

CONFORMED COPY

CREDIT NUMBER 2379 MAI

(Local Government Development Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 2, 1992

CREDIT NUMBER 2379 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 2, 1992, between REPUBLIC OF MALAWI (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "MLG" means the Borrower's Ministry of Local Government;
- (b) "DFLA" means the Development Fund for Local Authorities;
- (c) "Subsidiary Agreements" means the agreements to be entered into between the Borrower and the Local Authorities pursuant to Section 3.01 (c) of this Agreement;
- (d) "LGSC" means the Local Government Service Commission;
- (e) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated May 16, 1990, June 12, 1990, August 1, 1991 and September 23, 1991 between the Borrower and the Association;
- (f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (g) "Local Authorities" means the City Councils of Lilongwe, Blantyre and Mzuzu, the Municipality of Zomba, the Town Councils of Salima and Luchenza and the District Councils of M'Mbelwa, Ntcheu and Nsanje; and
- (h) "Central Bank Rate" means the lending rate to commercial banks determined by the Reserve Bank of Malawi from time to time.

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 seventeen million six hundred thousand Special Drawing Rights (SDR 17,600,000).

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 United States Dollars a special deposit account in a commercial 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 Account 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, 1999 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 April 1 and October 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 April 1 and October 1 commencing October 1, 2002 and ending April 1, 2032. Each installment to and including the installment payable on April 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 of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MLG and the Local Authorities with due diligence and efficiency and in conformity with appropriate financial administrative and local government 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.

(c) The Borrower shall on-lend to the Local Authorities an amount not exceeding the equivalent of \$18,500,000 out of the proceeds of the Credit to finance the infrastructure and services to be carried out under Part C of the Project under terms and conditions which shall have been approved by the Association and which shall include: (a) repayments of principal (i) not exceeding 25 years, including five years of grace, for infrastructure investments, and (ii) not exceeding five years for other loans; (b) interest rates that are linked to the Central Bank rate as follows: Central Bank rate less 1% for infrastructure loans, and Central Bank rate plus 1% for other loans; (c) repayments of principal and payments of interest to DFLA to be used by DFLA for financing local authorities' infrastructure and other investment needs; and (d) the foreign exchange risk to be borne by the Borrower.

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 DFLA, the Local Authorities and 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 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 report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special 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

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that:

(a) Subject to paragraph (b) of this Section the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that:
(i) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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) DFLA has been established, and staffed with at least one accountant and has furnished the Association with evidence that it has opened a treasury payment account with the Reserve Bank of Malawi;

(b) MLG has caused the study on grants and payments in lieu of rates referred to in paragraph 4 of Schedule 4 to this Agreement to be commenced;

(c) detailed design and engineering, and bidding documents for the infrastructure works to be carried out in Lilongwe, Blantyre and Zomba under Part C of the Project have been completed;

(d) Project accounts, satisfactory to the Association, have been established in MLG and the Local Authorities; and

(e) all steps required for the transfer of unencumbered land to the councils for sites and services and upgrading components under Part C of the Project have been completed.

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

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. 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 7.02. 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
Capital City
Lilongwe 3, Malawi

Cable address:

FINANCE
Malawi

Telex:

44407 MI

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.

REPUBLIC OF MALAWI

By /s/ Robert B. Mbaya
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ F. J. Aguirre-Sacasa

Acting 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) Civil Works:		100% of foreign expenditures and 85% of local expenditures
(a) for sites and services and upgrading under Part C of the Project	3,780,000	
(b) Other	2,750,000	
(2) Waste Management	3,230,000	100% of foreign expenditures and 85% of local expenditures
(3) Vehicles and Equipment	2,300,000	100% of foreign expenditures
(4) Studies and Consultants' Services	1,290,000	100%
(5) Training	1,030,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(6) Incremental Operating Expenditures	330,000	Calendar Year 1992 100% SDR 25,000 Calendar Year 1993 70% SDR 45,000 Calendar Year 1994 60% SDR 75,000 Calendar Year 1995 45% SDR 75,000 Calendar Year 1996 35% SDR 45,000 Calendar Year 1997 and thereafter 25% SDR 65,000
(7) Refunding of Project Preparation Advance	860,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	2,030,000	
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TOTAL	17,600,000 =====	

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 expenditures" means expenditures incurred for salaries, travel and subsistence allowances, fuel, lubricants, maintenance of vehicles and office supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for (a) expenditures prior to the date of this Agreement except that withdrawals in an amount not exceeding the equivalent of SDR 25,000 may be made in respect of Category 6 on account of payments made for expenditures incurred before that date but after January 1, 1992; and (b) expenditures in respect of Category 1 (a) unless the Association has received evidence that policies on cost recovery, compensation and plot allocation have been adopted pursuant to paragraphs 7 (a) and (b) and paragraph 9 of Schedule 4 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to enhance the financial and administrative capacity of the local government system to: (a) provide and maintain municipal services and infrastructure at a level consistent with the affordability, size and growth rate of the population; and (b) finance such activities mainly with locally generated funds, and improve the financial management of such funds.

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: Policy Reforms

Implementation of legal and institutional reforms through a series of policy studies, workshops and implementation of associated work plans including: (a) a comprehensive review of all basic and subsidiary legislation regulating the urban sector; (b) delineation of the functions, duties and responsibilities of district administration and local authorities; (c) improvement of the fiscal performance of MLG and local authorities; and (d) improvement of human resources management including a study to define the role of the LGSC and the personnel system of local authorities.

Part B: Institutional Strengthening

1. Strengthening of the operational capacity of MLG and selected local authorities including provision of vehicles and equipment, and modifications of MLG's staffing and organization.

2. Training of staff of MLG and local authorities.

3. Strengthening MLG's technical capability.

Part C: Infrastructure and Services

Strengthening selected local authorities' capability to improve and expand infrastructure and services and to operate and maintain existing investments and equipment, including:

1. in Lilongwe: (a) provision of surveyed sites and supporting

infrastructure for one new traditional housing area; (b) upgrading and rehabilitation of one squatter settlement and one traditional housing area; (c) civil works, vehicles and equipment to increase efficiency of solid and liquid waste management; (d) upgrading of work depot, one access road and parking facilities for a market area; and (e) provision of a geographical information system for the city council;

2. in Blantyre: (a) civil works and the provision of equipment and vehicles for enhanced operations and maintenance and for improved solid waste management; (b) provision of surveyed sites and supporting infrastructure for one new traditional housing area; (c) upgrading of one traditional housing area and two markets; and (d) provision of one geographical information system with supporting computer equipment;

3. in Zomba, upgrading of two markets and the bus depot and provision of vehicles and equipment; and

4. upgrading work and provision of maintenance vehicles and equipment to the urban councils of Mzuzu, Salima and Luchenza and the district councils of M'Mbelwa, Ntcheu and Nsanje.

* * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works 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).

2. To the extent practicable, contracts for vehicles and equipment shall be grouped in packages estimated to cost the equivalent of \$500,000 or more.

3. Goods to be procured through international competitive bidding shall be exempted from pre-shipment price inspection by a third party.

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 Malawi 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Civil works contracts in Lilongwe, Blantyre and Zomba, up to an aggregate amount equivalent to \$500,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, including public opening of bids, specific criteria for bid

evaluation, including the evaluation of post qualification criteria and award of contracts to the lowest evaluated bidder.

Part E: 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 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.

Section II. Employment of Consultants

In order to assist the Borrower and the Local Authorities to carry 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 Coordination

1. (a) MLG shall be responsible for monitoring the implementation of the Project and coordination with the various councils and agencies involved in the carrying out of the Project through a Project Coordinator assisted by MLG's management assistance team comprising the Deputy Secretary of MLG as Chairman, the Project Coordinator as secretary, the four resident advisors and key MLG staff as members. The Project Coordinator shall ensure that the agencies responsible for implementing the various components of the Project shall prepare quarterly and annual progress reports, and shall prepare and furnish the Association with consolidated annual reports.

(b) The Borrower and the Association shall jointly review progress made in the implementation of the Project by not later than August 31, 1995, and to this end, shall commence preparatory work for such review by August 31, 1994. The Borrower shall take such corrective measures, satisfactory to the Association, as may be necessary as a result of such review.

Part A of the Project

2. MLG's management assistance team shall monitor the timely implementation of Part A of the Project with the assistance of four advisors specializing in municipal management, maintenance/engineering, human resources and financial management. The Project Coordinator, with the assistance of MLG's management assistance team, shall prepare and furnish the Association with annual progress reports in accordance with paragraph 1 above.

3. MLG shall: (a) carry out the policy studies and workshops required to implement the legal and institutional reforms under Part A of the Project in accordance with an action plan satisfactory to the Association; and (b) after a joint review with the Association of recommendations made under such studies, implement the agreed actions, in accordance with a plan satisfactory to the Association.

4. MLG shall cause studies to be carried out to assist the Borrower in determining appropriate mechanisms to support local authorities after the current practice of grants in lieu of rates to local authorities is discontinued.

Part B of the Project

5. The training program for staff shall be conducted at the Staff Training College at Mpemba, the University of Malawi and the Malawi Institute of Management, in accordance with a plan satisfactory to the Association.

Part C of the Project

6. In order to strengthen MLG's capability to provide local authorities with prompt and effective assistance the Borrower shall: (a) take the necessary measures to reorganize MLG in accordance with a plan satisfactory to the Association; and (b) ensure that appropriate budgetary allocations are made in each year of Project implementation, to enable MLG to cover the increased operational expenditures to be incurred as a result of the reorganization referred to in (a) above.

7. MLG shall ensure that Lilongwe City Council and Blantyre City Council will furnish the Association with satisfactory assurances that, while implementing the sites and services and upgrading works to be carried out in their respective jurisdictions, they will: (a) apply appropriate cost recovery measures; and (b) implement appropriate plans, satisfactory to the Association, to compensate any claims from parties that may be adversely affected by the implementation of such works.

8. MLG shall furnish the Association with a satisfactory action plan, to ensure that sites and services to be developed and upgrading works to be carried out under Part C of the Project will take place on unencumbered land.

9. MLG shall furnish the Association with a satisfactory plot allocation policy for the traditional housing areas in the cities of Lilongwe and Blantyre.

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 \$750,000 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; 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 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.

