

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3692 IN

Development Credit Agreement

(Andhra Pradesh Community Forest Management Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 8, 2002

Public Disclosure Authorized

CREDIT NUMBER 3692 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 8, 2002, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower has in 1988 issued a National Forest Policy (hereinafter referred to as the National Forest Policy), describing the objectives and strategy designed to ensure sustainable management of its forest resources, and declared its commitment to the implementation of the National Forest Policy;

(B) 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;

(C) the Project will be carried out by the State of Andhra Pradesh (Andhra Pradesh) 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 Andhra Pradesh, as set forth in this Agreement;

(D) Andhra Pradesh has issued a government order, dated February 12, 2002, (hereinafter referred to as Government Order), setting forth details of the legal and institutional framework governing the implementation of community forest management (hereinafter referred to as CFM); and

(E) Andhra Pradesh has issued a letter of implementation policy, dated May 28, 2002 (hereinafter referred to as Letter of Implementation Policy), giving details of the policy guidelines, procedures and matrix of actions designed to ensure the smooth implementation of the Project, and declared its commitment to the Letter of Implementation Policy; 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 agreement of even date herewith between the Association and Andhra Pradesh (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 9, 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 forth and the following additional terms have the following meanings:

(a) “Andhra Pradesh” means the State of Andhra Pradesh, a State of the Borrower or any successor thereto;

(b) “District” means an administrative subdivision of a State;

(c) “Eligible Categories” means Categories (1) through (7) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(e) “Eligible Village” means a village which is declared eligible for assistance under the Project in accordance with eligibility criteria specified in the Project Implementation Plan;

(f) “Environmental Management Plan” or “EMP” means the Environmental Management Plan, dated January 18, 2002, issued by Andhra Pradesh, and describing a program of environmental actions, measures and policies designed to maximize the benefits and manage the potential adverse impacts arising under the Project;

(g) “FD” means the Forest Department of Andhra Pradesh;

(h) “Fiscal Year” means the Borrower’s fiscal year;

(i) “Government Order” means the Government Order referred to in the Preamble, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Government Order;

(j) “Independent Advisory Group” or “IAG” means the Independent Advisory Group referred to in paragraph 1 (c) of Schedule 2 to the Project Agreement;

(k) “Memorandum of Understanding” or “MOU” means a memorandum of understanding concluded or to be concluded between Andhra Pradesh and a VSS pursuant to paragraph 8 (e) of Schedule 2 to the Project Agreement, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Memorandum of Understanding;

(l) “Micro-plan” means a village level development plan, setting forth the priority needs of the village in terms of its essential social and physical infrastructure, forestry management and development works, and income generating activities, including details of the Village-specific RAP and Village-specific TDP, if any;

(m) “Micro-plan Guidelines” means guidelines for the preparation and approval of Micro-plans referred to in Part C.1 of the Project and paragraph (4) (a) (ii) of Schedule 2 to the Project Agreement, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Micro-plan Guidelines;

(n) “NGO” means non-governmental organization;

(o) “Project Affected Families” or “PAFs” means those families whose livelihoods are adversely affected as a result of loss of lands, houses, trees or crops from forest areas as a result of interventions under the Project;

(p) “Pest Management Plan” or “PMP” means the Pest Management Plan, dated January 18, 2002, issued by Andhra Pradesh, and describing a program of actions, measures and policies designed to promote proper pest management under the Project;

(q) “Project Agreement” means the agreement between the Association and Andhra Pradesh of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(r) “Project Implementation Plan” means the Project Implementation Plan referred to in paragraph (4) (a) (i) of Schedule 2 to the Project Agreement, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Project Implementation Plan;

(s) “Project Management Report” means a report prepared in accordance with Section 3.02 of the Project Agreement;

(t) “Project Monitoring Unit” or “PMU” means the Project Monitoring Unit referred to in paragraph (2) (b) of Schedule 2 to the Project Agreement;

(u) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on July 31, 2001, and on behalf of the Borrower on December 10, 2001;

(v) "Resettlement Action Plan" or "RAP" means the Resettlement Action Plan, dated January 18, 2002, issued by Andhra Pradesh, and describing a program of actions, measures and policies designed to avoid or minimize any adverse impacts or hardship to PAFs as a result of the Project or, if such adverse hardships cannot be avoided altogether, provide such PAFs with alternative opportunities to enhance or restore their livelihoods;

(w) "Rupees" or "Rs" means the currency of the Borrower;

(x) "State" means any one or more of the main administrative subdivisions of the Borrower's territory;

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

(z) "Tribal Development Plan" or "TDP" means the Tribal Development Strategy and Action Plan, dated January 18, 2002, issued by Andhra Pradesh, and describing a program of actions, measures and policies designed to maximize the benefits accruing to tribal groups and avoid or mitigate potential impacts adversely affecting such groups under the Project;

(aa) "Village" means an administrative subdivision of a District;

(bb) "Village-specific", in relation to an EMP, RAP, TDP or PMP means a program of actions, measures and policies consistent with the EMP, RAP, TDP or PMP, as the case may be, and which have been developed to meet the specific needs of an Eligible Village; and

(cc) "VSS" means *Vana Samarakshana Saminti*, a village-level Forest Protection Committee referred to in paragraph (3) of Schedule 2 to the Project Agreement.

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 eighty five million five hundred thousand Special Drawing Rights (SDR 85,500,000).

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

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be March 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 2.06 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 June 15 and December 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 June 15 and December 15, commencing December 15, 2012, and ending June 15, 2037. Each installment to and including the installment payable on June 15, 2022, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. 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 the Development Credit Agreement, shall cause Andhra Pradesh to perform in accordance with the provisions of the Project Agreement all the obligations of Andhra Pradesh therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Andhra Pradesh to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. The Borrower shall make the entire proceeds of the Credit available to Andhra Pradesh in accordance with the Borrower's standard arrangements for development assistance to the States of India.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. 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 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Andhra Pradesh in respect of the Project 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 Project Management Reports or 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 (l) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the National Forestry Policy, or a significant part thereof, will be carried out;

(b) Andhra Pradesh shall have failed to perform any of its obligations under the Project Agreement or pursuant to the Letter of Implementation Policy;

(c) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that Andhra Pradesh will be able to perform any of its obligations under the Project Agreement or pursuant to the Letter of Implementation Policy;

(d) the Government Order shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Andhra Pradesh 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 any event specified in paragraph (b) 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 event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Independent Advisory Group has been duly established.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by Andhra Pradesh, and is legally binding upon Andhra Pradesh in accordance with its terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under-Secretary of the Department of Economic Affairs 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:

The Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
New Delhi, PIN 110001
India

Cable address:	Telex:
ECOFAIRS New Delhi	953-3166175

For the Association:

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

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

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 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. Forestry operations and works under Part B.1, B.2 and B.3 of the Project	50,400,000	90 %
2. Civil Works	4,600,000	80 %
3. Goods and equipment	7,800,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost); and 80% of local expenditures for other items procured locally
4. Training, workshops and study tours	8,600,000	100%
5. Consultants' services	2,200,000	80%
6. NGO support	5,400,000	100%
7. Operating costs	3,700,000	50% until March 31, 2004, 35% until March 31, 2006, and 20% thereafter

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
8. Refunding of PPF Advance	1,200,000	Amount due pursuant to Section 2.02 (b) of this Agreement
9. Unallocated	1,600,000	
TOTAL	<u>85,500,000</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; and

(c) the term “operating costs” means the incremental operating costs arising under the Project on account of hiring of jeeps, maintenance of vehicles, communications maintenance, office equipment maintenance, stationery, computer consumables, maintenance of hardware, facilitation, maintenance of research buildings and equipment, and lease lines.

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

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000 may be made in respect of Categories (1), (4), (5) and (7) on account of payments made for expenditures before that date but after June 1, 2002; or

(b) in respect of any activities to be financed under a Micro-plan, unless: (i) the Micro-plan has been prepared in accordance with procedures, and on terms and conditions, set forth or referred to in this Agreement and the Project Agreement; and (ii) a Memorandum of Understanding has been duly concluded in accordance with paragraph 8 (e) of Schedule 2 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods and works under contracts not exceeding \$50,000 equivalent; (ii) consultants' services under contracts not exceeding \$100,000 equivalent each, in the case of consulting firms, and \$50,000 equivalent each, in the case of individual consultants; (iii) operating costs; and (iv) training, under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain a special deposit account in dollars in the Federal 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 the amount to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report; and (ii) a request from the Borrower for withdrawal on the basis of Project Management 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 Project Management Report, accompanied by a request from the Borrower for withdrawal on the basis of Project Management 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 determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 3.02 of the Project Agreement;

(b) if the Association determines at any time that all further withdrawals 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 made on the basis of Project Management Reports.

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 Project Management Reports**

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount equivalent to \$5,000,000, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 (a) of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,500,000, 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 30,000,000.
2. Withdrawals of the Special Account’s Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Special Account’s 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 Special Account’s 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 Special Account’s 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 Made On the Basis of
Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all 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 Special Account's Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into a Special Account shall be supported by a Project Management Report.
3. 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 Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$10,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce rural poverty through improved forest management with community participation.

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: Enabling Environment for Forest Management

1. Provision of technical advisory services and material support to build the capacity of FD, including: (a) training of staff at all levels; (b) enhanced financial and administrative powers of the front line staff; (c) strengthening of the capacity of forestry training institutions; (d) development and implementation of a comprehensive strategy for training in silviculture, planning, forest management and communications' skills; and (e) provision of training infrastructure, civil works and audio visual equipment.
2. Strengthening the capacity of community institutions, through: (a) introduction of simplified formats for micro-planning and financial management, and training of VSS members; (b) organization of workshops to facilitate discussions and promote exchanges among VSS both at state and at local levels; (c) distribution of effective extension messages to VSS members, using print and electronic media; and (d) organization of study tours to promote knowledge transfer.
3. Provision of technical advisory services and material support, and establishment of a management and information system, including a financial management system, to assist in the implementation, supervision and monitoring of the Project.
4. Provision of technical advisory services and material support to undertake activities relating to policy development in the forestry sector, including studies on issues which constrain development of the sector or otherwise influence the overall performance of the sector, implementation of new enabling legislation, and organization of workshops and meetings for shareholder consultations on proposed reforms or for dissemination of findings.
5. Provision of technical advisory services and material support to undertake monitoring and evaluation activities, including: (a) internal monitoring by FD and PMU on the basis of quarterly progress reports and in accordance with mutually agreed performance indicators; and (b) external monitoring and evaluation by an external monitoring and evaluation agency, including submission of periodic reports, a mid-term report and a post-evaluation report.

Part B: Forest Management

1. (a) Implementation of silvicultural treatments to improve the productivity of 315,800 hectares of degraded forests, (b) maintenance and tending of 70,000 hectares of already treated forests, (c) provision of seedlings and establishment of plantations in community and private land outside the forests, and (d) fodder development.
2. Design and operationalisation of a forest inventory in Andhra Pradesh.
3. Implementation of applied research, including ongoing research program to facilitate two-way communication between FD and VSS members and others.
4. Development and maintenance of an integrated Forest Management Information System (FMIS), incorporating different aspects of forest management, including: (a) evaluation of the present state of FMIS development in Andhra Pradesh, and further development of software, hardware and networking; and (b) development of a forest sector website.

Part C: Community Development

1. Development of detailed guidelines for the preparation and approval of Micro-plans, preparation of Micro-plans consistent with the guidelines, and implementation and monitoring of such Micro-plans.
2. Development in each Eligible Village of limited physical and social infrastructure of benefit to the Eligible Village, including drinking water facilities, approach roads, village sanitation and drainage facilities, school buildings, community halls, and small village tanks, as may be appropriate.
3. Implementation of group-based activities designed to improve the skills base and provide alternative sources of income generation for the benefit of marginalized individuals and groups, including non-timber forest products (NTFP) processing, fisheries, local crafts, apiculture and other non-farm activities.
4. Development and implementation of a Village-specific RAP consistent with the Resettlement Action Plan in each Eligible Village.
5. Development and implementation of a Village-specific TDP consistent with the Tribal Development Plan in each VSS Village.

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The Project is expected to be completed by September 30, 2007.