

CONFORMED COPY

CREDIT NUMBER 1851 MAI

(Smallholder Agricultural Credit Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 22, 1987

CREDIT NUMBER 1851 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 22, 1987, between REPUBLIC OF MALAWI (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

(B) the Borrower has applied to the International Fund for Agricultural Development (hereinafter called the Fund) for a loan and a grant in an amount equivalent to four million nine hundred fifty thousand Special Drawing Rights (SDR 4,950,000) as a loan (hereinafter called the Fund Loan) and an amount equivalent to four hundred thousand Special Drawing Rights (SDR 400,000) as a grant (hereinafter called the Fund Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Fund (hereinafter

called the Fund Financing Agreement).

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

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

(c) "OPC" means the Borrower's Office of the President and Cabinet;

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

(e) "ADD" means an agricultural development division within MOA;

(f) "RBM" means the Reserve Bank of Malawi, established pursuant to the Reserve Bank Act (Cap. 44:02 of the Laws of Malawi);

(g) "SCF" means the Smallholder Credit Fund, established pursuant to Section 17 of the Finance and Audit Act (Cap. 37:01 of the Laws of Malawi); and

(h) "MMF" means Malawi Mudzi Fund to be established by the Borrower for the carrying out of Part C of the Project.

#### 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 this Agreement, an amount in various currencies equivalent to four million six hundred thousand Special Drawing Rights (SDR 4,600,000).

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 shall, for the purposes of the Project, open and maintain in dollars a special account in a commercial bank 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.

Section 2.03. The Closing Date shall be June 30, 1995, 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 at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty (60) days after the date of this Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) The commitment charge shall be paid:

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 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 semiannual installments payable on each April 15 and October 15 commencing April 15, 1998, and ending October 15, 2027. Each installment to and including the installment payable on October 15, 2007, 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 abovementioned 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, through MOA and OPC, with due diligence and efficiency and in conformity with appropriate administrative, financial and agricultural 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.

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. The Borrower shall periodically review and revise interest rates to ensure that rates charged:

- (i) on smallholder agricultural credit; and
- (ii) on the pilot credit and savings scheme under Part C of the Project

are appropriate and in line with the overall interest rate structure in the Borrower's territory.

Section 3.04. The Borrower shall take all reasonable measures to ensure that the execution and operation of the Project are carried out with due regard to environmental factors, including the maintenance of appropriate agricultural pesticides control practices.

### 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 SCF, MMF and 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, 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 for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) as evidence of 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 contains 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.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that:

- (i) Subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
  - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
  - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
  - (B) adequate funds for the Project are available

to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in subparagraph (i) (B) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Fund Financing Agreement has been duly executed and delivered on behalf of the Borrower and the Fund, and all conditions precedent to the effectiveness of the Fund Financing Agreement, other than the effectiveness of this Agreement, have been fulfilled.

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.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

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

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

##### For the Borrower:

Ministry of Finance  
P.O. Box 30049  
Capital City  
Lilongwe 3  
Malawi

Cable address:

FINANCE  
Lilongwe

Telex:

4407 MI

##### 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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MALAWI

By /s/ Timon S. Manqwazu  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox  
Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Eligible Expenditures for incremental seasonal credit under Part A.1 of the Project	3,020,000	94%
(2) Medium-term credit under Part A.2 of the Project	700,000	90%
(3) Vehicles and equipment under Part B.1 of the Project	170,000	100%
(4) Technical assistance under Parts B.2 and B.5 of the Project	220,000	100%
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) Training under Part B.3 of the Project	170,000	100% of foreign expenditures
(6) Operating costs and maintenance	25,000	100% of foreign expenditures

(7) Unallocated	295,000
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TOTAL	4,600,000

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 "operating costs and maintenance" means the costs associated with the operation and maintenance of vehicles, office supplies and equipment provided under the Project;

(d) the term "incremental seasonal credit" means the aggregate principal amount of credit, repayable in less than a twelve-month period, provided or to be provided, to farmers' clubs or farmers countrywide, in a crop year commencing on October 1 of a given year and ending on September 30 of the following year, less the aggregate amount of such credit provided in the preceding crop year; and

(e) the term "Eligible Expenditures" means expenditures for goods for incremental seasonal credit, over and above any such credit financed or to be financed from the proceeds of any loan, credit or grant, other than the Credit and the Fund Loan, under any scheme administered by MOA.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) payments for study tours under Category (5) unless the Association shall have approved the candidates for, and the scope of, such study tours.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to transform the present area-based or project-based smallholder credit system into an efficient national smallholder credit system and to explore the possibility of providing credit to the rural poor to finance income-generating economic activities.

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: Credit:

1. Incremental seasonal credit to farmers for the purchase of inputs for crops and livestock.
2. Medium-term credit to farmers for financing on-farm and off-farm investments.

#### Part B: Institutional Support:

1. Strengthening SACA through recruitment of staff and the



provision of office space, transport, supplies and equipment.

2. Technical assistance to MOA in organizing and operating SACA and the national smallholder credit system.

3. Training for credit staff of MOA and farmers' clubs.

4. Planning and initiation of schemes to promote mobilization of savings in rural areas.

5. Carrying out of a study to assess constraints affecting the demand for on-farm and off-farm investments.

Part C: Pilot Credit and Savings Scheme:

A pilot credit and savings scheme for the rural poor.

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The Project is expected to be completed by December 31, 1994.

### SCHEDULE 3

#### Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding:

1. Except as provided in Part B 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 1985 (the Guidelines).

2. Vehicles, equipment and furniture shall be bulked together in bidding packages to the maximum extent practicable.

Part B: Other Procurement Procedures:

1. Vehicles, machinery and equipment, estimated to cost less than the equivalent of \$50,000 up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Farm tools, small equipment, ox-carts and minor on-farm works, financed through medium-term credit, may be procured through direct contracting.

Part C: Review by the Association of Procurement Decisions:

1. Review of invitations to bid, proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of each contract, required to be furnished to the Association pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines, shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of each such contract.

(b) With respect to each contract not governed by the preceding subparagraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for

such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of each contract, together with the other information required to be furnished to the Association pursuant to paragraph 3 of Appendix 1 to the Guidelines, shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

3. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants and experts, referred to in Schedule 4 to this Agreement, 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.

### SCHEDULE 4

#### Implementation Program

Parts A and B of the Project:

1. The Principal Secretary, MOA, shall have overall responsibility for the implementation and coordination of Parts A and B of the Project. The Borrower shall continue to maintain the National (Smallholder) Credit Committee to advise the Principal Secretary, MOA, on smallholder agricultural credit policies, procedures and use of financial resources.

The Committee shall consist of the Controller of Agricultural Services (National Rural Development Program), as Chairman, senior officials of MOA, Program Managers of ADDs and representatives of the Ministry of Finance, RBM and OPC.

2. Within the overall guidance and supervision of the Principal Secretary, MOA, assisted by the Credit Committee referred to in paragraph 1 above, the implementation of Parts A and B of the Project shall be carried out through SACA.

As a separate unit with departmental status within MOA, SACA shall be responsible for managing, at the national level, the smallholder agricultural credit system and SCF. SACA shall, in particular:

(a) pool in SCF all the assets and liabilities of the credit funds now existing in ADDs and rural development projects;

(b) establish guidelines for preparation of annual lending programs by ADDs and recommend to MOA management, for approval, the proposed annual lending programs and allocation of funds;

(c) establish operational guidelines and disbursement, accounting and reporting procedures to be applied by all ADDs, supervise and monitor implementation of lending programs, operational and financial performance of ADDs and operating results;

(d) ensure that all contractual obligations relating to credit operations in the area-specific projects, currently being financed by multilateral and/or bilateral financial institutions and donor agencies, are fully complied with;

(e) establish staffing norms and coordinate training programs for ADDs' credit and credit accounting staff;

(f) prepare action programs to:

(i) increase access of smallholders to institutional credit; and

(ii) promote savings by farmers' clubs and individual members in the Post Office Savings Bank or commercial banks and other financial institutions;

(g) maintain close linkages with the agricultural research, veterinary and extension services;

(h) explore possibilities for increasing and diversifying sources of supply for farm inputs and investments; and

(i) take appropriate measures to ensure the participation of women in farmer training programs to the extent of their representation among smallholders.

3. SACA shall be headed by a qualified and experienced administrator, assisted by a financial controller, two credit operations officers, one supply and marketing officer, two accountants and office support staff.

4. Promptly after the establishment of SCF, SACA shall deposit funds transferred to SCF into an interest-bearing account to be opened and maintained in RBM or a commercial bank.

5. In order to enhance the mobilization of rural savings, SACA shall, not later than April 30, 1988, establish a Savings Coordination and Promotion Committee, consisting of SACA's Administrator, as Chairman, and representatives of RBM, the commercial banks, the Post Office Savings Bank, Malawi Union of Savings Credit-Cooperatives and ADDs' Program Managers.

6. MOA shall:

(a) (i) appoint a consultant to carry out a study to critically assess the constraints affecting the uptake of medium-term investment credit by smallholders;

(ii) submit the recommendations of the study, for the Association's review, by not later than June 30, 1988; and

(iii) promptly, thereafter, take all measures necessary to implement the recommendations of the study; and

(b) by not later than June 30, 1988, review with the Association and determine any need for hiring consultants to further strengthen the monitoring and evaluation, and computer programming capability of MOA.

7. MOA shall, not later than April 30, 1988, appoint a credit/training expert to advise on organizing SACA and the credit system, and to assist in establishing credit training programs.

8. MOA shall, not later than June 30, 1988, review and submit for the Association's review and comments:

(a) the credit manual, new procedures on SCF operations and plans for the strengthening and administration of farmers clubs; and

(b) a plan for the gradual phasing-out of Governmental budgetary support of credit administration costs to be completed not later than September 30, 1989.

9. Subject to Section 3.03 of this Agreement, and paragraphs 6 and 8 of this Schedule, seasonal credit and medium-term credit under Part A of the Project shall be made in accordance with the procedures and terms and conditions specified in the credit manual of MOA.

10. SACA shall ensure that income generated by SCF is allocated to:

(a) reimburse MOA for salaries and allowances paid to, and other related expenditures incurred for, credit staff of SACA and ADDs;

(b) make provision for bad and doubtful loans made out of the resources of SCF;

(c) transfer to the Ministry of Finance an amount equivalent to interest at the rate of two percent (2%) per annum on the proceeds of the Credit and the Fund Loan utilized for Part A of the Project; and

(d) SCF general reserves.

11. MOA shall:

(a) not later than June 30 of each year, submit for the Association's review and comments, an annual training program for credit staff covering the twelve-month period commencing on the following October 1; and

(b) submit to the Association semiannual progress reports, including a summary of operations of each ADD's resources position, a statement showing arrears and loan collection ratios, and, by not later than July 30 of each year, the lending program for the subsequent year.

12. MOA shall, by not later than December 31, 1991, carry out a mid-term review of Parts A and B of the Project with the assistance of its monitoring and evaluation unit and, if required, of experts recruited for this purpose.

#### Part C of the Project

13. In order to carry out Part C of the Project, which shall be implemented under the overall supervision and guidance of OPC, the Borrower shall establish MMF not later than December 31, 1988.

The objectives and scope of MMF shall be reviewed by, and shall be satisfactory to, the Association.

14. Subject to the provisions of paragraph 13 above, the implementation of Part C of the Project shall be carried out by a committee which shall have a representative of OPC, as Chairman, and representatives of MOA, the Ministry of Community Services, and other appropriate departments and agencies, as members. The terms of reference of this committee, which shall act as a supervisory and advisory body in all matters relating to the implementation of the pilot scheme and its financing, shall be satisfactory to the Association.

15. An administrator, with qualifications and experience satisfactory to the Association and answerable to the committee referred to in paragraph 14 above, shall be appointed to head MMF.

16. Unless otherwise agreed by the Association and subject to Section 3.03 of this Agreement, credit to beneficiaries under

Part C of the Project shall be made without collateral and shall be repaid in fifty weekly installments.

17. MMF shall carry out a mid-term evaluation of Part C of the Project by not later than December 31, 1990.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (6) 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 Parts A and B of 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 of \$300,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 satisfactory evidence that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence, supporting the request for such deposit, furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account, for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Credit allocated to the Eligible Categories for Parts A and B of the Project, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A and B of the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit, allocated to the Eligible Categories for Parts A and B of 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or
- (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account.

