

CONFORMED COPY

CREDIT NUMBER 2083 MAI

Development Credit Agreement

(Second Education Sector Credit)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 6, 1990

CREDIT NUMBER 2083 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 6, 1990, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated August 28, 1989, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the education sector of the Borrower's economy (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an

integral part of this Agreement:

(a) Section.9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit"; and

(b) the last sentence of Section 3.02 is deleted.

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) "MOEC" means the Borrower's Ministry of Education and Culture;
- (b) "PIU" means the Project Implementation Unit, established within MOEC;
- (c) "MCDE" means Malawi College of Distance Education;
- (d) "CER" means the Centre for Education Research;
- (e) "MIE" means Malawi Institute of Education;
- (f) "MANEB" means Malawi National Examinations Board;
- (g) "SBU" means the Schools Broadcasting Unit within MCDE;
- (h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (i) "MK" means Malawi kwacha, the currency of the Borrower.

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 twenty-nine million five hundred thousand Special Drawing Rights (SDR 29,500,000).

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 U.S. dollars a special account in a commercial 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1996 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 and 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 date in that year specified in Section 2.06 of this Agreement.

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 June 15 and December 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 semiannual installments payable on each June 15 and December 15, commencing June 15, 2000 and ending December 15, 2029. Each installment to and including the installment payable on December 15, 2009 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 time of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MOEC with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, educational and planning 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 six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the list withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and

(b) the Borrower has made changes in its education sector investment program for the period 1991 through 1994, without consultation with, and the concurrence of, the Association.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has adopted an education sector development and recurrent budget, for the period 1990/91 through 1994/95, satisfactory to the Association.

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

Representative 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
P.O. Box 30049
Lilongwe 3
Malawi

Cable address:

FINANCE
Lilongwe

Telex:

44407 MI

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 2033
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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 MALAWI

By /S/ Robert B. Mbaya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Paul Isenman

Acting 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) Civil works:		100% of foreign expenditures and 80% of local expenditures
(a)	40,000	
(b)	4,260,000	
(2) Equipment, furniture, vehicles, books and materials:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a)	3,260,000	
(b)	6,260,000	
(c)	810,000	
(3) Architectural and engineering services:		100% of foreign expenditures and 80% of local expenditures
(a)	3,000	
(b)	380,000	
(4) Technical Assistance:		100% of foreign expenditures and 80% of local expenditures
(a)	3,700,000	
(b)	32,000	
(c)	225,000	
(5) Training including fellowships:		100% of foreign expenditures and 80% of local expenditures
(a)	1,230,000	
(b)	135,000	
(6) Project Administration	965,000	80%
(7) Incremental Recurrent Costs:		100% up to March 31, 1993, and 70% thereafter
(a)	3,680,000	
(b)	230,000	
(8) Unallocated	4,290,000	
TOTAL	29,500,000	

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 recurrent costs" means salaries to be paid to new/additional staff recruited for the Project, operating costs including fuel, vehicles and equipment maintenance and data processing facilities.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement;

(b) in respect of Category 7 (a) unless the Association has received the trainee-teachers performance assessment and elimination plan pursuant to paragraph 4 (a) of Schedule 4 to this Agreement;

(c) in respect of Categories 2 (b) , 4 (b) , 5 (b) and 7 (b) unless:

(i) MOEC has carried out the first phase of its decentralization plan, satisfactory to the Association;

(ii) MOEC has implemented the new rules for admission to standard 1, and for repetition;

(iii) MOEC has adopted a plan, satisfactory to the Association, to reduce the scope of the curriculum for secondary schools;

(iv) MOEC has raised tuition fees at post-primary education institutions to 45 MK for secondary school students, and 280 MK for University students; and

(v) the Borrower has raised the education sector development budget for the fiscal years 1991-1992 through 1993-1994 to a level satisfactory to the Association.

(d) in respect of categories 1 (b), 2 (c), 3 (b) and 4 (c) unless:

(i) the Association is satisfied that MOEC has implemented the second phase of its decentralization plan, including the staff development program;

(ii) MOEC has raised tuition fees at post-primary education institutions to 60 MK for secondary-school students and 360 MK for University students;

(iii) MOEC has raised secondary-school boarding fees to 200 MK;

(iv) the Borrower has raised the education sector development budget for the fiscal years 1993-1994 through 1994-1995, to a level satisfactory to the Association; and

(v) the Borrower has discontinued the provision of exercise books and writing materials free of charge to secondary-school students.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in carrying out the second five-year phase of its Ten-Year Education Plan (1984/1985-1994/1995) and restructuring its education sector to improve the quality, equity and efficiency of the education system and the overall management of the sector, all in accordance with the Program.

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: Primary Education

1. Strengthening MIE's capability in curriculum development, materials development and in-service training through technical assistance, the recruitment of additional staff, the construction of about 6 low-cost staff houses and the acquisition of two vehicles.
2. (a) The development, production and distribution of teachers' guides and textbooks for the first four standards of the primary school system including the acquisition of microcomputers.

(b) The acquisition of about 3,000 sets of low-cost teaching aids for use in standard-1 classes.
3. (a) In-service training of about 4,500 teachers including the award of fellowships.

(b) Expansion of a teacher training college by an increase of about 360 student places.
4. Improvement of the school broadcasting system through an expansion of SBU's broadcasting facilities, the acquisition of about 5,000 radio-cassette players and training.
5. Improvement of MOEC's capability in the measurement of achievement at the primary school level through training and upgrading of the computer system.
6. Strengthening MOEC's supervision capability through the recruitment of about 30 additional inspectors and the acquisition of 60 motorcycles.
7. Acquisition of: (a) roofing materials for about 228 unroofed classroom blocks and about 406 teachers' houses in rural areas; and (b) furniture and equipment for about 3,000 classrooms.

Part B: Secondary Education

1. Construction, furnishing and equipping of about ten new double-stream MCDE centers.
2. Revision of the secondary school curriculum and the development, production and distribution of low-cost science equipment and kits and improvement of school libraries through training, fellowships, and the acquisition of books.
3. Strengthening of supervision capability of regional education offices through the acquisition of about six vehicles.

Part C: Post-secondary Education

Strengthening the faculty of commerce of the University of Malawi through technical assistance, fellowships and the acquisition of computers, including appropriate software and related equipment.

Part D: Institutional Development

1. Strengthening of MOEC's capacity to manage the education system through:
 - (a) training, workshops and the construction of about 28 staff houses in rural areas;
 - (b) training to strengthen MOEC's planning section; and
 - (c) awarding of fellowships and training to strengthen PIU.
2. Strengthening CER to carry out educational research for both primary- and secondary-school systems.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works 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).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Malawi may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

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

Part D: Other Procurement Procedures

1 Civil works for the construction of staff houses and MCDE centres under Part A.1 and Part B.1 of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association; provided however, that the aggregate price of contracts so awarded shall not exceed the equivalent of \$3,200,000.

2. Furniture may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association; provided, however, that the aggregate price of contracts so awarded shall not exceed the equivalent of \$1,800,000.

3. Furniture which cannot be procured on the basis of the procedures referred to in paragraph 2 above may be procured from small village joiners and carpenters; provided, however, that the aggregate price of contracts so awarded shall not exceed the equivalent of \$50,000.

4. Roofing materials may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association; provided, however, that the aggregate price of contracts so awarded shall not exceed the equivalent of \$1,100,000.

5. Instructional materials, including paper and pencils, estimated to cost less than the equivalent of \$5,000 per contract, up to an aggregate amount not to exceed the equivalent of \$2,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 10% 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, as referred to in Schedule 4 to this Agreement, 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

Program and Project Coordination

1. The Borrower shall continue to maintain the Committee on Monitoring and Evaluation, established and existing within MOEC, under the chairmanship of the Principal Secretary of MOEC. The Committee shall be responsible for the coordination of all activities related to the execution of the Program and the Project and shall, in particular, assist the Planning section of MOEC in: (a) coordinating the various sections of MOEC; (b) preparing periodic reports required for the timely preparation of annual progress reports; and (c) monitoring the implementation of policies contained in the Program.

MOEC shall forward to the Association periodic progress reports on the Program and the Project on a semi-annual basis, on March 31, and September 30 of each year.

2. The Committee shall adhere to performance indicators, satisfactory to the Association, to enable MOEC to monitor and evaluate improvements in the quality and efficiency of education.

3. The Borrower shall make adequate annual budgetary allocations for the implementation of the Program in the fiscal years 1990/91 through 1994/95. The Committee shall supervise MOEC's budgetary requests, to ensure that they are consistent with programmed activities, and the objectives of the policies and staffing envisaged in the Program.

4. MOEC shall by: (a) April 30, 1990 prepare and submit a plan, satisfactory to the Association, to determine the performance of trainee teachers at each stage of their three-year academic and practical training cycle and to eliminate poor performers; and (b) by July 31, 1990, (i) complete the preparation of appropriate teaching modules in sufficient numbers, and (ii) hire a teacher education specialist and coordinator and identify short-term consultants required for the implementation of the teacher education program.

5. The Borrower and the Association shall jointly review progress in the implementation of the Program not later than July 31 of each year. The Borrower shall thereafter implement the recommendations of such reviews for the proper implementation of the Program and the Project.

Technical Assistance

6. In order to assist MOEC and the various institutions and units responsible for the implementation of the Project, the Borrower shall ensure that appropriate experts and consultants are appointed as follows:

Part A of the Project

1. For MIE

A publishing manager, an editor with desk-top publishing skills, a curriculum evaluation specialist, and a specialist in the teaching of reading to young children to assist MIE develop and publish new primary school textbooks and teachers' guides.

2. For MCDE and SBU

A radio producer, a scriptwriter and a radio program evaluator to help develop new radio programs and a consultant to develop a radio maintenance system.

3. For MOEC

An expert in educational technology and teacher training.

4. For MANEB

An expert in examination design and assessment of educational achievement.

Part B of the Project

An expert in school libraries to assist in book-selection, and training in library-use.

Part C of the Project

Three lecturers in accounting for the Faculty of Commerce of the University of Malawi.

Part D of the Project

Short-term consultants in management and educational planning to assist MOEC headquarters; an architect, a quantity surveyor and an accountant to assist PIU; a full-time researcher in education and short-term consultants' services to assist CER in carrying out its research programs.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (7) 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 \$2,000,000 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 made 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.

