

CONFORMED COPY

CREDIT NUMBER 2397 BD

(Forest Resources Management Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 10, 1992

CREDIT NUMBER 2397 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 10, 1992, between PEOPLE'S REPUBLIC OF BANGLADESH (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; 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;

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) "BFRI" means Bangladesh Forest Research Institute;
- (b) "FD" or "Forest Department" means the Forest Department in the Borrower's Ministry of Environment and Forest;
- (c) "FMP" means Forest Management Plan;
- (d) "ha" means hectares;
- (e) "IFCU" means the Institute of Forestry of Chittagong University;
- (f) "NGO" means non-governmental organization;
- (g) "Second Forestry Project" means the Project described in Schedule 2 to the Development Credit Agreement dated December 19, 1985 between the Borrower and the Association (Credit Number 1634 BD);
- (h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (i) "Taka" means the currency of the Borrower.

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 thirty-six million four hundred thousand Special Drawing Rights (SDR 36,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project 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 Taka a special deposit account in a bank acceptable to the Association, 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 Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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 (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or 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 June 1 and December 1 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 June 1 and December 1 commencing December 1, 2002 and ending June 1, 2032. Each installment to and including the installment payable on June 1, 2012 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 States is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, and shall cause IFCU and BFRI to carry out Parts D(3) and D(7) of the Project respectively, with due diligence and efficiency and in conformity with appropriate forestry management, agricultural, environmental, educational and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make available to IFCU and BFRI, on terms and conditions satisfactory to the Association, such part of the proceeds of the Credit as shall be necessary to carry out Parts D(3) and D(7) respectively of the Project.

(c) 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, and shall cause IFCU and BFRI to carry out Parts D(3) and D(7) respectively, of 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, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

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, as well as of IFCU and BFRI in respect of Parts D(3) and D(7) respectively of the Project.

(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, 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 for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

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

- (a) the Project Proforma for the carrying out of the Project have been approved by the Borrower;
- (b) the Borrower has complied with the provisions of paragraph 1(a) of Schedule 4 to this Agreement;
- (c) the Borrower has complied with the provisions of paragraph 10(a) of Schedule 4 to this Agreement;
- (d) the Borrower has complied with the provisions of paragraph 10(b) of Schedule 4 to this Agreement; and
- (e) the Borrower is in compliance with the provisions of paragraph 11 of Schedule 4 to this Agreement.

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 Secretary or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Relations Division of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Economic Relations Division
Ministry of Finance
Government of the People's
Republic of Bangladesh
Dhaka, Bangladesh

Cable address:

BAHIRSAMPAD
Dhaka

Telex:

642226 SETU BJ

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:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Abul Ahsan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood

Regional Vice President
South Asia

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) Civil works	5,500,000	85%
(2) Plantation works	14,000,000	100%
(3) Goods	5,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local ex- penditures for other items pro- cured locally
(4) Consultants' and NGO services, fellowships and training	3,890,000	100%
(5) Other services	950,000	100%
(6) Incremental operating costs	3,160,000	60% of local expenditures incurred until June 30, 1996 and 40% of local expenditures incurred there- after
(7) Unallocated	3,700,000	
TOTAL	36,400,000	

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 "incremental operating costs" means the costs for salaries and allowances of incremental staff of FD, BFRI and IFCU and for operation and maintenance of incremental office facilities and vehicles, incurred by FD, BFRI and IFCU for purposes of implementing the Project;

(d) the term "plantation works" means the cost of labor for the following under Part B of the Project: land preparation, development of nurseries and related works; and

(e) the term "other services" means services for aerial photography, publication and printing of maps.

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.

SCHEDULE 2

Description of the Project

The main objectives of the Project are to (a) establish and maintain a forest management system that is responsive to the economic, environmental and social goals of the Borrower; (b) improve the productivity of government-owned forests to meet, to

the extent possible, the Borrower's wood and energy needs; and (c) protect the Borrower's environment.

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: Forest Resources Management

(1) Forest Management Plans: Strengthening of the management of forest resources by FD by (a) establishing an FMP for each forest including revision and updating of existing FMPs as required; (b) provision of additional planning capacity for FD for preparation, revision and updating of FMPs; (c) preparation of new forest resource inventories by FD for selected areas, including aerial photography, photointerpretation and cartographic mapping; and (d) improvement of data collection and processing systems of FD.

(2) Resource Information Management System: Upgrading and expansion of the Resource Information Management System (RIMS) established under the Second Forestry Project to a Geographical Information System (GIS) so as to include in RIMS relevant socio-economic, environmental and administrative information and expand the capability of the system to respond to a larger spectrum of management goals and a wider data base.

(3) Silvicultural Treatment: Undertaking silvicultural operations for selected forest plantations including survey and demarcation work, consisting inter alia of about 38,000 ha of existing mangrove plantations as well as about 29,000 ha of existing industrial plantations.

(4) Participatory Forest Development: Ensuring the informed participation of local communities in forest development and protection by carrying out a pilot scheme for participatory forest development in selected areas as well as the development of model agreements and benefit sharing arrangements to be entered into with participatory groups.

Part B: Forest Resources Expansion

(1) Mangrove Afforestation: Establishment and maintenance of about 24,000 ha of mangrove plantations on newly accredit land in coastal areas as well as about 9,000 ha of existing plantations severely damaged by the April, 1991 cyclone that hit the Borrower's coastal areas, including nursery development and plantation maintenance for the first four years after planting, as well as assistance to FD for carrying out the afforestation program.

(2) Industrial Plantations: Establishment and maintenance during the initial years after planting, of about 27,000 ha of industrial plantations in selected areas including seedling production and nursery development, fire protection measures and assistance to FD to facilitate increased popular participation in the management, use and protection of forest resources.

(3) Maintenance of Existing Plantations: Maintenance of selected plantations developed under the Second Forestry Project for the initial years after their development.

Part C: Nature Conservation

Establishment in FD of effective environmental management capacity and the carrying out of a nature conservation program consisting of:

(1) Expansion, and strengthening of the management, of the Sundarbans West, Sundarbans South and Sundarbans East wildlife sanctuaries;

(2) preparation by FD of new management plans for each of the three sanctuaries referred to in Part C(1) above, as well as for other national parks; and

(3) selective strengthening of other selected national parks.

Part D: Institution Strengthening

(1) Forest Department: Reorganization and strengthening of FD, including FD field offices, to enable it to carry out its functions more effectively.

(2) Environmental Management: Establishment of an Environmental Management Wing in FD, consisting at least of an information and planning branch, a conservation operations branch and an environmental management branch, as well as the establishment of appropriate environmental standards for forestry operations taking into account any effect on indigenous peoples.

(3) Professional Foresters' Education: Strengthening and expansion of education of professional foresters carried out by IFCU including upgrading of curricula.

(4) In-service Training: Expansion and strengthening of in-service training for FD staff at the Forest College in Chittagong.

(5) Foresters' Training: Strengthening of foresters' training provided by FD by establishment of a new forest school in Chittagong.

(6) Forest Guard Training: Upgrading and strengthening of the training of forest guards including improvement of the curriculum for such training.

(7) Mangrove Research: Strengthening of research by BFRI on silviculture and management of mangrove plantations.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods, Works and Services

Part A: International Competitive Bidding

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

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Subject to paragraphs 2, 3 and 4 below, civil works shall, and goods estimated to cost less than the equivalent of \$150,000 per contract may, be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Civil works up to an aggregate amount of \$1,000,000, as well as plantation works may be carried out through force account in accordance with procedures satisfactory to the Association.

3. Goods estimated to cost less than the equivalent of \$20,000 per contract, as well as contracts for services including publication services and preparation of maps, up to an aggregate amount not to exceed \$1,000,000 equivalent may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Association.

4. Books, computer software and seeds, up to an aggregate amount of \$100,000 may be procured under contracts negotiated directly with suppliers, in accordance with procedures satisfactory 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 awarded under Part A of this Schedule as

well as each contract estimated to cost the equivalent of \$200,000 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.

Section II. Employment of Consultants

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.

SCHEDULE 4

Implementation Program

Project Steering Committee; Monitoring Cell

1. (a) The Borrower shall establish in its Ministry of Environment and Forests, a Project Steering Committee, with membership and terms of reference satisfactory to the Association.

(b) The Borrower shall ensure that by October 31, 1992, all staff of the Planning and Monitoring Cell of the Borrower's Ministry of Environment and Forests have been appointed and have assumed office.

Organizational Structure

2. (a) The Borrower shall, by October 31, 1992, adopt a revised organizational structure, satisfactory to the Association, for FD's headquarters.

(b) The Borrower shall select by December 31, 1992, staff required to fill key positions under FD's revised organizational structure.

3. The Borrower shall, by October 31, 1992, (a) establish a two-tier recruitment structure for forestry staff consisting of one tier of adequately qualified professional foresters to be recruited at least at the level of Assistant Conservator of Forests; and a second tier of forest technicians with ten years of basic education, followed by at least three years' technical training at FD's forest schools, to be recruited at least at the level of forester; (b) ensure that the examination for selection of professional foresters shall include a mandatory, substantial content of forestry subjects equivalent in standard to the syllabus for forestry degree courses at the University level; and (c) ensure that, with effect at least from that date, Range Officers shall be recruited as professional foresters, at the level at least of Assistant Conservator of Forests, as described above.

4. The Borrower shall cause BFRI to ensure that all staff positions of BFRI's mangrove silviculture division in Khulna are filled by December 31, 1992.

Training

5. The Borrower shall, by December 31, 1992, establish and thereafter maintain at FD's forest college and forest schools a core teaching staff consisting of appropriately trained teachers with an appropriate minimum tenure.

FMPs; Forestry Sector Master Plan

6. FD's forest operations shall be regulated by and carried out strictly in accordance with FMPs which shall give appropriate consideration to environmental aspects, socio-economic impact as well as impact on tribal or indigenous people, if any, residing in the concerned forest.

7. FD shall prepare, implement and revise FMPs in accordance with a management manual satisfactory to the Association.

8. The Borrower shall not adopt any part of its proposed master plan for the forestry sector which may, in the reasonable opinion of the Association, materially and adversely affect the implementation of the Project.

NGOs

9. The Borrower shall engage the services of NGOs by October 31, 1992, to assist in implementation of Part A(4) of the Project, in accordance with criteria and procedures satisfactory to the Association.

Land Use

10. (a) The Borrower shall issue a government order allocating to FD all land required for establishing mangrove plantations for a period until plantation maturity, or through the establishment of a reserved forest area and require that such land shall be returned by FD to the Borrower's Ministry of Land for reallocation after harvest of the concerned plantation or after the land is no longer considered suitable for mangroves.

(b) The Borrower shall establish a land use allocation committee with membership and terms of reference satisfactory to the Association, to assist the Borrower's Ministry of Land in preparing and implementing its program of surveying newly accreted land and in addressing problems of land use allocation pursuant to sub-paragraph (a) above.

Pricing

11. The Borrower shall, with immediate effect, set prices charged by FD to public sector institutions for wood, other forest products and concessions at market prices, provided that such prices for sales by FD to mills owned by the Bangladesh Chemical Industries Corporation shall be set at the following levels in accordance with the following schedule: by July 1, 1992 at 40% of market price for such products and concessions; by July 1, 1993 at 80% of market price for such products and concessions; and by July 1, 1994, at 100% of market price for such products and concessions.

Logging

12. The Borrower shall, prior to any logging being carried out in natural forests pursuant to any FMP, (a) undertake an environmental assessment of the environmental impact of such logging based on terms of reference satisfactory to the Association; and (b) where such assessment identifies any potential adverse impact, implement appropriate mitigation measures agreed with the Association.

Preparation of FD's Annual Program

13. The Borrower shall ensure that FD's procedures for preparation and approval of its annual program and budget, as well as for the release of funds for the Project are adequate to ensure timely implementation of the Project.

Implementation Reviews

14. Without prejudice to the generality of any other provision of this Agreement, the Borrower shall (a) carry out detailed implementation reviews of the Project, with scope and content satisfactory to the Association, by June 30, 1995 and June 30, 1997 respectively, and (b) discuss with the Association its findings arising therefrom; and (c) take prompt action to revise the Project Proforma for the Project as necessary.

Technical Assistance

15. The Borrower shall establish by December 31, 1992 and thereafter maintain a technical assistance team to assist the Borrower in carrying out the Project, with membership and terms of reference satisfactory to the Association, and shall provide on a timely basis to the team adequate facilities and resources.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 6 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 an amount equivalent to \$2,200,000 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 in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories of the Project, 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 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.
