

CONFORMED COPY

CREDIT NUMBER 2513 MAI

Development Credit Agreement  
(Rural Financial Services Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 1, 1993

CREDIT NUMBER 2513 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 1, 1993, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated April 20, 1993, from the Borrower describing a program of objectives, policies and actions designed to strengthen the Borrower's agricultural sector (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;

(C) the Project will be carried out by Malawi Rural Finance Company (MRFC) with the Borrower's assistance and, as part of such assistance, the Borrower, through the Reserve Bank of Malawi, will make available to MRFC part of the proceeds of the Credit as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "RBM" means the Reserve Bank of Malawi, the Borrower's Central Bank;

(b) "BDU" means the Business Development Unit operating within MRFC;

(c) "DREA" means the Department of Research and Environmental Affairs in the Borrower's Office of the President and the Cabinet;

(d) "MSME" means the Micro, Small and Medium-Scale Enterprises operating within the territory of the Borrower;

(e) "MOA" means the Borrower's Ministry of Agriculture;

(f) "WID" means Women in Development;

(g) "End-users" means the private sector producers eligible for financing under the Project, including smallholder farmers (through farmers clubs), small estates and MSMES.

(h) "Sub-Projects" means the investment or non-investment projects eligible for financing under Parts A (i) and A (ii) of the Project;

(i) "Sub-Loans" and "seasonal credits" mean, respectively, the agreements to be entered into between MRFC and the End-users for the financing of sub-projects under Part A (i) and the agreements to be entered into between MRFC and End-users for the financing of sub-projects under Part A (ii) of the Project;

(j) "Project Agreement" means the agreement between the Association and MRFC 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;

(k) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower, through RBM, and Malawi Rural Finance Company 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;

(l) "Special Account" means any of the accounts referred to in Section 2.02 (b), and (c) of this Agreement;

(m) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 24, 1992 and December 2, 1992 between the Borrower and the Association;

(n) "SACA" means the Smallholder Agricultural Credit Administration within MOA;

(o) "Reference Rate" means the rate determined by RBM from time to time, for on-lending to MRFC reflecting the prevailing

average cost of term borrowings in the financial system; and

(p) "DEMATT" means Development of Malawi Traders' Trust.

## 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 eighteen million Special Drawing Rights (SDR 18,000,000).

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: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by MRFCA on account of withdrawals made by the End-users under a sub-loan or a seasonal credit to meet the reasonable cost of goods and services required for Sub-projects under Part A of the Project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B and C of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account (hereinafter referred to as Special Account A) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) The Borrower shall, for the purposes of Parts B and C of the Project, open and maintain in dollars a special deposit account (hereinafter referred to as Special Account B) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(d) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 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 canceled; 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 May 15 and November 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 May 15 and November 15 commencing November 15, 2003 and ending May 15, 2033. Each installment to and including the installment payable on May 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 upon 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.

Section 2.09. RBM is designated as representative of the Borrower in respect of Part A of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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: (i) cause MRFC to perform in accordance with the provisions of the Project Agreement all the obligations of MRFC

therein set forth; (ii) take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable MRFC to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower, through RBM, shall relend the equivalent of seventeen million dollars (\$17,000,000) out of the proceeds of the Credit to MRFC under a subsidiary loan agreement to be entered into between the Borrower and MRFC, under terms and conditions which shall have been approved by the Association and which shall include, inter alia, undertakings by (i) MRFC to: (A) onlend the proceeds of the Subsidiary Loan Agreement to the End-users; (B) to pay interest at the Reference Rate; and (C) repay the Subsidiary Loan in 15 years and (ii) the Borrower to bear the foreign exchange risk.

(c) The Borrower shall make available to MRFC, from the proceeds of the Credit, as equity contribution to MRFC's capital, an amount equivalent to eight million dollars (\$8,000,000) for the financing of Parts B and C of the Project.

(d) 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 3 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports maintenance and land acquisition, respectively) shall be carried out by MRFC pursuant to Section 2.04 of the Project Agreement.

Section 3.04. The Borrower shall take all actions and measures necessary to adopt and implement a privatization action plan for MRFC, satisfactory to the Association, with a view of ensuring the privatization of MRFC within a period of three years after the Effective Date.

Section 3.05. The Borrower shall prepare, not later than June 30, 1994, and thereafter implement a detailed action plan, satisfactory to the Association, to support women entrepreneurs, including guidelines on mobilizing women and women's groups and a methodology to orient, support and train them on microenterprise investments and operations.

Section 3.06. The Borrower shall cause RBM to submit to the Association for prior review the first three subloan documents processed by MRFC under part A (i) of the Project.

Section 3.07. The Borrower shall ensure that it shall not interfere with the process of selection of End-users, eligible for financing under Part A of the Project.

Section 3.08. The Borrower, in consultation with the Association, shall: (a) organize semi-annual reviews to evaluate the status and the general progress made in the implementation of the Project; and (b) by not later than November 30, 1995, or such later date as the Borrower and the Association shall determine and carry out, with the assistance of experts, a comprehensive review of Project implementation. The Borrower shall take such measures as shall be necessary to implement any corrective measures recommended as a result of the review.

Section 3.09. The Borrower shall take all measures necessary

to promptly transfer to MRFC the activities, assets and liabilities of SACA.

#### ARTICLE IV

##### Financial 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 9 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.

#### 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 portion thereof, will be carried out.
- (b) MRFC shall have failed to perform any of its obligations under the Project Agreement.
- (c) 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 MRFC will be able to perform its obligations under the Project Agreement.

(d) The Memorandum and Articles of Association of MRFC shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MRFC to perform any of its obligations under the Project Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of MRFC 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 paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 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) MRFC has appointed a General Manager and a Financial Controller whose qualifications are satisfactory to the Association; and

(b) the Subsidiary Loan Agreement has been duly executed by the Borrower, through RBM, and MRFC.

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

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, 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  
Capital City  
Lilongwe 3  
Malawi

Cable address:

Telex:

FINANCE

44407 MI

Malawi

For the Association:

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

Cable address:

Telex:

INDEVAS  
Washington, D.C.

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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/ Louis Chimango

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen Denning

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 Equivalents)	% of Expenditures to be Financed
(1) Goods and Services for:		
(a) Sub-projects under Part A (i) of the Project	1,450,000	100% of foreign expenditures and 90% of local expenditures
(b) Eligible Expenditures for incremental seasonal credit under Part A (ii) of the Project	10,100,000	100% of foreign expenditures and 90% of local expenditures
(2) Equipment and vehicles under Part B.1 of the Project	3,250,000	100% of foreign expenditures and 80% of local expenditures



(3) Technical Assistance under Part B of the Project	850,000	100%
(4) Studies and Training under Parts B and C of the Project	375,000	100%
(5) Operating Costs under Part B of the Project	375,000	90%
(6) Refunding of Project Preparation Advance	375,000	Amount due pursuant to Section 2.02 (d) of this Agreement
(7) Unallocated	1,225,000	
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TOTAL	18,000,000	=====

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;

(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 "incremental seasonal credit" means the amount by which the aggregate principal amount of credit, provided or to be provided, to rural households countrywide, in a crop year commencing on October 1 of a given year and ending on September 30 of the following year, exceeds the aggregate principal amount of such credit provided in the preceding crop year;

(d) the term "eligible expenditures" means expenditures for goods for incremental seasonal credit, over and above any such credit financed or to be financed from the proceeds of any loan, credit or grant, other than the Credit, under any scheme administered by MRFC; and

(e) the term "operating costs" means expenditures incurred for rental of office space and for costs associated with the operation and maintenance of vehicles, equipment and office supplies financed under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) expenditures with respect to Category (1) unless: (A) the MRFC has finalized its organizational structure and adopted a manual of policy and procedures, including guidelines for processing and administering Sub-loans and Seasonal Credit, satisfactory to the Association; and (B) the Borrower has transferred SACA's activities, assets and liabilities to MRFC.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the access to financial services for the rural sector, including the rural poor, on a sustainable basis, and to improve the policy and institutional framework for rural financial intermediation.

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: Line of Credit

A line of credit to be made available, through RBM, to MRFC for provision of: (i) short-term and medium-term financing of viable rural enterprises including farm and non-farm activities; and (ii) agricultural seasonal input credit to rural households.

Part B: Institutional Support:

1. Strengthening of MRFC through: (i) technical assistance in, inter alia, management and accounting; (ii) the acquisition of equipment, vehicles and supplies; (iii) the provision of office space and accommodation facilities for the first three years of MRFC's operation; and (iv) training.
2. Technical assistance to MRFC in: (i) preparing and implementing an action plan leading to MRFC's privatization; (ii) restructuring and conversion of MRFC into a full service rural bank; and (iii) in dealing with matters related to rural banking, rural credit and operating systems and training.
3. (a) Strengthening of BDU through: (i) technical assistance and consultants' services, in assessing and monitoring the impact of the Project on the End-users and in developing techniques for mobilizing financial resources and lending to the rural sector; and (ii) the acquisition of vehicles and equipment.

(b) Training of End-users by DEMATT.

Part C: WID Pilot Program

Carrying out of a pilot program to support income-generating activities for women and provide training for women entrepreneurs.

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The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 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 bid evaluation.
2. Goods to be procured through international competitive bidding shall be exempted from preshipment price inspection by a third party.
3. To the extent practicable, contracts for goods, including motorcycles and equipment, shall be grouped in bid packages estimated to cost the equivalent of \$100,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A (1) 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: Other Procurement Procedures

1. Items and groups of items, such as spare parts, estimated to cost less than the equivalent of \$20,000 per contract up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Items or groups of items under Part A of the Project, such as spare parts, equipment and agricultural inputs (including fertilizers, chemicals and seeds) may be procured under contracts awarded on the basis of procurement procedures consistent with commercial practices.

3. Equipment and spare parts required for compatibility with existing equipment may be procured on the basis of negotiated contracts 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 for goods and equipment 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 paragraph 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 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 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

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

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association 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 Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

#### SCHEDULE 4

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Category 1 set forth in the table in paragraph 1 of Schedule 1 to this Agreement, with respect to Special Account (A), and Categories (2) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, with respect to Special Account (B);

(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: (i) an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into Special Account (A); and (ii) an amount equivalent to \$300,000 to be withdrawn from the Credit Account and deposited into Special Account (B), all pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Accounts 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; and

(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 Parts A, B and C of 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; and

(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.

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