

CONFORMED COPY

CREDIT NUMBER 2543 ALB

Development Credit Agreement  
(Technical Assistance for Social Safety Net)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 30, 1993

CREDIT NUMBER 2543 ALB

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 30, 1993, between ALBANIA (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) Part A of the Project will be carried out by the Social Insurance Institute (SII) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SII a portion of the proceeds of the Credit as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

## General Conditions; Definitions

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

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

(a) "MOLSP" means the Borrower's Ministry of Labor, Social Protection, Emigration and Ex-Politically Persecuted People;

(b) "Law No. 7703" means the Social Insurance law of the Borrower dated May 11, 1993, as amended to the date of this Agreement;

(c) "Decision No. 249" means the Decision No. 249 dated June 5, 1992 of the Borrower's Council of Ministers, establishing SII, as amended to the date of this Agreement;

(d) "Decision No. 391" means the Decision No. 391 dated September 3, 1992 of the Borrower's Council of Ministers, approving the statute of SII, as amended to the date of this Agreement;

(e) "Project Agreement" means the agreement between the Association and SII 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;

(f) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and SII 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 Agreement;

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

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

(i) "Special Account" means either the MOLSP Special Account or the SII Special Account as the case may be; and

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter dated January 21, 1993 (PPF Agreement Letter ALB P791-0) between the Borrower and the Association, as amended to the date 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 three million nine hundred thousand Special Drawing Rights (SDR 3,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars two special deposit accounts, the MOLSP Special Account and the SII Special Account, each in a bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 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 semi-annually on February 15 and August 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 February 15 and August 15 commencing February 15, 2004 and ending August 15, 2033. Each installment to and including the installment payable on August 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 carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause SII to carry out Part A of the Project and to perform in accordance with the provisions of the Project Agreement all the obligations of SII therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and resources, necessary or appropriate to enable SII to perform such other obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without any limitation or restriction 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 Part B of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(d) The Borrower shall make a portion of the proceeds of the Credit available to SII on a grant basis, under a Subsidiary Agreement to be entered into between the Borrower and SII, under terms and conditions which shall have been approved by the Association.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Association and the Borrower hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by SII pursuant to Section 2.03 of the Project Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part B of the Project of the departments or agencies of the Borrower responsible for carrying out of the Project or any part thereof.

(b) 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.

(c) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) and (b)

(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 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) Law No. 7703 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the implementation of the Project.

(b) SII 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 SII will be able to perform its obligations under the Project Agreement.

(d) Decision No. 249 and Decision No. 391 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SII 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 SII 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) the Subsidiary Agreement has been executed on behalf of the Borrower and SII;

(b) the Social Assistance Law has been enacted in form and substance satisfactory to the Association; and

(c) the implementing regulations of Law No. 7703 has been enacted in form and substance satisfactory to the Association.

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

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

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economy 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 and Economy  
Bulevardi "Deshmoret e Kombit"  
Tirana, Albania

Telex:

4295 Komplan AB

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 (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.

ALBANIA

By /s/ G. Ruli

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ K. Dervis

Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	100,000	50%
(2) Goods:		100% of foreign expenditures,
(a) for Part A of the Project	600,000	100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(b) for Part B of the Project	400,000	
(3) Consultants' services and training:		100%
(a) for Part A of the Project	1,300,000	
(b) for Part B of the Project	700,000	
(4) Incremental operating costs:		35%
(a) for Part A of the Project	70,000	
(b) for Part B of the Project	30,000	
(5) Refunding of Project Preparation Advance	300,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	400,000	
TOTAL	3,900,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means operation and maintenance costs under the Project which would not have been incurred absent the Project and includes, inter alia, costs with respect to: (i) maintenance and operation of

equipment procured under the Project; and (ii) consumable office supplies and materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to implement reform of social insurance and social assistance programs, through policy development based on a new legal framework; (b) to strengthen the institutions responsible for planning, management, and administration of cash benefits; and (c) to strengthen and develop training, research and statistical institutions which could support social policy formation and implementation and monitoring/evaluation.

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: Social Insurance Reform

Strengthening the institutional capability of SII through the acquisition of equipment and the provision of staff training in order to:

1. Design policy development and financial management systems, including:

(a) the introduction of actuarial methods for assessment of contributions needed to meet the financial obligations of the scheme and to help the establishment of the Actuarial Service in the SII to monitor revenue-expenditure developments and forecast contribution needs;

(b) the development of financial planning and management systems, including a modern accounting system, for the newly established Social Insurance Fund and to help the establishment of the Financial Department in the SII; and

(c) the development of the capacity of the Social Policy Unit of the SII to carry out evaluations of the social impact of the reform and to develop policies to improve targeting of benefits and minimize adverse incentives.

2. Develop the collection and benefit delivery systems, by introducing new and improved systems for:

(a) the collection and recording of contributions at the individual level;

(b) the monitoring and collection of debt, and control of collection fraud;

(c) the determination and payment of benefits; and

(d) the control of recipient fraud and abuse.

3. Improve the information management and automation by establishing a Social Insurance Register (SIR) for personal identification and eligibility recording, and computerizing the data processing system of SII.

4. Strengthen the national and regional administration, including:

(a) the provision of staff training to increase their exposure to international standards of management of modern social insurance systems and to establish efficient administrative procedures within and between units, as well as between national and regional offices; and

(b) the establishment of a Project Coordinating Unit (PCU) as part of the structure of the SII.

#### Part B: Social Assistance Program Development

Strengthening the institutional capability of MOLSP through the acquisition of equipment and the provision of staff training in order to:

1. Design policy and program development, including:



(a) carrying out the necessary financial analysis in light of budgetary objectives and actual trends in numbers of unemployed and other long-term poor, and determining the appropriate budgetary allocation for the social assistance scheme;

(b) defining criteria for allocation of this budget among districts or municipalities and for defining eligibility criteria at the level of the individual family;

(c) drafting the necessary legislation; and

(d) defining the respective roles of the MOLSP and local governments, including the working relationship between these institutions and procedures for reporting, monitoring, inspection, etc.

2. Develop social welfare institutions, including the MOLSP, the local government administrations and the inspectorate involved in benefit delivery and its control, and related departments of the University of Tirana.

3. Develop poverty monitoring, including the establishment of a statistical database for:

(a) the development of poverty surveys;

(b) the carrying out of short-term pilot studies on poverty and labor force behavior to respond to the immediate needs for shaping social assistance policy and lay the ground for more regular surveys; and

(c) the improvement of administrative statistics.

\* \* \*

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

#### SCHEDULE 3

##### Procurement and Consultants' Services for Part B of the Project

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

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).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

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

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Albania 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

Items or groups of items estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$230,000, may be procured under contracts awarded on the basis of comparison of at least three price quotations obtained from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable 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 awarded in accordance with procedures under Part A, and the first two contracts which are awarded in accordance with paragraph 1 under Part C, 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 the Development Credit 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 consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the 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 \$30,000 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 amendments of contracts raising the contract value to \$30,000 equivalent or above.

#### SCHEDULE 4

##### Implementation Program for Part B of the Project

The provisions of this Schedule shall apply for the purposes of Section 3.01(c) of this Agreement.

1. The implementation of Project activities under Part B of the Project shall be vested in the Directorate for Social Assistance within MOLSP which shall be maintained and shall operate with staff and resources and terms of reference acceptable to the Association to coordinate and supervise the carrying out of the Project and the procurement of the goods and services thereunder.

2. The Directorate for Social Assistance shall be assisted by the Project Coordination Unit within MOLSP and the Directorate shall, in particular: (a) develop a detailed implementation plan for the fulfillment of Project activities under Part B of the Project satisfactory to the Association; (b) monitor the timely carrying out of the Project activities; and (c) prepare regular Project progress reports including the implementation status, issues and actions recommended, and performance targets for the next period.

3. The Borrower shall:

(a) by June 30, 1995, undertake jointly with the Association a mid-term review of the Project; and

(b) by March 31 and September 30 of each project year, submit to the Association consolidated report of the status of Project implementation.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (2)(b), (3)(b) and (4)(b) in the case of the MOLSP Special Account and Categories (1), (2)(a), (3)(a) and (4)(a) in the case of SII Special Account, as 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 \$260,000 in the case of the MOLSP Special Account and an amount equivalent to \$260,000 in the case of the SII Special Account, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.

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

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

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

