

CONFORMED COPY

CREDIT NUMBER 2251 MAG

Development Credit Agreement
(Health Sector Improvement Project)

between

DEMOCRATIC REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 12, 1991

CREDIT NUMBER 2251 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 12, 1991, between DEMOCRATIC REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower has stated in a letter, dated April 29, 1991, its program of policies and objectives designed to improve the efficiency of the health sector (the Health Sector Policy) and prepared a five year program of actions in support of the health sector (Health Sector Program) of an estimated cost equivalent to about \$100 million;

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

WHEREAS the 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) "MOH" means the Borrower's Ministry of Health;
- (b) "PSC" means the Project Steering Committee to be maintained pursuant to paragraph 3 of Schedule 4 to this Agreement;
- (c) "PMU" means the Borrower's Projects Monitoring Unit, to be maintained pursuant to paragraph 2 of Schedule 4 to this Agreement;
- (d) "DLMT" means the Directorate of Communicable Disease Control within MOH;
- (e) "DMP" means the Directorate for Preventive Medicine within MOH;
- (f) "DEPP" means the Directorate of Studies, Planning and Programming within MOH;
- (g) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to exchanges of letters dated December 15, 1989, December 28, 1989, May 2, 1991 and May 7, 1991 between the Borrower and the Association;
- (h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (i) "MCH" means maternal and child health;
- (j) "FP" means family planning; and
- (k) "PHC" means Primary Health Care.

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 twenty two million nine hundred thousand Special Drawing Rights (SDR 22,900,000).

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 as identified in annual work programs referred to in paragraph 6 of Schedule 4 to this Agreement required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special 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 June 30, 1997 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 February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing August 15, 2001 and ending February 15, 2031. Each installment to and including the installment payable on February 15, 2011 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 with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation upon the provisions of paragraph (a) of this Section, the Borrower shall, for the purpose of making available its contribution, open and maintain a separate account, make an initial contribution of the equivalent of \$100,000 into such account and replenish such account up to the amount of the initial contribution on a monthly basis.

(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 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.

(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 six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit

thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special 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 Borrower has established PSC within MOH;
- (b) the Borrower has appointed (i) an administrative officer within PMU, with the specific task of Project administration, whose qualifications and experience are satisfactory to the Association; (ii) a physician, two midwives and one public information specialist within the family planning unit of DMP; and (iii) a training coordinator for each province;
- (c) the Borrower has submitted an annual work program for 1992, acceptable to the Association; and
- (d) the Borrower has made an initial deposit of the equivalent of \$100,000 into the account referred to in Section 3.01 (b) of 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 Minister of the Borrower responsible for finance 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:

(3) Consultants' services, studies and training	2,700,000	100%
4) Drugs, medical supplies, and insecticides under Parts A, B and C.1 of the Project	4,000,000	100%
(5) Drugs under Part C.3 of the Project	1,600,000	100%
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(6) Incremental operating costs	2,800,000	85% of local expenditures
(7) Refunding of Project Preparation Advance	1,110,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	3,490,000	

TOTAL	22,900,000	
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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 cost" means expenditures relating to the maintenance and operation of vehicles and equipment, training and travel allowances.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) payment made, or to be made, for expenditures under Category (5) of the table set forth in paragraph 1 of this Schedule, unless the Borrower has introduced a cost recovery mechanism for the distribution of essential drugs prescribed by health agents authorized by MOH, satisfactory to the Association.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower in the execution of the Health Sector Program in order to reduce mortality, morbidity and fertility levels, increase the efficiency of public health service delivery on the primary, intermediate and national levels and improve the responsiveness of the health sector policy framework to the needs and conditions prevailing in Madagascar.

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: Communicable Disease Control Program

1. Rehabilitation of DLMT facilities, including the specialized disease control laboratories, to standards required for the improvement of their performance.
2. Provision of vehicles, equipment and supplies required for disease control programs, including vector control campaigns, monitoring the disease vectors and supervision of field activities.
3. Studies on control methodologies, disease patterns and vectors, including program evaluations and applied research, in order to adapt the strategy and the design of the control programs for greater efficiency and effectiveness.
4. Training of DLMT staff and MOH personnel of referral health facilities in specialized diagnostic and treatment techniques, and of village agents for malaria diagnosis, treatment and referrals and cost recovery.
5. Public information activities, including use of media to broadcast public health messages.

Part B: Maternal and Child Health Care and Family Planning Programs

1. Rehabilitation or upgrading of about 115 health facilities to minimum standards for the delivery of adequate primary health care services, including family planning and attended child deliveries and, in the case of about 20 of such facilities, to standards which shall, also, allow them to serve as training centers in family planning matters for MOH staff.
2. Provision of equipment, contraceptives and supplies for about 550 MOH health facilities in which family planning services are to be undertaken or upgraded.
3. Provision of vehicles, equipment and supplies for the family planning unit of DMP, including equipment for public information activities, in order to monitor, supervise and evaluate implementation of the family planning program and to adapt program design and scope.
4. Studies on: (i) direct and indirect determinants of fertility and reproductive behaviors; (ii) acceptability and effectiveness of family planning methods and delivery systems; and (iii) infant, child and maternal mortality rates for program evaluation.
5. Development, testing and provision of training materials in family planning for MOH personnel and for training of trainers; training of medical practitioners and paramedics in family planning techniques; training of DMP staff in specialized family planning and public information techniques.
6. Public information activities, including use of media to broadcast MCH and FP messages.

Part C: Primary Health Care Program

1. Provision of vehicles, equipment and supplies for carrying out the minimum package of primary health care activities, including immunizations and diarrheal disease control, respiratory infections, pre-, peri- and post-natal health care, health education and nutritional monitoring activities.
2. Rehabilitation of facilities and provision of vehicles, equipment and supplies necessary for the improvement of the referral activities of the intermediate and national medical referral

centers.

3. Provision of an initial stock of essential drugs to be offered for sale through MOH as part of the treatment prescribed by the health agents authorized by MOH.

Part D: Institutional Development of Health District Management and of MOH Planning and Programming Capabilities

1. Provision of vehicles, equipment and supplies to strengthen MOH and in particular DEPP's capacity, to supervise and evaluate a revised system of managing health care delivery based on the health district concept. I

2. Training and operational support of central, provincial and district MOH officers to provide staff in MOH's PHC facilities basic training and regular in-service training programs.

3. Studies to develop proposals and evaluate projects/programs relating to the major sectoral issues, including studies on or for: (i) cost and financing of health services, (ii) cost recovery mechanisms, (iii) the national pharmaceutical policy, (iv) hospital management and rehabilitation, (v) strengthening the role of providers other than MOH, including placement of health professionals, and (vi) adaptation of health manpower training programs.

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The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

2. Bidders for supply of drugs required under the Project shall be prequalified as described in paragraph 2.10 of the Guidelines and drugs will be specified in the bidding documents under the international non-proprietary name.

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 Madagascar 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. Contracts for civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Contracts for civil works estimated to cost the equivalent of \$50,000 or less, up to an aggregate of the equivalent of \$1.2 million, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three local contractors in conformity with procedures acceptable to the Association.

3. Contracts for furniture and equipment and other items that cannot be grouped in larger packages estimated to cost the

equivalent of \$50,000 or less per contract, 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.

4. Drugs required in health emergencies duly declared by the Borrower estimated to cost the equivalent of less than \$50,000 up to an aggregate amount not to exceed the equivalent of \$100,000, as well as items or groups of items, estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three local or international suppliers eligible under the Guidelines in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part (A) (2) hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for works estimated to cost the equivalent of \$200,000 or more and with respect to each contracts for goods estimated to cost the equivalent of \$50,000 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 the Association has authorized withdrawals on the basis of statements of expenditure.

3. 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 Management. Coordination and Supervision

1. The General Director of Health within MOH will be responsible for overall coordination and supervision of Project activities.

2. During execution of the Project, the Borrower shall maintain the Projects Monitoring Unit (PMU) with adequate staff and to be headed at all times by an administrative officer whose qualifications and experience are satisfactory to the Association.

3. During execution of the Project, the Borrower shall maintain the Project Steering Committee (PSC) for the purpose of assisting the General Director of Health in the supervision of Project activities, and to recommend, if needed, actions to resolve issues and improve performance under the Project.

4. The PSC shall include the Secretary General of MOH, the General Director of Health, Inspector General of MOH, the directors of the departments of MOH, and at least two chiefs of provincial services of MOH.

5. The General Director of Health within MOH will be in charge of the secretariate of PSC.

Annual Work Program

6. During each year of execution of the Project the Borrower shall:

(a) prepare an annual work program, which shall be consistent with Health Sector Policy, in order to include:

- (i) all the activities to be carried out for the execution of the Health Sector Program during the following year and a budget therefor;
- (ii) all the activities to be carried out under the Project, a detailed list of items to be financed under the Credit during the following year and a budget therefor;
- (iii) training work programs with training schedules by province, all training activities to be undertaken by the central training unit within MOH and the six provincial core training teams;
- (iv) evidence that the facilities proposed to obtain equipment under Part B of the Project have been previously rehabilitated to minimum operating standards;
- (v) a detailed financing plan for the activities referred to under sub-paragraphs (i) and (ii) above; and.
- (vi) a report on the implementation of last year's annual work programs which shall include a detailed report on the implementation of the institutional reform program with a critical assessment of the measures taken and a proposal for adjustment of any such measures, if needed;

(b) arrange a meeting of donors interested in financing activities in the health sector in Madagascar to review the draft annual work program for the next year and to finalize the financing plan therefor;

(c) submit to the Association the final annual work program for the next year and shall be in such scope and in such detail as shall be satisfactory to the Association not later than September 30 of each year; and

(d) present a public expenditure program for the health

sector for the next following year, satisfactory to the Association not later than September 30 of each year; any such program to provide for a minimum of FMG 1.5 million per health district to provide for maintenance of facilities, including those upgraded for the delivery of MCH/FP services.

Mid-term Review

7. By June 30, 1994, the Borrower shall:

- (a) undertake a mid-term review of the Project execution, including:
 - (i) an assessment as to whether the strategies being followed are producing the expected results,
 - (ii) a proposal for the pharmaceutical policy of the Borrower, and
 - (iii) the development of the non-public sector activities in the health sector;
- (b) furnish the Association a report on such mid-term review;
- (c) exchange views with the Association on such report; and
- (d) take all necessary measures to remedy any problem that has been identified during such mid-term review.

Cost Recovery of Drugs

8. By March 31, 1992, the Borrower shall present to the Association for comment a proposal for the introduction of a cost recovery mechanisms for the distribution of drugs prescribed by health agents authorized by MOH.

Leprosy and Tuberculosis Technical Committee

9. By January 31, 1992, the Borrower shall take all necessary measures to open the technical committees for tuberculosis and leprosy to all institutions active in those fields and, thereafter, to ensure that such technical committees meet regularly.

Provincial Training

10. By March 31, 1992, the Borrower shall appoint at least three qualified personnel in each province to form a core training team responsible for training of health personnel and, thereafter, maintain such teams.

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 of \$1 million to be withdrawn from the Credit Account and deposited in 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 eligible pursuant to paragraph 2 of this Schedule; (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 subparagraphs 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.

