

CONFORMED COPY

CREDIT NUMBER 2756 CHA

Development Credit Agreement

(Iodine Deficiency Disorders Control Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 20, 1995

CREDIT NUMBER 2756 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 20, 1995, between PEOPLE'S REPUBLIC OF CHINA (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 Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to seven million dollars (\$7,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan are made;

(D) the Project will be carried out by the China National Salt Industry Corporation (CNSIC) (as defined in Section 1.02(b) of this Agreement) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to CNSIC the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan 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 among the Association, the Bank and CNSIC;

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 thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Basic Legislation" means: (i) Decree No. 163, dated August 23, 1994 adopted by the State Council of the Borrower and effective as of October 1, 1994, entitled "Regulations for the Iodization of Edible Salt to Eliminate Iodine Deficiency Disorders"; (ii) Decree No. 51, dated March 2, 1990, adopted by the State Council of the Borrower and effective as of March 2, 1990, entitled "Regulations on Salt Industry Administration"; (iii) Order No. MLI-1991-02 dated September 1, 1991 issued by the Borrower's Ministry of Light Industry and entitled "Implementing Measures for Management of Salt Industry Administration"; and (iv) the documents referred to in Section 1.02 (b) of this Agreement.

(b) "CNSIC" means the China National Salt Industry Corporation, a state enterprise established and operating pursuant to: (i) Document of the Borrower's State Economic Commission (1980) No. 80 dated February 28, 1980 entitled "Reply to Ministry of Light Industry Concerning the Establishment of CNSIC and Implementing Plan"; (ii) Document of the Borrower's Ministry of Light Industry (1990) No. 28 entitled "Circular Concerning Adjustment of Functions of CNSIC"; (iii) Document of the Borrower's Ministry of Light Industry (1991) No. 6 dated February 21, 1991 entitled "Circular Confirming Functions of CNSIC and China National Salt Industry Association"; and (iv) Business License No. 100004148 issued by the Borrower's State Administration of Industry and Commerce on September 2, 1992.

(c) "Enterprise Implementation Agreement" means, in respect of each Iodization Project, the implementation agreement to be entered into between the Project Province and the Salt Enterprise which is to carry out said Iodization Project, pursuant to Part B.1(a) of Schedule 3 to the Project Agreement.

(d) "Iodization Project" means a specific development project included in Part A of the Project which is to be carried out by a Salt Enterprise utilizing the goods procured by CNSIC for the purpose and to be financed out of the proceeds of the Credit or of the Loan.

(e) "Iodization Standards" means, the following minimum levels of iodine in edible salt: (i) 50 parts per million at the place of iodization; (ii) 40 parts per million at the factory gate; (iii) 30 parts per million at the retail level; and (iv) 20 parts per million at the household level.

(f) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement (the General Conditions Applicable to the Loan Agreement), and all schedules and agreements supplemental to the Loan Agreement.

(g) "NIDDEP" means the Borrower's National Iodine Deficiency Disorders Elimination Program, a program of objectives, policies and actions set forth in the letter dated May 5, 1995 from the Minister of Health of the Borrower to the Association, designed to eliminate iodine deficiency disorders in the Borrower's territory by the calendar year 2000.

(h) "Project Agreement" means the agreement among the Association, the Bank and CNSIC 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.

(i) "Project Implementation Unit" means the unit referred to in Part A of Schedule 2 to the Project Agreement.

(j) "Project Provinces" means, collectively, all of the provinces, autonomous regions and directly-administered municipalities of the Borrower, with which CNSIC has entered into a Provincial Implementation Agreement; and "Project Province" means any of the Project Provinces.

(k) "Provincial Implementation Agreement" means, in respect of each Project Province, the implementation agreement to be entered into between CNSIC and said Project Province in accordance with the provisions of Part B.2 of Schedule 2 to the Project Agreement.

(l) "Salt Enterprise" means, in respect of each Iodization Project, the salt producing or distributing enterprise with which a Project Province has entered into or proposes to enter into an Enterprise Implementation Agreement for the purposes of carrying out said Iodization Project.

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

(n) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and CNSIC pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and "Subsidiary Loan" means the loan provided under the Subsidiary Loan 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 seven hundred thousand Special Drawing Rights (SDR 12,700,000).

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 may, for the purposes of the Project, open and maintain in dollars a special deposit account in a financial institution acceptable to the Association, 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 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date 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.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 1 and September 1 commencing September 1, 2005 and ending March 1, 2030. Each installment to and including the installment payable on March 1, 2015 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause CNSIC to perform in accordance with the provisions of the Project Agreement all the obligations of CNSIC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CNSIC 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 the proceeds of the Credit and the proceeds of the Loan to CNSIC under a subsidiary loan agreement to be entered into between the Borrower and CNSIC, under terms and conditions which shall have been approved by the Association and the Bank, and which shall include terms whereby:

(i) the principal amount of the Subsidiary Loan shall be the equivalent in terms of Special Drawing Rights (determined as of the date or respective dates of withdrawal from the Credit Account or the Loan Account, as the case may be, or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the goods and services required for the Project and to be financed out of the proceeds of the Credit or of the Loan;

(ii) CNSIC shall repay the principal amount of the Subsidiary Loan over a period of fifteen (15) years, inclusive of a grace period of five (5) years; and

(iii) CNSIC shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to five percent (5%) per annum.

(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 the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project 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) shall be carried out by CNSIC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall: (a) take all measures necessary to ensure that each Project Province shall perform, in accordance with the provisions of the Provincial Implementation Agreement to which it is a party, all of the obligations of said Project Province therein set forth; and (b) not take or permit to be taken any action which would prevent or interfere with such performance.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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 was made; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a)(i) of this Section and 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 (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. In order to facilitate the achievement of the Borrower's objective of eliminating iodine deficiency disorders by the year 2000, the Borrower shall:

(a) carry out NIDDEP with due diligence and efficiency;

(b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out of NIDDEP and the achievement of the objectives thereof;

(c) prepare, under terms of reference acceptable to the Association, and furnish to the Association on or about March 15 in each fiscal year, commencing March 15, 1996, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (b) of this Section, on the progress achieved in the carrying out of NIDDEP during the twelve months preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of NIDDEP and the achievement of the objectives thereof during the twelve months following such date; and

(d) review with the Association on or about June 30 in each fiscal year, commencing June 30, 1996, each report referred to in paragraph (c) of this Section, and promptly take all measures required to ensure the efficient carrying out of NIDDEP during the following twelve month period and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

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) CNSIC 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 CNSIC will be able to perform its obligations under the Project Agreement.

(c) The Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CNSIC 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 CNSIC or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01(d) of the General Conditions, the following additional events are specified:

(a) the event specified in Section 5.01(a) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in Sections 5.01(c) and (d) of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) All conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

(b) The Subsidiary Loan Agreement has been executed on behalf of the Borrower and CNSIC.

(c) Provincial Implementation Agreements have been entered into between CNSIC and not less than 29 Project Provinces.

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 CNSIC and is legally binding upon CNSIC in accordance with its terms;

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

(c) that each of the Provincial Implementation Agreements referred to in Section 6.01(c) of this Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon said parties 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.

Section 6.04. The obligations of the Borrower under Section 4.02 of this Agreement and the provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Sanlihe
Beijing
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (MCI),
64145 (MCI) or
82987 (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.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell J. Cheetham

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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)	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods	12,630,000	5,760,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Consultants' services	70,000	40,000	100%
(3) Unallocated	—	1,200,000	
TOTAL	12,700,000	7,000,000	

2. For the purposes of this Schedule:

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

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,700,000 may be made on account of payments made for expenditures before that date but after February 25, 1995.

4. The Association may require withdrawals from the Credit Account, and the Bank may require withdrawals from the Loan Account, to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$200,000 equivalent; (b) services provided by consulting firms under contracts costing less than \$100,000 equivalent; and (c) services provided by individual consultants under contracts costing less than \$50,000 equivalent; all under such terms and conditions as the Association or the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce the incidence of iodine deficiency disorders in the Borrower's territory, consistent with the policies and objectives of NIDDEP.

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: Iodization Projects

The financing, through, inter alia, the acquisition of equipment and consultants' services by CNSIC and the provision thereof, on credit terms, through the

Project Provinces, to Salt Enterprises, of development projects to increase the production and distribution of iodized edible salt, such development projects to consist of:

- (1) upgrading of edible salt production facilities; and
- (2) installation of equipment required for salt iodization and for wholesale and retail packaging of iodized salt.

Part B: Technical Assistance

Strengthening the capabilities of the Project Implementation Unit in the areas of Project management, project accounting and financial management systems, information systems and market promotion and quality control, through the provision of consultants' services.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to the Development Credit 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,000,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR 5,000,000.

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 deposit into the Special Account of an amount or amounts 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 or the Loan 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 or the Loan 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 or the Loan 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 the Development Credit Agreement or from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Loan Account pursuant to the provisions of 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the uthorized Allocation.

Thereafter, withdrawal from the Credit Account and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 or the Bank) 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 or the Bank such outstanding amount.

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

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

