

CONFORMED COPY

CREDIT NUMBER 2700 IN

Development Credit Agreement

(Madhya Pradesh Forestry Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 11, 1995

CREDIT NUMBER 2700 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 11, 1995, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated February 10, 1995 from the State of Madhya Pradesh (Madhya Pradesh), attaching a statement of strategy for the future development of the forestry sector and associated statement of policies and actions that constitute the framework for improving forest management in Madhya Pradesh including policy, institutional and technical reforms (hereinafter called the Forestry Sector Reform Program), and declaring Madhya Pradesh's commitment to carrying out such Forestry Sector Reform Program.

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

(C) the Project will be carried out by the State of Madhya Pradesh (Madhya Pradesh) with the Borrower's assistance

and, as part of such assistance, the Borrower will make available to Madhya Pradesh the proceeds of the Credit as provided 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 Project Agreement of even date herewith between the Association and Madhya Pradesh;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

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

(b) "Madhya Pradesh" means State of Madhya Pradesh, a State of the Borrower, or any successor thereto;

(c) "Project Agreement" means the agreement between the Association and Madhya Pradesh 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;

(d) "NGO" means non-governmental organization;

(e) "ha" means hectares;

(f) "MPFD" means Madhya Pradesh Forestry Department;

(g) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated July 7, 1994 and August 1, 1994 between the Borrower and the Association;

(h) "PU" means the Project Unit established within MPFD for assisting in the implementation of the project; and

(i) "SFRI" means the State Forest Research Institute established within MPFD.

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 thirty nine million four hundred thousand Special Drawing Rights (SDR 39,400,000).

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.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1999 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing September 15, 2005 and ending March 15, 2030. Each installment to and including the installment payable on March 15, 2015 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors

of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective 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 Madhya Pradesh to perform in accordance with the provisions of the Project Agreement all the obligations of Madhya Pradesh 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 Madhya Pradesh 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 Madhya Pradesh in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and 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) in respect of the Project shall be carried out by Madhya Pradesh pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Without any limitation or restriction upon the provisions of Section 3.01 (a) of this Agreement, the Borrower shall provide, or cause to be provided, to Madhya Pradesh or its relevant departments or agencies in a prompt and efficient manner all clearances and approvals as may be required or necessary for the purpose of enabling Madhya Pradesh or its relevant departments or agencies to implement

the activities under the Project.

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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and 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 nine 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 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 (h) of the General Conditions, the following additional events are specified:

- (a) Madhya Pradesh shall have failed to perform any of its obligations under the Project Agreement.
- (b) An event has occurred which shall make it improbable that the Forestry Sector Reform Program or a significant part thereof will be carried out.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 (a) of this

Agreement shall occur and shall continue for a period of sixty 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 12.01 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) Madhya Pradesh shall have taken all necessary actions for removing restrictions on felling of trees on private lands.

(b) Consultants for Part A.1 of the Project have been identified in accordance with the provisions of Section II of Schedule 1 of the Project Agreement, and a contract for the provision of consultants' services has been agreed.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions to be included in the opinion or opinions to be furnished to the Association namely, that the Project Agreement has been duly authorized or ratified by Madhya Pradesh, and is legally binding upon Madhya Pradesh in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives 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 is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

The Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
New Delhi, PIN 110001
India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-3166175

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or

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

INDIA

By /s/ K. Sibal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ H. Vergin

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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) Civil works (except for Part D (ii) of the Project)	5,500,000	85%
(2) Forest operation costs under Part B (i) of the Project	12,700,000	90%
(3) Forest protection costs under Part B (ii) of the Project	8,100,000	100%
(4) Equipment, materials and vehicles (except for Part D (ii) of the Project)	5,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(5) Consultants'	3,900,000	100%

services and training (except for Part D (ii) of the Project)

(6) Civil works, equipment, training, studies and incremental operating costs under the Eco-development Support Fund under Part D (ii) of the Project	1,200,000	100% of foreign expenditures and 80% of local expenditures
(7) Incremental operating costs (except for Part D (ii) of the Project)	1,900,000	60% until December 31, 1997, and 50% thereafter
(8) Refunding of Project Preparation Advance	300,000	Amount due pursuant to Section 2.02 (c) of this Agreement
TOTAL	39,400,000 =====	

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 costs for operation and maintenance of additional buildings, equipment and vehicles incurred by Madhya Pradesh for the purposes of carrying out the Project;

(d) the term "forest operation costs" means the aggregate total costs of land preparation, including labor, inputs for tree plantations, maintenance and protection, and development of nurseries, seed production areas, clonal seed orchards, and multiplication gardens, and

(e) the term "forest protection costs" means the costs of protecting forest lands by village forest committees as part of the village resources development program under Part B (ii) of the Project, calculated on the basis of Rs 300 per hectare per year.

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 to exceed SDR 3,400,000, may be made on account of payments made for expenditures before that date but after July 31, 1994.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts not exceeding \$200,000 equivalent, except for the first two contracts of each civil works and goods; (b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, respectively, (c) training and

fellowships; (d) works procured under force account; and (e) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist in the implementation of the proposed strategy for development of the forestry sector in Madhya Pradesh which aims at: (i) developing the necessary human and physical resources for the planning, implementation and monitoring of the strategy; (ii) increasing both forest cover and productivity through development of participatory processes for management and use of forest resources, taking special account of the interests of tribal peoples and other disadvantaged groups; (iii) adopting and improving existing technologies to provide technical and management advice; and (iv) promoting the conservation of biodiversity.

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

Part A: Forest Sector Management Development

- (i) Improving the management skills and policy analysis capabilities of senior staff in MPFD through appropriate training, and provision of consultants' services to assist with the review and introduction of improved management system, including planning and monitoring and evaluation procedures.
- (ii) Introduction of management information and geographical information systems, linked to a program of training for all levels of staff.
- (iii) Provision of training materials and consultants' services for in-service training of MPFD staff, and upgrading of SFRI's training and hostel buildings.
- (iv) Improvement of resource assessment and inventory capabilities of MPFD through the provision of field survey instruments, equipment and vehicles, and technology development studies to identify and implement improved forest resource survey techniques.
- (v) Provision of office equipment and vehicles for PU.

Part B: Forest Development

- (i) Promotion of assisted natural forest regeneration, supported by enrichment planting, improved silvicultural practices, and forest floor management over an area of about 160,000 ha.
- (ii) Setting up of a Village Resource Development Program for about 1,140 villages, involving management and protection of an area of about 74,000 ha of forest land, based on community participatory planning and joint forest management, integrated with activities to generate alternative incomes or resources, together with the provision of staff training in participatory planning.

Part C: Extension, Technology and Research

- (i) Development of 12 Extension and Research Centers and one sub-center through the provision of buildings, equipment and vehicles.
- (ii) Supporting forest extension programs in about 40 priority Forest Divisions through the provision of extension materials and equipment, farmer training, demonstrations and vehicles and motorcycles.
- (iii) Establishment of an Industrial Liaison Unit within MPFD, and provision of a computer, training and studies.
- (iv) Improving the quality of seed used in forest activities through (a) research, collection of seed, development of Seedling Seed Production Areas and the development and operation of clonal seed orchards; (b) provision of facilities for drying, processing and storage of seeds; and (c) provision of cold storage facilities and seed testing laboratory equipment in SFRI, staff training in seed technology and consultants' services.
- (v) Development of nurseries in each of the Extension and Research Centers, through provision of civil works and irrigation and ancillary equipment.
- (vi) Establishment of SFRI as an autonomous agency and provision of equipment, research programs and training and consultants' services.

Part D: Biodiversity Conservation

- (i) Improving the management of 12 high priority Protected Areas (PAs), and 12 lower priority PAs, through provision of support for development of management plans, research, staff training, equipment, vehicles, and information centers and other necessary buildings.
- (ii) Establishment of an Ecodevelopment Support Fund to finance an Ecodevelopment Program consisting of: (a) the development of alternative resources or income for communities resident in village areas peripheral to the PAs, and (b) the training and operation of five ecodevelopment planning teams.
- (iii) Development of the PA Network through the identification and survey of satellite areas, and the preparation of strategic plans for the management of these areas, and the interlinking areas.
- (iv) Provision of research on aspects of biodiversity and PA management.

* * * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in

respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, 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 by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 14,000,000.

2. (a) Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than the equivalent of \$1,500,000 shall be made exclusively out of the Special Account. The Association may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Association shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 paragraph 4 of this Schedule 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.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions;

(d) once the total unwithdrawn amount of the Credit allocated to the 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 with respect to the Project, 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 allocated to the eligible 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

