

CONFORMED COPY

CREDIT NUMBER 3635-IN

Development Credit Agreement

(Karnataka Community-Based Tank Management Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 4, 2002

CREDIT NUMBER 3635-IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 4, 2002, 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), has requested the

Association to assist in the financing of the Project;

(B) the Project will be carried out by the State of Karnataka (Karnataka) and the Jala Samvardhana Yojana Sangha (JSYS) with the Borrower's assistance and, as a part of such assistance, the Borrower will make the proceeds of the credit (the Credit) provided for in Article II of this Agreement available to Karnataka, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the 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) "Act" meant the Karnataka Panchayat Raj Act (Karnataka Act No. 14 of 1993);
- (b) "ANGO" means an NGO selected as an anchor by JSYS with specific responsibilities to support JSYS in Project implementation;
- (c) "CFT" or "Cluster Facilitation Team" means a multi-disciplinary facilitation team which meets the characteristics and criteria set forth in Schedule 3, Part C of the Project Agreement and which assists a TUG in preparation of an ITDP and implementation of a TS Subproject;
- (d) "Cultural Property Action Plan" means the plan dated, March 1, 2002, prepared by Karnataka and furnished to the Association for preservation and respect of cultural property in the Project Area, and referred to in paragraph 8 of Schedule 2 to the Project Agreement;
- (e) "Dam Safety Plan" means the plan dated March 1, 2002, prepared by Karnataka and furnished to the Association to ensure safety of tanks and related structures in the Project Area, with and referred to in paragraph 8 of Schedule 2 to the Project Agreement;

(f) “Eligible Categories” means categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(h) “Environmental Management Plan” means the plan dated March 1, 2002, prepared by Karnataka and furnished to the Association, setting out measures to mitigate the Project’s possible adverse impact on the environment, consisting of process guidelines for the management of environmental and social aspects under the Project and which includes the Cultural Property Action Plan and Dam Safety Plan, and which is referred to in paragraph 8 of Schedule 2 to the Project Agreement;

(i) “Financial Management Manual” means the manual dated March 1, 2002, agreed to between Karnataka, JSYS and the Association for the financial operation and management of the Project;

(j) “Financial Management System” means the financial management system of JSYS;

(k) “Fiscal Year” means the fiscal year of the Borrower, Karnataka and JSYS, commencing on April 1 and ending on March 31 of each year;

(l) “Gender Action Plan” means a plan prepared by the TUG with the assistance of a CFT for each TS Subproject to facilitate empowerment of women socially and economically with respect to tank system development and management;

(m) “Gram Panchayat” has the meaning assigned to such term in the Act;

(n) “ITDP” or “Integrated Tank Development Plan” means a plan prepared jointly by a TUC, on behalf of a TUG, and a CFT in respect of each Tank System under the Project and entered into among the TUC, on behalf of its TUG, a CFT and JSYS;

(o) “JSYS” means a society established and registered, under the Karnataka Societies Registration Act;

(p) “Karnataka” means the Borrower’s State of Karnataka, or any successor thereto;

(q) “MOA” means the Memorandum of Agreement to be entered into by JSYS, the respective CFT and respective TUC on behalf of its TUG, setting out the rights, duties and obligations (including procurement and financing) for the carrying out of an ITDP relating to a Tank System as a TS Subproject;

(r) “NGOs” means non-governmental organizations established and operating in the territory of the Borrower;

(s) “PMP” means the Pest Management Plan dated March 1, 2002, prepared by Karnataka and furnished to the Association to promote integrated pest management activities in the Project Area, and referred to in paragraph 12 of Schedule 2 to the Project Agreement;

(t) “Project Agreement” means the agreement between the Association and Karnataka and JSYS 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;

(u) “Project Area” means 34 taluks in the nine districts of Bidar, Bagalkot, Raichur, Koppal, Haveri, Bellary, Chitradurga, Tumkur and Kolar;

(v) “Project Implementation Plan” or “PIP” means the implementation plan for the Project dated March 1, 2002, including time-bound action plans, procedures and criteria for the implementation of the Project, the selection of CFTs, and the design and implementation of TS Subprojects for tanks in the Project Area and agreed with the Association;

(w) “Project Management Report” means each Project Management Report prepared in accordance with Section 4.02 of the Project Agreement;

(x) “R and R Policy” means Karnataka’s policy prepared in respect of this Project and relating to compensation for resettlement and rehabilitation and set forth as Annex II of the Resettlement Action Plan;

(y) “Resettlement Action Plan” means the plan dated March 1, 2002 prepared by Karnataka and furnished to the Association containing the entitlement framework for project affected people and plan concerning procedures and criteria for any possible land acquisition and the issue of encroachment and compensation for land, and referred to in paragraph 9 of Schedule 2 to the Project Agreement;

(z) “Safeguard Action Plans” means all together the Cultural Property Action Plan, the Dam Safety Plan, the Environmental Management Plan, the Tribal Development Plan, the Pest Management Plan and the Resettlement Action Plan;

(aa) “Scheduled Castes” means the population groups specified as “scheduled castes” pursuant to Article 342 of the Constitution of India;

(bb) “Scheduled Tribes” means the population groups specified as scheduled tribes pursuant to Article 342 of the Constitution of India;

(cc) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(dd) “TS Subproject” means a specific project in relation to one or more Tank Systems and consisting of activities classified in Part C.1 of the Project and (i) for which an ITDP has been prepared, (ii) an MOA has been entered into, and (iii) which meets the criteria set forth in the PIP;

(ee) “Tank User Committee” or “TUC” means the committee formed by, and representing each, TUG;

(ff) “Tank System” means in respect of each tank the catchment area (which is defined as the feeder channel within 500 meters of the foreshore and the foreshore area itself); tank bed and waterspread area at full tank level (which includes tank embankments, sluices,

waste weir, and the tank bed itself); and the design command area serviced by the tank and being a tank system in the Project Area and benefiting from the Project;

(gg) “Tribal Development Plan” means the plan dated March 1, 2002, prepared in consultation with the local communities in the Project Area to ensure that the Scheduled Tribes and Vulnerable Groups benefit from the activities financed under the Project, and referred to in paragraph 11 of Schedule 2 to the Project Agreement;

(hh) “TUG” or “Tank User Group” means any group of persons deriving water or other related benefits in respect of a Tank System under the Project and approved as such by the Village Assembly;

(ii) “Village Assembly” means, in each village, a general village body consisting of all families residing in such village; and

(jj) “Vulnerable Groups” means the Scheduled Castes, landless families, backward classes and persons living below the poverty line, as defined by Karnataka.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighty million Special Drawing Rights (SDR 80,000,000).

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 works, goods 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 January 31, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the

Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($\frac{3}{4}$ 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 May 1 and November 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 May 1 and November 1 commencing May 1, 2012 and ending November 1, 2036. Each installment to and including the installment payable on November 1, 2021 shall be one and one-fourth percent ($1\frac{1}{4}\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2\frac{1}{2}\%$) of such principal amount.

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

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

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

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

Section 2.08. The currency of the United States of America is hereby specified for the

purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the 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 Karnataka and JSYS to perform in accordance with the provisions of the Project Agreement all the obligations of Karnataka and JSYS 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 Karnataka and JSYS 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 Karnataka in accordance with the Borrower's standard agreements for development assistance to the states of India.

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 1 to the Project Agreement.

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

ARTICLE IV

Financial Covenants

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

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

(a) Karnataka and JSYS shall have failed to perform any of its obligations under the Project Agreement; and

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following matter 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 Karnataka and JSYS and is legally binding upon Karnataka and JSYS, and any successors thereto, in accordance with its terms.

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 or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower are each designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
Government of India
New Delhi 110 001
India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175FIWE IN	91-11-301-6075

For the Association:

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

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

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

INDIA

By /s/ Adarsh Kishore

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin Lim

Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

Part A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) TS Subprojects under Part C.1 of the Project	44,900,000	75%
(2) Goods	3,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of expenditures for other items procured locally
(3) Consultants' Services	2,100,000	80%

(4)	NGOs, Educational and Research Institutions	10,700,000	100%
(5)	Training, Workshops, and Study Tours	8,600,000	100%
(6)	Incremental Operating Costs	5,400,000	80% until 3/31/2004; thereafter 60% until 3/31/2006 and 25% thereafter
(7)	Unallocated	<u>4,700,000</u>	
	TOTAL	80,000,000	

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;

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

(c) the term “incremental operating costs” means the incremental operating costs arising under the Project on account of maintenance of vehicles, fuel, equipment, office supplies, utilities, travel and accommodations, additional Project staff salaries and travel costs; and

(d) the term “NGOs, Educational and Research Institutions” means expenditures incurred by NGOs, educational and research institutions who have tax-exempt status under the laws of the Borrower.

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

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,000,000, may be made in respect of Categories (1), (2), (3), (4), (5) and (6) on account of payments made for expenditures before that date but after July 31, 2001; and

(b) in respect of a TS Subproject, unless: (i) the TS Subproject has been prepared in accordance with the procedures set forth in the PIP; (ii) an MOA has been entered into in respect of such TS Subproject; and (iii) the relevant Safeguard Action Plans have been prepared in respect of such TS Subproject.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) TS Subprojects costing less than \$50,000 equivalent each; (b) goods under contracts not exceeding \$30,000 equivalent each; (c) consultants’ services under contracts not exceeding \$100,000 equivalent each in the case of consulting firms and

\$50,000 equivalent each in the case of individual; (d) training, workshops and study tours; and (e) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

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) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 (b) of the Project Agreement;

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

(c) if the Borrower or JSYS shall have failed to furnish to the Association within the period of time specified in Section 4.01(b)(ii) of this Agreement and Section 4.01 (b)(ii) of the Project Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the

Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to 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 Development Credit Agreement.

Annex A
to
SCHEDULE 1
Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports

1. For the purposes of this Annex the term “Authorized Allocation” means an amount equivalent to \$5,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 20,000,000.

2. Withdrawals of the Special Account’s Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the 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 Made
On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$10,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Government of Karnataka in improving rural livelihoods and reducing poverty by developing and strengthening community-based approaches to improving and managing selected Tank Systems.

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

Part A: Enabling Environment

1. Establishing a conducive environment and legal and institutional basis for community-based tank management through among other activities:

(a) development of a decision support system for planning, operation and management of water resources on a sub basin/watershed basis;

(b) preparation of proposed draft legislation relating to community-based tank management and tank related rights and responsibilities; and

(c) carrying out of an institutional reform study and long-term strategy and development plan for JSYS.

2. Strengthening project coordination and management through provision of technical assistance including studies, workshops and training:

(a) establishing and maintaining JSYS project offices at the state and district levels;

(b) developing a GIS-based information system; and

(c) developing and implementing a monitoring and learning system.

Part B: Community Development

1. Human and institutional resource development and strengthening of local institutions through:

(a) provision of support services by ANGOs and CFTs; and

(b) capacity building programs for TUCs and TUGs, CFTs, ANGOs, and JSYS staff in developing operational and technical skills for Tank System management.

2. Preparation and implementation of Safeguard Action Plans (including tribal development plans, resettlement action plans, environmental management plans which include tank safety plans and cultural property action plans, pest management plans, all as necessary) and Gender Action Plans by TUGs with the assistance of CFTs and JSYS, for each Tank System developed under the Project.

Part C: Tank Systems Improvements

1. (a) Improving the physical and operational performance of approximately 2,000 tanks within the Project Area through the carrying out of TS Subprojects to improve tank storage capacity, to rehabilitate tank physical structure and infrastructure, to reduce siltation by stabilizing drainage lines to the tank, and to improve water distribution and irrigation systems in the tank command area.

(b) Providing the TUGs/TUCs with appropriate administrative and management support for implementing and managing the TS Subprojects.

2. Increasing agricultural and horticultural production and thereby seeking to increase household incomes of TUGs through:

(a) provision of a location-specific, on-farm demonstration program of improved on-farm water management practices and improved cropping systems and crop practices; and

(b) provision of a demand-led technical training program consisting of both classroom and on-farm training in Tank System and water management, field crop and horticulture development, and other income generating activities.

3. Promoting other income generating activities for members of local tank communities who have little or no access to land in tank command areas through TS Subprojects including:

(a) the promotion of fisheries enterprises in about 600 tanks;

(b) the promotion of small-scale intensive forage (livestock) and dairy production enterprises in about 200 tanks; and

(c) the establishment and promotion of small-scale forestry enterprises in about 400 tanks, including foreshore planting and small-scale tree seedling nurseries.

4. Developing appropriate technologies suitable to the general conditions found in Tank Systems and carrying out of studies (including on conjunctive water use and reservoir siltation and desiltation techniques); developing and testing low pressure, drip and pipe irrigation systems; and installing equipment to improve water control, monitoring and management of tanks.

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The Project is expected to be completed by July 31, 2008.

