

CONFORMED COPY

CREDIT NUMBER 2634 KG

Development Credit Agreement

(Telecommunications Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 7, 1994

CREDIT NUMBER 2634 KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 7, 1994, between KYRGYZ REPUBLIC (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, dated March 29, 1994, from the Borrower describing a program of actions, objectives and policies designated to improve the efficiency of the Borrower's telecommunications sector (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to obtain from the European Bank for Reconstruction and Development (EBRD) a loan and a grant in an aggregate amount of approximately eight million nine hundred thousand Dollars (\$8,900,000) (the EBRD Financing) to assist in financing part of the Project on terms and conditions to be set forth in an agreement (the EBRD Agreements) to be entered into by EBRD and the Borrower;

(D) Parts A and B of the Project will be carried out by State Enterprise Kyrgyz Telecom (KT) with the Borrower's assistance and, as part

of such assistance, the Borrower will make available to KT a portion of the proceeds of the Credit as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Association and KT;

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 January 13, 1994 and February 1, 1994, between the Borrower and the Association;

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

(c) "Subsidiary Loan Agreement" means the agreement entered into between the Borrower and KT pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan Agreement;

(d) "MOC" means the Borrower's Ministry of Communications;

(e) "KT" means State Enterprise Kyrgyz Telecom, a company established by Decree 64, dated February 14 and Order of MOC dated February 21, 1994 pursuant to the laws of the Borrower;

(f) "Statutes" means the KT's corporate charter adopted on April 1, 1994 as amended from time to time;

(g) "Project Agreement" means the agreement between the Association and KT, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(h) "PIU" means the Project Implementation Unit to be maintained within KT in accordance with Section 1 of the Schedule to the Project Agreement; and

(i) "Basic Telecommunication Services" means local, long distance and international telephone, telex and telegraph services.

## 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 twelve million eight hundred thousand Special Drawing Rights (SDR 12,800,000).

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 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, 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 4 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 the Bank the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2001 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 April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) of this Section, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing October 15, 2004 and ending April 15, 2029. Each installment to and including the installment payable on April 15, 2014 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:

- (i) shall carry out Part C of Schedule 2 of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause KT to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KT to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend in Dollars a portion of the proceeds of the Credit to KT under a subsidiary loan agreement entered into between the Borrower and KT, under terms and conditions acceptable to the Association which shall include a variable interest rate equal to the current IBRD lending rate, adjustable each six months, a grace period of five years followed by a repayment period of 15 years and the foreign exchange risk to be borne by KT.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Part C of 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 and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A and B of the Project shall be carried out by KT pursuant to Section 2.03 of the Project 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 Part C of the Project set forth in Schedule 2 of the departments or agencies of the Borrower responsible for carrying out such Part C of 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.

Section 4.02. (a) The Borrower and the Association shall, from time to time, at the request of either party, exchange views with regard to the Borrower's tariff policies and its plans in respect of the overall development of the telecommunications sector.

(b) The Borrower shall, through MOC, authorize KT to set its tariffs at such levels as shall be consistent with KT's obligations under Sections 4.02, 4.03 and 4.04 of the Project Agreement.

(c) Prior to the issuance of any new license or conclusion of arrangements with third parties affecting the Basic Telecommunications Services, the Borrower shall establish to the satisfaction of the Association that any such license or arrangement do not have a negative impact on KT's financial obligations under the Project Agreement.

Section 4.03. Not later than June 30, 1995, the Borrower shall establish a regulatory function for telecommunications separate from the policy making function with adequate authorities within MOC.

Section 4.04. Not later than April 30, 1995, the Borrower shall submit to its parliament a new draft telecommunications law, acceptable to the Borrower and the Association.

Section 4.05. Not later than June 30, 1995, the Borrower shall issue a license to KT, satisfactory to the Borrower and Association, authorizing KT to provide, inter alia, local, long distance and international voice telecommunication services and shall have caused the Republican Production Association of Microwave Trunks, Television and Radio Broadcasting to conclude an interconnection agreement with KT authorizing KT's usage of transmission and other telecommunications facilities required for its operations.

Section 4.06. Not later than June 30, 1996, the Borrower shall have taken all necessary measures to evaluate through a competitive process and, if found satisfactory, to select and contract with at least one private company for the provision of local public pay phone services (including, but not necessarily limited, to Bishkek City), e-mail, and such other services as shall be agreed between the Borrower and the Association.

Section 4.07. Not later than June 30, 1997, the Borrower shall prepare and submit to the Association a plan evaluating private investment opportunities in Basic Telecommunications Services.

Section 4.08. During the course of this Project starting from the Effective Date, the Borrower shall ensure that KT shall not make any transfers to the Postal Department or MOC for the benefit of the Postal Department.

#### 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) KT shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that KT will be able to perform its obligations under the Project Agreement.

(c) The Statutes or the license referred to in Section 4.05 of this Agreement of KT shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KT to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of KT or for the suspension of its operations.

(e) (i) Subject to the exception stipulated in subparagraph (ii) of this paragraph:

(A) The right of KT to withdraw the proceeds of the EBRD Financing made to KT for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the EBRD Agreements, or

(B) the loan agreement with the EBRD shall have become due and payable prior to the agreed maturity thereof in accordance with its terms.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower or KT to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower or KT 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 events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraphs (c), (d) and (e) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of that Section.

#### 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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and KT;

(b) all conditions precedent to the effectiveness of the EBRD Financing, save for the effectiveness of this Agreement, have been fulfilled; and

(c) KT has taken all necessary measures as shall be consistent with

the provisions of Section 4.04 (a) of the Project Agreement.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by KT and is legally binding upon KT in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and KT and is legally binding upon the Borrower and KT in accordance with its 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

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Communications 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:

Minister of Communications  
Ministry of Communications  
720000, Bishkek  
Chuy Prospect No. 96  
Kyrgyz Republic

Telex:

2513 34 RTBSU

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.

KYRGYZ REPUBLIC

By /s/ A. Chukin  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ R. Cheetham  
Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated ( Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Equipment and related services	10,600,000	100% of foreign expenditures
(2) Computer systems	280,000	100%
(3) Consultants' services:		
(a) under Parts A and B of the Project	110,000	100%
(b) under Part C of the Project	140,000	100%
(4) Training under Part C.3 of the Project	40,000	100%
(5) Refunding of Project Preparation Advance	320,000	Amounts due pur- suant to Section 2.02 (c) of this Agreement
(6) Unallocated	1,310,000	
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TOTAL	12,800,000 =====	

2. For the purposes of this Schedule, 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.

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 objectives of the Project are to modernize and develop the telecommunications network, upgrade the sectoral management skills to function in a market-oriented economy and to restructure the telecommunications sector.

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: Upgrading/Expansion of the Telecommunications Network  
by a Digital Overlay

1. Implementation of a new international exchange in Bishkek with a total capacity of about 1,000 trunks.
2. Upgrading and expansion of the long distance transmission facilities through the installation of digital microwave links between Bishkek and the cities of Osh, Jalal-Abad, Karakol, Talas and Narin.
3. Upgrading/expansion of the cable network in the cities where the new exchanges will be installed for 60% of the capacity of the new exchanges or about 26,000 lines.
4. Upgrading/expansion of the inter-exchange circuit capacity in the cities of Bishkek, Osh, Jalal-Abad, Talas and Narin through the installation of fiber-optic cables.
5. Upgrading/expansion of the multiplex equipment to interconnect the transmission links to the exchanges in about 5,000 channels.
6. Upgrading of local exchanges in Bishkek, Osh, Jalal-Abad, Cholpon-Ata, Karakol, Talas and Narin amounting to about 43,000 telephone lines.

Part B: Institutional Development

1. Strengthening of the operational and institutional capacity of the PIU.
2. Strengthening of the capacity of KT in accounting, finance, audit controls and practices, staff management, customer service and computerization and provision of scholarships for telecommunications related training abroad.
3. Training of executives and staff of KT in commercial practices in telecommunications, including management, finance, accounting, customer service/marketing and human resource development.

Part C: Telecommunications Sector Restructuring

1. Enhancing of a sector reform program and implementation plan, preparation of the telecommunications law and its implementation regulations, preparation of licenses to be issued on the basis of the new telecommunications law and preparation of interconnection agreements.
2. Training of MOC staff in telecommunications regulation and policy formulation.
3. Business training for selected individuals in developing and establishing entrepreneurial activities in the telecommunications sector.

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The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid

price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: 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 goods, 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 4 to this Agreement.

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

Section II. Employment of Consultants

1. In order to assist 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 (the Consultants' Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants' Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each in the case of firms and \$50,000 in the case of employment of individuals. However, this exception to prior Association review shall not apply to the terms of reference for such contracts or to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association or to amendments of contracts raising the contract value to \$100,000 equivalent or above in the case of firms and \$50,000 in the case of employment of individuals.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4)

set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount of \$250,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

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

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

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; 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; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

