

CONFORMED COPY

CREDIT NUMBER 2287 LSO

Development Credit Agreement
(Education Sector Development Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 19, 1991

CREDIT NUMBER 2287 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 19, 1991, between KINGDOM OF LESOTHO (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 of the Project;

(B) the Association has received a letter from the Borrower, dated June 4, 1991, describing a program of policies, goals and actions designed to achieve adjustment of the Borrower's education sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to obtain from the United States Agency for International Development (USAID), a grant (the USAID Grant) in an aggregate principal amount equivalent to \$24,900,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the USAID Grant Agreement) to be entered into between the Borrower and USAID;

(D) the Borrower intends to obtain from the European

Community (EC), a grant (the EC Grant) to assist in financing the construction of 250 classrooms under the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and EC; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated February 5, 1990, and March 1, 1990, and May 17, 1991 and May 24, 1991, between the Borrower and the Association;

(b) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(c) "MOE" means the Borrower's Ministry of Education;

(d) "TSC" means the Teaching Service Commission established under the Teacher Service Commission Act, No. 15 of 1983;

(e) "NUL" means the National University of Lesotho, operating pursuant to the National University of Lesotho Act No. 13 of 1975;

(f) "NTTC" means the National Teachers Training College;

(g) "PSLE" means the Primary School Leaving Examination;

(h) "JC" means the Junior Certificate Examination;

(i) "NCDC" means the National Curriculum Development Center;

(j) "ECOL" means the Examinations Council of Lesotho; and

(k) "Program" means the program of policies, goals and actions referred to in Recital (B) in the preamble to 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 this Agreement, an amount in various currencies equivalent to eighteen million nine hundred thousand Special Drawing Rights (SDR 18,900,000).

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 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 March 31, 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 per cent ($3/4$ 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 May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 1 and November 1 commencing November 1, 2001, and ending May 1, 2031. Each installment to and including the installment payable on May 1, 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 through MOE with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and education 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, 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.

Section 3.03. The Borrower shall increase recurrent resource allocations to education by 54.4% in real terms between 1990/1991 and 1991/1992, and by at least 4% per cent per annum in real terms thereafter, until completion of the Project.

Section 3.04. The Borrower shall, during implementation of the Project, recruit at least 1,300 new primary teachers, 260 per year, and allocate at least 70% of such new teachers to the lower primary grades (Standards 1 through 3).

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

Remedies of the Association

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

(a) The implementation of the Program shall have been suspended or terminated or shall have materially deviated from such Program as defined in Section 1.02 (k) of this Agreement.

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

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the USAID Grant Agreement has been signed by the Borrower and USAID;

(b) the Borrower has enacted the revised Education Order; and

(c) the Borrower has enacted the revised NUL Order and Statutes.

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

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister at the time responsible for Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions

For the Borrower:

Ministry of Finance
P.O. Box 395
Maseru, 100
Lesotho

Cable address:

Telex:

FINMIN
Maseru

4330 LO
4367 LO

For the Association:

International Development Association
1818 H Street, N.U.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INDEVAS
Washington, D.C.

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.

KINGDOM OF LESOTHO

By /s/ T. W. van Tonder

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works:		85%
(a) for Part A (1) (a) of the Project	2,699,000	
(b) for Part A (1) (b) of the Project	2,924,000	
(c) for Part A (1) (c) of the Project	2,924,000	
(2) Civil works:		100% of foreign expenditures and 80% of local expenditures
(a) for Part C.5 of the Project	300,000	
(b) for Part D.2 of the Project Project	300,000	
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Civil works under Parts B and E of the Project	525,000	10%
(4) furniture, equip- ment, materials, supplies and vehicles	1,050,000	100%
(5) Consultants' services, studies and training	6,522,000	100%
(6) Refunding of Project Prepara- tion Advance	675,000	Amounts due pur- suant to Section 2.02 (c) of this Agreement
(7) Unallocated	981,000	

TOTAL	18,900,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; 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: (a) payments made for expenditures prior to the date of this Agreement; (b) payments made for expenditures under Category (1) (b) until the Borrower has (i) implemented the policy regarding exclusion from primary school of children under six years of age, (ii) has publicly announced policy changes related to primary enrollment of pupils over eight years of age and limitations on repetitions to two per primary cycle, and (iii) allocated Borrower-financed secondary teaching posts based on a minimum student/teacher ratio of 25:1 and revised regulations governing establishment of new secondary schools; (c) payments for expenditures under Category (1) (c) until the Borrower has implemented the policy changes related to the enrollment of over-aged pupils and the number of repetitions per primary cycle; (d) payments for expenditures under Category (2) (a) until the feasibility study on the financial aspects of operating the skills certification center has been completed to the satisfaction of the Association; and (e) payments for expenditures under Category (2) (b) until the Borrower has (i) completed the study of NUL overheads, (ii) satisfactorily implemented cost-containment measures at NUL, and (iii) introduced modifications to the student academic program at NUL.

SCHEDULE 2

Description of the Project

The objectives of the Project are to facilitate the implementation of the Borrower's Program focussing on: (i) increasing the quality, efficiency and relevance of educational programs, especially primary education; and (ii) addressing key management, financing and resource allocation, and staffing issues which constrain overall sectoral performance.

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: Basic Education

1. Construction of new and rehabilitation of existing classrooms and construction of sanitary facilities at primary schools as follows:

(a) about 257 new classrooms, about 60 existing classrooms and about 544 sanitary facilities in Quthing, Qacha's Nek, Mohale's Hoek and 60% of Mafeteng Districts;

(b) about 275 new classrooms, about 65 existing classrooms and about 576 sanitary facilities in Butha-Buthe, Leribe and Mokhotlong; and

(c) about 318 new classrooms, about 75 existing classrooms and about 640 sanitary facilities in Maseru, Berea, Thaba Tseka and 40% of Mafeteng Districts.

2. Acquisition of furniture for all new classrooms and up to 50% of existing unfurnished classrooms.

3. (a) Primary curriculum development including a national timetable and subject syllabi to reflect curricular priorities;

(b) development and dissemination of instructional materials

and teachers guides in about eight subjects, commencing with Mathematics, English and Sesotho for lower primary grades; and

(c) evaluation of the agriculture and self-reliance program in primary schools.

4. (a) Revision and streamlining of junior secondary school syllabi for about nine subjects;

(b) development and production of teacher handbooks; and

(c) evaluation of the diversified secondary school program.

5. (a) Strengthening of capacity of teachers to systematically evaluate the learning achievements of primary and secondary students on a continuous basis; and

(b) broadening the scope of the PSLE and JC examinations and improving their administration, including the transfer of PSLE from NCDC to ECOL.

6. Development and implementation of a systematic in-service training program for teachers.

7. Implementation of policies and carrying out a public awareness campaign aimed at reducing repetition and enrollment of under- and over-age students in primary schools, and rationalization of teacher grant allocations to secondary schools.

8. Recruitment of at least 1,300 additional primary teachers.

Part B: Teacher Training

1. Strengthening of NTTC's institutional capacity and facilitating expansion of teacher output from about 650 to about 1,100, through establishing procedures and systems for administration, academic planning and program development.

2. Expansion of hostel accommodations, teaching and dining facilities at NTTC.

3. Acquisition of audio-visual and other pedagogical equipment and materials.

4. Improvement of NTTC library's management and resources through the acquisition of equipment, books and journals.

5. Strengthening of primary pre- and in-service teacher training programs through, inter alia, the provision of fellowships to NTTC lecturers.

Part C: Technical and Vocational Education

1. Development of standardized modular curricula in about four crafts level courses at four post-secondary TVE institutions.

2. Training of staff of the TVE institutions.

3. Upgrading of facilities and equipment at the four TVE institutions.

4. Introduction of evening classes at the four TVE Institutions referred to in Part C.1 above and about eight other TVE institutions and secondary schools equipped with workshop facilities.

5. Construction, equipping and staffing of a skills certification/trade-testing center.

6. Development of new trade tests in about five fields.

7. Carrying out of studies on the following:

- (a) the feasibility of introducing a hotel management/catering course;
- (b) attrition at TVE Institutions;
- (c) the feasibility of introducing a training levy and apprenticeship system;
- (d) review of the TVE Act as it relates to in-service training; and
- (e) tracing students graduating from TVE Institutions.

Part D: National University of Lesotho

1. Implementation of modifications to NUL's existing academic program.
2. Expansion of science laboratory facilities and acquisition of furniture and equipment.
3. Staff development, including overseas training, fellowships and research grants.
4. Upgrading of library facilities, through the acquisition of books and journals, and computerization of the library system.
5. Strengthening of the educational resource center through the acquisition of teaching equipment.
6. Implementation of cost-containment measures and identification of further areas for reduction in university non-academic expenditures.

Part E: Education Sector Management

1. Reorganization of central MOE and the establishment of a twinning arrangement with an appropriate institution to assist with administrative and management improvements.
2. Establishment of ten District Resource Centers, including staffing, construction of offices, acquisition of furniture, office equipment, teaching/learning materials, vehicles.
3. Management training for headteachers and principals.
4. Establishment of an education management information system for monitoring the implementation of the education development plan and student achievement.

* * *

The Project is expected to be completed by September 30, 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 D 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 civil works under Part A.1 of the Project shall be prequalified as provided in paragraph 2.10 of the Guidelines.
3. To the extent practicable, contracts for civil works shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more.

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 Lesotho may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

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

Part D: Other Procurement Procedures

1. Items or groups of items for civil works estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$16,100,000, and for goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items for goods estimated to cost the equivalent of \$40,000 or less per contract, up to an aggregate amount equivalent to \$300,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: Prequalification and 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 estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which 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 specialists and 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

1. The Director of the MOE Planning Unit shall be responsible for monitoring and coordinating the implementation of the Project. One of the Planning Officers in the Planning Unit shall be designated Project Coordinator and shall be responsible for following up on Project implementation on a day-to-day basis.
2. The Borrower shall ensure that: (a) no later than March 31, 1993, an independent evaluation of the self-reliance activities in primary schools shall be carried out; (b) the findings of such evaluation shall be reviewed with the Association; and (c) agreed recommendations shall be implemented no later than September 30, 1994.
3. The Borrower shall ensure that: (a) no later than March 31, 1993, an independent evaluation of the diversified secondary education program shall be carried out; (b) the findings of such evaluation shall be reviewed with the Association; and (c) agreed recommendations shall be implemented no later than September 30, 1994.
4. The Borrower shall introduce evening classes in a minimum of twelve institutions with technical education facilities by March 31, 1993.
5. The Borrower shall jointly with the Association, undertake two Project Implementation Reviews by no later than March 1993, and September 1994, respectively to: (a) monitor progress in achieving the objectives of the Program and the Project; (b) identify implementation issues and proposed solutions; (c) promote exchange of ideas among Project staff; and (d) update Project timetables.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (5) 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 \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the

Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

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

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

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (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.

