

CONFORMED

CREDIT NUMBER 3935-CE

Development Credit Agreement

(Second North-East Irrigated Agriculture Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 23, 2004

CREDIT NUMBER 3935-CE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 23, 2004, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (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 North-East Provincial Council, or its successor, 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 the North East Provincial Council, 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 and in the agreement of even date herewith between the Association and the North-East Provincial Council (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, dated January 1, 1985 (as amended through May 1, 2004). Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary” means a group of individuals or an entity including a Community-Based Organization, which satisfies the eligibility criteria prescribed in the Operational Manual, to whom, or for whose benefit, a Project Scheme is implemented or proposed to be implemented;

(b) “Community-Based Organization” means a rural community based organization, association, society, or user group that satisfies the eligibility criteria in the Operational Manual;

(c) “Eligible Categories” means Categories (1), (2), (3), and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(e) “Environmental Management Framework” means the Environmental Management Framework for the Project dated May 8, 2004, satisfactory and acceptable to the Association (including any amendments to such plans approved by the Association) for implementing the Project in accordance with certain institutional, mitigating, and monitoring measures to offset, reduce to acceptable levels, or completely eliminate any adverse environmental, dam safety, and pest management issues;

(f) “Financial Manual” means the Financial Management Manual containing policies and procedures for financial management of the Project satisfactory and acceptable to the Association;

(g) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 of the Project Agreement;

(h) “Fiscal Year” means the Borrower’s fiscal year commencing on January 1 and ending on the following December 31;

(i) “North-East Provincial Council” means the North-East Provincial Council of the Borrower constituted under the Provincial Councils Act of 1987 or any successor entity thereto acceptable to the Association that is capable of carrying out the Project;

(j) “National Project Steering Committee” means a committee of senior officials, constituted by the Borrower to provide strategic advice and guidance to the Project Management Unit in project implementation;

(k) “Operational Manual” means the Project Implementation and Operation Manual (including any amendments made from time to time), satisfactory and acceptable to the Association, setting forth various operational, financial management, and procurement procedures governing the operation of the Project; provided, however, if there is a conflict between this Agreement or the Project Agreement and the Operational

Manual, the provisions of this Agreement or the Project Agreement, as the case may be, shall prevail;

(l) “Procurement Plan” means the procurement plan for the Project, dated May 14, 2004, covering the initial eighteen (18) month period of project implementation, as the same may be updated from time to time in accordance with the provisions of Section 3.03 (a) of this Agreement, to cover succeeding eighteen month (18) periods of project implementation;

(m) “Project Agreement” means the agreement between the Association and the North East Provincial Council, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(n) “Project Management Unit” means the Project Management Unit in the North-East Provincial Council, which is responsible for Project implementation;

(o) “Project Schemes” means irrigation schemes, ponds, dykes, salt-water exclusion structures, drinking water facilities, and rural roads to be rehabilitated under the Project, other priority reconstruction activities to be undertaken under the Project, and livelihood support activities under Part A.3 of the Project;

(p) “Provincial Coordination Committee ” means a committee constituted by the North-East Provincial Council to oversee implementation of this Project;

(q) “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;

(r) “Social Safeguards Framework” means the Social Safeguards and Risk Monitoring Management Framework for the Project that sets out, among other things: (i) measures to monitor activities for significant social impacts, and, if necessary, to assist in mitigation of such impacts; (ii) procedures to ensure that these measures are appropriately applied; and (iii) guidelines for capacity building and monitoring;

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

(t) “Sub-Grant” means a grant made, or proposed to be made, to a Beneficiary to finance goods, works, consultants’ services, and training for the carrying out of a Project Scheme.

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 forty four million six hundred thousand Special Drawing Rights (SDR 44,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be March 31, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of 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 (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 April 1 and October 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 April 1 and October 1 commencing October 1, 2014 and ending April 1, 2044. Each

installment to and including the installment payable on April 1, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (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 (3) 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 2.08. 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 the North-East Provincial Council to perform in accordance with the provisions of the Project Agreement all the obligations of the North-East Provincial Council 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 the North-East Provincial Council to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 cause the North-East Provincial Council to:

- (i) carry out its obligations in accordance with the provisions of this Agreement and the Project Agreement; and
- (ii) implement the Project in accordance with the Operational Manual, the Social Safeguard Framework, the Environmental Management Framework, and the Financial Manual, and except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

Section 3.02. (a) The Borrower shall make the proceeds of the Credit available to the North-East Provincial Council in accordance with terms and conditions acceptable to the Association.

(b) The Borrower shall take adequate and timely measures to ensure that sufficient funds from its own resources are made available to the North East Provincial Council to carry out the Project.

Section 3.03.(a) 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, as such provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall cause the North East Provincial Council to update the Procurement Plan in accordance with the terms of reference acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.04. (a) Without prejudice to the Borrower's obligations under Section 9.04 of the General Conditions to ensure that all goods, works, services, training, and Sub-Grants financed out of the Credit proceeds are used exclusively for the Project, the Borrower shall cause the North East Provincial Council to ensure that, under no circumstances, any proceeds of the Credit shall be withdrawn, utilized, or made available for the payment of any taxes, levies, fees, or any other surcharges collected or levied by any group, cadre, entity or other non-governmental organization on goods, works or services, or on the importation, manufacture, procurement or supply thereof.

(b) If any Credit proceeds are used in a manner inconsistent with the provisions of this Agreement or for the payment of any taxes, levies, fees, or any other surcharges described above, at the Association's request and without prejudice to any of the Association's other remedies under this Agreement, the Borrower shall promptly, upon notice from the Association, take all necessary and appropriate action, and shall cause the North East Provincial Council to take all such action, to recover and refund to the Association (in a manner indicated by the Association) an amount equivalent to the Credit proceeds so used, withdrawn, or utilized.

Section 3.05. 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 the North East Provincial Council pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources, and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year, as so audited, and

(B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) 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, or covering, the fiscal year in which the last withdrawal from the Credit Account was made;

(ii) enable the Association's representatives to examine such records; and

(iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies of the Association

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

(a) The North East Provincial Council 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 the North East Provincial Council 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 events are specified:

(a) 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 and the North East Provincial Council; and

(b) any events specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 the North East Provincial Council, and is legally binding upon the North East Provincial Council 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, Ministry of Finance of the Borrower, or such person or persons authorized by the Secretary, 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:

Ministry of Finance
The Secretariat
Colombo 1, Sri Lanka

Cable address:	Telex:	Facsimile:
SECMINFIN	FINMIN 21409 FORAID 21232	94-11-449823 94-11-447633

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 Colombo, Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Punchi Bandara Jayasundara
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter Harrold
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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) Works	22,100,000	85%
(2) Goods	900,000	100 % of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' services, including audit, and training	3,400,000	100% of foreign expenditures; 80% of local expenditures for consulting firms and 75% of local expenditures for individual consultants
(4) Incremental Operating Costs	1,400,000	90% until December 31, 2005; 70% from January 1, 2006 until December 31, 2007; and 25% thereafter

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Goods, works, services, and training financed through Sub-Grants	12,400,000	85%
(6) Unallocated	4,400,000	
TOTAL	<u>44,600,000</u> =====	

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, works 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; and

(c) the term “incremental operating costs” means incremental recurrent expenditures incurred on account of the Project for per diems, office supplies, vehicle rental charges (including passenger insurance), government motorcycle and vehicle operating charges (fuel, maintenance, and insurance), maintenance of office equipment, telephone and other communications charges, office rent, salaries of contract staff, but excluding salaries of officials of the Borrower’s and the North-East Provincial Council’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,200,000, may be made in respect of categories (1), (2), (3), (4), and (5) on account of expenditures before that date but after June 30, 2004.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) all training; and (f) all incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Financial Monitoring Report and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six (6) month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in its Central Bank, 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, at any time, 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 shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based

Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor 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 (6) month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of two million, five hundred thousand United States dollars (U.S.\$2,500,000) 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 Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.
 - (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B
to
SCHEDULE 1
Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six (6) month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to help the conflict-affected communities and villages in the Borrower's North-East and the adjoining areas by: (i) restoring their livelihood; (ii) enhancing agricultural production and income; and (iii) building their capacity for sustainable social and economic reintegration.

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: Rehabilitation and Development

Carrying out rehabilitation and development of conflict-affected communities and villages to achieve social and economic reintegration of such communities and villages through various activities including:

1. Building, strengthening, and empowering Community-Based Organizations.
2. Improving essential village-level social and economic infrastructure, services, and facilities.
3. Support for small scale livelihood support activities that will increase income and employment opportunities in local communities. This component will finance pilot sub-projects for: (i) basic agriculture and allied activities; (ii) improved production and marketing of basic commodities; and (iii) the promotion of micro-enterprises.

Part B: Essential Rehabilitation and Improvements to Selected Major Irrigation Schemes

Support for essential dam safety repairs and improvements and urgent improvements to major irrigation and drainage canals and feeder canals of selected major irrigation and drainage schemes.

Part C: Formation and Empowerment of Farmer Organizations and Strengthening Agricultural Support Services

1. Assistance in the formation and strengthening of viable and commercially oriented farmer organizations and farmer federations.
2. Strengthening the capacity of government agricultural research, extension, and other support services.

Part D: Capacity Building, Project Implementation Support, and Oversight

1. Capacity building of provincial, district, divisional, and local government agencies.
2. Providing project implementation support and oversight through various measures including staffing of the Project Management Unit, and consultants for external technical, social, financial and management auditing, and monitoring.

* * *

The Project is expected to be completed by October 31, 2010.