

CONFORMED COPY

CREDIT NUMBER 2327-MAL

(Third Fisheries Project)

between

REPUBLIC OF MALDIVES

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 20 , 1992

CREDIT NUMBER 2327-MAL

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 20, 1992, between REPUBLIC OF MALDIVES (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) (1) the Norwegian Agency for Development Cooperation (NORAD) and Eksportfinans will enter into an agreement whereby NORAD will undertake to make grant funds available to assist in financing part of the Project, and (2) the Borrower intends to contract from Eksportfinans a mixed credit (the Eksportfinans Mixed Credit) in an amount equivalent to \$6,700,000 to assist in financing part of the Project on the terms and conditions set forth in an Agreement (the Eksportfinans Mixed Credit Agreement) to be entered into between the Borrower and Eksportfinans;

(C) the Borrower intends to contract from the Swedish Agency for International Technical and Economic Cooperation (BITS) a credit (the BITS Credit) in an amount equivalent to \$2,400,000 to assist in financing part of the Project; the terms and conditions of the BITS

Credit will be set forth in an Agreement between the Borrower and Nordbanken, as the appointed Swedish bank;

(D) the Borrower intends to contract from the Nordic Development Fund (NDF) a credit (the NDF Credit) in an amount equivalent to \$5,600,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the NDF Credit Agreement) to be entered into between the Borrower and NDF;

(E) the OPEC Fund for International Development (OPEC Fund) has agreed to make a loan (the OPEC Fund Loan) to the Borrower in an aggregate principal amount equivalent to \$2,600,000 to assist in financing the Project on the terms and conditions set forth in an Agreement between the Borrower and the OPEC Fund (the OPEC Fund Loan Agreement);

(F) the United Nations Development Programme (UNDP) has agreed to make a grant (the UNDP Grant) to the Borrower in an aggregate principal amount equivalent to \$300,000 to assist in financing the Project on the terms and conditions set forth in an Agreement between the Borrower and UNDP (the UNDP Grant Agreement);

(G) the Borrower, OPEC Fund and the Association intend to enter into an agreement making arrangements for the Association to process applications for withdrawal of the proceeds of the financing to be provided severally by OPEC Fund and the Association and regulating certain other matters of common interest in connection with such financing; 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 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) "EPCS" means the Economic Planning and Coordination Section within MOFA;

(b) "ERU" means the Environment Research Unit within MPE;

(c) "FPID" means the Fisheries Projects Implementation Department of STO;

(d) "MOFA" means the Borrower's Ministry of Fisheries and Agriculture;

(e) "MPE" means the Borrower's Ministry of Planning and Environment;

(f) "MTI" means the Borrower's Ministry of Trade and Industry;

(g) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter agreement dated June 3, 1991 between the Borrower and the Association;

(h) "SLA" means the Subsidiary Loan Agreement referred to in

Section 3.01 (c) of this Agreement;

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

(j) "STO" means the Borrower's State Trading Organization established under Law No. 3/68J dated November 11, 1968.

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 seven million six hundred thousand Special Drawing Rights (SDR 7,600,000).

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 United States Dollars a special deposit account in Maldives Monetary Authority 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 cancelled.

Section 2.03. The Closing Date shall be December 31, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date 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 semi-annually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing February 15, 2002 and ending August 15, 2031. Each installment to and including the installment payable on August 15, 2011 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 administrative, environmental, financial and fisheries 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) The Borrower shall relend an amount of \$2,600,000 equivalent out of the proceeds of the Credit to STO/FPID under a subsidiary loan agreement to be entered into between the Borrower and STO/FPID under terms and conditions which shall be satisfactory to the Association, including, repayment in 15 years after 5 years of grace with interest of 13% per annum and the foreign exchange risk to be borne by the Borrower.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests

of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for 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.

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 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, including without limitation on the foregoing, unaudited accounts not later than three months after the end of each such year.

(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 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.

Section 4.02. Prior to committing to a cannery on Laamu atoll or a freezing/cold storage facility in the north (Haa Alifu/Haa Dhaalu), the Borrower shall inform the Association of the details of such investments.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) Law No. 3/68J dated November 11, 1968 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the Project;

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of STO or for the suspension of its operations;

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of any loan or grant 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 thereof, 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 premature ending 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 events are specified:

(a) any event specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur; and

(b) any event specified in paragraph (c) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) all conditions precedent to the effectiveness of the Eksportfinans Mixed Credit, BITS Credit, NDF Credit Agreement and OPEC Fund Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and STO/FPID.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and STO/FPID and is legally binding upon the Borrower and STO/FPID 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.

Section 6.04. The obligations of the Borrower under Section 4.02 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of State for 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
Male
Maldives

Telex:

66032
FINANCE

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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 MALDIVES

By /s/ Fathulla Jameel
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shahid Javed Burki
Acting Regional Vice President
East Asia and Pacific

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	3,380,000	64%
(2) Equipment and materials	20,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 90% of local expenditures for other items procured locally
(3) Vessels	70,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 90% of local expenditures for other items procured locally
(4) Consultants' services and training	2,250,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) Refunding of Project Preparation Advance	1,140,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	740,000	
	<hr/>	
TOTAL	7,600,000 =====	

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; and

(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.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase fish production, increase the Borrower's revenues and foreign exchange earnings, increase the income of fishing households, reduce migration to the capital, and create an environment for increased private sector participation in the fisheries sector.

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: Construction of a port at Kooddoo in Gaafu Alifu for fishing dhonis and collector vessels, including a deep-water berth for direct loading of frozen fish onto reefer vessels.

Part B: Construction of a fish freezing/cold storage complex at Kooddoo in Gaafu Alifu, including a 100 ton/day brine freezing and chilling plant, a cold storage facility with a capacity of 1,500 tons, a 30 ton/day ice plant with 60 ton storage capacity, related support facilities such as power and water desalination plants, workshops, stores, offices and staff housing, and acquisition of related equipment such as fish containers, forklifts, cranes and miscellaneous other equipment.

Part C: Strengthening the atoll-wide fish collection system by providing, inter alia, three new and four retrofitted existing collector vessels equipped with refrigerated sea water systems, and providing navigational lights and one mooring tug.

Part D: Strengthening the Borrower's implementation capacities by providing technical assistance:

1. for the Project Implementation Unit in FPID to undertake technical studies and prepare detailed design of project facilities, procurement, and supervision of the construction work; and provision of training to staff;

2. to strengthen FPID's financial controls, and to review FPID's present and planned business operations, organization structure and links to STO, manning charts, financial structure and systems, procedures and reporting formats, and legal structure;

3. to MTI, for preparation of an action plan for detailed design and implementation of a framework to facilitate and encourage private sector participation in the collection, processing, and exporting of fish;

4. to MOFA for strengthening fisheries research and collection of fisheries statistics, further improve the design of fishing vessels, and strengthening EPCS's ability to advise the Borrower on fish pricing and related policies by, inter alia, developing a transparent pricing formula for fresh tuna; and provision of training to staff; and

5. to MPE, for strengthening its ERU by carrying out an environmental baseline survey and impact assessment and providing a specialist to assist ERU in designing and monitoring key environmental parameters and in training ERU staff in the collection and management of environmental data.

* * *

The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, works 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. Bidders for works shall be prequalified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for works shall be grouped into a single bid package.

Part B: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Materials and equipment, up to an aggregate amount equivalent to \$24,000, shall be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Contracts for construction of two prototype fishing vessels shall be awarded to Alifushi boatyard or to another qualified local builder, after direct negotiations with the builder, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract estimated to cost the equivalent of more than \$40,000, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

3. The figure of 15% 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 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

1. The Borrower shall maintain, until completion of the Project, a Project Coordinating Committee with a chairperson, membership, powers and functions satisfactory to the Association.
2. The Borrower shall, by June 30, 1993, establish a Presidential Committee which shall periodically, but not less than every six months, review the proposals and analysis submitted to it by EPCS, with a view to deciding tuna prices for the next period.
3. The Borrower shall ensure that the Association shall be given an opportunity to comment on the specifications and contract terms and conditions of the refrigeration plant prior to issuing bidding documents.
4. The Borrower shall establish, within MOFA, an Economic Planning and Coordination Section (EPCS) and shall, by June 30, 1992, have appointed an experienced economist to head EPCS. With the assistance of a macroeconomist and a resource/microeconomist, EPCS shall, not later than June 30, 1993, develop a transparent pricing formula for fresh tuna, and carry out an analysis of the economic, price, and fiscal incentives to fishermen and processors to increase fish production and exports as well as the contributions of the fisheries sector to the Borrower's economy. EPCS shall, thereafter, carry out and furnish such analysis to the Presidential Committee mentioned above at least every six months.
5. The Borrower shall furnish, or cause to be furnished, to the Association, at least 12 months before the commencement of operations of the Kooddoo fish freezing complex, detailed staffing plans for the complex, which plans shall be acceptable to the Association.
6. The Borrower shall ensure that the fisheries sector activities of STO/FPID shall at all times be under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.
7. By December 31, 1994, the Borrower shall have allocated at least 15 of the newly constructed dhonis in the atolls of Gaafu Alifu and Gaafu Dhaalu.
8. The Borrower shall carry out, or cause to be carried out, by March 31, 1993, a detailed interim review of the Project and related activities in consultation with the Association and others providing financing for the Project.
9. The Borrower shall, by December 31, 1992, take all measures required to prohibit the digging for turtle eggs and the taking of live turtles on and around the island of Kooddoo.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

