

CONFORMED COPY

CREDIT NUMBER 3103 IN

Development Credit Agreement

(Andhra Pradesh Economic Restructuring Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 4, 1999

CREDIT NUMBER 3103 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 4, 1999, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association);

WHEREAS (A) the Association has received a letter dated May 14, 1998 from the State of Andhra Pradesh (Andhra Pradesh) describing a program of objectives, policies and actions designed to restructure the economy of Andhra Pradesh (hereinafter called the Program), and declaring Andhra Pradesh's commitment to carry out such Program;

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

(C) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an amount equal to three hundred one million three hundred thousand dollars (US\$301,300,000) (the Loan);

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

(E) the Project will be carried out by the State of Andhra Pradesh (Andhra Pradesh) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Andhra Pradesh the proceeds of the Credit as provided in this Agreement; and the proceeds of the Loan as provided in the Loan Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith among the Association, the Bank and Andhra Pradesh.

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations".

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) "AD" means the Agriculture Department of Andhra Pradesh;

(b) "Andhra Pradesh Water Tax Act" means the Water Tax Act (No. 11 of 1988), as amended;

(c) "Andhra Pradesh" means the state of Andhra Pradesh of the Borrower, or any successor thereto;

(d) "APPVP" means Andhra Pradesh Prathamika Vidya Parishattu, a registered society under the Andhra Pradesh Telengana Area Societies Registration Act of Andhra Pradesh;

(e) "Cabinet Sub-Committee on State Level Public Enterprises and Cooperative Enterprises" means the Cabinet Sub-Committee constituted by Andhra Pradesh for coordinating, approving and providing policy guidance for implementing a program to restructure public enterprises and co-operatives of Andhra Pradesh;

(f) "Central Project Monitoring Unit" means the unit established by Andhra Pradesh within its Finance and Planning Department for purposes of coordinating, managing, monitoring and evaluating the progress of implementing the Project and the Program;

(g) "DPEP Guidelines" means the guidelines adopted by the Borrower in April 1993, as amended from time to time, defining its national District Primary Education Program;

(h) "DIET" means District Institute for Education and Training;

(i) "DPO" means the District Project Office established in each Project District under Part A of the Project to carry out day-to-day Project implementation;

(j) "Farmers Organizations" means Farmers Organizations as defined in Section 2 (i) of the Andhra Pradesh Farmers Management of Irrigation System Act (Act 11 of 1997);

(k) "First Phase Restructuring Program for Public Enterprises and Cooperatives" means the first phase of the program of Andhra Pradesh for restructuring public enterprises and cooperatives acceptable to the Association and the Bank;

(l) "Fiscal Year" and "FY" means the fiscal year of the Borrower and Andhra Pradesh beginning on April 1 of a calendar year and ending on March 31 of the following year;

(m) "Government Order on State Renewal Fund" means the Government Order No. 25 dated January 27, 1996 issued by Andhra Pradesh, for the establishment of a State Renewal Fund;

(n) "Guidelines for State Renewal Fund" means the Guidelines (Government Order No. 429) dated October 8, 1997 issued by Andhra Pradesh for the administration of the State Renewal Fund;

(o) "I&CADD" means the Irrigation and Command Area Development Department of Andhra Pradesh;

(p) "ICDS" means the Integrated Child Development Services Scheme of the Borrower as amended from time to time, defining its national program to improve the nutritional status of women and children;

(q) "IEC" means information, education and communication;

(r) "Implementation Secretariat" means the Secretariat established by Andhra Pradesh for implementing the First Phase Restructuring Program for Public Enterprises and Cooperative and for preparing the second phase of such program;

(s) "Industrial Disputes Act" means the Industrial Disputes Act, 1947, as amended, of the Borrower;

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

(u) "MRCs" means Mandal Resource Centers;

(v) "NGOs" means non-governmental organizations established under the relevant laws of the Borrower and Andhra Pradesh;

(w) "O&M" means operations and maintenance;

(x) "Participating Country" and "Participating Countries" have the meaning set out in paragraph 12 of Section 2.01 of the General Guidelines as modified pursuant to Section 1.01 (a) of this Agreement;

(y) "PRED" means the Panchayat Raj Engineering Department of Andhra Pradesh;

(z) "Project Agreement" means the agreement among the Association, the Bank

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;

(aa) "Project Districts" means the districts in Andhra Pradesh selected by Andhra Pradesh in accordance with procedures satisfactory to the Association for implementing Part A of the Project;

(bb) "Project Implementation Plan" means the Project Implementation Plan of Andhra Pradesh and its relevant departments for implementing each of Part A, B, C, D E, and F of the Project approved by the Association and the Bank;

(cc) "RBD" means the Roads and Building Department of Andhra Pradesh;

(dd) "SCERT" means State Council of Educational Research and Training of Andhra Pradesh;

(ee) "Scheduled Castes" refers to the population groups specified as "Scheduled Castes" pursuant to Article 342 of the Constitution of India;

(ff) "Scheduled Tribes" refers to the population groups specified as "Scheduled Tribes" pursuant to Article 342 of the Constitution of India;

(gg) "Socially Disadvantaged Group Children" refers to children who have limited access to educational opportunities, including girls, Scheduled Caste, Scheduled Tribe and working children and children with mild to moderate learning disabilities;

(hh) "SPO" means the State Project Office, to be established for the purpose of coordinating Project implementation under Part A of the Project;

(ii) "State Renewal Fund" means the Fund established by Andhra Pradesh under the Government Order on State Renewal Fund;

(jj) "Voluntary Retirement Scheme" means the Scheme dated January 23, 1996 of Andhra Pradesh and found satisfactory by the Association and the Bank, setting out, inter alia, the criteria, principles and procedures for the payment of compensation to surplus employees in connection with the implementation of the First Phase Restructuring Program for Public Enterprises and Cooperative Enterprises;

(kk) "WALAMTARI" means the Water and Land Management Training and Research Institute of Andhra Pradesh;

(ll) "WCRC" means the Water Charges Review Committee established by Andhra Pradesh pursuant to Government Order No. 225 dated December 8, 1997; and

(mm) "WUAs" means Water User Associations established under the Andhra Pradesh Farmers Management of Irrigation Systems Act (Act 11 of 1997).

## 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 seventy nine million four hundred thousand Special Drawing Rights (SDR179,400,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special

Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 1 and December 1 commencing December 1, 2008 and ending June 1, 2033. Each installment to and including the installment payable on June 1, 2018 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has

deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause 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.

(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 subject to the provisions of paragraph (c) of this Section.

(c) If and when the Borrower designates Part A of the Project as a centrally sponsored scheme, the Borrower shall make the proceeds of the Credit allocated to such Part available on a grant basis to APPVP under a memorandum of understanding to be entered into between the Borrower and APPVP satisfactory to the Association and the Bank.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Andhra Pradesh pursuant to Section 2.03 of the Project Agreement.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures be retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year

audited in accordance with appropriate auditing principles  
consistently applied by independent auditors acceptable to the  
Association;

(ii) furnish to the Association as soon as available, but in any case  
not later than six months after the end of each such year, the  
report of such audit by said auditors, of such scope and in such  
detail as the Association and the Bank shall have reasonably  
requested, including a separate opinion by said auditors as  
to whether the statements of expenditure submitted during such  
fiscal year, together with the procedures and internal controls involved in  
their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Association such other information concerning said  
records and accounts and the audit thereof, as the Association shall  
from time to time reasonably request.

#### ARTICLE V

##### Remedies of the Association

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

(a) Andhra Pradesh shall have failed to perform any of its obligations under  
the Project Agreement.

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

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

(d) Andhra Pradesh shall have failed to submit to the Association a fiscal  
reform program satisfactory to the Association as referred to in paragraph 6 of  
Section VIII of Schedule 2 to the Project Agreement.

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

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following 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 all the conditions precedent to the  
effectiveness of the Loan Agreement have been fulfilled, other than those related to  
the effectiveness of this Agreement.

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

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary, and Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower are each designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

ECOFAIRS  
New Delhi

Telex:

953-3166175

For the Association:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable address:

INDEVAS  
Washington, DC

Telex:

248423 (MCI)  
64145 (MCI)

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

INDIA

By /s/ V. Govindarajan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin R. Lim

Country Director  
India

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and the Loan, the allocation of the amounts of the Credit and the Loan to each Category and the percentage of expenditures for items so to be



financed in each Category:

Category Financed	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be
(1) Part A of the Project (Education Component):			
(a) Civil works		24,600,000	90%
(b) Goods, furniture, equipment, books and materials		11,000,000	100% of local expenditures (ex-factory cost) of
(ex- and 80% local expenditures for other items locally			procured
(c) Consultants' services and training		36,000,000	100%
(d) Incremental operating costs and incremental salaries		21,900,000	80% of local expenditures incurred until March 31, 2000; 55% of expenditures incurred until March 31, 2002; and 25% of expenditures incurred thereafter
(2) Part B of the Project (Health Component):			
(a) Civil works including engineering services	7,800,000	9,900,000	90%
(b) Furniture, equipment and supplies	4,400,000	5,680,000	100% of local expenditures (ex-factory cost) of
(ex- and 80% local expenditures for other items procured locally			
(c) Consultants' services and training	2,900,000	3,750,000	100%
(d) Incremental operating costs	4,600,000	5,870,000	80% of local expenditures incurred until March 31, 2001; 55% of expenditures incurred

until March 31, 2002;  
and 25% of expenditures  
incurred thereafter

(3) Part C of the Project  
(Nutrition Component):

	(a) Civil works including engineering services	12,500,000	-----	90%
	(b) Goods, equipment, vehicles and medicines	7,800,000	-----	100% of local expenditures factory cost) of
(ex-				
and 80%				
local expenditures				
for other items				
procured locally				
	(c) Consultants' ser- vices and training	10,800,000	-----	100%
	(d) Incremental operat- ing costs and incremental salaries	21,300,000	-----	80% of local expenditures
incurred until				
2001;				March 31, 45% of
expendi- tures incurred until March 31, 2003; and 30% of expenditures incurred thereafter				

(4) Part D of the Project  
(Road Component):

	(a) Civil works	-----	92,000,000	90%
	(b) Goods	-----	500,000	100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
	(c) Consultants' services	-----	9,100,000	100%

(5) Part E of the Project  
(Irrigation Component):

	(a) Civil works	-----	88,200,000	90%
foreign	(b) Equipment, materials and vehicles	-----	7,700,000	100% of expenditures, local
100% of expenditures (ex factory cost) and 80% of local expenditures for other items purchased locally				

(c)	Incremental operating costs	-----	25,300,000	80% through March 31,
1999; and 60% through March 31, 2000; and 0% thereafter				
(d)	Consultants' services including NGO services, training and studies	-----	10,900,000	100%
(6)	Severance payments under Part F of the Project (Public Sector Reform Component):	-----	18,300,000	70%
(7)	Unallocated	13,800,000	24,100,000	
	Total	179,400,000 =====	301,300,000 =====	

2. For the purposes of this Schedule:

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

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

(c) the term "incremental operating costs" means the incremental costs of operation and maintenance of irrigation schemes, additional buildings, equipment and vehicles, and leasing of vehicles, incurred for the purposes of carrying out the Project;

(d) the term "incremental salaries" means the incremental costs of hiring additional staff for purposes of carrying out Parts A and C of the Project; and

(e) the term "severance payments" means ex-gratia payments made under the Voluntary Retirement Scheme (VRS) excluding payments due to employees under the relevant laws of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 15,000,000 from the proceeds of the Credit and \$30,000,000 from the proceeds of the Loan, may be made on account of payments made for expenditures before that date but after August 1, 1997.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts not exceeding the equivalent of \$200,000 and \$300,000 respectively; (b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, respectively; (c) training and fellowships; (d) works procured under force account; (e) severance pay; and (f) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist Andhra Pradesh: (a) to build and strengthen institutional capacity in the area of primary education; (b) to improve the performance of the primary health care system through improvements in the quality,

effectiveness, and the coverage of services; (c) to improve the nutrition and health of young children, women, particularly pregnant and lactating mothers, and adolescent girls, by increasing the quality, impact, and cost-effectiveness of the Integrated Child Development Services program; (d) to reduce transport costs and transport constraints on economic activity, and improve the management of road maintenance, and quality of life of rural population in selected districts; (e) to arrest and reverse the decline in irrigated area, place the irrigation sector on a sustainable basis through involvement of farmers in irrigation management and improved cost recovery, and improve the productivity of irrigated agriculture; (f) to reduce the fiscal burden of public enterprises and cooperatives by strengthening institutional capacity to design and implement public enterprise reforms; and (g) to put state finances on a sustainable path and improve the development impact of public expenditure.

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: District Primary Education Component

1. Expanding access, particularly for Socially Disadvantaged Group Children, to primary education in the Project Districts through:

(a) Construction of about 6,500 new schools and about 3,500 additional classrooms; and

(b) sanctioning about 13,000 new teaching positions and appointing teachers and para teachers.

2. Increasing the retention rate and improving the learning achievements in primary schools through:

(a) provision of materials, books and workbooks for schools in Project Districts;

(b) provision of continuous in-service teacher training, and supply of instructional materials for such training, including state-level development of training modules and training for master trainers;

(c) developing improved learning materials for teachers and students;

(d) provision of grants to schools, community organizations and individual teachers for school improvement, and provision of teaching aides; and

(e) formulating and implementing innovative approaches to improve primary education on a pilot basis, including alternative schools, early childhood education and bridge courses for working children, and evaluating and expanding these activities.

3. Improving the capacity to manage primary education by:

(a) establishing and strengthening state and Project District management structures to review and supervise the implementation of state and district investment plans and annual work plans and budget; and

(b) establishing and strengthening state and Project District resource institutions for improving primary education.

Part B: Primary Health Component

1. Upgrading primary health care services through:

(a) constructing and/or upgrading about 950 primary health centers; and

(b) strengthening the effectiveness of clinical, outreach and support services through, inter alia, establishment of staffing norms, improving the range of quality of services provided, establishment of a system for monitoring improvements in

the quality of clinical care, and provision of training.

2. Strengthening the capacity to deliver primary health care services through:

(a) improving the systems for referral, health management information, disease surveillance, and procurement and distribution of materials;

(b) enhancing the management skills of staff through the establishment of a Health Manpower Development Cell, upgrading regional training centers, establishing training teams and provision of training; and

(c) strengthening the management of this part of the Project through the establishment of a project management team, a Project Governing Board, a Project Implementation Committee, and a District Health Committee in each District except the District of Hyderabad.

3. Enhancing community participation in utilizing primary health care services through:

(a) improving the quality and coordination of the IEC programs of the relevant departments of Andhra Pradesh; and

(b) involving NGOs and local self-government institutions in the delivery of outreach services.

Part C: Integrated Child Development Services Component

1. Improving the quality and convergence of ICDS services through the establishment of about 2,700 mini-anganwadi centers and improving operations at about 39,000 anganwadi centers, including provision of drugs at these and other anganwadi centers.

2. Strengthening women's empowerment through training and awareness campaigns for adolescent girls, and provision of drugs and a learning course for adolescent girls between the ages of 11 and 16 years.

3. Expanding ICDS program in about 143 blocks through the provision of civil works, staff, equipment, materials and training.

4. Establishment of a state level management unit integrated with the existing ICDS program and implementing a program of institutional development.

5. Establishment of a training-cum-IEC resource center and provision of pre-service, in-service and state-specific orientation training for ICDS functionaries with enhanced financial norms.

6. Carrying out a program of IEC, including organization of communication workshops for all levels of functionaries and preparation of materials and media services.

7. Strengthening the capacity to monitor and evaluate this part of the Project through, inter alia, improving the management information system for ICDS operations, carrying out operational research on the feasibility of community supported supplementary nutrition program, carrying out social assessments, and provision of training to ICDS functionaries in the area of participatory rapid appraisal.

Part D: Roads Component

1. Carrying out heavy periodic maintenance in: (a) about 1,200 km of selected high-traffic volume state highways and major district roads; and (b) selected main roads and link roads in three pilot districts.

2. Improving rural roads through: (a) upgrading about 2,800 km of seasonal roads to all-weather standards, including the construction of about 650 drainage works; (b) construction of about 35 bridges with spans larger than 30 meters; and (c) employment of design and supervision consultants.

3. Carrying out routine and periodic maintenance of the core rural road network of about 12,500 km in three selected districts.

4. Improving and strengthening the institutional capacity of PRED through the provision of technical assistance, training, equipment and vehicles.

Part E: Irrigation Component

1. Improving, in association with farmer organizations, the operation of irrigation systems through carrying out:

(a) minimum rehabilitation works in about 10 major irrigation schemes covering about 2.2m ha, and in about 60 medium irrigation schemes covering about 0.3m ha; and

(b) regular maintenance works in about 10 major irrigation schemes covering about 2.2 m ha, in about 60 medium irrigation schemes covering about 0.3 m ha, and in about 12,300 minor irrigation schemes covering about 1.25 m ha.

2. Carrying out a pilot program of irrigation system improvement and modernization to facilitate the transfer of management and operation and maintenance responsibilities to Farmers Organizations through:

(a) carrying out detailed studies for scheme improvement and canal automation including environmental and social impact assessments;

(b) carrying out system improvements in one medium and part of a major irrigation scheme in each of the three regions of Andhra Pradesh covering a total area of about 46,750 ha; and

(c) testing the introduction of canal automation technology in one irrigation scheme.

3. Carrying out a program of irrigated agriculture intensification to increase agricultural productivity and water use efficiency in all irrigation schemes through, inter alia:

(a) sourcing and consolidation of irrigated agricultural technology and dissemination;

(b) training and skill development of the staff of AD;

(c) improving and extending irrigated agricultural practices;

(d) training and skill development of WUA members;

(e) on-farm demonstrations; and

(f) partnership building among farmers and staff of AD and I&CADD.

4. Strengthening the institutional framework of the irrigation sector through, inter alia:

(a) establishment of a Project Monitoring Unit within I&CADD and a Program Implementation Cell in the AD to coordinate and monitor the implementation of this part of the Project;

(b) establishment of a computerized Management Information System within the Project Monitoring Unit and a communications system network covering all irrigation schemes;

(c) establishment of a Human Resources Development Unit within WALAMTARI for providing training on participatory irrigation management to WUAs, NGOs and staff of relevant departments of Andhra Pradesh;

(d) carrying out studies and surveys, and organizing study tours; and

(e) provision of technical assistance, equipment and vehicles.

Part F: Public Enterprise Reform Component

1. Implementation of the First Phase Program for Restructuring Public Enterprises and Cooperative Enterprises, including implementing a Voluntary Retirement Scheme for surplus employees of these enterprises and a social safety net program.
2. Preparation of the second phase of the program for restructuring the remaining public enterprises and selected cooperative enterprises.
3. Strengthening the institutional capacity of Andhra Pradesh to implement the public enterprises restructuring program referred to in paragraphs 1 and 2 of this Part through, inter alia, the provision of technical assistance.

\* \* \*

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

### SCHEDULE 3

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$13,000,000 to be withdrawn from the Credit Account and \$17,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$8,000,000 and \$10,000,000 until the aggregate amount of withdrawals respectively from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of \$30,000,000 and \$35,000,000 respectively.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower,

withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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



Account.

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

