

CONFORMED COPY

CREDIT NUMBER 2199 KE

(Second National Agricultural Extension Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 21, 1991

CREDIT NUMBER 2199 KE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 21, 1991, between REPUBLIC OF KENYA (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) by various agreements, the International Fund for Agricultural Development (hereinafter called the Fund) has agreed to make loans (the Fund Loans) to the Borrower to assist in financing the Project on the terms and conditions set forth in the respective Fund Loan Agreements; 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "ASAL" means the Arid and Semi-Arid Lands;
- (b) "FSC" means Farmers Service Center;
- (c) "FTC" means Farmers Training Center;
- (d) "KARI" means the Kenya Agricultural Research Institute;
- (e) "KTDA" means the Kenya Tea Development Authority;
- (f) "MOA" means the Ministry of Agriculture of the Borrower;
- (g) "MOLD" means the Ministry of Livestock Development of the Borrower;
- (h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (i) "Fiscal Year" or "FY" means the financial year of the Borrower which runs from July 1 to June 30; and
- (j) "Cooperation Agreement" means the agreement entered into between MOA and MOLD.

## 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 seventeen million four hundred thousand Special Drawing Rights (SDR 17,400,000).

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 the Central Bank of Kenya 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.

Section 2.03. The Closing Date shall be March 31, 1998, 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 January 15 and July 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 January 15 and July 15 commencing January 15, 2001, and ending July 15, 2030. Each installment to and including the installment payable on July 15, 2010, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate agricultural 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.

#### 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 nine 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.

Section 4.02. The Borrower shall, not later than March 31, 1992, submit to the Association certified copies of audit reports, prepared by independent auditors acceptable to the Association, for the period from July 1 to December 31, 1990, for the National Extension Project (Credit No. 1387-KE).

#### 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:

(a) subject to paragraph (b) of this Section:

(i) the right of the Borrower to withdraw the proceeds of any loan or 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, or

(ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; 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.

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 (a) (i) of this Agreement shall occur, subject to the proviso of Section 5.01 (b) of 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 Borrower has submitted to the Association certified copies of audit reports, prepared by independent auditors acceptable to the Association, covering the period up to June 30, 1990, for the National Extension Project (Credit Number 1387-KE);

(b) the Borrower has submitted to the Association, evidence satisfactory to the Association, showing that the Borrower has successfully implemented, on a pilot basis in two Districts, the agreement on cooperation between MOA and MOLD in extension services;

(c) the Borrower has prepared an annual work program, satisfactory to the Association for the fiscal year of 1991/1992; and

(d) the Borrower has submitted to the Association evidence satisfactory to the Association showing that the Borrower's Forward

Budget contains adequate budgetary allocations for the Project.

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 30007  
Nairobi, Kenya

Cable address:	Telex:
FINANCE Nairobi	22921 MINFIN-KE

For the Association:

International Development  
Association  
1818 H Street, N.W.  
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.

REPUBLIC OF KENYA

By /s/ D. D. Afande  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox  
Regional Vice President  
Africa

#### SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of 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) Vehicles	4,040,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(2) Furniture, Equipment and Instructional Materials	800,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(3) Civil Works	1,060,000	100% of foreign expenditures and 50% of local expenditures
(4) Incremental Operating Costs	3,200,000	40% for the first four years of Project Implementation and 20% thereafter.
(5) Training	3,500,000	100% of foreign expenditures and 75% of local expenditures

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(6) Consultants' Services	1,800,000	100%
(7) Unallocated	3,000,000	
TOTAL	17,400,000 =====	

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 "incremental operating costs" means the incremental costs incurred by the Borrower related to the operation and maintenance of buildings, vehicles, office equipment and staff travel related to the Project, and costs incurred in procuring seeds, fertilizers and farm implements and inputs for on-farm demonstration activities.

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.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to increase the rate of adoption and to stimulate the development of technical packages that will enable small-holder farmers to increase their productivity and incomes.

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: Organization and Management of Extension Services

1. Strengthening the existing extension service and expanding it to include the administrative areas of Kajiado, Marsabit, Nairobi, Mombasa, Tana River and Samburu.
2. Development of two prototype projects in ASAL areas of Turkana and Wajir to test the provision of extension services to nomadic people.
3. Increasing extension staff mobility and access to farmers in larger areas through the provision and maintenance of transportation equipment.
4. Refurbishment of office buildings and construction of new offices, and training centers.
5. Provision of office, field and training equipment to improve staff efficiency.
6. Strengthening of monitoring and evaluation of the extension services

#### Part B: Extension Methodology

1. Dissemination of agricultural information to farmers through the use of mass-media, including radio programs, television programs, community-based information services and undertaking of publicity campaigns.
2. Establishing an interactive database system on a pilot basis to provide information to farmers, extension staff and researchers.
3. Rehabilitation and construction of FTCs.
4. Quarterly workshops for groups of women-farmers on new technologies and improved practices for crops and livestock.
5. Construction of two FSCs on a pilot basis at Marsabit and Kerio Valley.

#### Part C: Training

1. Carrying out a review of the curricula and operations of agricultural education institutions.
2. Training, through short courses, workshops, orientation programs and degree programs for extension staff in crop and livestock production and other agricultural and scientific areas.
3. Training of farmers.

#### Part D: Research

Provision of transportation and equipment to enable research staff to participate in training sessions, demonstrations and on-farm trials.



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The Project is expected to be completed by September 30, 1997.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

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

2. To the extent practicable, contracts for civil works shall be grouped into bid packages.

###### Part B: Preference for Domestic Manufacturers

1. In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Kenya 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. Civil works for the construction of offices, accommodation, agricultural training and service centers estimated to cost an aggregate amount equivalent to \$2,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Vehicles and equipment estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$300,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with 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 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.

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 in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

### SCHEDULE 4

#### Implementation Program

1. (a) The Borrower shall establish and maintain until completion of the Project an inter-ministerial Steering Committee which shall comprise representatives from MOA, MOLD and KARI. The Steering Committee shall meet at least once every year and shall be responsible for the overall implementation of the Project. The Steering Committee shall be chaired alternately by the Permanent Secretaries of MOA and MOLD.

(b) The Steering Committee shall establish a Working Group which shall design, oversee and implement matters relating to the Cooperation Agreement and the Project.

2. The Working Group shall prepare detailed Annual Work Programs with details on scheduling of workshops, demonstrations, training sessions, training at FTCs, staff deployment and hiring including the proportion of women to be hired, cost containment measures, a review of the previous years budget, a delineation of budgetary requirements for the coming year, pilot projects, and key monitoring indicators. Such Annual Work Programs satisfactory to the Association shall be furnished to the Association for review by January 31 in each year.

3. The Borrower shall, not later than June 30, 1994, carry out jointly with the Association a comprehensive mid-term review of the progress of the Project and soon thereafter shall implement the recommendations of such a review. The review shall cover, inter alia: (a) the success or failure of the ASAL prototypes implemented under Part A.2 of the Project and the feasibility of extending coverage to other ASAL areas; (b) management of the extension system; (c) linkages with other ministries; (d) linkages with research; (e) effectiveness of technology dissemination; (f) cost recovery and cost reduction; (g) cooperation between MOA and MOLD; (h) donor coordination; (i) the performance of the monitoring system; (j) the use of mass media under Part B.1 of the Project; (k) the success or failure of the communications pilots; (l) the success or failure of the rehabilitation and management of FTCs and FSCs; (m) integration of the home economics staff into the extension frontline.

4. In carrying out Part B.3 of the Project on FTCs, the Borrower shall adopt the following procedures:

(a) The Borrower shall prepare a framework satisfactory to the Association, for the management and financing of FTCs within the overall extension and training system. The Borrower shall thereafter, within such framework, select three FTCs to be rehabilitated during the first three years of Project implementation. The Borrower shall carry out a site survey and shall prepare a business plan for each of the three FTCs. Such business plans shall include, inter alia, financial arrangements (i.e. budgets, recurrent costs and salaries), managerial arrangements, staffing, and training programs, including courses and the number of trainees.

(b) The Borrower shall thereafter carry out the Rehabilitation of the three FTCs after the Association has approved the business plans referred to above.

(c) The performance of the three FTCs shall be evaluated during the mid-term review referred to in paragraph 3 above, in accordance with evaluation criteria and targets acceptable to the Association. Such evaluation criteria shall include the implementation of the business plans and the assessment of the sustainability of FTCs.

(d) The Borrower shall thereafter carry out the rehabilitation/construction of the other FTCs, after obtaining the approval of the Association based on: (i) the review of the three FTCs referred to above; and (ii) the business plan prepared for such FTC.

5. The Borrower shall, not later than September 30, 1992, set up a system, which would, on a pilot basis involving two Districts, test the effectiveness of the automated collection and distribution of information to farmers, extension agents and researchers.

6. (a) The Borrower shall implement cost recovery measures to ensure that KTDA becomes responsible for paying for extension staff seconded by MOA. Cost recovery measures shall be implemented as follows: (i) one-third of the total cost shall be recovered in FY 92/93; (ii) two-thirds of the total cost shall be recovered in FY 93/94; and (iii) full cost recovery shall be achieved in FY 94/95.

(b) The Borrower shall prepare and implement a schedule of fees to charge coffee factories which use the services of coffee engineers employed by MOA.

7. The Borrower shall, not later than January 31, 1994, carry out a reorganization study of MOA and MOLD with the objective of implementing improved extension technologies and cost-effective extension services.

8. The Borrower shall, not later than January 31, 1994, carry out a staff deployment study covering the entire MOA and MOLD extension system. While the study is being carried out, the Borrower shall ensure that new hiring for MOA and MOLD shall only be done according to staffing norms acceptable to the Association.

9. The Borrower shall, until completion of the Project, implement an action plan, satisfactory to the Association on: (a) achieving appropriate staffing levels in MOA and MOLD; and (b) raising the ratio of non-salary to salary operating expenditures for MOA and MOLD.

10. The Borrower shall, not later than September 30, 1991, assign enough people to MOA's and MOLD's central monitoring units to specifically focus on monitoring the extension services.

11. The Borrower shall, not later than January 31, 1994, carry out studies, under terms of reference satisfactory to the Association to measure the impact and effectiveness of the extension system. The studies shall focus on: (a) appropriateness of extension messages distributed to the farmers; (b) availability of extension technologies; (c) knowledge and training of extension staff; (d) workload distribution among extension staff; (e) effectiveness of contact between extension staff and farmers; (f) cost effectiveness; (g) cost recovery measures; and (h) sustainability of extension technologies.

12. In order to assist the Borrower in carrying out the studies specified in paragraphs 7, 8 and 11 above, the Borrower shall employ consultants under terms of reference satisfactory to the Association.

13. MOA and MOLD shall jointly hold semi-annual meetings of donors

and representatives of all agricultural ministries to review experience gained in implementing extension services and to ensure complementarity of activities.

14. The prototype projects to be implemented in Turkana and Wajir under Part A.2 of the Project shall involve the training of pastoralists to serve as extension agents and shall concentrate on water conservation and development, livestock production and health.

15. In carrying out Part B.3 of the Project involving FSCs and FTCs the Borrower shall appoint teams comprised of competent staff to manage each FSC and FTC. Operating costs for the FTCs' demonstration farms will be recovered from the sale of produce from such farms.

16. For the purposes of Section 9.06 (iii) of the General Conditions, the Borrower shall submit to the Association at the beginning of January and July of every year progress reports on the implementation of the Project.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 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.

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