

CONFORMED COPY

CREDIT NUMBER 2500 SOL

(Third Education and Training Project)

between

SOLOMON ISLANDS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 29, 1993

CREDIT NUMBER 2500 SOL

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 29, 1993, between SOLOMON ISLANDS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January

1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "MEHRD" means the Borrower's Ministry of Education and Human Resources Development;

(b) "SICHE" means the Solomon Islands College of Higher Education;

(c) "IPU" means the Implementation and Planning Unit established and operating within MEHRD; and

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

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twelve million two hundred thousand Special Drawing Rights (SDR 12,200,000).

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 (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be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 Solomon Islands 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, 1999 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or

selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on March 15 and September 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 March 15 and September 15 commencing September 15, 2003 and ending March 15, 2033. Each installment to and including the installment payable on March 15, 2013 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, through MEHRD, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, engineering and financial 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 and works 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 report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance and Economic Planning
Ministry of Finance and Economic Planning
P.O. Box 26
Honiara, Solomon Islands

Telex:

76966337

For the Association:

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

Telex:

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.

SOLOMON ISLANDS

By /s/ Andrew Nori

Minister of Finance
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji

Regional Vice President
East Asia and Pacific

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	5,700,000	95%
2. Equipment, educational materials, textbooks, school supplies and furniture	1,500,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
3. Technical assistance (including professional services for civil works)	1,200,000	100%
4. Training	900,000	100%
5. Studies	100,000	100%
6. Project management and incremental operating costs	600,000	100% FY 1993 and 1994, 70% FY 1995 and 1996, 30% FY 1997 and 1998
7. Cyclone relief under Part F of the Project:		
(a) Civil works	1,300,000	100%
(b) Equipment, educational materials, textbooks, and school supplies	100,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost) and 70% of local expen- ditures for other items procured locally
8. Unallocated	800,000	
TOTAL	<u>12,200,000</u>	

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;

(c) the term "Project management and incremental operating costs" means:

(i) the additional administrative expenditures in relation to the management of the IPU, inter alia, (A) office supplies and equipment maintenance of the IPU, (B) local travel costs and per diem for IPU staff, and (C) salaries and allowances for the IPU principal accountant;

(ii) the amounts representing increases in the operating costs of the secondary schools under Part A of the Project not covered by the school fees;

(iii) the amounts representing increases in the operating costs of the School of Nursing and Health Studies under Part D of the Project not covered by the school fees;

(iv) operation and maintenance of the vehicles under Part D (i) and (ii) of the Project;

(v) travel costs, off-campus lodging and allowances for nurses under Part D (ii) of the Project; and

(vi) salaries and allowances for the additional SICHE staff under Part D (iii) of the Project; and

(d) the acronym "FY" means the Borrower's Fiscal Year commencing on January 1 and ending on December 31 of each calendar year.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$200,000 equivalent, may be made in respect of Categories (3) and (6) of the table in paragraph 1 of this Schedule, on account of payments made for expenditures before that date but after July 1, 1993;

(b) under Categories 1, 2 and 3 of the table in paragraph 1. above for the: (i) expansion and renovation of the secondary school under Part A of the Project located at Choiseul Bay (Choiseul province); and (2) junior secondary students facilities under Part A (ii) of the Project to be located at the existing primary schools in Gwaidinale (Malaita province), Honiara (Honiara Municipal Authority) and Santa Ana (Makira province), until the Borrower has entered into arrangements satisfactory to the Association to secure all land and rights in respect of land required for carrying out such Parts of the Project, and has furnished to the Association evidence satisfactory to the Association that such land and rights in respect of land are available for such purposes; and

(c) under Category 7 of the table in paragraph 1. above until the Borrower shall have furnished to the Association:

(i) pursuant to the school selection criteria and construction design set forth in paragraph 2 of Schedule 4 to this Agreement, a list of schools to be rehabilitated/reconstructed, including a detailed estimated costs per school, satisfactory to the Association; and

(ii) evidence satisfactory to the Association that the Borrower has secured all land and rights in respect of land required for carrying out Part F of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in (a) enhancing: (i) the quality of its educational system, and

equitable access to secondary education; (ii) the training and supply of nurses; and (iii) the efficiency and management of its educational system; and (b) its efforts to reconstruct the primary schools damaged by Cyclone Nina.

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:

(i) Expansion and renovation of about eight existing secondary schools (grades 7 through 11), located at the provinces of Malaita, Choiseul, Isabel, Temotu, Western and Guadalcanal, including workshops, science laboratories, furniture and equipment, construction of boarding places and staff housing, and provision of technical assistance; and

(ii) Construction of new facilities at five existing primary schools located at Gwaidinale (Malaita province), Honiara (Honiara Municipal Authority), Santa Ana (Makira province), Gizo (Western province) and Nguvia (Guadalcanal province) to accommodate, on a pilot basis, low-cost day junior secondary students (grades 7 through 9), including workshops, science laboratories, furniture and equipment, construction of staff housing, and provision of technical assistance.

PART B:

Carrying out of an advanced diploma program at SICHE aimed at developing a cadre of senior secondary teachers, including required fellowships, construction and furnishing of two staff houses, and provision of technical assistance.

PART C:

Provision of educational materials, textbooks and school supplies at the primary and secondary education levels, and of curriculum development for primary education, including the carrying out of in-service training of primary teachers in their effective use, the construction and equipping of a warehouse for storing educational materials, and the provision of a 3-ton transportation vehicle.

PART D:

Enhancing SICHE's current nurses training program through:

(i) the re-modelling and refurbishing of the facilities at the existing School of Nursing and Health Studies at the Kukum Campus of SICHE, including construction, equipping and furnishing of about five additional classrooms, a demonstration room, a library, administrative offices, staff houses and student boarding facilities, and the provision of vehicles;

(ii) the provision of off-campus lodging facilities, motorcycles and bicycles for the carrying out of the nurses training program at selected hospitals and rural health facilities in Guadalcanal and Malaita provinces; and

(iii) the provision of training and technical assistance for staff development of the School of Nursing and Health Studies at the Kukum Campus of SICHE.

PART E:

Carrying out of a program to improve efficiency and management of the Borrower's education system, inter alia, by:

(i) undertaking local and overseas training of MEHRD and SICHE staff;

- (ii) holding seminars and conferences;
- (iii) developing a management policy handbook;
- (iv) rationalization of MEHRD's budgeting and financial planning procedures;
- (v) carrying out of studies to review student examination and assessment procedures, to undertake the standardization of planning data, and to prepare future education projects; and
- (vi) provision of technical assistance.

PART F:

Rehabilitation/reconstruction of classrooms and staff housing at about 58 primary schools located in Guadalcanal, Makira and Temotu provinces which were damaged/destroyed by the Cyclone Nina of January 1993, including provision of educational materials, textbooks, equipment and school supplies.

* * *

The Project is expected to be completed by December 31, 1998.

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 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 1992 (the Guidelines). 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.

2. To the extent practicable, goods shall be grouped into bid packages each estimated to cost the equivalent of \$25,000 or more.

Part B : Preference for Domestic Contractors

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

Part C: Other Procurement Procedures

1. Supply of construction materials for the rehabilitation/reconstruction of primary schools under Part F of the Project, shall to the extent practicable, be grouped into bid packages each estimated to cost the equivalent of \$25,000 or more, and shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association. Supply of construction materials grouped into bid packages estimated to cost less than \$25,000 equivalent, up to an aggregate amount not to exceed \$200,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the

Guidelines, in accordance with procedures acceptable to the Association.

2. Labor and construction supervision of the civil works for the rehabilitation/reconstruction of primary schools under Part F of the Project shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Furniture may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

4. Miscellaneous equipment and school supplies in packages estimated each to cost less than \$25,000 equivalent, up to an aggregate amount not to exceed \$100,000 equivalent, and printing and distribution of educational materials and textbooks estimated to cost up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association; provided, however, that educational materials not to exceed 1,000 copies per contract may be printed and distributed by the Curriculum Development Center of MEHRD, in accordance with procedures satisfactory to the Association.

5. Proprietary curriculum materials and textbooks may be procured directly from publishers eligible under the Guidelines, 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 all contracts estimated to cost the equivalent of \$25,000 or more, and with respect to all contracts for the supply of materials, labor and construction supervision of the civil works under Part F of the Project, 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 withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 10 % is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. 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 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 Consultant Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank 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 \$10,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to the amendments of contracts raising the contract value to \$10,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out Parts A through E of the Project in accordance with action plans, educational performance indicators and implementation schedules satisfactory to the Association.

2. The Borrower shall carry out Part F of the Project in accordance with school selection criteria and construction designs satisfactory to the Association.

3. The Borrower shall maintain the IPU headed by an experienced and qualified officer, and vest it with such responsibilities, funds and qualified staff, including an education planner, a principal accountant, an implementation officer, and a procurement officer, as shall be required to enable the IPU to undertake the overall coordination of the Project.

4. By October 15, 1993 and thereafter by October 15 of each year, the Borrower shall carry out annual budgetary and formula based unit cost reviews to strengthen the financing of its education system, and, thereafter, exchange views with the Association on the findings and recommendations thereof.

5. By October 15, 1993 and thereafter by October 15 of each year, the Borrower shall carry out an overall annual secondary school teachers demand and supply analysis aimed at identifying the subject teachers needs in secondary schools, and thereafter, take all such action, satisfactory to the Association, to adequately address such needs.

6. By October 15, 1993, the Borrower shall furnish to the Association, for its review and comments, a proposed staff development training program for MEHRD and SICHE to commence on January 15, 1994, and thereafter, taking into account the Association's comments, implement such training program.

7. By October 15, 1994 and thereafter by October 15 of each year, the Borrower shall carry out annual reviews to assess Project implementation, and thereafter, inform the Association of the results of such reviews.

8. By June 30, 1994, the Borrower shall take all such action as shall be necessary to adopt and thereafter implement replenishment and distribution procedures for educational materials, satisfactory to the Association.

9. By January 1, 1994, the Borrower shall: (a) appoint a representative from the Borrower's Ministry of Health and Medical Services to the SICHE Council; and (b) create as a committee of the SICHE Council a nurse advisory committee, with membership and terms of reference satisfactory to the Association, to review, on an annual basis, the training needs and skills of the different categories of nurses, and thereafter, advise SICHE accordingly.

10. By May 1, 1994, the Borrower shall furnish to the Association, for its review and comments, proposed arrangements for the carrying out of the off-campus nurse training program under Part D (ii) of the Project, including lodging arrangements therefor, and thereafter, taking into account the Association's comments, implement such arrangements.

11. Pursuant to Section II of Schedule 3 to this Agreement, the Borrower shall employ, inter alia, the following consultants for the following periods:

(a) by November 1, 1993, management and procurement consultants for an aggregate period of about three staff years; and

(b) by February 1, 1994, architectural consultants for an aggregate period of about two staff years.

12. The Borrower shall carry out a mid-term review of Project implementation, and by October 15, 1996, inform the Association on the results of such review.

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 \$1,200,000 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.

