

CONFORMED COPY

CREDIT NUMBER 2722 MK

Development Credit Agreement  
(Social Reform and Technical Assistance Project)

between

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA  
(THE BORROWER)

and

INTERNATIONAL DEVELOPMENT ASSOCIATION  
(THE ASSOCIATION)

Dated June 27, 1995

DEVELOPMENT CREDIT AGREEMENT

CREDIT NO. 2722 MK

AGREEMENT, dated June 27, 1995, between the Borrower and 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 modifications thereto set forth below

(the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Privatization Agency" or "PA" means the Borrower's Agency for Transformation of Enterprises with Social Capital established pursuant to the provisions of the Borrower's Law on the Transformation of Enterprises with Social Capital published in the Official Gazette of the Borrower, Issue 38 of 1993;
- (b) "PCU" means the Project Coordination Unit established by the Borrower within the Privatization Agency for overall coordination of the Project;
- (c) "SOE" means Socially Owned Enterprise, with the meaning of the Borrower's Law on Transformation of Enterprises with Social Capital, published in the Official Gazette of the Borrower, Issue 38 of 1993;
- (d) "LRF" means the Labor Redeployment Fund of the Borrower established as a separate budget allocation at the Privatization Agency with the purpose of financing the services related to the reallocation of displaced workers from SOE's undergoing restructuring;
- (e) "POM" means the Project Operational Manual of the Borrower for the Project, approved by the Association;
- (f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 30, 1994 and January 27, 1995 between the Borrower and the Association; and
- (g) "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 nine million Special Drawing Rights (SDR 9,000,000).

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 dollars a special deposit account in commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(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 September 30, 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 semi-annually on April 15 and October 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 April 15 and October 15 commencing October 15, 2005 and ending April 15, 2030. Each installment to and including the installment payable on April 15, 2015 shall be one and one-fourth percent ( $1-1/4\%$ ) of such principal amount, and each installment thereafter shall be two and one-half percent ( $2-1/2\%$ ) 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 and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

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

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare 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, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

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

Termination

Section 5.01. 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

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Dame Gruev 14  
91000 Skopje

Telex:

51119

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.

THE BORROWER

By /s/ Ljubica Z. Acevska  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Rachel Lomax  
Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be

financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods	1,160,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Services for Part A.3 of the Project	2,410,000	75%
(3) Consultants' Services, training and technical assistance	4,370,000	100%
(4) Refunding of Project Preparation Advance	640,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	420,000	
TOTAL	<u>9,000,000</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; and

(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.

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, except that withdrawals in an aggregate amount not exceeding the equivalent of \$1,400,000 may be made in respect of Category (2) on account of payments made for expenditures before that date, but after January 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts not exceeding \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to facilitate the restructuring of socially owned enterprises through actions to reduce the individual and community impacts of worker

dislocation; to improve the delivery of social benefits and the collection of payroll contributions for social benefits, to enhance the public awareness of the rationale for reform policies, and to support the continuing implementation of the enterprise restructuring program of the Borrower.

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:

A. Labor Redeployment

Support the redeployment of labor in communities affected by large-scale enterprise restructuring by:

1. Analyzing the labor requirements of socially-owned enterprises (SOEs) which are undergoing restructuring or privatization.
2. Provision of technical assistance supporting the pre-layoff adjustment services provided to workers in SOEs scheduled for downsizing or liquidation, including orientation sessions for SOE managers and labor representatives; planning services for SOEs; job counseling; and identification of participants in active labor programs.
3. Provision of post-layoff services to the displaced workers, through the Labor Redeployment Fund (LRF), to accelerate their return to productive employment.
4. Provision of technical assistance and equipment to the Employment Bureau services for job seekers.
5. Establishment of a PCU to support overall project implementation.

B. Public Information Program

1. Creation of a Media Coordinating Unit in the Privatization Agency to oversee the public information program.
2. Conducting of surveys to assess public knowledge and opinion on economic reform issues to guide the development of an effective public information program.
3. Development and implementation of a public media program to inform the public of the rationale for specific reform measures.

C. Social Benefit Programs

1. Development of objective poverty criteria as a basis for targeting social assistance.
2. Development of actuarially-based pension planning.
3. Improvement of payroll tax collection by improving business registration procedures and strengthening audit and enforcement controls.

D. Enterprise Restructuring Technical Assistance

1. Establishment and support for the Trustee Unit at the Privatization Agency to manage enterprise restructuring.
2. Acceleration of the privatization of viable SOEs and liquidation of non-viable SOEs in the Special Restructuring Program pursuant to the Borrower's Law on the Transformation of some Loss-Making Enterprises dated January 17, 1995, and agreed with the Association.
3. Introduction and enforcement of financial controls on



external resources provided to enterprises from the state budget or the banking system.

4. Identification of the post-privatization technical assistance needs of SOEs.

\* \* \*

The Project is expected to be completed by March 31, 1999.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods

###### Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

###### Part B: Procurement Procedures

###### 1. Limited International Bidding

Except as provided in paragraphs 2 and 3 hereof, items or groups of items for goods shall be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

###### 2. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract and \$500,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

###### 3. Direct Contracting

Goods which are of a proprietary nature and costing \$50,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Service contracts for incubators under the Labor Redeployment Fund, with a value not to exceed US\$350,000 will be procured, contracted, and awarded on the basis of competitive selection procedures following principles and criteria defined in Schedule 4, Part B.

###### Part C: Review by the Association of Procurement Decisions

###### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

###### 2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

#### Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms or individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, or (d) amendments to contracts for the employment of consulting firms and individual consultants raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 4

##### Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

##### A. Overall Project Implementation

1. Overall responsibility for carrying out the Project shall be assigned by the Borrower to the Privatization Agency, and for this purpose and for the purpose of facilitating the efficient implementation of the Project and of the other activities and programs of the PA, the Borrower shall ensure that a Project Coordination Unit consisting of a project coordinator, procurement assistant and secretary is maintained in the Privatization Agency under the direction of the Director of the Transformation and Restructuring Department. The PCU shall be responsible for coordinating all Project-related tasks.

2. In order to: (a) assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants with qualifications and experience, and, with terms of reference set forth in the POM in accordance with a time schedule satisfactory to the Association; and (b) ensure that qualified management and staff in adequate numbers, including for the units referred to in paragraphs A.1, B.1, C and D of this Schedule, are made available and maintained as required for the carrying out of the Project and thereafter for sustaining the objectives thereof.

##### B. Part A of the Project

1. The Privatization Agency, under the general guidance of the Managing Board of the Privatization Agency, shall be

responsible for implementation of the first three labor redeployment sub-components: enterprise analysis, pre-layoff services, and post-layoff services and shall be assisted by an Enterprise Assistance Group (EAG), to be maintained with said Agency, responsible for the administration of these sub-components.

2. The Labor Redeployment Fund shall only be used to finance post-layoff labor redeployment services which meet principles and criteria agreed with the Association.

3. Prior to selection of the labor redeployment technical assistance contractor, the Privatization Agency shall select six individuals to work in the EAG as long-term, full-time, consultant staff under the technical assistance contract.

4. The Employment Bureau (EB) will be the implementation agency for development of this sub-component of the labor redeployment program which includes development of the model local employment bureau and the automation of all local bureaus.

5. By the time the Employment Bureau technical assistance is contracted, the National Employment Bureau shall establish and maintain an Automation Department at the Employment Bureau and staff it with four full-time professionals and provide three additional full-time professional staff to support development of model job vacancy listing, job search, and labor market information programs;

#### C. Part B of the Project

The Privatization Agency shall be responsible for organization, execution and implementation of the Public Information Campaign. The PA shall establish by August 30, 1995 and maintain a Media Coordination Unit (MCU) and the Borrower shall ensure that MCU shall be staffed with five personnel.

#### D. Part C of the Project

1. The Social Assistance Sub-component shall be implemented by the Ministry of Labor and Social Policy in cooperation with the Statistical Agency.

2. The Actuarial Analysis Sub-component shall be implemented by the Ministry of Labor and Social Policy (MOLSP). A coordinating committee will be maintained consisting of representatives from concerned agencies. The Borrower shall ensure that MOLSP shall, by the time the technical assistance is contracted: (i) identify and assign three staff members to work in the Actuarial Unit, and (ii) maintain an Automation Unit in the Social Assistance Department and staff it with two full-time professionals.

3. The Payroll Tax Compliance Sub-component shall be implemented by the Ministry of Finance. A coordinating committee shall be maintained for that purpose consisting of representatives from concerned agencies.

#### E. Part D of the Project

The Special Restructuring Program shall be directed by a special inter-ministerial committee chaired by the Minister of Economy, and administered by a Trustee Unit which shall be vested with ownership rights over the SOEs. The Trustee Unit shall be located at the Ministry of Economy. The Borrower shall ensure that the Ministry of Economy would, by the time the technical assistance contract supporting the restructuring program is negotiated, identify and hire a manager and two support staff for the Trustee Unit.

## Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 \$1,000,000 to be withdrawn from the Credit Account and deposited in 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 \$500,000 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 \$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 a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

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

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

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(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, 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.

