

CONFORMED COPY

CREDIT NUMBER 2008 IN

(Vocational Training Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 16, 1989

CREDIT NUMBER 2008 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 16, 1989, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) 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 aggregate principal amount equivalent to thirty million dollars (\$30,000,000) (the Loan);

(C) 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 provided for in the Loan Agreement are made;

(D) the Borrower intends to obtain from each of the States and Union Territories of India (as hereinafter defined) which participate in the Project certain undertakings in respect of the carrying out of the Project;

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;

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, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "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" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(b) "the States" means any of the States of India, including any successors to any of them, which participate in the Project and from which the Borrower has received a Letter of Undertaking;

(c) "State" means, as the context may require, any one of the States referred to in sub-paragraph (b) of this Section;

(d) "Union Territories" means any of the Union Territories administered by the Borrower which participate in the Project and from which the Borrower has received a Letter of Undertaking;

(e) "Union Territory" means, as the context may require, any one of the Union Territories referred to in sub-paragraph (d) of this Section;

(f) "Letters of Undertaking" means undertakings to be provided to the Borrower by each of the States and Union Territories pursuant to Section 3.03 of this Agreement;

(g) "MOL" means the Ministry of Labor of the Borrower;

(h) "DGET" means the Directorate General of Employment and Training within MOL;

(i) "NVTS" means the National Vocational Training System coordinated by MOL;

(j) "ITI" means an Industrial Training Institute which adheres to centrally prescribed curricula and certifies students according to standards and tests sanctioned by the National Council for Vocational Training;

(k) "BTC" means a Basic Training Center which provides basic training for apprentices as part of a structured apprenticeship program under the Apprenticeship Act of 1961, as amended to the

date of this Agreement;

(l) "RIC" means classroom facilities where theory related to apprenticeship training is imparted by qualified instructors;

(m) "NVTI" means the National Vocational Training Institute for women;

(n) "RVTI" means a Regional Vocational Training Institute for women at the regional level;

(o) "ATI" means an Advanced Training Institute offering instructor training programs and short term modular courses for upgrading and updating skilled workers and technicians;

(p) "HTC" means the High Technology Training Center for electronics, computers and robotics to be established under the Project which will train instructors, develop courses, offer direct training in advanced skills areas and provide consulting services to industry;

(q) "CSTARI" means the Central Staff Training and Research Institute located in Calcutta which conducts training for vocational training management and supervisory staff and research on problems in vocational training and develops training materials;

(r) "CPIU" means the Central Project Implementation Unit established within DGET;

(s) "TD" means, as the context may require, a Training Directorate implementing the vocational training program within a State or an Union Territory;

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

(u) "Project Year" means any one year period commencing on April 1 and ending on March 31; and

(v) the sign "Rs" means rupees in the currency of India.

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 eighty-nine million two hundred thousand Special Drawing Rights (SDR 189,200,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special 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 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1996 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 cancelled; (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next 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 semi-annually on June 15 and December 15 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 15 and December 15 commencing December 15, 1998 and ending June 15, 2023. Each installment to and including the installment payable on June 15, 2008 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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, shall carry out through and under the overall coordination of DGET, or cause to be carried out, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, vocational training and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Part A of Schedule 4 to this Agreement;

(c) Without any limitation or restriction upon any of its obligations under this Development Credit Agreement, the Borrower shall seek the performance of the States and Union Territories in accordance with the undertakings contained in their respective Letters of Undertaking, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the States and Union Territories to perform such undertakings, and shall not take any action which would prevent or interfere with such performance.

(d) Except as the Borrower and the Association shall otherwise agree, the Borrower shall make available to the States for the purposes of such Parts of the Project which are carried out by the States, part of the proceeds of the Credit in accordance with the Borrower's standard arrangements for development assistance to the States of India and its agencies, to be passed on by the States to their respective TDs in amounts to be confirmed by the Borrower to the Association, in accordance with standard arrangements of such States for the passing of such funds.

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 3 to this Agreement.

Section 3.03. The Borrower shall ensure that those Parts of the Project which are carried out by the States and Union Territories shall be performed in accordance with Letters of Undertaking satisfactory to the Association, to be obtained by the Borrower from each of the States and Union Territories and submitted to the Association, including the provisions set forth in Part B of Schedule 4 to this Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of DGET or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including 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 nine months after the end of each such year, a certified copy of 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, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account or the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains 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.

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) any State or Union Territory shall have failed to perform any of its undertakings in accordance with any Letter of Undertaking; and
- (b) an extraordinary situation shall have arisen which shall make it improbable that a State or an Union Territory will be able to perform its undertakings in accordance with a Letter of Undertaking.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

- (a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and
- (b) any event specified in paragraph (b) Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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.

Section 6.02. The obligations of the Borrower under Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary or any 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:

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

Cable address:

ECOFAIRS
New Delhi

Telex:

953-313546

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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

INDIA

By /s/ Anil Kumar
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Bilsel Alisbah
Acting Regional Vice President
Asia

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 of the Loan, the allocation of the amounts of the Credit and of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works, related professional services and furniture	15,400,000	5,000,000	60%
(2) Equipment, books and instructional materials	119,100,000	7,000,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost) and 75% of local ex- penditures for other items procured locally
(3) Staff Training	9,200,000	4,000,000	100%
(4) Honoraria, travel and subsistence allowances	4,800,000	-	50%
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Consumable materials	2,700,000	3,000,000	60%
(6) Specialist services	2,600,000	-	100%
(7) Incremental Salaries	16,700,000	8,000,000	60% during first three Project Years; 50% during next four Project Years
(8) Unallocated	<u>18,700,000</u>	<u>3,000,000</u>	

TOTAL 189,200,000 30,000,000

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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made from any Category in the table in paragraph 1 of this Schedule in respect of any State or Union Territory unless such State or Union Territory shall have provided to the Borrower a Letter of Undertaking, satisfactory to the Association, and the same shall have been submitted to the Association.

4. 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 7,600,000 may be made for Categories 1 to 7 out of the proceeds of the Credit on account of payments made for expenditures before that date but after May 1, 1988.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the implementation of MOL's long-term program to modernize and restructure the NVTs through: (a) improving the quality and efficiency of craftsman and apprenticeship training; (b) expanding the scope and relevance of the advanced skills training programs; and (c) strengthening the planning and management capacity for vocational training at Central and State levels.

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: Modernizing the Craftsman Training Program

1. Provision of an integrated package of inputs consisting of: the replacement and modernization of workshop equipment, the introduction of new trades, the upgrading of instructors, and modern instructional materials and audio-visual equipment in about 400 ITIs.
2. Establishment of a comprehensive maintenance and repair capability for workshop equipment at about 100 larger ITIs and about 19 regional maintenance centers.
3. Expansion of the pilot post-ITI training for self-employment program in about 100 ITIs.
4. Creation of 24 new BTCs and 44 RICs in trades and theoretical areas.
5. Construction of about 100 new women's ITIs/wings.
6. Introduction of about 18 new trades in non-traditional areas in about 72 existing women's ITIs/wings.
7. Construction of 4 new women's RVTIs for training instructors.
8. Introduction of about 17 new trades at the advanced skills

level in existing RVTIs and the NVTI.

9. Provision of equipment and technical assistance to strengthen the capacity of the curriculum and methods development wing of the NVTI.

Part B: Expanding Advanced Training Programs

1. Upgrading facilities and equipment in about 34 ITIs where advanced training would be provided.

2. Extension of advanced skill offerings and related equipment in 6 existing ATIs.

3. Construction and equipping of one High Technology Training Center for electronics, computers and robotics.

Part C: Improving NVTs Planning, Management and Supervision

1. Provision of equipment and technical assistance to develop NVTs project management capability.

2. Provision of equipment and technical assistance to strengthen the NVTs monitoring and evaluation system.

3. Provision of data processing equipment and facilities for improving trade testing, certification and documentation.

4. Provision of equipment and facilities, and technical assistance for strengthening the women's training unit at the DGET.

5. Provision of equipment, technical assistance, and operational funding for NVTs management and supervisory training, and conducting studies.

* * *

The Project is expected to be completed by March 31, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in India may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 9 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Equipment items or groups of equipment items estimated to cost less than \$200,000 but comprising highly specialized items not available in India, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of

the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Equipment items or groups of equipment items estimated to cost less than the equivalent of \$200,000 per contract up to an aggregate amount not exceeding \$118,500,000, works, furniture and consumable materials may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Off the shelf items or groups of items up to an aggregate amount not to exceed \$24,800,000, furniture, and consumable materials estimated to cost less than the equivalent of \$50,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Association.

4. Books and instructional materials may be procured under contracts awarded in accordance with the procedures set forth in paragraph 3 of this Part C or through direct purchases in accordance with procedures acceptable to the Association. Proprietary equipment items required for training in specific service-related trades up to an aggregate amount not to exceed \$21,400,000, may be procured through direct purchases in accordance with procedures acceptable to the Association.

5. Fellowships and training shall be arranged with local and overseas institutions. Placement of fellows in foreign institutions shall be made on the basis of relevance and quality of the programs offered, costs and prior experience and shall be subject to review by the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract to be awarded in accordance with Part A hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the

Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be as agreed between the Borrower and the Association. Such consultants shall be selected in accordance with principles and procedures agreed between the Borrower and the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

Part A: Implementation Arrangements

1. The Borrower shall maintain a Central Project Implementation Unit (CPIU) within DGET which shall be staffed at a level satisfactory to the Association and shall be responsible for the coordination, supervision and monitoring of the implementation of the Project.

2. The Borrower shall ensure that the equipment maintenance system established under the Project is adequately funded and maintained during the period of the Project.

3. By December 31 of each year, commencing on December 31, 1989, the Borrower shall prepare and furnish to the Association for its review, the proposed implementation plan in respect of the following Project Year. Each such proposed plan shall include, without limitation, staffing and training plans, plans for the acquisition of land (and a statement of land acquired to date), and financial, procurement and construction plans for such Project Year.

4. The Borrower shall undertake and furnish to the Association the following studies in accordance with terms of reference and an action plan agreed with the Association: (i) an evaluation of the self-employment scheme no later than December 31, 1994; (ii) a tracer study of ITI certificate holders into the labor market no later than September 30, 1995; (iii) a sample study of ITI instruction no later than December 31, 1994; and (iv) a study of the application of accreditation standards in selected ITIs no later than July 31, 1995.

5. The Borrower shall, no later than December 31, 1994 undertake and furnish to the Association a mid-term review of the progress of the Project in accordance with terms of reference acceptable to the Association with a view to identifying any implementation problems and actions required to strengthen the subsequent execution of the Project.

6. In order to ensure adequate linkages between industry and the ITIs included in the Project, the Borrower shall continue the policy of establishing local level advisory committees and the appointment of industrial liaison officers at each ITI assisted under the Project.

Part B: Letters of Undertaking

Except as the Borrower and the Association shall otherwise agree, each of the Letters of Undertaking shall make reference to the Borrower's obligations under this Agreement and shall contain provisions to the following effect:

1. Each State and Union Territory shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement.

2. Each State and Union Territory shall agree to carry out its respective components of the Project with due diligence and

efficiency and in conformity with appropriate administrative, financial, vocational training and engineering practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such components.

3. Each State and Union Territory shall agree to establish a Project Implementation Unit within its TD and take all such steps as shall be necessary to assist the Borrower in carrying out its obligations under this Agreement, including, without limitation, its procurement and financial reporting obligations.

4. Each State shall agree to make the proceeds of the Credit provided to it pursuant to Section 3.01 (d) of this Agreement, to its respective TD in accordance with standard arrangements for the passing of such funds.

5. Each State and Union Territory shall cause the TD to furnish an annual work program and quarterly reports on the progress of the Project to CPIU in accordance with an agreed format and action plan.

6. Each State and Union Territory shall agree to cause the ITIs which have received financial assistance under the Project to be operated and maintained in conformity with sound administrative financial and vocational training practices. Each State and Union Territory shall ensure that adequate provision is made for the maintenance of ITI equipment and facilities and that all necessary repairs and renewals are made thereto.

7. Each State and Union Territory shall agree to take or cause to be taken all such action as may be necessary to acquire land as and when needed for carrying out the Project.

8. Each State and Union Territory shall, at the request of either the Borrower or the Association, agree to exchange views from time to time with the Borrower and the Association on progress of the Project and to furnish all such information related thereto as may reasonably be requested. In particular, each State and Union Territory shall provide such information as may be required by the Borrower to fulfill its supervision, monitoring and reporting obligations under this Agreement and shall afford all reasonable opportunity for representatives of the Association to visit any part of the relevant State or Union Territory for purposes related to the Project.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5), (6) and (7) set forth in the table in paragraph 1 of Schedule 1 to this 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 this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$25,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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 or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement, or directly 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; or
- (ii) the total unwithdrawn amount of the Credit and of the Loan allocated to the eligible Categories for the Project, minus the amount of any outstanding special commitment entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 for the Project 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower

shall, promptly upon notice from the Association 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account or the Loan Account, as the case may be.

