

CONFORMED COPY

CREDIT NUMBER 2022 IN

(National Sericulture Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 16, 1989

CREDIT NUMBER 2022 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 16, 1989, 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 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 aggregate principal amount equivalent to thirty million dollars (\$30,000,000) (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 Borrower intends to receive from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution in an amount equivalent to forty million Swiss Francs (SF 40,000,000) (Swiss Contribution) to assist in financing the Project on terms and conditions set forth in an agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland;

(E) Switzerland intends to appoint the Association to administer the Swiss Contribution in accordance with the provisions of the Procedural Arrangements dated April 9, 1987 between Switzerland and the Association;

(F) The Borrower has received from the Government of Japan a grant (the Japanese Grant) in an amount of forty million Japanese Yen (Y 40,000,000) to assist in the financing of the Project on the terms and conditions set forth in an agreement (the Japanese Grant Agreement) dated September 20, 1988 between the Borrower and the Bank acting as administrator of the Japanese Grant; and

(G) the Project will be carried out by the States of Andhra Pradesh, Jammu and Kashmir, Karnataka, Tamil Nadu and West Bengal (the States) and the Central Silk Board (CSB) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the States and CSB 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 among the Association, the Bank, the States and CSB;

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) "Andhra Pradesh" means the State of Andhra Pradesh;
- (b) "Jammu and Kashmir" means the State of Jammu and Kashmir;
- (c) "Karnataka" means the State of Karnataka;
- (d) "Tamil Nadu" means the State of Tamil Nadu;
- (e) "West Bengal" means the State of West Bengal;
- (f) "the States" means the States of Andhra Pradesh, Jammu and Kashmir, Karnataka, Tamil Nadu and West Bengal including any successors to any of them;

(g) "State" means, as the context may require, any one of the States referred to in sub-paragraph (f) of this Section;

(h) "Pilot States" means the States of Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Kerala, Maharashtra, Madhya Pradesh, Orissa, Punjab, Rajasthan, Uttar Pradesh and any other state designated by agreement between the Association and the Borrower;

(i) "Pilot State" means, as the context may require, any one of the States referred to in sub-paragraph (h) of this Section;

(j) "CSB" means the Central Silk Board, a statutory body established by the Borrower pursuant to its Central Silk Board Act, 1948 (Act No: LXI of 1948) or any successor thereto;

(k) "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" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(l) "Project Agreement" means the Project Agreement of even date herewith amongst the Association, the Bank, the States and CSB, as the same may be amended from time to time;

(m) "AISRCC" means the All India Sericulture Research Coordination Committee of CSB;

(n) "chawki" means a young silkworm up to the age of about 12 days after hatching;

(o) "CRC" means chawki rearing center;

(p) "DOS" means the Department or Directorate of Sericulture of a State as the case may be;

(q) "Karnataka Sericulture Project" means the Association-assisted Karnataka Sericulture Project (Credit 1034-IN);

(r) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(s) the sign "Rs" means rupees in the currency of India.

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 thirteen million eight hundred thousand Special Drawing Rights (SDR 113,800,000).

Section 2.02. (a) The amount of the Credit and the amount of the Swiss Contribution may be withdrawn from the Credit Account and the account established for the purpose of the Swiss Contribution in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit and the Swiss Contribution.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special 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 4 to this

Agreement.

Section 2.03. The Closing Date shall be December 31, 1996 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 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 March 15 and September 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 March 15 and September 15 commencing September 15, 1999 ending March 15, 2024. Each installment to and including the installment payable on March 15, 2009 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out, or cause to be carried out, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its obligations under this Development Credit Agreement, the Borrower shall cause CSB to perform in accordance with the provisions of the Project Agreement all the obligations therein respectively set forth, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the States, the Pilot States and CSB to perform their respective obligations in respect of the Project, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Except as the Borrower and the Association shall otherwise agree, the Borrower shall make available to CSB as a grant, and to the States in accordance with the Borrower's standard arrangements for development assistance to the States of India, such parts of the proceeds of the Credit as are required for each of them respectively to carry out its obligations under this Agreement and the Project Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower 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 by the States and CSB pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Except as the Borrower, Switzerland and the Association shall otherwise agree, the allocation and withdrawal of the Swiss Contribution shall be governed, mutatis mutandis, by the provisions of Article V of the General Conditions of the Association.

ARTICLE IV

Financial and Other 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 paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in

which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including 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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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) Any State or CSB shall have failed to perform any of its obligations under the Project Agreement.

(b) An extraordinary situation shall have arisen which shall make it improbable that a State or CSB will be able to perform its obligations under the Project Agreement.

(c) The Borrower's Central Silk Board Act (Act number LXI of 1948), as amended to the date of this Agreement, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CSB to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CSB or for the suspension of the operations of CSB.

(e) The Swiss Contribution Agreement shall have failed to become effective by July 31, 1989 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (f) (i) Subject to sub-paragraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Swiss Contribution made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor;
- (ii) Sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraphs (c), (d), or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that all 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 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, namely that the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of each of the States and CSB, and is legally binding upon each of the States and CSB 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 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. The Secretary or any 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, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-313546

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Anil Kumar
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Bilsel Alisbah
Acting Regional Vice President
Asia

SCHEDULE 2

Description of the Project

The Project aims to assist sericulture development in India by supporting an important expansion phase requiring improvements in productivity, product quality and support services and increased private sector involvement in the industry.

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: Sericulture Research and Development

(1) Expansion and strengthening of CSB's national research

institutes and regional sericulture research stations.

(2) Establishment and provision of incremental staff and operating costs for CSB research facilities including a central germ plasm bank, a seed technology laboratory and a biotechnology laboratory.

(3) Strengthening of the Karnataka State Sericulture Development Institute established under the Karnataka Sericulture Project and the establishment of selected sericulture development institutes in other States.

(4) Provision of grants to Universities in the States to assist in financing specific sericulture research projects, particularly to adapt sericulture technology to local conditions.

Part B: Basic Seed (Silkworm Egg) Production

Establishment and provision of incremental staff and operating costs, for new basic seed farms and the expansion and strengthening of existing farms for the production of basic seed (silkworm eggs).

Part C: Commercial Seed (F1) Grainages

Establishment of new and the expansion and strengthening of selected existing commercial seed (F1) grainages (including provision of initial working capital).

Part D: Mulberry Nurseries

Production and distribution of mulberry saplings through private contract farmers in the States and Pilot States and, in addition, in Jammu and Kashmir, through State nurseries and green houses.

Part E: Private Sector Chawki Rearing Centers

Provision for not more than five years after start up of operations, of initial equipment and initial operating costs for the establishment, expansion and strengthening of private sector chawki rearing centers including centers transferred from the public to the private sector.

Part F: Cocoon Markets, Cocoon Drying and Testing

(1) Establishment and provision of initial operating costs for cocoon markets and cocoon testing units.

(2) Establishment and operation of cocoon drying chambers in the States and Pilot States.

Part G: Silk Exchanges and Silk Testing Houses

(1) Establishment and provision of initial operating costs for a new silk exchange in each selected State.

(2) Establishment of silk conditioning and testing houses for the existing Bangalore Silk Exchange as well as each of the new silk exchanges established pursuant to Part G (1) above.

Part H: Reelers

(1) Establishment of a revolving fund for providing short term loans to private sector reelers in Andhra Pradesh, Jammu and Kashmir, Tamil Nadu, West Bengal and the Pilot States.

(2) Equity investments by States in selected joint venture reeling and twisting companies.

(3) Provision of assistance for the CSB program to propagate the conversion of stoves of private sector reelers to smokeless stoves

including necessary training for staff of the concerned DOS;

Part I: Extension Services

Establishment, expansion and strengthening of sericulture technical service centers under CSB and DOS.

Part J: Training

(1) Training of CSB, State and Pilot State sericulture staff, relevant staff of State universities, farmers, graineurs and reelers by the provision of training and consulting services.

(2) Establishment and the provision of initial operating costs for new, and strengthening of existing, CSB and State sericulture training facilities.

Part K: Project Administration

Provision of incremental administrative staff and operating costs as well as new office space and facilities necessary to implement and supervise expanded programs of CSB and State and Pilot States.

Part L: Monitoring and Evaluation

Carrying out of monitoring and evaluation of the Project including beneficiary assessment and socio-economic surveys.

Part M: Support to Non-Government Organizations

Provision of grants to non-governmental organizations for selected sericulture development activities.

Part N: Pilot Program

Carrying out of a program by CSB consisting of the implementation of one or more of Parts A through M above in the Pilot States for sericulture development focussing exclusively on the development of bivoltine silk production.

Part O: Credit

Provision of necessary credit for the implementation of the Project.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and vehicles shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in India may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Subject to paragraphs 2, 3, 4 and 5 below, goods, works and

vehicles estimated to cost less than \$200,000 per contract up to an aggregate of \$30,000,000 and works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or group of items estimated to cost less than the equivalent of \$20,000 per contract, up to an aggregate limit of \$2,500,000 for CSB, \$120,000 for Tamil Nadu and \$250,000 for States (except Tamil Nadu) may be procured under quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Association.

3. Works estimated to cost less than Rs.20,000 per contract, up to an aggregate limit of \$140,000 for Andhra Pradesh, \$270,000 for Karnataka, \$45,000 for Jammu and Kashmir, \$123,000 for West Bengal and \$90,000 for Tamil Nadu and \$1,000,000 for CSB may be procured through force account.

4. Goods and works estimated to cost up to an aggregate of \$1,000,000 may be procured by joint venture reeling and twisting enterprises receiving support under the Project in the form of government equity investment, in accordance with the established commercial practices of such enterprises.

5. mopeds for extension staff financed through sub-loans under Part I of the Project up to an aggregate of \$1,500,000 may be procured by staff receiving such sub-loans in accordance with established practices acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to (i) each contract referred to in Part A of this Schedule; (ii) each contract for works estimated to cost the equivalent of \$500,000 or more; and (iii) contracts for the construction of the first grainage under Part C and the first cocoon market under Part F of the Project, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such a contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01(c)(ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose

qualifications, experience and terms and conditions of employment shall be as agreed between the Borrower and the Association. Such consultants shall be selected in accordance with principles and procedures agreed between the Borrower and the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5), (6) and (7) 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 \$17,000,000 to be withdrawn from the Credit Account or Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account 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 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 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 made 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; or

(b) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment 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 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 for the Project 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; and (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 and the Loan Agreement, including the respective General Conditions.



