

CONFORMED COPY

CREDIT NUMBER 2145 CHA

(National Afforestation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 20, 1990

CREDIT NUMBER 2145 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 20, 1990, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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) "MFO" means the Borrower's Ministry of Forestry and any successor thereto;
- (b) "CAF" means the Chinese Academy of Forestry, established as part of MFO;
- (c) "CRG" means a Central Research Group, established within CAF for purposes of carrying out research with respect to individual species of trees to be used in afforestation projects in China;
- (d) "Project Provinces" means the Provinces of Anhui, Fujian, Guangdong, Guangxi, Guizhou, Hebei, Henan, Hubei, Hunan, Jiangxi, Liaoning, Shandong, Sichuan, Yunnan, and Zhejiang;
- (e) "Project Implementation Agreement" means the agreement to be entered into between the Borrower and a Project Province pursuant to Section 3.01 (b) of this Agreement;
- (f) "Central PO" means the Project Office established within MFO;
- (g) "Provincial PO" means the Project Office to be established in each Project Province pursuant to Schedule 4 to this Agreement, Section II, paragraph (a);
- (h) "Local PO" means the Project Office to be established at the local level in each Project Province pursuant to Schedule 4, Section II, paragraph (b);
- (i) "AE" means an afforestation entity, including a state forest farm, collective forest farm, cooperative forest farm, or silviculture investment company, which participates in the Project;
- (j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (k) "Renminbi" means the currency of the Borrower; and
- (l) "ha" means hectare.

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 two hundred thirty million Special Drawing Rights (SDR 230,000,000).

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 shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 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 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 March 1 and September 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 semiannual installments payable on each March 1 and September 1 commencing September 1, 2000 and ending March 1, 2025. Each installment to and including the installment payable on March 1, 2010 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 the assistance of the Project Provinces, with due diligence and efficiency and in conformity with appropriate administrative, financial, forestry and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall cause Project activities in each Project Province to be carried out pursuant to Project Implementation Agreements, acceptable to the Association, to be entered into between the Borrower and each Project Province, including the terms and conditions set forth in Schedule 4 to this Agreement. Except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, fail to enforce, or waive any Project Implementation Agreement or any provision thereof.

(c) The Borrower shall make the proceeds of the Credit required to carry out Project activities in each Project Province available to such Project Province on terms and conditions satisfactory to the Association.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Project shall be carried out in accordance with the Implementation Program set forth in Schedule 5 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. In order to carry out the Project and to assist the Project Provinces in carrying out their respective Project activities, the Borrower shall maintain the Central PO with competent staff in adequate numbers and with functions and responsibilities acceptable to the Association.

Section 3.04. The Borrower shall ensure that all pesticides purchased as part of the Project shall be procured and handled in accordance with the Association's guidelines for pesticide use.

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 (including the Project Provinces) 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 Bank has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that any party to any Project Implementation Agreement shall have failed to perform its obligations thereunder.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Project Implementation Agreement for each Project Province shall have been executed on behalf of all parties thereto; and

(b) the Borrower's State Council shall have approved this Agreement.

Section 6.02. The following is specified as additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Implementation Agreements provided to the Association pursuant to Section 6.01 (a) of this Agreement have been duly authorized or ratified by all parties thereto, and are legally binding upon the parties in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Sanlihe
Beijing, 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC

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

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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Qizhen

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shahid Javed Burki

Acting Regional Vice President
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 Expenditure to be financed
(1) Materials and equipment	40,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Plantation establishment costs	165,500,000	52%
(3) Consultants' services, studies and overseas training	1,500,000	100%
(4) Unallocated	23,000,000	
TOTAL	230,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "plantation establishment costs" means the cost of works and tools required for the establishment of a plantation under Part A of the Project, as determined on a per unit basis acceptable to the Association.

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 to exceed SDR 15,400,000, may be made in respect of Categories (1) and (2) on account of payments made for expenditures before that date but after March 5, 1990.

SCHEDULE 2

Description of the Project

The objectives of the Project are:

(a) to expand forest resources and reduce the gap between timber production and consumption;

(b) to improve the quality of forest plantations;

(c) to utilize financial and economic analysis of forestry investments for purposes of improving the efficient use of forestry resources;

(d) to strengthen research and extension programs supporting plantation forestry and focus such programs on species performance;

(e) to increase the productivity of planting stock; and

(f) to establish and strengthen the organizational and managerial infrastructure to plan, appraise, finance, implement and evaluate plantation programs.

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: Plantation Establishment

Establishment of approximately 985,000 ha of coniferous and broadleaf tree plantations in the Project Provinces.

Part B: Research

Provision of technical assistance for purposes of establishing institutional arrangements for, and the carrying out of, research in the areas of silviculture, genetic improvement of tree species and wood utilization.

Part C: Improvement of Planting Stock

Carrying out improvements to seed production areas, large-scale production of clonal planting stock and a hybridization program.

Part D: Institutional Support

Institutional support for a high-yielding plantation program, including introduction of an information and monitoring system.

Part E: Environmental Management

Introduction of environmental guidelines covering, among other aspects, maintenance of biological diversity, species mix, pest control, soil and water conservation, fire prevention and monitoring, in high-yielding plantations.

Part F: Forestry Sector Planning

The preparation and carrying out of pilot forest resource management plans.

* * *

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, including fertilizer and pesticides, shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts shall be grouped into bid packages to permit bulk purchasing.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in China 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. Scientific equipment and computers, up to an aggregate not to exceed the equivalent of \$2,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from at least three suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof.)

2. Equipment estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount of \$1,000,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Contracts for imported tree seeds may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

4. Works under Part A of the Project may be procured by force account or by other local procurement procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for pesticides and each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. When 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. When 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 6 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.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower and the Project Provinces 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

Terms and Conditions of Project Implementation Agreements

Except as the Association shall otherwise agree, each Project Implementation Agreement shall include, inter alia, the following terms and conditions:

I. General Provisions

1. Each Project Province shall, and shall cause each AE within such Province to, carry out their respective activities under the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, forestry and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for carrying out their respective Project activities.

2. Each Project Province shall take all measures necessary or appropriate to assist the Borrower in:

(a) preparing the reports referred to in paragraphs 1, 2 and 5 of Schedule 5 to this Agreement;

(b) in complying with the provisions of Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) with respect to activities under the Project in such Project Province; and

(c) in complying with the financial reporting requirements set forth in Article IV of this Agreement.

3. Each Project Province shall ensure that:

(a) the procurement of goods and works for plantation establishment and consultants' services shall be carried out in accordance with the provisions of Schedule 3 to this the Agreement;

(b) each AE shall properly install, operate and maintain any equipment procured under the Project; and

(c) that any pesticides procured under the Project comply with the provisions of Section 3.04 of this Agreement.

4. Each Project Province shall, in coordination with the Borrower:

(a) at the request of the Association, exchange views with the Association with regard to the progress of carrying out activities under the Project by such Province and by AEs within such Province, the performance of the Project Province under its Project Implementation Agreement and other matters relating to the purposes of the Credit; and

(b) promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by such Province of its obligations under its Project Implementation Agreement.

II. Project Management

For purposes of carrying out its respective activities under the Project, each Project Province shall:

(a) maintain a Provincial PO with competent staff in adequate numbers and with functions and responsibilities acceptable to the Association; and

(b) cause to be established and maintained at the local (county and prefecture) level, Local POs with competent staff in adequate numbers and with functions and responsibilities acceptable to the Association.

III. Conditions for Plantation Establishment

1. Each plantation shall be established and maintained in accordance with:

(a) the Standards on Fast-growing and High-yield Plantations issued by MFO and with forestry standards and methods acceptable to the Association; and

(b) the Environmental Guidelines for Afforestation issued by MFO and with environmental standards and practices acceptable to the Association.

2. No site shall be selected for purposes of plantation establishment under the Project if such site: (a) contains trees with a canopy cover of more than thirty percent of the site area, other than existing plantations; (b) is of historical or cultural significance to the Borrower; or (c) is a habitat for rare plants or animals.

IV. Cost-recovery Terms

Each Project Province shall cause the proceeds of the Credit it receives for purposes of carrying out its respective activities under the Project, together with counterpart funding from the Borrower, Project Province and local governments, to be made available to each AE participating in the Project under arrangements and terms and conditions satisfactory to the Association, which shall include:

(a) repayment by each AE of such funds in Renminbi, or in a percentage share of the volume of timber obtained at thinning and final harvest of timber;

(b) repayment within a period of time which shall be equivalent to the average rotation length for the species to be planted;

(c) payment of interest on all outstanding amounts at a rate acceptable to the Association; and

(d) payment of reforestation and reinvestment fees established by the Borrower.

SCHEDULE 5

Implementation Program for the Project

The Borrower shall carry out the following, without limitation to the reporting requirements of Section 9.06 of the General Conditions:

1. The Borrower shall: (a) prepare model forest resource management plans (FRMPs) for three provinces acceptable to the Association;

(b) furnish such FRMPs to the Association by June 30, 1991 for its review and comment; and

(c) taking into consideration the comments of the Association, prepare by December 31, 1992, additional FRMPs, for all other Project Provinces.

2. The Borrower, with the assistance of each Project Province, shall: (a) prepare and furnish to the Association by December 31 of each year, beginning on December 31, 1990, an annual work and financing plan, in such detail as the Association shall reasonably request, for carrying out Part A of the Project in each such Project Province during the next calendar year; and

(b) prepare and furnish to the Association by March 31 and September 30 of

each year, beginning on March 31, 1991, a semiannual progress report on the carrying out of Part A of the Project.

3. The Borrower shall: (a) establish and maintain, as part of CAF, CRGs for purposes of researching tree species used in high-yield forests;

(b) carry out research programs, acceptable to the Association, through the CRGs; and

(c) prepare and furnish to the Association by December 31 of each year, beginning on December 31, 1990, a report, in such detail as the Association shall reasonably request, on the activities and findings of the research programs for such year.

4. The Borrower shall: (a) carry out a program, acceptable to the Association, for accelerated production of improved planting materials; and

(b) Prepare and furnish to the Association by December 31 of each year, beginning on December 31, 1990, a report, in such detail as the Association shall reasonably request, on the progress of such Program for such year.

5. The Borrower shall prepare and furnish to the Association by September 30 of each year, beginning on September 30, 1990, a report on prevailing timber prices in each Project Province by species of tree and on the method of setting timber prices in such Project Province for the next calendar year.

6. The Borrower shall, by November 1, 1990, prepare and furnish to the Association for its review and comment:

(a) a detailed plan for the establishment of about fifty pilot plantations for the testing and evaluation of forestry practices; and

(b) a detailed plan for the planting of about 330,000 ha under Part A of the Project.

SCHEDULE 6

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 seventeen million nine hundred thousand dollars (\$17,900,000) 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 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.



