

CONFORMED COPY

CREDIT NUMBER 3528 IN

Development Credit Agreement

(Karnataka Watershed Development Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 26, 2001

CREDIT NUMBER 3528 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 26, 2001, between INDIA (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) 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 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 and in the agreement of even date herewith between the Association and Karnataka (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 October 6, 1999), with the modifications set forth below (the General Conditions), constitute an

integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) 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: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) 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) "AHVSD" means the Animal Health and Veterinary Services Department of Karnataka;

(b) "Backward Classes" means the population groups specified as "Backward Classes" from time to time by the Government of Karnataka;

(c) "Beneficiary Group" means an informal village or community group benefiting directly from the activities financed under the Project, as defined in the VWDP (as hereinafter defined);

(d) "Districts" means the administrative units into which Karnataka (as hereinafter defined) is divided;

(e) "Eligible Categories" means Categories 1, 2, 3, 4 and 5, set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(g) "Entry Point Investment Sub-projects" means the Sub-projects to be financed under Part A.3 of the Project;

(h) "Environmental Management Plan" means the plan dated June 10, 2001, prepared by Karnataka and furnished to the Association, setting out measures to mitigate against the Project's adverse impact on the environment, comprising process guidelines for the management of environmental and social aspects under the Project, and screening criteria for watershed interventions under Part A.2 of the Project;

(i) "Fiscal Year" means the fiscal year of the Borrower and Karnataka starting April 1 and ending on March 31;

(j) "GS" means the Gram Sabha, a general village body consisting of all families residing in a village;

(k) "Karnataka" means the State of Karnataka, a State of the Borrower, or any successor thereto;

(l) "Micro-watershed" means a unit of a Sub-watershed (as hereinafter

defined) covering about 500 hectares;

(m) "MOU" means the Memorandum of Understanding to be entered into among each MWMG (as hereinafter defined), a selected NGO and the ZP (as hereinafter defined), for purposes of outlining the roles and responsibilities of the respective parties thereto in the implementation of the activities provided in the MWDP;

(n) "MWMG" means a micro-watershed management group established or to be established under the Karnataka Societies Registration Act of 1960;

(o) "MWDP" means a micro-watershed development plan;

(p) "NGOs" means non-governmental organizations established and operating under the laws of the Borrower, and selected in accordance with criteria set forth in the Project Implementation Plan (as hereinafter defined);

(q) "PRIs" means the Panchayat Raj Institutions established under the Karnataka Panchayat Raj Act of 1993, collectively including the ZP (as hereinafter defined) at the district level, the Taluk Panchayat at the block level, and the Gram Panchayat at the village level;

(r) "Project Agreement" means the agreement between the Association and Karnataka 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;

(s) "Project Districts" means the districts of Chitradurga, Dharwad, Haveri, Kolar and Tumkur in Karnataka, and any successor thereto;

(t) "Project Implementation Plan" means the implementation plan for the Project dated June 10, 2001, including, inter alia, time-bound action plans, procedures and criteria for the selection of NGOs, watershed interventions and Entry Point Investment Sub-projects, and environmental and social screening criteria, agreed upon with the Association;

(u) "Project Management Report" means each report prepared in accordance with Section 3.02 of the Project Agreement;

(v) "PMP" means the Pest Management Plan dated June 10, 2001, agreed with the Association, and referred to in paragraph 13 of Schedule 2 to the Project Agreement;

(w) "PPMU" means the Project Planning and Management Unit to be maintained in accordance with the provisions of paragraph 4 of Schedule 2 to the Project Agreement;

(x) "Scheduled Castes" means the population groups specified as "Scheduled Castes" pursuant to Article 341 of the Constitution of India;

(y) "Scheduled Tribes" means the population groups specified as "Scheduled Tribes" pursuant to Article 342 of the Constitution of India;

(z) "Sub-watershed" means a unit of about 5,000 hectares identified for rehabilitation and development in a Project District, comprising several Micro-watersheds;

(aa) "Tribal (including Vulnerable Groups) Development Plan" means the plan furnished to the Association on May 21, 2001, prepared in consultation with the local communities to ensure that the Scheduled Tribes and Vulnerable Groups (as hereinafter defined) benefit from the activities financed under the Project;

(bb) "VFC" means the Village Forest Committees established under the Karnataka Joint Forest Planning and Management Order of January 1, 1986, as amended on April 12, 1993 and December 16, 1996;

(cc) "VWDP" means the Village Watershed Development Plan;

(dd) "Vulnerable Groups" means the Scheduled Castes, landless families, backward classes, and persons living below the poverty line, as defined by Karnataka;

(ee) "WDD" means the Watershed Development Department of Karnataka; and

(ff) "ZP" means the Zilla Panchayat.

## 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 seventy-nine million Special Drawing Rights (SDR79,000,000).

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 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, 2007, 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 (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 June 15 and December 15 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 June and December commencing December 15, 2011 and ending June 15, 2036. Each installment to and including the installment payable on June 15, 2021 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount

of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six 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 abovementioned 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 to perform in accordance with the provisions of the Project Agreement all the obligations of Karnataka 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 to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

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 pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower and the Association shall participate in the exchange of views and review of progress reports on Project implementation with Karnataka, pursuant to Section 2.04 (a) and Paragraph 18 (c) of Schedule 2 to the Project Agreement, respectively.

### 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 (1) of the General Conditions, the following additional events are specified, namely, that:

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

(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 will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that the event specified in 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.

#### 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 Karnataka, and is legally binding upon Karnataka 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, and 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:

The Secretary to the Government of India

Department of Economic Affairs  
Ministry of Finance  
New Delhi, PIN 110001  
India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-3166175	011 301 7511

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

#### 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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works		
(a) Part A.3 of the Project	1,700,000	80%
(b) Part A.2 of the Project	61,000,000	76%

(2)	Goods including materials, equipment and vehicles	2,600,000	100%	of foreign expenditures, 100% of local expenditures(ex-factory cost) and 80% of local expenditures for other items procured locally
(3)	Training and Studies	3,800,000	100%	
(4)	Consultants' Services	7,600,000	100%	
(5)	Incremental Operating Costs	700,000	80%	up to FY 2003; 50% up to FY 2005; 25% thereafter
(6)	Unallocated	1,600,000		
	TOTAL	79,000,000		

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; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "incremental operating costs" means the costs of operation and maintenance of additional buildings, equipment, vehicles, office rental and expenses, and salaries of additional staff, incurred by Karnataka, for purposes of carrying out the Project, after September 1, 2000.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR1,000,000 may be made on account of payments made for expenditures before that date but after September 1, 2000.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods and works under contracts not exceeding \$30,000 equivalent; (ii) services for firms under contracts not exceeding \$100,000 equivalent; and (iii) services for individual consultants under contracts not exceeding \$50,000 equivalent, all under such terms and conditions as the Association shall specify by notice to the Borrower.

#### B. Special Account

1. The Borrower shall open and maintain in United States 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 3.02(b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant



to Section 3.02(b) of the Project 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 3.02 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 Karnataka 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 3.01 (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 \$6,000,000 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 \$3,000,000, 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 SDR12,000,000.

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 Special Account's Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts 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 Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into a Special Account, once the total unwithdrawn amount of the Credit allocated to said Special Account's Eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said Categories 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 Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into a 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 \$12,000,000.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to: (i) improve the productive potential of selected watersheds and their associated natural resource base, and strengthen community and institutional arrangements for natural resource management; and (ii) strengthen the capacity of communities in the Project Districts to participate in the planning, implementation, social and environmental management, and maintenance of assets in local level development programs.

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: Participatory Watershed Protection and Development

1. Social Mobilization and Institutional Building

Carrying out of social mobilization and institutional building activities to enable local communities and local government institutions, such as PRIs, to plan and implement the Project, through provision of consultant services, training and workshops.

2. Watershed Development Treatment

Carrying out of a program of field operations in the form of watershed development treatments in about 77 Sub-watersheds, distributed in the Project Districts, covering a treated area of approximately 300,000 hectares of private arable land and 100,000 hectares of non-arable land, and natural drainage lines.

3. Entry Point Investment Sub-projects

Carrying out of non-watershed treatment related Entry Point Investment Sub-projects, covering social, economic and infrastructural activities, as identified in the VWDPs, including small rural drinking water schemes, small livestock pond desiltation, and restoration of school buildings, veterinary centers, and small rural access roads.

Part B: Farming System Intensification

1. Participatory Farmer-Driven Research and Extension System

(a) Carrying out of a competitive farmer driven research program (the Research Program) based on research priorities identified in the MWDPs, through consultant services.

(b) Dissemination of technologies and information on watershed management, through, inter alia, practical demonstrations during field visits, publication of bulletins and brochures, and preparation of video and audio cassettes.

2. Agriculture and Horticulture

(a) Carrying out of on-farm demonstrations and adaptive trials on arable lands to promote improved farming practices and develop linkages with the Borrower's ongoing production programs.

(b) Carrying out technical training and study tours for farmers on improved conservation farming practices, and crop and horticulture production and technologies, including integrated pest management technologies.

(c) Carrying out of a study on integrated pest management to: (i) examine pesticide usage and associated environmental impacts in Karnataka; and (ii) assess the effectiveness of Karnataka's integrated pest management initiatives.

3. Livestock

(a) Carrying out of adaptive research trials and demonstrations for improved livestock management.

(b) Strengthening the capacity of AHVSD extension services and farmers through provision of training.

(c) Strengthening the capacity of para-veterinaries through the provision of training and equipment.

(d) Assisting livestock farmers in carrying out silvi-pastoral treatments and managing fodder resources, through consultant services and training.

4. Forestry

Provision of training and study tours for VFCs and staff of Karnataka's Forestry department on propagation technology and biogas maintenance.

Part C: Income Generating Activities

Provision of support by selected NGOs to Beneficiary Groups in the development of skills required for income generation, including: (i) establishment of links with the Borrower's ongoing income generating schemes; and (ii) dissemination of marketing and credit information, through consultant services, training, study tours, equipment and materials.

Part D: Institutional Strengthening

1. Monitoring and Evaluation

Provision of consultant services for: (i) the establishment of a Management Information System and a Geographic Information System; and (ii) carrying out social, environmental and participatory impact assessments.

2. Project Management and Coordination

Provision of training, study tours, vehicles, equipment and incremental operating costs for WDD staff at state and district level.

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The Project is expected to be completed by September 30, 2006.

