

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3748 SL

Development Credit Agreement

(National Social Action Project)

between

REPUBLIC OF SIERRA LEONE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 2, 2003

Public Disclosure Authorized

CREDIT NUMBER 3748 SL

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 2, 2003, between REPUBLIC OF SIERRA LEONE (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 (the Project), has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the National Commission for Social Action (NaCSA) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the Credit provided for in Article II of this Agreement (the Credit) available to NaCSA, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and NaCSA (the Project 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 (as amended through October 6, 1999) (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 and the following additional terms have the following meanings:

(a) "Beneficiary" means any community that has met the eligibility criteria set out, or referred to, in the Schedule 2 of the Project Agreement to which NaCSA intends to make or has made a Grant (as hereinafter defined) for carrying out a Subproject (as hereinafter defined);

(b) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 3.02 (b) of the Project Agreement;

(c) “Fiscal Year” or “FY” means the Borrower’s fiscal year commencing on January 1, and ending on December 31, of each year;

(d) “Grant” means a grant made or proposed to be made by NaCSA out of the proceeds of the Credit to a Beneficiary for a Subproject (as hereinafter defined) pursuant to Part A of the Project;

(e) “Grant Agreement” means the agreement to be entered into between NaCSA and a Beneficiary for the purposes of providing a Grant, pursuant to Part A of the Project and Schedule 2 of the Project Agreement, as the same may be amended from time to time;

(f) “IEC” means information, education and communication;

(g) “Leones” means the currency of the Borrower;

(h) “National Commission for Social Action” or “NaCSA” means the entity established as an autonomous juridical person, and operating, pursuant to the Borrower’s National Commission for Social Action Act, 2001 (Act No. 13 of 2001), as said Act may be amended from time to time for the purpose of promoting community-based, demand driven and sustainable development activities;

(i) “Operations Manual” means the NaCSA Operations Manual adopted by NaCSA, on February 14, 2003, including all annexes thereto, which sets forth the policies and procedures for the carrying out of the Project, as the same may be amended from time to time with the prior agreement of the Association;

(j) “Project Account” means the account referred to in Section 3.03 of this Agreement;

(k) “Project Agreement” means the agreement between the Association and NaCSA 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;

(l) “Regional Project Approval Committee” means the project approval committee referred to in Schedule 2 of the Project Agreement, chaired by NaCSA in each of the Borrower’s regions;

(m) “Sierra Leone Roads Authority” or “SLRA” means the entity established pursuant to the Borrower’s Sierra Leone Roads Authority Act, March 19, 1992, published in Sierra Leone Gazette Volume CXXIII No. 18;

(n) “SLRA MOU” means the memorandum of understanding between NaCSA and SLRA referred to in Schedule 1, paragraph 3 (b) of this Agreement;

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

(p) “Subproject” means a specific community-based development project to be carried out under Part A of the Project utilizing the proceeds of a Grant; and

(q) “Subsidiary Financing Agreement” means the agreement to be entered into between the Borrower and NaCSA pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Financing Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty five million, four hundred thousand special drawing rights (SDR 25,400,000).

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 (i) 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; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by NaCSA to a Beneficiary on account of withdrawals made under a Grant to meet the reasonable cost of goods and services required for a Subproject in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate, special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. 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 December 31, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.04 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 shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing September 1, 2013, and ending March 1, 2043. Each installment to and including the installment payable on March 1, 2023 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 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.

Section 2.09. The Minister of Finance, and any person whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause NaCSA to perform in accordance with the provisions of the Project Agreement, all the obligations of the Project Agreement therein set forth, shall take and cause to be taken all action, including the provision of funds (which shall include counterpart funds), facilities, services and other resources, necessary or appropriate to enable NaCSA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) To enable NaCSA to meet its obligations under Schedule 2, Section I (2), of the Project Agreement, the Borrower shall take all measures on its part to ensure that NaCSA shall at all times be under the management of a qualified Commissioner and Deputy Commissioner, whose qualifications, skills mix, and terms of reference are consistent with Section 14 of the National Commission for Social Action Act, 2001 (Act. No. 13 of 2001), and under the governance and general supervision of a qualified Board of Directors.

(c) The Borrower shall make the proceeds of the Credit available to NaCSA under a Subsidiary Financing Agreement to be entered into between the Borrower and NaCSA, under conditions which shall have been approved by the Association.

(d) The Borrower shall exercise its rights under the Subsidiary Financing 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 Financing 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 1 to the Project Agreement.

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution to the financing of the Project:

(a) open and maintain, for the duration of the Project, an advance account

(hereinafter referred to as the Project Account) in Leones in a commercial bank on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial advance equivalent to \$360,000, and thereafter replenish the Project Account on a quarterly basis, or whenever the balance of the Project Account is less than \$50,000 equivalent, whichever occurs first; and

(c) ensure that funds deposited into the Project Account shall be used only for the purposes of defraying the cost of expenditures incurred in the execution of the Project which are not financed out of the proceeds of the Credit.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by NaCSA 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 separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than 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 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 (1) of the General Conditions, the following additional events are specified:

(a) NaCSA shall have failed to perform any of its obligations under the Project Agreement;

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that NaCSA will be able to perform its obligations under the Project Agreement; and

(c) National Commission for Social Action Act, 2001 (Act No. 13 of 2001) of the Borrower, establishing NaCSA, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the legal status, operations or financial condition of NaCSA or its ability to perform any of its obligations under the Project Agreement.

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) that NaCSA has appointed an independent auditor to conduct the Project audits for Fiscal Years 2004-2006, in accordance with the provisions of Section II of Schedule 1 to the Project Agreement;

(b) that the Borrower has made the initial deposit of \$360,000 equivalent into the Project Account as referred to in Section 3.03 (b) of this Agreement; and

(c) that the Subsidiary Financing Agreement has been executed by the Borrower and NaCSA.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by NaCSA, and is legally binding upon NaCSA in accordance with its terms; and

(b) that the Subsidiary Financing Agreement has been duly authorized or ratified by the Borrower and NaCSA and is legally binding upon the Borrower and NaCSA 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

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
Ministerial Building
George Street
Freetown
Sierra Leone

Facsimile: 232 22 228 472

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	(202) 477-6391
Washington, D.C.	64145 (MCI)	

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

REPUBLIC OF SIERRA LEONE

By /s/ Ibrahim M. Kamara

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works		
(a) under Parts B (i) of the; Project	545,000	80%
(b) under Part B (ii) of the Project	545,000	80%
(2) Goods	730,000	100% of foreign expenditures (ex- factory cost) and 80 % of local expenditures for other items procured locally
(3) Consultants' services and training	3,630,000	100% of foreign expenditures and 80% of local expenditures
(4) Grants under Part A of the Project	18,130,000	100% of amounts disbursed
(5) Operating Expenditures	1,090,000	80%
(6) Unallocated	730,000	
	<u>25,400,000</u>	
TOTAL	=====	

2. For the purposes of this Schedule:

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

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

(c) the term “operating expenditures” means reasonable expenditures directly related to the implementation, management and monitoring of the Project, incurred by NaCSA (which expenditures would not have been incurred absent the Project), consisting of expenditures for Project staff travel, per diem, office supplies, utilities, rent, email and internet fees, staff insurance, maintenance of office equipment, and operation and maintenance of vehicles, but excluding salaries of staff of the Borrower’s civil service.

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

(a) expenditures prior to the date of this Agreement;

(b) expenditures made under Category (1) (a) for works unless NaCSA and SLRA has executed the SLRA MOU which identifies the parties’ respective roles in, and responsibilities for, the carrying out of pilot projects involving the rehabilitation of feeder roads or other rural transport under Part B (i) of the Project; and

(c) expenditures made under Category (4) for Grants unless the Grant was made in accordance with the eligibility criteria and procedures, and on terms and conditions set forth in Schedule 2 of the Project Agreement and further described in the Operations Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) all works, (b) goods under contracts costing less than \$200,000 equivalent each, (c) services for consulting firms under contracts costing less than \$100,000 equivalent each, (d) services for individual consultants under contracts costing less than \$50,000 equivalent each, (e) Grants under Part A of the Project, and (f) training and operating expenses, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any amount of the Credit was used in a manner inconsistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit in the Credit Account, an amount equivalent to the amount so used.

SCHEDULE 2**Description of the Project**

The objective of the Project is to assist the Borrower in its efforts to generate sustained poverty reduction by financing and supporting community-driven development initiatives, focusing on newly accessible areas and the vulnerable people within these areas.

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: Community Driven Program

The provision of Grants for the carrying out by local communities of specific demand-driven, community-based, social and economic projects to develop local infrastructure and support capacity building, including the rehabilitation and/or construction of, or equipment for, primary schools, health posts, water and sanitation, drainage, and drying floors, with emphasis on reaching underserved communities.

Part B: Pilot Programs in Newly Accessible Areas

- (i) Rural Labor Based Public Works Program
 - (a) Carrying out specific labor-based pilot projects to rehabilitate and maintain basic rural infrastructure in the Borrower's poorest districts of Koinadugu, Kono, and Kailahun, as a means to employ youths and vulnerable groups.
 - (b) Carrying out training programs to strengthen the capacity of local governments in identifying, managing and implementing rehabilitation projects, and to strengthen the capacity of local contractors and site supervisors to execute the procurement requirements for Subprojects.
- (ii) Shelter Program for Vulnerable Groups

Construction of basic shelter for needy households, including female-headed households, amputees, and other disabled population groups in the Borrower's districts of Koinadugu, Kono, and Kailahun.

(iii) Independent Evaluation of Pilot Programs

Carrying out an independent evaluation of activities included in Part B (i) and (ii) of the Project.

Part C: Project Management Activities: Capacity Building, IEC, Monitoring and Evaluation

Carrying out of a program to strengthen the capacity of NaCSA and local communities to develop, oversee, implement and evaluate various demand-driven, community-based, poverty alleviation activities, including audits and the provision of training, equipment and vehicles required therefor.

* * *

The Project is expected to be completed by June 30, 2008.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) (a) and (1) (b) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

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

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

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

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

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

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

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

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