to cover further payments for eligible expenditures, Sindh, Balochistan or AJK, as the case may be, shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) Sindh, Balochistan or AJK, as the case may be, may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in a 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.

