

CONFORMED COPY

CREDIT NUMBER 3106 IN

Development Credit Agreement

(Uttar Pradesh Diversified Agricultural Support Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 30, 1998

CREDIT NUMBER 3106 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 30, 1998, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association);

WHEREAS (A) The Association has received a letter dated February 17, 1998 from the State of Uttar Pradesh describing sector reforms that constitute the framework for improving the agricultural sector in Uttar Pradesh, including policy, institutional and administrative reforms (hereinafter called the Policy Reform Program), and declaring Uttar Pradesh's commitment to carry out such Policy Reform Program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project, described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(C) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an amount equal to seventy-nine million nine hundred thousand dollars (\$79,900,000) (the Loan);

(D) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan are made;

(E) the Project will be carried out by the State of Uttar Pradesh (Uttar Pradesh) with the Borrower's assistance and, as part of such assistance, the Borrower

will make available to Uttar Pradesh the proceeds of the Credit as provided in this Agreement; and the proceeds of the Loan as provided in the Loan 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 among the Association, the Bank and Uttar Pradesh;

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, as amended through December 2, 1997, (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Line departments" means the Departments of Agriculture, Dairy Development, Horticulture, Sericulture, Panchayati Raj and Animal Husbandry in Uttar Pradesh;

(b) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(c) "NGOs" means non-governmental organizations;

(d) "PCU" means the Project Coordination Unit established within Uttar Pradesh for assisting in carrying out the Project;

(e) "Project Agreement" means the agreement among the Association, the Bank and Uttar Pradesh of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(f) "Project Implementation Plan" means Uttar Pradesh's implementation plan for the Project dated February 27, 1998, and, including time-bound action plans, procedures and criteria agreed with the Association;

(g) "Project Preparation Advance" means the Project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters between the Borrower and the Association dated April 5, 1996 and April 22, 1996;

(h) "SAUs" means the State Agricultural Universities in Uttar Pradesh of C.S. Azad University of Agriculture and Technology, Kanpur; Narendra Deva University of Agriculture and Technology, Faizabad; and G.B. Pant University of Agriculture and Technology, Pant Nagar;

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

(j) "UPCAR" means Uttar Pradesh Council for Agricultural Research, a society established and registered under the Societies Registration Act, 1860; and

(k) "Uttar Pradesh" means the state of Uttar Pradesh of the Borrower, 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 thirty-seven million two hundred thousand Special Drawing Rights (SDR 37,200,000).

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) 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.

(c) 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, 2004 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 or 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 payment date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 15 and November 15 commencing November 15, 2008 and ending May 15, 2033. Each installment to and including the installment payable on May 15, 2018 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on

which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 objective of the Project 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 Uttar Pradesh to perform in accordance with the provisions of the Project Agreement all the obligations of Uttar Pradesh 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 Uttar Pradesh 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 Uttar Pradesh in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and 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) shall be carried out by Uttar Pradesh pursuant to Section 2.03 of 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 expenditure, 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 be 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 six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association and the Bank 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) Uttar Pradesh shall have failed to perform any of its obligations under the Project Agreement.

(b) Uttar Pradesh shall have failed to carry out the Policy Reform Program agreed in relation to the Project, or a significant part thereof.

(c) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Uttar Pradesh will be able to: (i) perform its obligations under the Project Agreement; or (ii) carry out the Policy Reform Program or a significant part thereof.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that any event specified in 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.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) All the conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

(b) The policy for maintenance of rural roads referred to in paragraph 18 of the Project Agreement has been furnished to the Association.

Section 6.02. 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 Uttar Pradesh and is legally binding upon Uttar Pradesh in accordance with its terms.

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

ARTICLE VII

Representatives of the Borrower; Addresses

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

Ministry of Finance of the Borrower are each 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, PIN 110001
India

Cable address:

ECOFAIRS
New Delhi

Telex:

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:

248423 (MCI)
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 New Delhi, India, as of the day and year first above written.

INDIA

By /s/ V. Govindarajan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin R. Lim

Country Director,
India

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and the Loan, the allocation of the amounts of the Credit and the Loan 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)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Civil works	14,400,000	32,300,000	80%

(2)	Equipment, materials and vehicles	4,600,000	10,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3)	Consultants' services (including NGOs' services) and training	7,600,000	16,900,000	100%
(4)	Research services	1,000,000	2,600,000	100%
(5)	Incremental operating costs	5,100,000	11,500,000	80% through March 31, 2000, 60% through March 31, 2002, and 40% thereafter
(6)	Refunding of Project Preparation Advance	800,000	_____	Amounts due pursuant to Section 2.02 (b) of this Agreement
(7)	Unallocated	3,700,000	6,100,000	
	TOTAL	37,200,000	79,900,000	

2. For the purposes of this Schedule:

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

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

(c) the term "incremental operating costs" means the incremental costs of operation and maintenance of additional buildings, equipment and vehicles, and salaries of additional staff, incurred for the purposes of carrying out the Project.

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 to exceed SDR 4,500,000 may be made on account of payments made for expenditures before that date but after August 31, 1997.

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 or works under contracts not exceeding \$200,000 equivalent; (b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, respectively; (c) training and fellowships; (d) works procured under force account; and (e) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Uttar Pradesh in increasing agricultural productivity through support for diversified agricultural production systems, promoting private sector development and improving rural infrastructure.

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 objective:

Part A: Technology Development

1. Enhancing Research Coordination

(a) Restructuring UPCAR through revision of its mandate, as necessary, staffing and operational procedures, to provide policy guidance and to promote and facilitate inter-institutional cooperation in agricultural research through provision of consultants' services, training, vehicles, office equipment, and incremental operating costs.

(b) Strengthening the offices of the Research Directors within the SAUs through provision of consultants' services, training, incremental operating costs and equipment.

2. Competitive Agricultural Research Program

Establishment of a competitive agricultural research program for enhancing the quality, relevance and accountability of agricultural research through financing of a demand driven, multi-disciplinary research program aimed at addressing key production and processing constraints of the agricultural production system in Uttar Pradesh.

3. Strengthening of Research Support for Technology Dissemination Activities

(a) Strengthening the capacities of the SAUs, line departments, farmers' organizations and participating NGOs for more effective research-extension-farmer linkages, through provision of training, study tours, access to relevant literature, equipment for participatory farming system research and on-farm experimentation/demonstration.

(b) Supporting activities undertaken by the SAUs and line departments to conserve and increase availability of improved genetic stock of crops/breeds to increase productivity through: (a) strengthening the infrastructure for conserving and developing biodiversity and improving some of the existing farms of the Department of Animal Husbandry to undertake breed improvement through multiplication, demonstration, distribution and training of private breeders; (b) establishment of Open Nucleus Breeding System for conservation and improvement of local cattle, sheep and goat breeds; (c) provision of breeding animals, vehicles, equipment, facilities for establishment of a data collection scheme for productivity changes, and rehabilitation of breeding farms; (d) improving post-quarantine handling facilities at Pant Nagar SAU to facilitate introduction of improved genetic materials of temperate and sub-tropical crops through provision of civil works, equipment and material, consultants' services, training and incremental operating costs; (e) carrying out of a study to examine the possibility of initiating a voluntary budwood certification scheme for private nurseries; and (f) formation of Horticultural Technology Advisory Groups for resolving production and marketing constraints.

Part B: Establishment of a Demand Driven Technology Dissemination System

Strengthening the participatory approach and linkages between the line departments, research organizations, private sector agencies, NGOs and farmers' organizations to assist with intensification and diversification of production systems, involving crops, livestock, horticulture and sericulture, and to make the extension services of the line departments more demand driven and accountable to farmers, through:

1. Rationalization and Reorientation of Public Extension Services

(a) Support for capacity building of the line departments to initiate farming systems approach to technology dissemination through redeployment and training of the existing staff within the line departments, provision of civil works, equipment and materials, vehicles, consultants' services and incremental operating costs.

(b) Decentralization of technical and managerial decision making to the technology teams at the district level through redeployment and training of existing staff or establishment of Agricultural Technology Management Agency (ATMA) with representation from all the key stakeholders.

2. Increasing the Role of the Private Sector in Input Supply and Support Services

Provision of training and consultants' services to small and medium sized

agri-businesses, including private veterinarians and para-veterinary (para-vet) programs, NGOs and farmers' organizations to upgrade their technological and managerial capacity to ensure that farmers are receiving high quality production inputs from the private sector.

3. Enhancing Participation by the Farming Community

(a) Establishment with the assistance of NGOs and consultants' services of: (i) the small village based savings and credit Self Help Groups among the farming community; and (ii) Commodity Groups/Associations.

(b) Provision of materials, equipment and training to member farmers.

4. Support for Human Resource Development and Enhanced Communications Capacity

(a) Provision of training through the State Institute for Rural Development (SIRD), State Institute of Agricultural Management (SIAM), and the National Institute for Agricultural Extension Management (MANAGE) to extension personnel of the line departments and other participating institutions.

(b) Strengthening of the SAUs extension directorates to facilitate research-extension linkage between the SAUs, line departments and other participating institutions through provision of equipment, training, consultants' services and incremental operating costs.

(c) Strengthening the training and communication capacity of SIRD, SIAM and offices of the line departments within the Project districts through provision of equipment, vehicles, training and incremental operating costs, and enhancing the electronic communication capacity to access technical information and backstopping from the research system.

(d) Carrying out of a study for developing a monitoring program to safeguard against child labor becoming a problem in the production and reeling stages in sericulture.

Part C: Support for Increased Private Sector Involvement and Public Private Partnership in Agri-business Development

1. Credit Mobilization and Facilitation

(a) Assisting in credit mobilization and facilitation through PCU to establish effective linkages between Self Help Groups and formal credit institutions.

(b) Provision of training, credit extension workshops, monitoring and evaluation studies, consultants' services and office equipment for the Bankers' Institute for Rural Development (BIRD).

2. Project Development Facility

Establishment of a Project Development Facility to facilitate private sector investors in establishing new ventures or in expanding current operations, for agro-business development.

Part D: Rural Infrastructure Development

1. Improvement and rehabilitation of about 1,600 km of rural roads, and preparation of a strategy for maintenance of such roads, training of the staff of the Public Works Department and provision of consultants services for technical examination and quality of works.

2. Improvement and rehabilitation of about 145 existing rural markets, about 13 cattle markets and two horticultural markets.

3. Strengthening the Directorate of Agricultural Marketing within the Department of Agriculture through provision of consultants' services, training, equipment and incremental operating costs.

Part E: Support for Project Management and Economic Analysis Unit

1. Strengthening the PCU through provision of staff, office equipment and incremental operating costs.

2. Establishment of an Agricultural Management Center at the Indian Institute of Management at Lucknow for carrying out monitoring and evaluation of the Project.

3. Establishment, within PCU, of an Economic Policy Analysis Unit, to analyze the impact of agricultural policies on rural development.

* * *

The Project is expected to be completed by September 30, 2003.

SCHEDULE 3

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 the Development Credit 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$6,500,000 to be withdrawn from the Credit Account or the Loan 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 \$3,500,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR 25,000,000.

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan 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 or the Loan 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 the Development Credit Agreement or from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto;

(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, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 or the Loan Account pursuant to the provisions of 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 or the Bank) 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 or the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association or the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association or the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement or the Loan Agreement, including the General Conditions applicable thereto.

