

CONFORMED COPY

CREDIT NUMBER 3905 PAK

Development Credit Agreement

(Sindh On-Farm Water Management Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 27, 2004

CREDIT NUMBER 3905 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 27, 2004, 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 (the Project), has requested the Association to assist in the financing of the Project; and

(B) the Project will be carried out by the Province of Sindh (Sindh) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to Sindh, as set forth 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 agreement of even date herewith between the Association and Sindh (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), 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) "AWB" means an Area Water Board established at the level of a main canal under the Ordinance (as hereinafter defined);

(b) "DGAER" means the Directorate General of Agriculture Extension and Research of Sindh's Agriculture Department;

(c) "DGAEWM" means the Directorate General of Agricultural Engineering and Water Management of Sindh's Agriculture Department;

(d) "DGAEWM Special Account" means the Special Account for DGAEWM referred to in Section 2.02 (b) of this Agreement;

(e) "Environmental Guidelines" means Sindh's guidelines dated November 25, 2003 satisfactory to the Association, setting forth measures for mitigating the potential environmental impact of activities to be carried out under the Project, as the same may be amended from time to time with the agreement of the Association;

(f) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 3.02 of the Project Agreement;

(g) "Fiscal Year" or "FY" means the Borrower's fiscal year, beginning on July 1 of a calendar year and ending on June 30 of the following calendar year;

(h) "FO" means a Farmer Organization formed or to be formed at the level of a distributary/minor canal and registered under the Ordinance;

(i) "O&M" means Operation and Maintenance;

(j) "OFWM" means On-Farm Water Management;

(k) "OFWM Directorate" means the On-Farm Water Management Directorate of DGAEWM;

(l) "Ordinance" means the Sindh Water Management Ordinance, 2002 (No. XL of 2002), as may be amended from time to time;

(m) "PCC" means the Project Coordination Committee constituted by Sindh for the purposes of the Project;

(n) "Pest Management Plan" or "PMP" means Sindh's Pest Management Plan dated October 27, 2003, satisfactory to the Association, setting forth, *inter alia*, the measures to promote and support safe, effective, and environmentally sound pest management under the Project;

(o) "PIP" means Sindh's Project Implementation Plan, dated January 5, 2004, satisfactory to the Association, including any amendments made to such plan from time to time with the Association's approval, setting forth or referring to the policies, principles and procedures for carrying out the Project, including performance indicators and monitoring and evaluation guidelines, administrative, accounting and financial procedures, procurement and disbursement guidelines, and an environmental framework;

- (p) “PLL” means precision land leveling;
- (q) “Project Agreement” means the agreement between the Association and Sindh 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;
- (r) “PSC” means the Project Steering Committee constituted by Sindh for the purposes of the Project;
- (s) “SIDA” means the Sindh Irrigation and Drainage Authority, an autonomous body constituted and existing under the Ordinance, or any successor thereto;
- (t) “SIDA Special Account” means the Special Account for SIDA referred to in Section 2.02(b) of this Agreement;
- (u) “Sindh” means the Province of Sindh, a political subdivision of the Borrower;
- (v) “Special Accounts” means collectively the accounts referred to in Section 2.02(b); and “Special Account “ means each and any one of such accounts individually; and
- (w) “WCA” means a Watercourse Association established or to be established at the level of a watercourse or water storage tank, and registered under the Ordinance if located in a canal command area, or other relevant law if located in a *barani* (rain-fed) area.

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 forty-one million Special Drawing Rights (SDR 41,000,000).

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 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 may, for the purposes of the Project, open and maintain in dollars two (2) special deposit accounts, one each for DGAEWM and SIDA, 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 December 31, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next 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 March 15 and September 15 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 semiannual installments payable on each March 15 and September 15 commencing September 15, 2014, and ending March 15, 2039. Each installment to and including the installment payable on March 15, 2024, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such 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. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end without any limitation or restriction upon any of its other obligations under the Development Credit

Agreement, shall cause Sindh to perform in accordance with the provisions of the Project Agreement all of the obligations of Sindh 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 to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to Sindh on the terms and conditions received from the Association, in accordance with the Borrower's on lending policies.

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 by Sindh pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and 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, or covering, 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 Accounts for each fiscal year (or other period agreed to by the Association) 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 (or such other period agreed to by the Association) 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(l) of the General Conditions, the following additional events are specified:

- (a) Sindh 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 will be able to perform its obligations under the Project Agreement.
- (c) The Ordinance 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(h) of the General Conditions, the following additional event is specified, namely, that the events specified in paragraphs (a) and (c) 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 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, and is legally binding upon Sindh in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, Ministry of Economic Affairs and Statistics, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division 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:

Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamabad, Pakistan

Cable address:	Telex:	Facsimile:
ECONOMIC Islamabad	ECDIV-05-634	(9251) 9205971 (9251) 9210734

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Waqar Masood Khan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Abid Hasan

Acting Country Director,
Pakistan

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works:		
(a) Part B.1 of the Project (materials only)	18,390,000	81%
(b) Part B.2 of the Project	4,680,000	90%
(c) Part B.3 of the Project	2,080,000	90%
(2) Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) Parts A, B.1 and C of the Project	1,480,000	
(b) Parts B.2 and B.3 of the Project	880,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(3) Consultants' services:		88% of expenditures for foreign firms or individuals; and 98% of expenditures for local firms or individuals
(a) DGAEWM and DGAER	1,330,000	
(b) SIDA and AWBs	400,000	
(4) Training:		95%
(a) DGAEWM and DGAER	460,000	
(b) SIDA and AWBs	160,000	
(5) Incremental Administrative and Operating Costs:		95%
(a) DGAEWM and DGAER	7,160,000	
(b) SIDA and AWBs	570,000	
(6) Unallocated	3,410,000	
TOTAL	41,000,000	
	=====	

2. For the purposes of this Schedule:

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

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

(c) the term “foreign firms or individuals” means firms that are registered or incorporated in the territory, or, as the case may be, individuals who are nationals, of any country other than that of the Borrower;

(d) the term “local firms or individuals” means firms that are registered or incorporated in the territory, or, as the case may be, individuals who are nationals, of the Borrower; and

(e) the term “incremental administrative and operating costs” means the salaries and allowances and other emoluments of DGAEWM, DGAER, SIDA and AWB staff recruited in accordance with a staffing plan acceptable to the Association for the purposes of the Project, the O&M and/or rental costs of vehicles, equipment and office premises acquired under and/or used in the carrying out of the Project, and the costs of advertising in the media for bids and other purposes of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of \$500,000, may be made on account of payments made for expenditures before that date but after May 31, 2003.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than \$200,000 equivalent each; (b) consultants’ services under contracts costing less than \$100,000 equivalent each, in the case of firms; (c) consultants’ services under contracts costing less than \$50,000 equivalent each, in the case of individuals; (d) training; and (e) incremental administrative and operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to enable farmers to better manage irrigation water and increase agricultural productivity by: (a) improving the efficiency, reliability and equity of irrigation water distribution; (b) supporting agricultural productivity enhancement measures to complement and enhance the benefits of improved water management; and (c) enhancing the long-term financial sustainability of the irrigation system by fostering the growth of self-sustaining watercourse associations (WCAs) and farmer organizations (FOs).

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: Social Mobilization and Capacity Building

Carrying out of a social mobilization and support program to help: (i) establish new WCAs and FOs; (ii) educate and inform WCAs and FOs about the benefits of physical improvements and productivity enhancement activities planned under the Project; (iii) build the capacity of WCAs and FOs to access resources for and carry out such improvements, and to participate in such activities; and (iv) build the capacity of DGAEWM, DGAER, SIDA and AWBs to assist WCAs and FOs in their endeavors.

Part B: Irrigation Facilities Improvement

1. Watercourses

(a) Renovation of about 2,400 watercourses in AWB canal commands, and about 1,400 watercourses in other canal commands, all including the making of earthen improvements, lining of selected sections, and installation of *pucca nuccas* (concrete turnouts), culverts, community structures, buffalo- baths and cattle-crossings.

(b) Construction of about 200 water storage tanks and associated or other watercourses outside canal commands in *barani* (rain-fed) areas.

2. Distributary/Minor Canals

Improvement of about 100 distributary/minor canals managed by FOs, including: (a) the restoration of outlets, weak sections of channel banks and berms, and de-silting; (b) the repair of regulator gates, cross regulators and diversion structures, protection works upstream and downstream of structures and channel sides, cattle-crossings and cattle *ghats* (drinking water points) and other community structures; and (c) the

installation of gauges and control structures for measuring flows at the distributary head and each *mogha* (watercourse off-take outlet).

3. Branch Canals

Rehabilitation and improvement by AWBs/SIDA of about 25 branch canals supplying water to distributary/minor canals on which FOs have been formed, including, in addition to improvements similar to those under Part B.2 of the Project: (a) the motorization of regulator gates; (b) the installation of gauges and control structures for measuring flows at the branch canal head and distributary off-take point; and (c) the installation of a telecommunication system for monitoring and managing branch canal flows to improve water scheduling and safety of operations.

Part C: Productivity Enhancement

1. Carrying out of precision land leveling (PLL) of about 100,000 acres of farm land using laser guided equipment.

2. Promotion of improved water management practices through: (a) the establishment of about 100 demonstration centers to demonstrate a full range of water management, new technology and irrigation agronomy practices/techniques; (b) the training of WCAs/FOs in water management, cultural practices, soil amendments for reclamation of saline and sodic soils, and new technology; and (c) the carrying out of a pilot for volumetric delivery of water and assessment of water charges on that basis.

3. Promotion of integrated pest management (IPM) practices under the PMP through: (a) the dissemination of information and awareness raising; (b) the training of extension staff and farmers; (c) the provision of demonstration plots to demonstrate the benefits of IPM; and (d) the monitoring of pesticide residue on agricultural crops.

4. Carrying out of a pilot for the promotion of integrated plant and soil nutrient management (IPSNM) practices through: (a) the compensation of farmers for financial losses initially suffered as a result of such practices; (b) the provision of demonstration plots to demonstrate the use of organic fertilizers/residues, green manuring, mulching, weeding, leguminous crops for nitrogen fixing, composting and wormi-culture; and (c) the encouragement of micro-level enterprises for composting and earth worm culture.

5. Establishment of pilot information kiosks one each in 3 AWBs to collect and make available to farmers information on canal water availability, procurement of inputs and marketing of outputs, and prices.

* * *

The Project is expected to be completed by June 30, 2008.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means, with respect to the DGAEWM Special Account, Categories (1)(a), (2)(a), (3) (a), (4)(a) and (5)(a), and, with respect to the SIDA Special Account, Categories (1)(b), (1)(c), (2)(b), (3) (b), 4(b) and (5)(b), all 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 respective eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means: (i) with respect to the DGAEWM Special Account, an amount equivalent to \$2,500,000 to be withdrawn from the Credit Account and deposited into the DGAEWM 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 \$1,250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association with respect to the respective eligible Categories pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 8,000,000; and (ii) with respect to the SIDA Special Account, an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the SIDA 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 with respect to the respective eligible Categories pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective Special Account of

an amount or amounts that 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 respective Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 such Section in respect of the audit of the records and accounts for the Special Accounts;

(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 respective eligible Categories, 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 respective eligible Categories, 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 respective 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

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