

CONFORMED COPY

CREDIT NUMBER 2853 MAI

Development Credit Agreement

(Fiscal Restructuring and Deregulation Program)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 15, 1996

CREDIT NUMBER 2853 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 15, 1996, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated March 14, 1996, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in two tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, shall be modified to read:

"Project" means the Program referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made;

(b) The last sentence of Section 3.02 is deleted;

(c) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.";

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw from the Credit Account the proceeds of the Credit in accordance with the provisions of the Development Credit Agreement and of these General Conditions. Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.";

(e) The last sentence of Section 5.03 is deleted;

(f) Section 9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.";

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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

(b) "Special Account" means the account referred to in Section 2.03 (b) of this Agreement;

(c) "Civil Service Census File" means the Borrower's comprehensive file, expected to be adopted by the Borrower on or before May 31, 1996, containing information on the identity of civil servants, including, inter alia, their pay, benefits, administrative position, geographical location, competencies and training;

(d) "Industrial Class Employees" means that class of the Borrower's employees who fill posts that have not been established by the

Department of Human Resources Management and Development in the Borrower's Office of the President and Cabinet and includes, (i) temporary and seasonal employees, and (ii) workmen, tradesmen and operators;

(e) "Common Service Cadres" means the class of the Borrower's civil servants performing similar functions and with similar education and professional training who are assigned from time to time, to perform their respective functions in various ministries and agencies of the Borrower;

(f) "Civil Service Remuneration Study" means the study for the review of institutional arrangements for determining remuneration which is being carried out for the Borrower by Price Waterhouse Pan African Consultants since November 1995 and is expected to be completed on or before May 31, 1996;

(g) "IDA Reflow" means the allocation made by the Association for the benefit of the Borrower under the Association's Fiscal Year 1996 Allocations of IDA Reflows as set forth in Resolution IDA/R95-166 dated December 1, 1995;

(h) "First Tranche" means the portion of the Credit not exceeding the equivalent of SDR 50,900,000 to be released by the Association on or after the Effective Date;

(i) "Second Tranche" means the portion of the Credit not exceeding the equivalent of SDR 21,000,000 to be released by the Association after the Borrower has complied with the provisions of Section 2.02 (d) of this Agreement; and

(j) "Category" and "Categories" mean one or more of the categories in the table set forth in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy-three million two hundred thousand Special Drawing Rights (SDR 73,200,000) (the Credit) which includes an amount in various currencies equivalent to two million nine hundred thousand Special Drawing Rights (SDR 2,900,000) representing an IDA Reflow allocation made by the Association.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit allocated to Categories (1) and (2) from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account under Categories (1) and (2) shall be deposited by the Association into such deposit account.

(c) The Borrower undertakes that the proceeds of the Credit referred to in paragraph (a) of this Section, shall not be used to finance expenditures excluded pursuant to the provisions of paragraph 3 of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure excluded pursuant to the provisions of paragraph 3 of said Schedule 1, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawal shall be made from the Credit Account after the aggregate of the proceeds of the Credit allocated to Category (1) shall

have reached the equivalent of SDR 50,900,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

- (i) with the progress achieved by the Borrower in the carrying out of the Program;
- (ii) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program; and
- (iii) that the actions described in Schedule 2 to this Agreement have been taken. If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit allocated to Category (2) or any part thereof.

Section 2.03. (a) The amount of the Credit allocated to Category (3) may be withdrawn from the Credit Account for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of consultants' services required for the activities referred to in Section 3.04 of this Agreement and to be financed out of such proceeds provided, however, that no withdrawals shall be made in respect of payments made under Category (3), for payments made prior to the date of this Agreement.

(b) The Borrower may, for the purposes of the studies to be carried out in accordance with Section 3.04 of this Agreement, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure of attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) The Association may require withdrawals from the Credit Account allocated to Category (3) to be made on the basis of statements of expenditure for expenditures under contracts for the procurement of consultants' services estimated to cost less than \$100,000 for consulting firms and less than \$50,000 for individual consultants, under such terms and conditions as the Association shall specify by notice to the Borrower.

Section 2.04. The Closing Date shall be March 31, 1998 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.05. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.06. 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 2.07. Commitment and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.08. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1, commencing October 1, 2006 and ending April 1, 2036. Each installment to and including the installment payable on April 1, 2016 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (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 2.09. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.10. The Reserve Bank of Malawi is designated as representative 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.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited, in accordance with appropriate audited principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than nine months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning said Deposit Account and the audit thereof as the Association shall have reasonably requested.

Section 3.03. (a) The Borrower shall also maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Credit allocated to Category (3).

(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 nine 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 and accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) 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 report 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, or customs certificates, as appropriate) 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 audits 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.

Section 3.04. (a) the Borrower shall take all measures necessary to carry out such studies as shall be required for the implementation of the Program, and are acceptable to the Association, including studies for:

- (i) the implementation of agricultural pricing and marketing policies;
 - (ii) tax and tariff reforms;
 - (iii) the introduction of a value added tax;
 - (iv) the establishment of a national revenue authority;
 - (v) a comprehensive review of land-related policies to be carried out by the Borrower's Presidential Commission of Inquiry on Land Policy; and
 - (vi) an evaluation of the impact of policy measures on the vulnerable segments of the Borrower's population.
- (b) (i) Consultants' services required for the studies to be carried out under paragraph (a) above shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments or lump sum contracts, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.
- (ii) Notwithstanding the provisions of paragraph (b) (i) above, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (A) contracts for the employment of consulting firms or individual consultants, estimated to cost less than \$100,000 equivalent each, or (B) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (A) the terms of reference for such contracts, (B) single-source selection of consulting firms or individual consultants, (C) assignments of a critical nature, as reasonably determined by the Association, (D) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (E) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O.Box 30049
Lilongwe 3, Malawi

Cable address:	Telex:
FINANCE LILONGWE	44407 MI

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

United States of America

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (RCA) 82987 (FTCC) 64145 (WUI) or 197688 (TRT)

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

REPUBLIC OF MALAWI

By /s/ Willie Chokani
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Katherine Marshall
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit;
Excluded Expenditures

1. The table below sets forth the Categories of items to be financed

out of the proceeds of the Credit and the allocation of the amounts of the Credit to each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)
(1) First Tranche	
(a)	48,000,000
(b)	2,900,000
(2) Second Tranche	21,000,000
(3) Consultants' Services	1,300,000
	<hr/>
TOTAL	73,200,000 =====

2. Except as the Association shall otherwise agree: (a) no withdrawal shall be made with respect to the amounts allocated to Category (1) (b) after a date twelve months from the date of this Agreement; and (b) at any time after such date, the Association may, by notice to the Borrower, cancel the unwithdrawn amount allocated to Category (1) (b), or any part thereof, from the Credit Account.

3. For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit allocated to Categories (1) and (2) shall not be used to finance the following expenditures:

(a) expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(b) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance, or which the Association shall have financed or agreed to finance;

(c) expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/ (1986) (the SITC) or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
222	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semiprecious stones, unworked or worked
718.1	--	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery

897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, nonmonetary (excluding gold ores and concentrates);

(d) expenditures for goods intended for a military or para-military purpose or for luxury consumption;

(e) expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Association); and

(f) in furtherance of the purposes of Section 5.01 of the General Conditions, expenditures: (i) in the territories of any country which is not a member of the Bank or for goods produced in such territories; or (ii) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 2

Actions Referred to in Section 2.02 (d) of this Agreement

1. The Borrower has prepared an action plan, acceptable to the Association, for a comprehensive reform of its civil service which has as its objective the streamlining of staff positions, revision of the civil service wage and salary structure and streamlining of governmental functions with a view of enhancing the efficiency and effectiveness of public service.

2. In the implementation of the action plan referred to in paragraph 1 above, the Borrower has:

(a) furnished to the Association satisfactory evidence that: (i) the civil service payroll corresponds with the Civil Service Census File, and (ii) it has discontinued paying salaries or wages to individuals not listed on such File;

(b) realigned the program and functions of the civil service to reduce overlap in workload and responsibilities between those ministries of the Borrower which perform related functions;

(c) (i) completed a detailed review of functions which are currently being carried out by the Borrower's ministries and agencies;

(ii) identified those functions which will be eliminated, contracted out to the private sector or privatized in whole or in part, including, but not limited to: (A) car and vehicle hire services, (B) security guard services, (C) printing services, (D) office cleaning services, (E) laundry services in major hospitals, (F) the operation of medical stores, (G) the management of the hotel training school, and (H) the management of rest houses and inns, and

(iii) eliminated, privatized or contracted out at least 4 out of such functions or services;

(d) adopted a staffing plan, acceptable to the Association, with an implementation period of three years from the date of adoption of such plan, which reflects the Borrower's poverty alleviation policy

in the education and health sectors by providing for:

- (i) the training of qualified teachers so as to attain a student to teacher ratio of 60 to 1 in primary schools; and
 - (ii) the staffing of all existing and new health clinics with at least one general nurse and one maternity nurse;
- (e) (i) completed its Civil Service Remuneration Study; and
- (ii) prepared and adopted an implementation plan, acceptable to the Association, to revise the civil service salary structure, which shall, inter alia, include the integration of housing allowances into monetary wages and salaries, over a period not exceeding 24 months from the date of adoption of the recommendations of such plan;
- (f) abolished Industrial Class Employees by:
- (i) removing from the payroll those workers engaged in the carrying out of those functions and services that will be eliminated, privatized, or contracted out to the private sector as enumerated in paragraph (c) (ii) above; and
 - (ii) absorbing the remaining workers into the Borrowers' civil service; and
- (g) (i) adopted a plan, acceptable to the Association, to improve the efficiency and effectiveness of Common Services Cadres, including, inter alia, provisions for adequate authority for line managers in deploying, retaining and evaluating the performance of common services staff; and
- (ii) implemented such action plan in respect of at least two of such cadres.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

- (a) the term "eligible Category" means Category (3);
- (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of consultants' services required during the carrying out of the studies to be carried out pursuant to Section 3.04 of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and
- (c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit 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 and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to, or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 3.03 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or

(B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

