

CONFORMED COPY

CREDIT NUMBER 2507 TA

Development Credit Agreement

(Parastatal and Public Sector Reform Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 26, 1993

CREDIT NUMBER 2507 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 26, 1993, between UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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;

WHEREAS the Borrower intends to obtain from the Overseas Development Administration (ODA) of the United Kingdom of Great Britain and Northern Ireland, grant assistance in an amount approximately equivalent to \$7,000,000 to assist in financing the Project;

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;

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 have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "MOF" means the Borrower's Ministry of Finance;
- (b) "PSRC" means the Borrower's Presidential Parastatal Sector Reform Commission established pursuant to the Public Corporations (Amendment) Act, 1992;
- (c) "LART" means the Loans and Advances Realization Trust established pursuant to the Loans and Advances Realization Trust Act, No. 6 of 1991;
- (d) "VAT" means value added tax;
- (e) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;
- (f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated December 17, 1990, and December 21, 1990, between the Borrower and the Association; and
- (g) "Project Accounts" means the accounts referred to in Section 3.03 of 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 this Development Credit Agreement, an amount in various currencies equivalent to twenty-five million two hundred thousand Special Drawing Rights (SDR 25,200,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars two special deposit accounts (Special Account A for Part A of the Project and Special Account B for Parts B, C and D of the Project) in its central bank 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 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1998, 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 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 2.05. 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) 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, 2003, and ending March 15, 2033. Each installment to and including the installment payable on March 15, 2013, 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 2.08. The currency of the United Kingdom of Great Britain and Northern Ireland is hereby specified for the purposes of Section 4.02 of the General Conditions.

## 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 the Project with due diligence and efficiency and in conformity with appropriate financial, administrative and public sector reform practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. The Borrower shall for the purposes of the Project: (a) open and maintain two Project accounts, one for Part A of the Project and the other for Parts B, C and D of the Project; and (b) deposit into said Project Accounts, on a quarterly basis, its contribution to the costs of the Project as specified in the annual work programs referred to in paragraph 4 of Schedule 4 to this Agreement.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts 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.

(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 or payment out of the Special Accounts 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.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Borrower shall have deposited its first quarterly contribution of \$190,000 equivalent into the Project Accounts referred to in Section 3.03 of this Agreement;
- (b) The Borrower has appointed the Project Administrator referred to in Paragraph 3 of Schedule 4 to this Agreement; and
- (c) the Borrower has selected an organization to undertake procurement of equipment under the Project.

Section 5.02. 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 VI

##### Representatives of the Borrower; Addresses

Section 6.01. The Minister for the time responsible for 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 9111  
Dar es Salaam,  
Tanzania

Cable address:	Telex:
TREASURY Dar es Salaam	41329

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:

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.

UNITED REPUBLIC OF TANZANIA

By /s/ Charles Nyirabu  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox  
Regional Vice President  
Africa

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) For Part A of the Project:		
(a) Equipment and vehicles	300,000	100%
(b) Consultants' services and training	12,850,000	100%
(2) For Part B of the Project:		
(a) Equipment and vehicles	70,000	100%
(b) Consultants' services and training	1,890,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) For Part C of		

the Project:

(a)	Equipment and vehicles	690,000	100%
(b)	Consultants' services and training	6,040,000	100%
(c)	Incremental operating costs	160,000	100% of foreign expenditures and 25% of local expenditures
(4)	For Parts D.1, 3 and 4 of the Project:		
(a)	Equipment and vehicles	50,000	100%
(b)	Consultants' services	630,000	100%
(5)	For Part D.2 of the Project:		
(a)	Equipment and vehicles	50,000	100%
(b)	Consultants' services	630,000	100%
	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(6)	Project Coordination	210,000	100%
(7)	Refunding of Project Preparation Advance	720,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8)	Unallocated	910,000	
	TOTAL	25,200,000 =====	

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; and

(c) the term "incremental operating costs" means the costs of telecommunications, printing, fuel, per diem associated with training, rental of training facilities, operation and maintenance of vehicles, office costs associated with counselling, office supplies, and materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) payments for expenditures under Categories (1)(a) and (b) until the Borrower has

appointed the core technical group for PSRC; (c) payments for expenditures under Categories (2) (a) and (b) until the Borrower has appointed a resident adviser to the Chief Administrator of LART; and (d) payments for expenditures under Categories (5) (a) and (b) until the Borrower has furnished to the Association, a time bound action plan and detailed resource needs, satisfactory to the Association, for the implementation of VAT.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to assist the Borrower in (i) carrying out its public sector reform program, (ii) the further design and implementation of a comprehensive civil service reform program, and (iii) strengthening selected features of macroeconomic management.

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: Privatization and Public Enterprise Reform

1. Strengthening the capabilities of PSRC to facilitate the coordination and implementation of the Borrower's privatization program.
2. Development of policies and procedures in such areas as legislation, divestiture plans and implementation, debt settlement, share or asset valuation, wide ownership instruments, performance contracts, labor redeployment and safety net schemes.
3. Preparation and implementation of action plans for restructuring and upgrading the performance of key retained Public Enterprises.
4. Provision of training, seminars and workshops and acquisition of vehicles, computers and office equipment for above activities.

#### Part B: LART

1. Strengthening the capabilities of LART to facilitate the coordination and implementation of the Borrower's liquidation program.
2. Performance of tasks in such areas as valuation, disposal of assets, financial controls and payment of obligations and short-term management of ongoing concerns.
3. Provision of training, seminars and study tours, and acquisition of vehicles and computers for above activities.

#### Part C: Civil Service Reform

1. Strengthening the Civil Service Department in the President's Office to refine and implement a civil service strategy and time bound action plan, including the tackling of issues of retrenchment, redeployment, ministerial rationalization, pay reform and personnel control and management.
2. Provision of training and workshops and carrying out of a general communications program for the general public.
3. Acquisition of vehicles, computers and office equipment for above activities.

#### Part D: Macroeconomic Management

1. Strengthening of the Planning Commission, Ministry of Finance and Bank of Tanzania in the areas of ministerial rationalization and



budgetary and financial systems, including strengthening of aid reporting and recording systems.

2. Reforming the tax system through the introduction of VAT and other taxation measures.
3. Development and implementation of macroeconomic policy.
4. Provision of training and acquisition of vehicles, computers and other office equipment for above activities.

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The Project is expected to be completed by June 30, 1998.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods

###### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other international recognized standard forms agreed with the Association.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Tanzania 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. Items or groups of items for goods estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$200,000, 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 groups of items for goods estimated to cost the equivalent of \$10,000 or less per contract, up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from

at least three suppliers eligible under the Guidelines, in accordance with procedures 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 each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract 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 Association pursuant to said paragraph 2 (d) shall be furnished to the Association 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 contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Part E: Pre-shipment Inspection

For the purposes of the pre-shipment inspection of goods imported under the Project, no price verification shall be conducted in respect of those goods to which Part A of this Section applies.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to 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. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, 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 contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review or approval requirements shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single-source hiring of firms, to assignments of a critical nature as reasonably determined by the Association, and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

## SCHEDULE 4

### Implementation Program

1. The Borrower's Steering Committee on Public Sector Management Reform, shall be responsible for the coordination and supervision of the Project. The Committee shall be chaired by the Principal Secretary, MOF and comprise the following: Principal Secretary, Planning Commission, Principal Secretary, Civil Service Department, Chairman of PSRC, Chief Administrator of LART and a representative of the Bank of Tanzania. The Committee shall meet at least once each quarter, to review progress, and make appropriate decisions on Project implementation.

2. Project Implementation shall be the responsibility of the following:

- (a) PSRC shall be responsible for Part A of the Project;
- (b) LART shall be responsible for Part B of the Project;
- (c) the Civil Service Department shall be responsible for Part C of the Project; and
- (d) MOF/Planning Commission shall be responsible for Part D of the Project.

Each of the above Ministries/Agencies shall designate a component manager, who shall be satisfactory to the Association, and shall report directly to the head of the Ministry or Agency concerned on the progress of activities under the Project.

3. A project office attached to the Steering Committee, shall provide administrative support to the Ministries and Agencies responsible for the implementation of the Project. The office shall be headed by a Project Administrator, with qualifications and experience satisfactory to the Association and assisted by a small number of support staff. The office's main responsibilities shall be to handle the administrative aspects of: (a) recruitment and employment of resident experts and short term consultants, as requested by the component managers; (b) procurement of goods, including computers, vehicles, office equipment, through liaison with the procurement agency; (c) management of the Special Accounts and project accounts, including preparation and presentation of withdrawal and replenishment applications for the Credit proceeds; (d) ensuring that the quarterly reports are prepared by the component managers, discussed by the Steering Committee, and then forwarded to the Association; (e) assistance to component managers for the preparation of yearly work plans; and (f) acting as the secretariat to the Steering Committee.

4. The Borrower shall prepare and furnish or cause to be prepared and furnished to the Association by March 1 in each year annual work programs for the various Parts of the Project. Such annual work program shall include, inter alia, evaluation of consultants' performance and a detailed training plan for the following year, taking into account experience in the previous year.

5. The Borrower shall by September 30, 1993, appoint and maintain until completion of the Project, the Chief Technical Advisor for Civil Service Reform. The Borrower shall also appoint and maintain until completion of the Project, the Chairman of the Retrenchment and Redeployment Task Force and the resident adviser to the LART Administrator.

6. (a) The Borrower shall jointly with the Association carry out by September 30, 1995, a mid-term review of the Project. Such review shall, inter alia, serve as a basis for the Borrower to assess:

- (i) the objectives and impact of the Project

components in the light of the general macroeconomic situation in Tanzania;

- (ii) the need to initiate needed corrective measures to improve the effectiveness of the Project components;
- (iii) whether the project's overall objectives are achievable given the available time and resources, and whether the relationship between objectives, outputs, activities and inputs are consistent;
- (iv) the medium and longer term sustainability of the project;
- (v) whether the present subcontracting arrangements are appropriate for effective execution of the Project;
- (vi) the project implementation and operation performance;
- (vii) compliance with key monitoring indicators;
- (viii) the quality and timeliness of the implementation of the Project in the light of the immediate objectives, inputs and activities; and
- (ix) the quality and timeliness of monitoring and back-stopping by all parties.

(b) In carrying out its review, the Borrower will have particular regard to the role of the Project in assisting the Borrower to address major priorities with which it will be concerned in the fields of economic and financial management. These include:

- (i) the formulation and management of economic and financial reform and restructuring measures including work on macroeconomic framework analysis;
- (ii) staff development and training programs; and
- (iii) the development of financial and economic information system, and the enhancement of the statistical data base.

(c) At least two months prior to such review, the Borrower shall prepare and furnish to the Association a report on the above.

(d) Promptly after the completion of the mid-term review referred to in paragraph (a) of this Section, the Borrower shall take all necessary actions to implement recommendations emanating from such review.

#### SCHEDULE 5

##### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (a) through (c) for Special Account A, and Categories (2) (a) through (c) and (3) (a) through (c) for Special Account B set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means amounts equivalent to \$1,000,000 for Special Account A and \$500,000 for Special Account B, to be withdrawn from the Credit Account and deposited into the Special Account concerned pursuant to paragraph 3 (a) of this Schedule.

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

3. After the Association has received evidence satisfactory to it that the Special Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 concerned such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposits into the Special Accounts 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 concerned 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 concerned 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 Accounts, 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 Accounts:

(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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account concerned 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 Accounts: (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 concerned (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 Accounts 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 Accounts 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 paragraph 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.

