

CONFORMED COPY

CREDIT NUMBER 2878 YEM

Development Credit Agreement

(Public Works Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 17, 1996

CREDIT NUMBER 2878 YEM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 17, 1996, between REPUBLIC OF YEMEN (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; 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;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) the last sentence of Section 3.02 is deleted; and
- (b) the second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not

a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

- (a) "Investment Program" means any of the programs referred to in Paragraph (3) (b) of Schedule 4 to this Agreement;
- (b) "Manual of Procedures" means the PMU's manual dated July 14, 1996 specifying the PMU's managerial, financial, administrative, engineering and environmental policies and procedures for the execution of the Project and the eligibility criteria for selection of Subprojects;
- (c) "PMU" means the Project Management Unit established by the Borrower for implementation of this Project, referred to in Paragraph 3 (a) of Schedule 4 to this Agreement;
- (d) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated December 21, 1995 and May 9, 1996 between the Borrower and the Association.
- (e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (f) "Staff Service Rules" means the rules issued by the Steering Committee (as hereinafter defined) dated July 14, 1996 specifying the employment and personnel policies of the PMU;
- (g) "Steering Committee" means the Committee established and operating pursuant to Decree No. 3 of 1996, and to be maintained pursuant to Paragraph 2 (a) of Schedule 4 to this Agreement; and
- (h) "Subproject" means any activity to be financed under Part A of the Project that has been included in an Investment Program (as defined above).

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 seventeen million Special Drawing Rights (SDR 17,000,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Central Bank of Yemen on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) 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 June 30, 2000 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 (60) 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 semi-annually on November 1 and May 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each November 1 and May 1 commencing November 1, 2006 and ending May 1, 2036. Each installment to and including the installment payable on May 1, 2016 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 the Project with due diligence and efficiency and in conformity with appropriate managerial, financial, administrative, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) Before November 1 of each year commencing November 1, 1996, the Borrower shall furnish to the Association, for its review and comments, an estimate of: (i) the operational costs of the PMU for the subsequent year, and (ii) the counterpart funding required to be provided by the Borrower out of its own resources for Subprojects to be carried out during the subsequent year.

(d) Taking into account the comments of the Association, the Borrower shall ensure that adequate annual budgetary allocations are made prior to February 1 of each year to cover the counterpart funding required for the operational costs of the PMU and for the Subprojects to be implemented during such year.

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 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those

for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit 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.

(d) Not later than one month after the Effective Date, the Borrower shall appoint auditors acceptable to the Association for a four-year period in order to carry out the audits required under this Section.

ARTICLE V

Termination

Section 5.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Planning and Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Planning and Development

P.O. Box 175
Sana'a
Republic of Yemen

Cable address:

CENPLAN
Sana'a

Telex:

2266 CENPLAN YE

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:

248423 (MCI) or
64145 (MCI)

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 YEMEN

By /s/ Ahmad Al-Hamdi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Alastair J. McKechnie

Acting Regional Vice President
Middle East and North 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 Equivalent)	% of Expenditures to be Financed
(1) Civil Works under Part A of the Project	12,700,000	95% of expendi- tures incurred prior to January 1, 1998; 90% of expendi- tures incurred between January 1, 1998 and January 1, 1999; and 80% of amounts incurred thereafter

(2) Goods and Equipment under Part B(1) of the Project	300,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 95% of local expenditures for other items procured locally
(3) Furniture	200,000	95% of local expenditures
(4) Consultants' services	900,000	100%
(5) Operating Costs	700,000	100%
(6) Refunding of Project Preparation Advance	1,000,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	1,200,000	
TOTAL	17,000,000 =====	

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; and

(c) the term "Operating Costs" means expenditures for the operations of the PMU with regard to the Project, including: (i) office supplies; (ii) operation and maintenance of office equipment and vehicles financed out of the proceeds of the Credit; (iii) rental charges for the office; (iv) travel and per diems of its management and personnel; and (v) salaries of staff.

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 900,000, may be made on account of payments made for expenditures before that date but after March 1, 1996.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and services under contracts not exceeding \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to create short-term employment with a view to poverty alleviation through employment-intensive small scale development projects; (b) to improve environmental and sanitary conditions in the Borrower's territory; and (c) to promote community participation in works preparation and implementation.

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: Civil Works

Carrying out of high priority small scale development activities in the areas of:

1. Waste Management. Construction and rehabilitation of waste water collection systems and storm water drains, and collection of solid waste and disposal of such waste in sanitary landfills.
2. Urban Development. Laying of pipes for water distribution systems; repairing and cobblestone paving of streets and footpaths; and construction of storm water drainage and flood protection systems.
3. Rural Development. Repair of roads; laying of pipes and fittings for water distribution systems; and cleaning and repairing of irrigation canals.
4. Soil Conservation. Terracing of agricultural land and construction of small dams and drainage works for erosion control and soil reclamation.
5. Other Activities. Construction of health centers and school buildings and carrying out of other high priority small-scale development activities.

Part B: Project Management

1. Provision of office space, furniture, vehicles, and office equipment for operation of the PMU and the Steering Committee, and installation of accounting and management systems.
2. Provision of technical assistance to the PMU in order to enable the PMU to carry out the following activities:
 - (a) preparation of Subproject proposals, including engineering design and tender documents;
 - (b) monitoring and supervision of Subproject implementation, including construction supervision; and
 - (c) preparation of evaluation and progress reports.
3. Organization of local training workshops for non-governmental organizations, consulting firms and construction companies.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Competitive Bidding

Works shall be procured under contracts awarded in accordance with

the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$450,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Community Participation

Works under Subprojects to be carried out by community-based organizations shall be procured in accordance with procedures acceptable to the Association, as set forth in the Manual of Procedures.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first two contracts for goods and works and each contract for goods, works and consulting services estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Association in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Association shall be used.

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 for the employment of consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, and (d) amendments to

contracts for the employment of consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation of the Project

1. The Project shall be carried out by the Borrower through the Steering Committee and the PMU in accordance with the Manual of Procedures, as such manual may be updated from time to time by agreement between the Borrower and the Association.

2. (a) For the purpose of ensuring the proper coordination and execution of the Project, the Borrower shall maintain the Steering Committee, with membership and terms of reference satisfactory to the Association.

(b) The functions of said Steering Committee shall include, inter alia:

- (i) responsibility for investigation and recommendation of solutions to issues arising in the course of carrying out the Project;
- (ii) entering into and termination of contracts for high-level staff of the PMU in accordance with the Staff Service Rules;
- (iii) review and approval of the annual budget for the operation of the PMU and of Investment Programs;
- (iv) approval of contracts costing more than the equivalent of US\$200,000;
- (v) appointment of auditors and review of auditor's reports; and
- (vi) review of annual staff performance reviews to be carried out in accordance with the Staff Service Rules by January 31 of each year.

3. (a) For the purpose of ensuring the proper supervision of the execution of the Project, the Borrower shall maintain the PMU with organization, staffing and terms of reference satisfactory to the Association.

(b) The Borrower shall ensure that the PMU will:

- (i) prepare quarterly Investment Programs consisting of Subprojects that have been appraised in accordance with the Manual of Procedures;
- (ii) prepare summary environmental assessments identifying any potential adverse environmental effects to be produced by proposed Subprojects;
- (iii) furnish to the Association proposed Investment Programs for its approval;
- (iv) afford the Association a reasonable opportunity to review such proposed Investment Programs;
- (v) exchange views with the Borrower and the PMU on said proposals; and
- (vi) thereafter, carry out said Investment Programs, as approved by the Association, including measures to screen and mitigate any adverse environmental effects.

4. With regard to Part A (5) of the Project, the Borrower shall, from time to time:

(a) propose to the Association, for its review and approval, the financing out of the proceeds of the Credit of other activities that have a high labor content and positive impacts on the Borrower's economy, social development, education, health and environment; and

(b) upon the Association's approval of the respective proposals, the Borrower, through the PMU, shall arrange for the identification and appraisal of the corresponding Subprojects, to be submitted for the Association's approval as provided in Paragraph 3 (b) of this Schedule.

5. (a) The Borrower shall enter into agreements satisfactory to the Association with governmental organizations (including any local government agency of the Borrower), non-governmental organizations, community organizations, or private firms that are selected for the purposes of carrying out Subprojects, providing, inter alia, for: (i) the institutional and operational arrangements to be undertaken for the preparation of the Subprojects; (ii) their obligation to carry out the Subprojects with due diligence and efficiency and in accordance with appropriate managerial, administrative, engineering, environmental and financial practices; and (iii) the establishment and maintenance of separate records and accounts adequate to reflect in accordance with sound accounting practices the operation, resources and expenditures in respect of each Subproject.

(b) Except as the Association shall otherwise agree, the Borrower shall not amend or fail to enforce the provisions of the agreements referred to in paragraph (a) of this Paragraph.

6. The Borrower shall ensure that the PMU:

(a) maintains policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof; and

(b) without limitation or restriction upon the provisions of Sections 9.01 and 9.06 (a) of the General Conditions, furnishes the following reports, of such scope and in such detail as the Association may reasonably request:

(i) quarterly reports on the progress achieved in the execution of the Project, including quarterly audit reports, within one month after the end of each reporting period;

(ii) not later than January 31 of each year of Project implementation, a report integrating the results of the quarterly progress reports, including a review of performance indicators and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the subsequent period;

(c) review with the Association, not later than February 28 of each year until completion of the Project, or such later date as the Association shall request, the report referred to in subparagraph (b) (ii) hereof, and, thereafter, take all measures required to ensure the efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

(d) not later than January 31, 2000, the Borrower and the Association shall hold a mid-term exchange of views on the progress achieved in the carrying out of the Project, and thereafter, the Borrower shall take all measures necessary to ensure the efficient completion of the Project and the achievement of the objectives thereof, taking into consideration the results and conclusions of the report referred to in subparagraph (b) (ii) hereof and the Association's views on the matter.

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) 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 \$2,000,000 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 \$1,000,000 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 \$2,000,000.

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

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

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

