

CONFORMED COPY

CREDIT NUMBER 2833 IN

Development Credit Agreement

(Second State Health Systems Development Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 18, 1996

CREDIT NUMBER 2833 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 18, 1996, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated February 13, 1996, February 15, 1996 and February 8, 1996 from the State of Karnataka, the State of Punjab and the State of West Bengal respectively (collectively the Project States), each such letter describing a program of objectives, policies and actions to improve the primary and first referral levels of health care (hereinafter referred to as the Karnataka Health Sector Development Program, the Punjab Health Sector Development Program and the West Bengal Health Sector Development Program, respectively) and declaring the respective Project State's commitment to carry out its Health Sector Development Program;

WHEREAS (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) relevant parts of the Project will be carried out by the Project States and the Punjab Health Systems Corporation with the Borrower's assistance and, as part of such assistance,

the Borrower will make available to the Project States and to the Punjab Health Systems Corporation through the State of Punjab 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 of one part and the Project States and the Punjab Health Systems Corporation of the other part;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications 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 Bank 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "District Health Committees" means District Health Committees established in each district of Karnataka and West Bengal;
- (b) "DOHFW" means the Department of Health and Family Welfare of a Project State;
- (c) "Fiscal Year" or "FY" means the Fiscal Year of the Borrower, a Project State or PHSC beginning on April 1 of the calendar year and ending on March 31 of the following calendar year;
- (d) "Karnataka" means the Borrower's State of Karnataka, or any successor thereto;
- (e) "Ordinance" means the Punjab Health Systems Corporation Ordinance dated October 20, 1995 promulgated by the Governor of Punjab for purposes, inter alia, of establishing, expanding, improving and administering medical care in Punjab, and includes any subsequent legislation based on the Ordinance;
- (f) "PHSC" means the Punjab Health Systems Corporation constituted pursuant to the provisions of the Ordinance by a notification issued by the Governor of Punjab on February 1, 1996 and effective as of October 20, 1995;

(g) "Primary Level Health Services" means preventive and limited curative health services provided by sub-centers, primary health centers, community health centers and dispensaries in the Project States;

(h) "Project Agreement" means the agreement among the Association and State of Karnataka and State of Punjab and State of West Bengal and Punjab Health Systems Corporation 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 States" means Karnataka, West Bengal and Punjab collectively, and "Project State" means any one of them individually;

(j) "Punjab" means the Borrower's State of Punjab, or any successor thereto;

(k) "Regulations" means the Regulations dated February 15, 1996 issued by PHSC pursuant to the provisions of the Ordinance for the operation of PHSC and setting forth such matters as procedures for operation of the Board of PHSC, personnel policies, procurement policies and procedures, auditing and accounting arrangements, service improvements mechanisms and implementation of user charges;

(l) "Scheduled Castes" refers to the population groups specified as "Scheduled Castes" pursuant to Article 341 of the Constitution of India;

(m) "Scheduled Tribes" refers to the population groups specified as "Scheduled Tribes" pursuant to Article 342 of the Constitution of India;

(n) "Secondary or First Referral Level Health Services" means clinical, diagnostic and other services provided by community/rural, sub-divisional/taluka/state general and district hospitals in the Project States;

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

(p) "Strategic Planning Cell" means the strategic planning cell established within DOHFW;

(q) "Tertiary Level Health Services" means highly complex and technical medical services provided by specialized hospitals in the Project States;

(r) "Tribal and Backward Area Development Strategy" means the strategy dated October 17, 1995 of Karnataka and West Bengal, satisfactory to the Association, that is aimed, inter alia, at increasing the demand for, and improving the quality of medical and hospital services for the Scheduled Tribes in each such Project State and for the economically disadvantaged groups in the Sunderbans Area of West Bengal; and

(s) "West Bengal" means the Borrower's State of West Bengal, or any successor thereto.

## 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 two hundred thirty five million five hundred thousand Special Drawing Rights (SDR 235,500,000).

Section 2.02. (a) The amount of the Credit may be

withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project 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 the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2002 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 per cent ( $3/4$  of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing September 15, 2006 and ending March 15, 2031. Each installment to and including the installment payable on March 15, 2016 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 the Project States and PHSC to perform in accordance with the provisions of the Project Agreement all the respective obligations of the Project States and PHSC 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 the Project States and PHSC 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 make the proceeds of the Credit available to the Project States in accordance with the Borrower's standard arrangements for developmental assistance to the States of India and, in the case of Punjab, shall ensure that such proceeds are transferred as part of Punjab's grant contribution to PHSC in accordance with the provisions of the Ordinance.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 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) in respect of the Project shall be carried out by the Project States and PHSC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall participate in the carrying out of the mid-term review of the Project referred to in paragraph 12 of Schedule 2 to the Project Agreement.

### 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 nine 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) Any Project State or PHSC 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 any Project State or PHSC will be able to perform its obligations under the Project Agreement.
- (c) The Ordinance shall have lapsed, or the Ordinance or the Regulations shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PHSC to perform any of its obligations under the Project Agreement.
- (d) The Borrower, Punjab or any other authority having jurisdiction shall have taken any action for the dissolution or

disestablishment of PHSC or for the suspension of its operations.

(e) An event shall have occurred which shall make it improbable that the Karnataka Health Sector Development Program or the Punjab Health Sector Development Program or the West Bengal Health Sector Development Program or a significant part of any such Program will be carried out.

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 is specified as an additional matter, 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, namely, that the Project Agreement has been duly authorized or ratified by the Project States and PHSC respectively, and is legally binding upon each of them in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. 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

##### Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry 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:

The Secretary to the Government of India  
Department of Economic Affairs  
Ministry of Finance  
New Delhi, India

Cable address:

Telex:

ECOFAIRS  
New Delhi

953-3166175

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.

INDIA

By /s/ N. Valluri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Heinz Vergin

Acting Regional Vice President  
South 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		85%
(a) Karnataka	21,100,000	
(b) Punjab & PHSC	23,100,000	
(c) West Bengal	35,900,000	
(2) Equipment, vehicles, furniture, medicines, supplies and materials		100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items pro- cured locally
(a) Karnataka	29,800,000	
(b) Punjab & PHSC	21,000,000	
(c) West Bengal	42,900,000	
(3) Consultants' services, fellowships, studies and training		100%
(a) Karnataka	5,900,000	
(b) Punjab & PHSC	4,800,000	
(c) West Bengal	6,100,000	
(4) Incremental salaries, and incremental		90% until December 31, 1998, 75% until



operations and maintenance costs	December 31, 2000 and 40% thereafter
(a) Karnataka	12,100,000
(b) Punjab & PHSC	6,700,000
(c) West Bengal	7,400,000
(5) Unallocated	18,700,000
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TOTAL	235,500,000 =====

2. For the purposes of this Schedule:

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

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

(c) the term "incremental salaries" means salaries in respect of posts created for the Project on or after May 1, 1995, including in respect of contractual services; and

(d) the term "incremental operations and maintenance costs" means costs incurred under the Project on or after May 1, 1995 for the operations and maintenance of vehicles, equipment, furniture, buildings and offices.

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 6,800,000, may be made on account of payments made for expenditures before that date but on or after May 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for:

(a) goods and works under contracts not exceeding the equivalent of \$200,000 and \$300,000 respectively, under such terms and conditions as the Association shall specify by notice to the Borrower;

(b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants; and

(c) incremental salaries, and incremental operations and maintenance costs.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are: (i) to improve efficiency in the allocation and use of health resources in the Project States through policy and institutional development; and (ii) to improve the performance of the health care system in the Project States through improvements in the quality, effectiveness and coverage of health services at the first referral level and selective coverage at the primary level, so as to improve the health status of the people, especially the poor, by reducing mortality, morbidity and disability.

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: Management Development and Institutional Strengthening

1. Improving the institutional framework for policy development through the establishment of a Strategic Planning Cell to review and evaluate critical issues in the health sector, including private health care and insurance, burden of disease and cost-effectiveness of public health interventions, medical manpower, cost recovery mechanisms and sectoral resource allocation patterns.
2. Strengthening management and implementation capacity through: (i) provision of physical facilities in Karnataka and West Bengal; (ii) renovation and expansion of the office facility of PHSC and DOHFW in Punjab; (iii) provision of additional staff at the Head Office of DOHFW in Karnataka and West Bengal; (iv) reorienting the organizational structure of DOHFW in Karnataka and West Bengal and the PHSC in Punjab; (v) enhancing and extending the computerized system of data collection and utilization through the provision of hardware and software, and consultancy support; (vi) establishing trained and equipped information cells; (vii) training management staff in appropriate record keeping; (viii) introducing a revised medical record keeping system for in-patients and diagnostic services; and (ix) provision of support to PHSC for the promotion of health care activities in Punjab through private and voluntary organizations.
3. Developing surveillance capacity for major communicable diseases to cover the identification of cases through, inter alia, laboratory support, education of health workers and community involvement, and indexing of cases or isolation of cases and treatment.

Part B: Improving Service Quality, Access and Effectiveness at the First Referral Level

1. Renovation and extension of hospitals providing Secondary or First Referral Level Health Services and construction of staff quarters.
2. Strengthening and improving the effectiveness of clinical and support services at hospitals providing Secondary or First Referral Level Health Services through, inter alia, (i) establishment and application of streamlined norms and standards for technical services, staffing, quality assurance, contracting out services, and monitoring improvements in the quality of clinical care; and (ii) provision of training to strengthen staff skills in clinical and technical areas, to improve the quality of management services and enhance the capacity for equipment maintenance; and (iii) provision of training to enhance management and supervision capabilities of DOHFW in Karnataka and West Bengal and PHSC in Punjab in respect of essential operational activities, including construction and maintenance activities.
3. Improving the referral mechanism and strengthening linkages with the Primary Level Health Services and the Tertiary Level Health Services through, inter alia, (i) the provision of technical support to improve the quality of care at the Primary Level Health Services and the Secondary or First Referral Level Health Services; (ii) establishing and implementing referral and clinical management protocols; (iii) formulating and implementing mechanisms to provide greater access to Secondary Level Health Services and Tertiary Level Health Services in a timely and effective manner; and (iv) establishing and implementing an incentive system with differentiated fees for users and non-users of the referral mechanism.

Part C: Improving Access to Primary Health Care in Remote and Underdeveloped Areas

1. Renovation and extension of primary health centers providing Primary Level Health Services in the Sunderbans Area of West Bengal and establishment and operation of floating medical units to deliver effective health care in the riverine areas, including establishment and operation of a wireless communication system.

2. Increasing access to primary health care services among Scheduled Caste and Scheduled Tribe population in Karnataka through, inter alia, introduction of a system of annual health check-ups, establishment of health check-up camps, dissemination of general information related to implementing the referral mechanisms referred to in Part B (3) hereof and maintaining records of health check-ups.

\* \* \*

The project is expected to be completed by September 30, 2001.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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 \$17,000,000 to be withdrawn from the Credit 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 \$8,500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 29,000,000.

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

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than the equivalent of \$5,500,000 shall be made exclusively out of the Special Account. The Association may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

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 and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been 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;
- (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 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 pursuant to the provisions of Section 6.02 of the General Conditions; or
- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the Project, minus the total amount of all outstanding special commitments 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 for the Project 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.

