

CONFORMED COPY

CREDIT NUMBER 3082 CD

Development Credit Agreement

(Household Energy Project)

between

REPUBLIC OF CHAD

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 13, 1998

CREDIT NUMBER 3082 CD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 13, 1998, between the REPUBLIC OF CHAD (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association):

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing thereof;

(B) the Project will be carried out by Agence pour l'Energie Domestique et l'Environnement (AEDE) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to AEDE the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and AEDE;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2,

1997) (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) "AEDE" means the Agence pour l'Energie Domestique et l'Environnement, a non-profit association established and operating under the Borrower's laws and regulations pursuant to its statutes dated February 25, 1998 (the Statutes) as amended pursuant to Section 6.01 (a) of this Agreement, the Borrower's authorization to operate No. 324 dated April 23, 1996 (the Authorization), and the Borrower's Decree No. 470/PR/PM/97 dated October 24, 1997 (the Decree);

(b) "CDS" means the Comité de Suivi, established pursuant to the Borrower's Decree No. 538/PR/MMEPH/96 dated October 10, 1996, which will be responsible for general supervision of the carrying out of the Project;

(c) "Convention" means the agreement to be entered into between the Borrower and AEDE pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes the Implementation Manual (as hereinafter defined) and all other annexes, schedules and attachments to the Convention;

(d) "FCFA" means the currency of the Borrower;

(e) "Implementation Manual" means the manual adopted by AEDE on February 16, 1998, in form and substance acceptable to the Association, and setting out, inter alia, criteria, procedures and guidelines for implementing the Project, and such term includes any schedules to the Implementation Manual;

(f) "MEE" means the Ministère de l'Environnement et de l'Eau, the Borrower's Ministry responsible for environment and water supply;

(g) "MMEP" means the Ministère des Mines, de l'Energie et du Pétrole, the Borrower's Ministry responsible for mining, energy and petroleum;

(h) "Project Agreement" means the agreement between the Association and AEDE of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(i) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated May 30, 1994, and June 16, 1994, between the Borrower and the Association;

(j) "Project Year" means the twelve-month period beginning from the Effective Date and ending twelve months thereafter (the First Project Year), and any twelve-month period beginning at the end of the First Project Year, or the end of subsequent Project Years; and

(k) "Special Account" means the account referred to in Section 2.02 (b) 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 the Development Credit Agreement, an amount in various currencies equivalent to four million Special Drawing Rights (SDR 4,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project, described in Schedule 2 to this Agreement, and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in FCFA 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 4 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 canceled.

Section 2.03. The Closing Date shall be June 30, 2003, 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 April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2008, and ending April 15, 2038. Each installment to and including the installment payable on April 15, 2018, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of

the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the French Republic is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. AEDE is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement or Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause AEDE to perform in accordance with the provisions of the Project Agreement all the obligations of AEDE therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable AEDE to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to AEDE on a non-reimbursable basis under an agreement (hereinafter referred as the Convention) to be entered into between the Borrower and AEDE, under terms and conditions which shall have been approved by the Association; including, but without being limited to, the provisions set forth in Part A of Schedule 3 to this Agreement.

(c) The Borrower shall exercise its rights under the Convention in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Convention or any provision thereof.

(d) 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 assist AEDE in the carrying out of the Project in accordance with the Implementation Program set forth in Schedule 3 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 1 to the Project Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall take steps, or cause AEDE to take steps, to:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by AEDE pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

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

(i) maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section 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 six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) AEDE shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that AEDE will be able to perform its obligations under the Project Agreement;

(c) the Statutes, the Authorization or the Decree, governing the operations of AEDE, shall have been amended, suspended, or waived so as to affect materially and adversely the ability of AEDE to perform any of its obligations under the Project Agreement; and

(d) Decree No. 107/MTE/DG/97 dated March 14, 1997, implementing Law No. 36/PR/94 dated December 3, 1994, regarding the organization of wood trade and transport in major urban areas, and the tax regime relating thereto, or any provision thereof shall have been amended or waived so as to materially and adversely affect the implementation of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 30 days after notice thereof shall have been given by the Association to the Borrower; and

(b) any events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

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) the Statutes have been modified to realign the responsibilities of the organs of AEDE in a manner satisfactory to the Association;

(b) the Convention has been executed on behalf of the Borrower and AEDE;

(c) AEDE has appointed its Administration and Financial Director and the two individuals in charge of the operation of, respectively, the rural markets and the wood user fee scheme referred to in paragraph 4 of Schedule 2 to the Project Agreement, all in accordance with the provisions of Section II of Schedule 1 to the Project Agreement;

(d) AEDE has established an internal accounting and financial system acceptable to the Association for the implementation of the Project; and

(e) AEDE has appointed the independent auditors referred to in Section 4.01 (b) of this Agreement, in accordance with the provisions of Section II of Schedule 1 to the Project Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by AEDE and is legally binding upon AEDE in accordance with its terms; and

(b) that the Convention has been duly authorized or ratified by the Borrower and AEDE and is legally binding upon the Borrower and AEDE in accordance with its terms.

Section 6.03. 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.

Section 6.04. The obligations of the Borrower under Section 4.01 shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower at the time responsible for planning 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:

Ministère du Plan et de
l'Aménagement du Territoire
Boîte Postale 1159
N'Djamena
Republic of Chad

Telex:

5329 KD

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 (MCI) or
64145 (MCI)

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 CHAD

By /s/ Fadlassid Ali Naffa

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Praful Patel

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 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) Equipment, vehicles, furniture and materials	1,120,000	100% of foreign expenditures and 90% of local expenditures
(2) Civil works under Part D of the Project	80,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services and audits	2,000,000	100%
(4) Operating costs	600,000	90% during the First Project Year, 80% during the second Project Year, 70% during the third Project Year and 60% thereafter
(5) Refunding of Project Preparation Advance	160,000	Amount due under Section 2.02 (c) of this Agreement
(6) Unallocated	40,000	
TOTAL	<u>4,000,000</u> =====	

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; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "Operating costs" means any incremental costs attributed to the Project, including those for bank charges on the Special Account, office supplies, office space, utilities, communications and costs of operating vehicles (insurance, maintenance, fuel and lubricants).

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and works under contracts costing less than \$100,000 equivalent each, consultants' services (firms) under contracts costing less than \$100,000 equivalent each, consultants' services (individuals) under contracts costing less than \$50,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

Description of the Project

The objectives of the Project are to: (i) promote the establishment of the sustainable production of woodfuel in selected villages; (ii) strengthen the capacity of the Borrower to extend such production elsewhere; (iii) carry out institutional reforms in the household energy sector; and (iv) improve efficiency in the use of household energy.

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: Village-based Natural Resource Management System

Establishment of natural-resource management systems in about 100 villages in the N'Djaména woodfuel catchment area, including, inter alia, the strengthening of the capacity to design long-term village land-use and wood exploitation plans by non-governmental organizations, forestry agents and villagers, the establishment of a woodfuel master plan for the N'Djaména region on the basis of the foregoing and of woodfuel and charcoal markets in the N'Djaména region and development of new charcoaling techniques.

Part B: Control and Regulation of Commerce in Wood

Establishment of systems and mechanisms to monitor woodfuel flows and to better control the cutting, transport, sale and use of woodfuel, including regulations, fiscal measures, education and other incentives applicable to producers, processors, transporters and sellers, as well as to commercial users, of woodfuel, and the carrying out of fiscal measures to ensure the funding of such activities.

Part C: Household Fuel Use

Identification and testing of energy-efficient cooking stoves using various fuels and promotion of the production or importation, sale through commercial channels and use by consumers, of the most economically efficient models.

Part D: Institutional Support and Information

1. Strengthening coordination and implementation capacities of AEDE and the Borrower's ministries and directorates involved in the implementation of the Project, through the provision of training and advisory services and the acquisition of equipment. Construction and rehabilitation of AEDE offices.
2. Implementation of population sensitization and training programs.
3. Preparation and support for a follow-up household energy project in the South and East of the Borrower's territory.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Implementation Program

Part A: Main Provisions of the Convention

The Convention shall include, but without being limited to, provisions to the following effect:

(a) the obligation of AEDE to take all measures necessary to ensure that the Project is carried out with due diligence and efficiency and in accordance with appropriate administrative, financial, forestry and environmental practices;

(b) the obligation of AEDE to keep the positions of Director General and Administration and Financial Director filled with employees with experience and

qualifications satisfactory to the Association;

(c) the obligation of AEDE to promptly inform the Borrower and the Association of any condition which interferes, or threatens to interfere, with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by AEDE of its obligations under the Convention; and

(d) the obligation of AEDE to furnish to the Borrower, CDS and the Association after the end of each calendar quarter and in any case not later than January 31, April 30, July 31 and October 31, a report, of such scope and in such detail as the Borrower or the Association shall reasonably request, regarding the progress in the carrying out of the Project during the preceding calendar quarter.

Part B: Overall Project Implementation

1. The Borrower shall ensure that: (i) CDS shall at all times during the execution of the Project, carry out its mandate in compliance with Decree No. 538/PR/MMEPH/96 dated October 10, 1996; (ii) the concerned Ministries and agencies (in particular, MEE and MMEP) shall collaborate with AEDE in compliance with the provisions of the Implementation Manual, in particular, with respect to the appointment of individuals whose experience, positions and performance are satisfactory to the Association, and who shall assist AEDE in ensuring proper implementation of the Project; and (iii) CDS shall, at the end of each calendar semester and in any case not later than January 31 and July 31, furnish to the Borrower and the Association a report, of such scope and in such detail as the Borrower or the Association shall reasonably request, regarding progress in the carrying out of the Project during the preceding calendar semester.

2. The Borrower shall:

(a) not later than the end of the First Project Year, and not later than the end of each Project Year thereafter, undertake, in conjunction with the Association and AEDE, a joint annual review on all matters relating to the progress of the Project and, in particular the progress achieved by the Borrower and AEDE during the current fiscal year, having regard to the monitoring indicators referred to in paragraph 2 of Schedule 2 to the Project Agreement;

(b) not later than one month prior to each annual review, furnish to the Association, for its comments, a report prepared by CDS in such detail as the Association shall reasonably request, on the progress of the Project;

(c) following each annual review, act promptly and diligently in order to take, or assist AEDE in taking, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement, or assist AEDE in implementing, such measures as may have been agreed upon between the parties in furtherance of the objectives of the Project; and

(d) promptly after the Effective Date, take all measures necessary on its part to organize, in conjunction with the Association and AEDE, a workshop for the launching of the Project implementation which shall cover, inter alia, disbursement and procurement procedures and detailed timetables for the implementation of the Project.

3. Midterm Review

(a) On or about twenty-four months after the Effective Date, the Borrower shall carry out jointly with the Association and AEDE a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review).

The Midterm Review shall cover, amongst other things:

(i) progress made in meeting the Project's objectives; and
(ii) overall Project performance against Project performance indicators.

(b) The Borrower shall, at least four weeks prior to the Midterm Review, furnish to the Association a separate report prepared by CDS describing the status of

implementation of each component of the Project and a summary report of Project implementation generally.

(c) The Borrower shall, not later than four weeks after the Midterm Review, prepare an action program, acceptable to the Association, for the further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement such action program.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) to (4) 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 \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,000,000.

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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to, or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the 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 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.

