

CONFORMED COPY

CREDIT NUMBER 3732 IN

Development Credit Agreement

(Andhra Pradesh Rural Poverty Reduction Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 3, 2003

CREDIT NUMBER 3732 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 3, 2003, between INDIA, acting by its President (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) the Project will be carried out by the State of Andhra Pradesh (Andhra Pradesh), Society for Elimination of Rural Poverty (SERP) and Andhra Pradesh Social Welfare Residential Educational Institutions Society (APSWREIS) (as hereinafter defined) with the Borrower's assistance, as part of such assistance, the Borrower will make available to Andhra Pradesh the proceeds of the Credit as provided 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 among the Association, Andhra Pradesh, SERP and APSWREIS (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 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) "Andhra Pradesh" means the Borrower's state of Andhra Pradesh, or any successor thereto;

(b) “APSWREIS” means Andhra Pradesh Social Welfare Residential Educational Institutions Society, a society established and registered under the Societies Registration Act, 1860, as amended to date, and operating according to its Memorandum and Articles of Association, and Bylaws dated October 25, 1986, under the Social Welfare Department;

(c) “Beneficiary Institutions” means the Common Interest Groups, Village Organizations, Mandal Samakhya, CBOs, Panchayati Raj Institutions (as all hereinafter defined);

(d) “Category” means a category of items set forth in the table in Section 1 of Schedule 1 to this Agreement;

(e) “CBO” means a community-based organization which is a member owned and member managed organization, and the membership of which is limited to communities of the poor and which includes self help groups, Common Interest Groups, VOs, Mandal Samakhya, cooperatives, networks and federations of these organizations;

(f) “Common Interest Group” means a group of poor individual who agree to organize themselves as a group for common socio-economic activities, including new or existing self-help groups;

(g) “DPMU” means each District Project Management Unit established by SERP for the purposes of carrying out the Project;

(h) “Eligible Categories” means categories (1), (2), (3), (4), (5), (6) (7) and (8);

(i) “Environmental Management Framework” means the framework described in the Environmental Assessment Report prepared by Andhra Pradesh and furnished to the Association in November 2002, setting out measures to mitigate the Project’s possible adverse impact on the environment, and including process guidelines for the management of environmental aspects under the Project and which include mitigation measures in respect of cultural property, pest management and dam safety as may be required;

(j) “Eligible Expenditures” means the expenditures for goods, land, works and services referred to in Section 2.02 of this Agreement;

(k) “Fiscal Year” means the fiscal year of the Borrower, Andhra Pradesh, SERP and APSWREIS, starting April 1, and ending March 31;

(l) “Financial Monitoring Report” means each Financial Monitoring Report prepared in accordance with Section 4.02 of the Project Agreement;

(m) “ITDA” means Integrated Tribal Development Agency, a society established and registered under the Societies Registration Act, 1860, as amended to date, and operating according to its Memorandum and Articles of Association, and Bylaws, under the Tribal Welfare Department of Andhra Pradesh;

(n) “Land Purchase Sub-project” means a specific project consisting of one or more of the activities described in Part B of the Project which meets the criteria set forth in the Operational Manual (as hereinafter defined) and which is also a specific Sub-project under which land will be purchased for productive purposes in accordance with the provisions of the Operational Manual for Land (as hereinafter defined);

(o) “Line Departments” means the sectoral service departments of Andhra Pradesh or its District administration, including those under the Panchayati Raj Institutions (as hereinafter defined);

(p) “Mandal” means an administrative unit below the district level and consisting of a group of villages and/or panchayats;

(q) “Mandal Samakhyas” means federations of village organizations at all levels below the district level;

(r) “MOU” means the memorandum of understanding entered into between Andhra Pradesh and SERP, outlining the rights and obligations of each party with regard to the carrying out of the Project;

(s) “NGOs” means non-governmental organizations established and operating in the territory of the Borrower;

(t) “Operational Manual” means the operational manual for Community Investment Fund prepared by Andhra Pradesh and SERP for carrying out Part B of the Project, dated December 12, 2002, outlining community level institutional arrangements, procedures and criteria for selection, appraisal and implementation of Sub-projects (as hereinafter defined), as amended from time to time by agreement between the Association and SERP;

(u) “Operational Manual for Land” means the operational manual prepared by Andhra Pradesh and SERP for carrying out Sub-projects involving land purchase for productive purposes under Part B of the Project (Land Purchase Subprojects), dated December 12, 2002, as amended from time to time by agreement between the Association and SERP;

(v) “Panchayati Raj Institutions” means the local government institutions elected under the Andhra Pradesh Panchayat Raj Act, 1994;

(w) “Project Agreement” means the agreement among the Association, Andhra Pradesh, SERP and APSWREIS 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;

(x) “Project Implementation Plan” means the implementation plan of Andhra Pradesh, SERP and APSWREIS for the Project dated December 12, 2002, and, including time-bound action plans, procedures and criteria agreed with the Association;

(y) “SERP” means Society for Elimination of Rural Poverty, a society established and registered under the Andhra Pradesh (Telangana areas), Public Societies Registration Act, 1350 F., as amended to date, and operating according to its Memorandum and Articles of Association, and Bylaws dated February 11, 2000 as amended from time to time;

(z) “Special Account” means the account referred to in Schedule 1, Part B of this Agreement;

(aa) “SPMU” means the State Project Management Unit established within SERP for assisting in carrying out the Project;

(bb) “Sub-project” means a specific project consisting of one or more of the activities described in Part B of the Project which meets the criteria set forth in the Operational Manual and such term includes Land Purchase Sub-projects;

(cc) “Sub-project Agreement” means the agreement to be entered into between the SPMU or any DPMUs and any of the Beneficiary Institutions for carrying out a Sub-project;

(dd) “Tribal Development Plan” means the plan dated November 2002 prepared by Andhra Pradesh in consultation with the local communities in the project area to ensure that the tribal population in Andhra Pradesh benefit from the activities financed under the Project; and

(ee) “Village Organizations” means the self-managed organizations of common interest groups and self-help groups at the habitation/village level, including the Village Tribal Development Agencies (as defined in the Tribal Development Plan).

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 one hundred fourteen million Special Drawing Rights (SDR 114,000,000).

Section 2.02. 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, works, land and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be September 30, 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 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 February 15 and August 15 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 February 15 and August 15, commencing August 15, 2013 and ending February 15, 2038. Each installment to and including the installment payable on February 15, 2023, shall be one and one-fourth percent (1¼%) of such principal amount, and each installment thereafter shall be two and one-half percent (2½%) 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 Andhra Pradesh, SERP and APSWREIS to perform in accordance with the provisions of the Project Agreement all the obligations of Andhra Pradesh, SERP and APSWREIS 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 Andhra Pradesh, SERP and APSWREIS 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 Andhra 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, land, 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) in respect of the Project shall be carried out by Andhra Pradesh, SERP and APSWREIS 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 Report-based Disbursements or were made on the basis of Financial Monitoring Reports or Statements of Expenditures, 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 Fiscal 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 or the reports referred to in Part A.5 of Schedule 1 to this Agreement, 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, and concerning said auditors, as the Association may from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

- (a) Andhra Pradesh, SERP or APSWREIS 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 Andhra Pradesh, SERP or APSWREIS will be able to perform its obligations under the Project Agreement.

(c) Any change shall have been in the Memorandum and Articles of Association of SERP or APSWREIS, or their by-laws, so as to materially and adversely affect the ability of SERP or APSWREIS to perform any of its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Andhra Pradesh, SERP and APSWREIS, and is legally binding upon Andhra Pradesh, SERP and APSWREIS in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

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:	Telex:	Facsimile:
ECOFAIRS	953-3166175	91-11-2309-3133
New Delhi	FINE IN	91-11-2309-2511
		91-11-2309-2477

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

INDIA

By

/s/ Adarsh Kishore
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Michael F. Carter
Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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) (a) Sub-projects other than Land Acquisition Sub-projects;	53,900,000	66%
(b) Land Acquisition Sub-projects;	3,400,000	70%
(2) Civil Works for Part D of the Project	12,300,000	75%
(3) Goods, Equipment (including materials and vehicles) other than under Part B of the Project	4,000,000	100% of foreign expenditures 100% of local expenditures (ex-Factory cost); and 80% of local expenditures for other items procured locally
(4) CBOs'/NGOs' services Educational & Research Institution consultancies	17,100,000	95%
(5) Consultancies and technical assistance	3,300,000	80%
(6) Training workshops, study tours	8,300,000	95%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(7) Incremental operating costs	5,600,000	80% until March 31, 2005, 60% until March 31, 2006; and 40% thereafter
(8) School Operating Costs	2,900,000	50% until March 31, 2005
(9) Unallocated	3,200,000	
	<u>114,000,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “incremental operating costs” means the costs of operation and maintenance of additional buildings, equipment and vehicles, office rental and expenses, hiring of vehicles, payments to additional contract staff, and travel allowances of all Project staff incurred for the purposes of carrying out the Project but excluding salaries of government officials;

(d) the term “school operating costs” means the operation and maintenance costs of the residential schools incurred for the purposes of carrying out the Project; and

(e) the term “CBOs/NGOs services, education/research institutions consultancies” means services to be provided by CBOs/NGOs for the Project and by education/research institutions.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 5,100,000 may be made on account of payments made for expenditures before that date but after June 1, 2002; and

(b) in respect of a Sub-project unless: (i) the Sub-project under category 1 (a) has been prepared in accordance with the procedures set forth in the Operational Manual and Environmental Management Framework and a Sub-project Agreement between the relevant parties has been entered into for the carrying out of such Sub-project; and (ii) in the case of Land Purchase Sub-projects under Category 1 (b), in addition to the requirements of sub-paragraph (i) above, the Land Purchase Sub-project has also been prepared in accordance with the procedures set forth in the Operational Manual for Land.

4. The Association may require withdrawal from the Credit Account to be made on the basis of statements of expenditures for expenditures for: (i) Sub-projects under Part B of the Project; (ii) goods under contracts not exceeding \$100,000 equivalent, and works under contracts not exceeding \$300,000 equivalent; (iii) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, respectively; (iv) training and workshops and study tours; (v) incremental operating costs; and (vi) school operating costs all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Financial Monitoring Report and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit, or shall cause Andhra Pradesh to submit, to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Financial Monitoring Report referred to in Section 4.02 (b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Financial Monitoring Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Financial Monitoring Report pursuant to Section 4.02 (b) of the Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Financial Monitoring Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals are Not Made
On the Basis of Report-based Disbursements**

1. For the purposes of this Annex the term “Authorized Allocation” means an amount of \$10,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$5,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed SDR 30,000,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Andhra Pradesh to enable the rural poor, particularly the poorest of the poor, to improve their livelihoods and quality of life.

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: Strengthening Institutional, Social and Human Capital

1. Formation and development of new, and strengthening of existing, common interest groups, including self-help groups, and their support organizations to carry out Sub-projects.
2. Formation and strengthening of federations of self-managed groups and cooperatives, including Village Organizations and Mandal Samakhyas and, *inter alia*, strengthening of their organizational capability.
3. Improving the capacity of PRIs (especially at the Gram Panchayat and Mandal Parishad level), line departments and NGO's to function in a more inclusive and pro-poor manner.
4. Convergence between SERP's activities and the programs of concerned Departments of Andhra Pradesh.
5. Information, education and communications support, including undertaking of awareness campaigns and demonstrations in village communities on socio-economic issues for rural poor, including gender, education, and preventive health care, sustainable development and management of natural resources.
6. Creation of a conducive and enabling environment, including through the provision of information, for the participation of the private sector and civil society in enhancing livelihood opportunities for the rural poor.

Part B: Community Investment Fund

1. Carrying out of Sub-projects consisting of social, economic and infrastructure activities such as: (i) improved access to public services, including sanitation, health, education and child care; (ii) small group based income generating activities; (iii) small infrastructure investments; including expansion/rehabilitation of existing minor irrigation sources, community health systems, and drinking water; and (iv) improvement of livelihood opportunities for the disabled and their caregivers.

2. Carrying out of Land Purchase Sub-projects for productive use of land under a pilot program.

Part C: Pilot Program Support

1. Decentralization and the role of PRIs:

The carrying out of pilot programs in approximately 40 mandals to strengthen PRIs including their ability to respond to the needs of, and be accountable to the rural poor.

2. Social Risk Management and Health:

The carrying out of pilot programs to explore the viability of insurance as a risk mitigation measure for the rural poor including a community based comprehensive insurance package in at least 15 mandals, a community based health package in at least 2 mandals, and development and implementation of an insurance instrument to address natural disaster related risks.

Part D: Support to Out of School Children

1. Social Mobilization and Bridge Schools:

The undertaking and carrying out of campaigns to sensitize parents/communities on the importance of education and establishment of temporary “bridge” camps and enhancing the capacity of their staff.

2. Establishment of about 64 residential schools for girls between the ages of 9 – 14 and provision of school operating costs.
3. Provision to APSWREIS of consultants’ services and incremental operating costs.

Part E: Support for Persons with Disabilities

1. Empowerment of persons with disabilities through social mobilization and the creation and use of community awareness and action groups to assist disabled persons and their caregivers.
2. Promotion of community based rehabilitation activities in about 80 selected mandals.
3. Promotion of convergence of interventions in health, nutrition and education sectors to support disability prevention and inclusive education for the rural poor.

4. Facilitating disability certification for qualified disabled persons in about 80 mandals.

Part F: Project Management, Monitoring and Evaluation and Studies

1. Strengthening of SERP through the provision of office equipment, vehicles, training and incremental operating costs and provision of consultants' services, *inter alia*, to facilitate and assist: (a) internal and statutory audits of the Project; and (b) collaboration and co-ordination with CBOs and NGOs state-wide for implementation of the Project.
2. Provision of consultants services, to assist APSWREIS in project management and procurement, administration, environmental management, and supervision and performance of contracts for the construction of residential schools under Part D.2 of the Project.
3. Provision of consultants services for the carrying out of monitoring and evaluation activities under the Project including the carrying out of a baseline survey and an impact evaluation and process monitoring assessment.
4. (a) Provision of consultants services for environmental management activities including carrying out of at least 32 pro-active environmental Sub-projects in accordance with the Environmental Management Framework;

(b) coordination, implementation and monitoring of the Tribal Development Plan; and

(c) the carrying out of various special studies and technical assistance related activities including in relation to livelihoods, organization development, human resource development, evaluation of the pilots under Part C, and annual health surveys.

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The Project is expected to be completed by March 31, 2008.