

Public Disclosure Authorized

CONFIRMED COPY

CREDIT NUMBER 4162 - IN

Development Credit Agreement

(National Agricultural Innovation Project – Hard Term Credit)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 24, 2006

CREDIT NUMBER 4162 - IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 24, 2006, 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 (the Project or NAIP), has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Indian Council of Agricultural Research (ICAR) 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 ICAR, as set forth in this Agreement;

(C) the Borrower has also requested the Association to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Association (the Development Credit Agreement for Credit No. 4161-IN), the Association is also making a credit to the Borrower in an amount in various currencies equivalent to forty one million one hundred thousand Special Drawing Rights (SDR 41,100,000) to assist in the financing of the Project; 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 ICAR (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 (the General Conditions), dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below, constitute an integral part of this Agreement:

(a) Heading of Article III of the General Conditions is amended by inserting the word "Interest;" after the words "Credit Account;".

(b) Section 3.05 of the General Conditions is amended by inserting the words "and interest" after the words "principal of;".

(c) Heading of Section 4.02 of the General Conditions is amended by inserting the word “Interest” after the word “Principal”.

(d) Section 4.02 (a) of the General Conditions is amended by inserting the words “and interest” after the words “principal amount of”.

(e) Section 4.02 (c) and (e) are amended by replacing the words “principal and service charges” with the words “principal, interest and service charges”.

(f) Section 4.06 (b) of the General Conditions is amended by inserting the words “and interest” after the words “principal of,”.

(g) 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.”

(h) 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”.

(i) Section 7.01 of the General Conditions is amended by replacing the text after the words “then outstanding to be due and payable immediately” with the following:

“together with the interest and service charges thereon and upon any such declaration such principal, together with such interest and charges, shall become due and payable immediately:”

(j) Section 8.01 (a) of the General Conditions is amended by inserting the words “and interest” after the words “principal of,”.

(k) Section 12.05 of the General Conditions is amended by inserting the words “interest and” before the word “charges”.

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 used in this Agreement or the Project Agreement have the following meanings:

(a) “Beneficiary” means a Consortium Partner or CP (as hereinafter defined) or any other group or institution which is a beneficiary of financial assistance under a Subproject (as hereinafter defined) under Parts B, C and D of the Project, and party to a consortium membership MOU and Financing Agreement (as hereinafter defined);

(b) “CACs” means the Consortium Advisory Committees whose responsibilities include the setting of priorities, and the provision of local level oversight, and the monitoring Project implementation;

(c) “CICs” means the Consortium Implementation Committees whose responsibilities include the day-to-day coordination and management of the preparation, implementation, monitoring and evaluation of Subprojects (as hereinafter defined);

(d) “CPs” means consortium partners or members that will carry out Subprojects (as defined hereinafter) pursuant to an MOU (as hereinafter defined);

(e) “DARE” means the Department of Agricultural Research and Education under the Ministry of Agriculture, or any successor thereto;

(f) “ESMF” means ICAR’s Environmental and Social Safeguards Management Framework dated December 12, 2005, providing overall guidance in identifying and assessing environmental and social issues and impacts and draw, as appropriate, plans of actions for safeguards management;

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

(h) “Fiscal Year” or “FY” means the Borrower’s fiscal year, beginning on April 1 of any calendar year and ending on March 31 of the following calendar year;

(i) “FMM” means Financial Management Manual to be prepared by ICAR to ensure uniformity of the Project’s financial management practices and procedures;

(j) “FMR” means Financial Monitoring Report prepared in accordance with Sections 4.01 of this Agreement and 4.02 of the Project Agreement;

(k) “MOA” means the Borrower’s Ministry of Agriculture, or any successor thereto;

(l) “MOU and Financing Agreement” means a memorandum of understanding and Financing Agreement to be entered into between ICAR and each Beneficiary, whose substance shall be satisfactory to the Association and in the form of the model set forth in the PIP (as hereinafter defined), for purposes of carrying out a Subproject (as hereinafter defined), and defining the rights and obligations of ICAR and each such Beneficiary, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the MOU and Financing Agreement;

(m) “NARS” means the Borrower’s National Agricultural Research System, comprised of ICAR institutions, SAUs (as hereinafter defined) and other agencies involved in agricultural research;

(n) “NGOs” means non-governmental organizations;

(o) “NSC” means the Borrower’s National Steering Committee, to be maintained within ICAR, which is vested with the responsibility for the setting of overall policy and the providing of guidance for purposes of achieving the objectives of the Project;

(p) “O&MAG” means the Organization and Management Advisory Group, a multi-disciplinary advisory panel responsible for the screening and evaluation of activities proposed to be carried out under Part A of the Project;

(q) “O&MPC” means the Organization and Management Program Committee, a multi-disciplinary panel responsible for selecting, awarding and providing implementation oversight of Subprojects under Part A of the Project;

(r) “PCS” means agricultural “Production to Consumption Systems”;

(s) “PIU” means the Project Implementation Unit, to be maintained within ICAR for coordination and implementation of the Project under the direction and supervision of the PMC (as hereinafter defined);

(t) “PMC” means the Project Management Committee, to be maintained within ICAR, with direct executive responsibility for sanctioning and overall management of the Project;

(u) “Project Agreement” means the agreement between the Association and ICAR 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;

(v) “Project Implementation Plan” means the implementation plan for the Project prepared by ICAR, furnished by ICAR to the Association on February 10, 2006 which, *inter alia*, details the guidelines and procedures to govern the implementation,

supervision and monitoring of the Project, as well as the criteria for the selection, appraisal and implementation of Subprojects (as hereinafter defined), as the same may be amended from time to time, and such term includes all manuals, schedules and agreements supplemental thereto;

(w) "Procurement Plan" means ICAR's procurement plan, furnished to the Association on December 15, 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 3.02 to this Agreement, to cover succeeding the eighteen (18) month periods (or longer) of Project implementation;

(x) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(y) "RPC" means the Research Program Committee whose responsibilities include the assessment and selection of activities proposed for grant funding by Beneficiaries under Parts B, C and D of the Project;

(z) "SAUs" means the State Agricultural Universities participating in the Project;

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

(bb) "Subproject" means an activity or set of activities supported or to be supported under Parts B, C and D of the Project or pursuant thereto, and in respect of which financial assistance has been, or will be, provided pursuant to an MOU; and

(cc) "TAG" means the Technical Advisory Group responsible for facilitating and synthesizing reviews involving scientific and technical assessment for final consideration by RPC of consortia Subprojects.

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 ninety seven million Special Drawing Rights (SDR 97,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in respect of the reasonable costs of goods, works and services required for the Project, as well as amounts paid (or if the Association shall so agree to be paid) by ICAR on account of withdrawals made by a Beneficiary under Parts B, C, and D of the Project

to meet the reasonable cost of goods, works and services required for a Subproject in respect of which withdrawal from the Credit Account is requested.

Section 2.03. The Closing Date shall be December 31, 2012, 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 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. The Borrower shall pay interest at the rate of three percent (3%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time which shall be computed on the basis of a 360-day year of twelve 30-day months. Interest shall accrue from the respective dates on which such amounts shall have been withdrawn.

Section 2.07. Commitment charges, service charges and interest shall be payable semiannually on March 15 and September 15 in each year.

Section 2.08. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2016 and ending March 15, 2041. Each installment to and including the installment payable on March 15, 2026 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 (5) 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 2.09. 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 and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause ICAR to perform in accordance with the provisions of the Project Agreement all the obligations of ICAR therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ICAR 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 ICAR in accordance with the Borrower's standard arrangements for developmental assistance to central ministries and agencies.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

Section 3.03. The Borrower shall: (i) participate in the exchange of views with the Association and ICAR on the plan for the future operation of the Project to be provided by ICAR pursuant to Section 2.03 (b) of the Project Agreement; and (ii) participate with the Association and ICAR in the Mid-term Reviews.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by ICAR pursuant to Section 2.03 of the Project Agreement.

Section 3.05. (a) The Borrower shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) The Borrower shall promptly inform the Association, of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the Borrower of its obligations under this 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 (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 (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 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) ICAR shall have failed to perform any of its obligations under the Project Agreement; and

(b) as a result of events that have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that ICAR will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that the event specified in 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 this Agreement within the meaning of Section 12.02 (b) of the General Conditions, namely, that the Development Credit Agreement for Credit No. 4161-IN has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of the Development Credit Agreement for Credit No. 4162-IN, have been fulfilled.

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 ICAR, and is legally binding upon ICAR 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. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry 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:

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

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

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

Part A: General

1. (a) The table below sets forth the items to be financed out of the proceeds of the Credit, 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) Goods, works, services, (and goods, works and services under) Subprojects, training and incremental operating costs under the Project	97,000,000	80% or any other percentage that the Association may establish from time to time
TOTAL	<u>97,000,000</u>	

(b) For the purposes of this Schedule 1, “incremental operating costs” means those additional costs incurred by ICAR to implement the Project including, *inter alia*, contractual staff costs, rental costs, utilities, and other related salaries, costs and facilities for Project staff.

2. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts costing less than \$200,000 each; (ii) goods under contracts costing less than \$1,000,000 equivalent each; (iii) consultants’ services under contracts costing less than \$200,000 equivalent each, in the case of consulting firms, and \$50,000 equivalent each, in the case of individual consultants; (iv) Subprojects; (v) training, and (vi) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

3. 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 FMR 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.

Part B: Special Account

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

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

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

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

(c) if the Borrower or ICAR shall have failed to furnish to the Association within the period of time specified in Sections 4.01 (b) (ii) of this Agreement and 4.01(b)(ii) of the Project Agreement, respectively, 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 sub-paragraph (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 \$14,000,000 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 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 that in the aggregate do not exceed the said 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 said 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 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 Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

SCHEDULE 2

Description of the Project

The objective of the Project is to contribute to the sustainable transformation of the Borrower's agricultural sector from primarily food self-sufficiency to one in which a market orientation is equally important for poverty alleviation and income generation, and to accelerate the collaborative development and application of agricultural innovations between public research organizations, farmers, the private sector and other stakeholders.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objective:

Part A: ICAR as the Catalyzing Agent for Management of Change (Institutional Strengthening)

Developing of ICAR as an agent for management of change in the NARS through, *inter alia*:

1. The strengthening of information, communication and dissemination systems;
2. The enhancing of public awareness and knowledge sharing;
3. The establishing business development models for technology commercialization and incubation;
4. The assessing and adapting of the current learning and capacity building (L&CB) and human resource development (HRD) initiatives, and the introducing of e-learning, distance learning, and the developing of training materials;
5. The developing of policy and gender analysis capacity and visioning skills;
6. The strengthening of impact assessment capacity; and
7. The remodeling and improvement of the financial management and procurement systems for the ICAR system.

Part B: Research on Production to Consumption Systems (PCS)

The establishing of market-oriented collaborative research alliances or consortia for sustainable improvement of selected agricultural PCS through, *inter alia*:

1. The encouraging of different organizations to be involved in the producing, harvesting, processing and marketing of a particular product, and join forces and compete for funding aimed at improving the profitability and sustainability of the said product's PCS;
2. The undertaking of research to improve technologies used to grow and process agricultural commodities, and to improve the social, institutional and economic environment in which the processing of agricultural commodities operate; and
3. The selection of PCS from sub-sectors that show good productivity levels with potential for growth, value-addition, competitiveness advantage and export potential, and that may help in sustaining food security, augmenting incomes and generating new employment prospects.

Part C: Research on Sustainable Rural Livelihood Security

The establishing of collaborative research alliances or consortia for improving the incomes and well-being of farm families in mainly disadvantaged areas such as rain-fed, hill and mountain, dry-land and coastal areas, through, *inter alia*:

1. The encouraging of different public and private organizations to collaborate and compete for funding aimed at enhancing productivity, profitability and sustainability;
2. The providing of incremental capacity to address urgent research and development issues;
3. The promoting of research and development for the improvement of production systems, enhancement of natural resource management (with special emphasis on water), empowerment of local communities, institutional development within the focus regions, creation of rural employment opportunities, enhancement of household nutrition and food security, and alleviation of rural poverty;
4. The conducting of feasibility studies, and the designing of pilot projects geared for the adoption and up scaling of improved technologies, and the implementing of said projects; and
5. The creating of awareness and the mobilizing of local communities.

Part D: Basic and Strategic Research in the Frontier Areas of Agricultural Science

The establishing of collaborative research alliances or consortia for conducting innovative basic and strategic research and applying its outcomes through, *inter alia*:

1. The supporting of focused research in well-defined areas of frontier science, with strong bearings on local agriculture;
2. The financing of research and capacity building activities focused on genetic enhancement of plants and animals, natural resource management and integrated pest management; and
3. The training of the management of advanced laboratories and the provision of necessary research equipment therefor.

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The Project is expected to be completed by June 30, 2012.