

CONFORMED COPY

CREDIT NUMBER 4103-IN

Development Credit Agreement

(Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhvu” Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 14, 2005



CREDIT NUMBER 4103-IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 14, 2005, 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 (hereinafter referred to as the Project), has requested the Association to assist in the financing of the Project; and

(B) the Project will be carried out by the Tamil Nadu Puthu Vazhvu Society (hereinafter referred to as the State Society) on behalf of Tamil Nadu 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 (hereinafter referred to as the Credit) available to Tamil Nadu, as set forth in this Agreement and Tamil Nadu will make the proceeds of the Credit available to the State Society as set forth in the agreement of even date herewith between Tamil Nadu and the Association (the Tamil Nadu Project Agreement).

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 (the Tamil Nadu Project Agreement), and in the agreement of even date herewith between the Association and the State Society (hereinafter referred to as the Puthu Vazhvu Society 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 May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in

the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "Beneficiary" means an eligible VPRC, Village Panchayat, EAG or a Federation which is the beneficiary of a Village Grant;

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

(c) "CBO" means a community based organization;

(d) "Community Operational Manual" or "COM" means the community operational manual prepared by Tamil Nadu and the State Society for carrying out Part A of the Project, dated June 30, 2005, and outlining the community level institutional arrangements, procedures and criteria for selection, appraisal and implementation of Subprojects, as may be amended from time to time by agreement between the Association and the State Society;

(e) "District Participating Agreement" means an agreement to be entered into between the State Society and a District Society participating in the Project in accordance with Section 2.03(a) of the Puthu Vazhvu Society Project Agreement, and the procedures and policies set forth in the Project Implementation Plan and the Community Operational Manual, under which funds for Village Grants are provided and which agreement includes the terms and conditions set forth in paragraph 3 of Part A of Schedule 3 to the Puthu Vazhvu Society Project Agreement;

(f) “District Project Management Unit” or “DPMU” means each district project management unit established within each District Society for assisting in carrying out the Project in such district;

(g) “District Society” means a district Puthu Vazhvu society established and registered under the Tamil Nadu Societies Registration Act, 1975, as amended to date, and operating according to its Memorandum of Association and Bylaws;

(h) “Economic Activity Group” or “EAG” means a group of economically vulnerable individuals engaging in a particular income-generation activity under Part A.2 of the Project and receiving a Village Grant;

(i) “Eligible Categories” means Categories 1 through 3 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(k) “Environmental Management Framework” means the framework, dated May 3, 2005, prepared by Tamil Nadu and furnished to the Association, governing all social and environmental aspects of Project and Subproject implementation, and containing, *inter alia*, a pest management plan and cultural property strategy plan, the objective of which is to mitigate the environmental and social impacts of Subprojects, and maximize the social and environmental benefits occurring under the Project, and which includes measures to offset, reduce to acceptable levels, or eliminate, any adverse environmental and/or social impacts under the Project;

(l) “Federation” means a federation of either Self Help Groups or EAGs which is participating in Project implementation;

(m) “Financing Agreement” means an agreement to be entered into between a District Society and a Beneficiary for the carrying out a Subproject and which shall include the terms and conditions set forth in the Community Operational Manual and the terms and conditions set forth in Part B of Schedule 3 of the Puthu Vazhvu Society Project Agreement; as the same may be amended from time to time, and such term includes any schedule or addendum to the Financing Agreement;

(n) “Fiscal Year” means the fiscal year of the Borrower, Tamil Nadu and the State Society, commencing April 1, and ending March 31;

(o) “Gram Sabha” means a general body of persons registered in the electoral roll relating to the Panchayat, comprised within the areas of the Village Panchayat; as the same is more particularly defined in Section 2(13) of the Tamil Nadu Panchayats Act, 1994;

(p) “NGO” means non-govenmental organization;

(q) "Procurement Plan" means the procurement plan, dated June 30, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(r) "Puthu Vazhvu Society Project Agreement" means the agreement between the Association and the State Society 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 Puthu Vazhvu Society Project Agreement;

(s) "Project Facilitation Team" or "PFT" means the cluster-level staff for facilitating Project implementation at the cluster level;

(t) "Project Implementation Plan" means the implementation plan of the State Society for the Project, dated June 30, 2005 including time-bound action plans, procedures and criteria agreed with the Association for Project implementation as the same may be modified during the Project implementation period;

(u) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

(v) "Self Help Group" means a community group engaged in thrift, credit and economic activities;

(w) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(x) "SPMU" means the state project management unit established within the State Society for assisting in carrying out the Project;

(y) "State Society" means the "Tamil Nadu Puthu Vazhvu Society" approved by Tamil Nadu under Government Order No. 64 dated April 29, 2005, as amended to date, and operating according to its Memorandum of Association and Bylaws;

(z) "Subproject" means an activity under Part A.2 of the Project to be financed by a Village Grant, which meets the criteria set forth in the Community Operational Manual and in respect of which a Financing Agreement has been entered;

(aa) "Support Organization" or "SO" means a support organization including NGOs, institutions or community based-organization;

(bb) "Tamil Nadu" means the State of Tamil Nadu, a state of the Borrower or any successor thereto;

(cc) “Tamil Nadu Project Agreement” means the agreement between the Association and Tamil Nadu 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 Tamil Nadu Project Agreement;

(dd) “Tribal Development Plan” means the plan, dated May 3, 2005, prepared in consultation with the local communities in districts participating in the Project to ensure that the scheduled tribes benefit from the activities financed under the Project;

(ee) “Village Grant” means a grant provided by a District Society to a Beneficiary under Part A.2 of the Project;

(ff) “Village Panchayat” means any local areas over which the Panchayat has jurisdiction as the same is more particularly defined under the Tamil Nadu Panchayats Act, 1994;

(gg) “Village Poverty Reduction Committee” or “VPRC” means a village organization established under Government Order No. 34, Social Welfare and Nutritious Meals Programme Department dated March 9, 2005 and being a CBO representing a village in preparation and implementation of a Subproject; and

(hh) “Vulnerable Groups” means destitutes, widows, deserted women, the aged, orphans and disabled persons.

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 this Agreement, an amount in various currencies equivalent to seventy nine million four hundred thousand Special Drawing Rights (SDR 79,400,000).

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 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, 2011, 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 (60) 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 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 January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c), and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 1 and July 1, commencing January 1, 2016 and ending July 1, 2040. Each installment to and including the installment payable on July 1, 2025 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 (6) 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 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 each of Tamil Nadu and the State Society, respectively, to perform in accordance with the provisions of the Tamil Nadu Project Agreement and the Puthu Vazhvu Society Project Agreement, respectively, all the respective obligations of Tamil Nadu and the State Society as 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 each of Tamil Nadu and the State Society respectively 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 Tamil Nadu 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, 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 Puthu Vazhvu Society Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

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 the State Society pursuant to Section 2.03 of the Puthu Vazhvu Society 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 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 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 (6) 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; and

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

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

(b) The State Society shall have failed to perform any of its obligations under the Puthu Vazhvu Society Project Agreement.

(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 either Tamil Nadu or the State Society will be able to perform its respective obligations under the Tamil Nadu Project Agreement and/or the Puthu Vazhvu Society Project Agreement, as the case may be.

(d) The Memorandum of Association or the Bylaws of the State Society shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the State Society to perform any of its obligations under the Puthu Vazhvu Society Project Agreement.

(e) The Memorandum of Association or the Bylaws of a significant number of District Societies shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of a significant number of District Societies to perform any of their obligations under the District Participating Agreements.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, any event specified in paragraphs (d) and (e) 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.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following are specified as additional matters, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

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

(b) that the Puthu Vazhvu Society Project Agreement has been duly authorized or ratified by the State Society, and is legally binding upon the State Society in accordance with its terms; and

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

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary and Under Secretary 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 New Delhi	953 - 3166175	91-11-23092022

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/ Madhusudan Prasad

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 Category to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to such Category and the percentage of expenditures for items so to be financed in such Category:

<u>Category</u>	<u>Amount of the Credit Allocated (expressed in SDR Equivalent)</u>	<u>% of Expenditures to be financed</u>
(1) Part A: Village Livelihood Program		
(a) Part A.1: Formation and Strengthening of Village Institutions	7,820,000	85%
(b) Part A.2: Village Funds	64,160,000	75%
(2) Part B: District and State Support to Village Livelihood Program	3,110,000	85%
(3) Part C: Project Management	4,310,000	60%
TOTAL	<u>79,400,000</u>	

2. 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 exceeding the equivalent of SDR 1,000,000, may be made for expenditures before that date but after February 28, 2005.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$500,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 for firms equivalent per contract, (e) Village Grants; (f) training, workshops and exposure visits; and (g) Project management costs, all under such terms and conditions as the Association shall specify by notice to the Borrower. For the purposes of

this paragraph, the term "Project management costs" means all costs incurred by the State Society and District Societies for implementing the Project.

4. 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 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 may open and maintain in Dollars a special deposit account in the Reserve Bank of India, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

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) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, 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.4 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 Credit Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$6,500,000 (six million five hundred thousand dollars) to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
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.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to empower the poor and improve their livelihoods through:

(a) developing, strengthening and synergizing pro-poor local institutions and groups (including Village Panchayats);

(b) enhancing skills and capacities of the poor (especially women and the vulnerable); and

(c) financing productive demand-driven investments related to livelihoods for the target poor.

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: Village Livelihood Program

1. Formation and Strengthening of Village Institutions:

Provision of support (including through PFTs) to develop and strengthen inclusive, self-reliant, self-managed and sustainable CBOs such as Self Help Groups, Economic Activity Groups and Federations, Village Poverty Reduction Committees, Village Panchayats and Gram Sabhas for livelihood improvement, including through the provision of goods, works and services and Project management costs.

2. Village Funds: Provision of Village Grants to:

(a) each VPRC to: (i) build capacity of communities to plan and implement Subprojects; (ii) provide seed funds for new Self Help Groups; (iii) develop skills and provide job opportunities-related training; and (iv) provide special assistance to the disabled and socially and economically vulnerable to ensure that they benefit from the Project;

(b) EAGs to develop and implement productive livelihood Subprojects;

(c) Village Panchayats to improve their governance so that they become more effective, pro-poor, accountable and responsive to the needs and demands of the village community especially the poorest, the vulnerable, the women and youth in the village; and

(d) Federations to strengthen CBOs and better serve the needs of the poor in the long term.

Part B: District and State Support to Village Livelihood Program

Provision of support and strengthening to Project entities involved in Project implementation (including SPMU and DPMUs and Support Organizations), including the provision of goods and services, so that such Project entities may better respond to the needs of the poor, build institutional linkages and promote and support livelihood options for the enhanced sustainability of the livelihoods of the poor.

Part C: Project Management

Provision of support to facilitate overall co-ordination, implementation, monitoring, evaluation of, and learning under, the Project at state and district levels, including through technical advisory services, the provision of goods (including equipment), training, carrying out studies and the provision of project management costs and *inter alia*, setting up and strengthening SPMU and DPMUs.

* * *

The Project is expected to be completed by March 31, 2011.

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