

CONFORMED COPY

CREDIT NUMBER 3907 - IN

Development Credit Agreement

(Uttaranchal Decentralized Watershed Development Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 30, 2004

CREDIT NUMBER 3907 - IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 30, 2004, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the State of Uttaranchal (Uttaranchal) 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 Uttaranchal, 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 Uttaranchal (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), constitute an integral part of this Agreement.

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

(a) "Beneficiary" means a Gram Panchayat, SHG, FIG, RVC or any other person, group or institution which is a beneficiary of financial assistance under a Subproject and party to a Financing Agreement;

(b) "Eligible Categories" means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means expenditures for goods, works and services, as well as amounts paid or to be paid under Subprojects, to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories;

(d) “Environment and Social Management Framework” or “ESMF” means Uttaranchal’s Environment and Social Management Framework, dated February 21, 2004, describing a framework applicable to activities supported under the Project, and designed to maximize the social and environmental benefits accruing under the Project and avoid or mitigate any adverse impacts, as such ESMF may be amended from time to time, and such term includes all schedules and agreements supplemental to the ESMF;

(e) “Farmer Interest Group” or “FIG” means a group of farmers who agree to organize themselves as a group for productive activities for purposes of Part B.1 and B.2 of the Project;

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

(g) “Financing Agreement” means an agreement between Uttaranchal and a Beneficiary for the financing of a Subproject, and referred to in paragraph 5 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Financing Agreement;

(h) “Fiscal Year” means the Fiscal Year of the Borrower and Uttaranchal beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(i) “Gram Panchayat” means a local self government body established under the Uttar Pradesh Panchayat Raj Act, 1947 and adopted by the state of Uttaranchal;

(j) “Gram Panchayat Incentive Scheme” means the scheme established pursuant to Part C.1 of the Project;

(k) “Gram Panchayat Watershed Development Plan” or “GPWDP” means a consolidated plan for watershed development approved by a Gram Sabha pursuant to Part A.2 of the Project;

(l) “Gram Sabha” means a general village body consisting of all eligible voters residing in a village;

(m) “Integrated Pest Management Plan” or “IPMP” means Uttaranchal’s Integrated Pest Management Plan, dated February 21, 2004, describing the actions and policies required or appropriate to promote and support the safe, effective and environmentally-sound pest management under the Project, as such IPMP may be

amended from time to time, and such term includes all schedules and agreements supplemental to the IPMP;

(n) "Operations Manual" means the Operations Manual, dated March 2004, adopted by Uttaranchal, giving details of the guidelines and procedures as shall have been agreed with the Association for the implementation, supervision and monitoring of the Project, as well as the criteria for the selection, appraisal and implementation of Subprojects, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Operations Manual;

(o) "Project Area" means an area falling within any of the districts of Uttaranchal which is selected for implementation of the Project, in accordance with criteria set forth in the Operations Manual;

(p) "Project Agreement" means the agreement between the Association and Uttaranchal 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;

(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) "Revenue Village Committee" or "RVC" means an informal group at the revenue village level comprising of members from all households of the revenue village, created for the purposes of planning and preparation of RVC Proposals;

(s) "Revenue Village Committee Proposals" or "RVC Proposals" means proposals prepared by an RVC for inclusion in the GPWDP pursuant to Part A.1 of the Project;

(t) "Self-Help Group" or "SHG" means a group of individuals in Uttaranchal who agree to organize themselves as a group for pursuing common socio-economic and productive activities for purposes of Part B.3 of the Project;

(u) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(v) "Subproject" means any of the activities or set of activities supported or to be supported under Parts A.2, B and C.1 of the Project or pursuant thereto, and in respect of which financial assistance has been, or will be, provided pursuant to a Financing Agreement;

(w) "Tribal and Transhumant Strategy" or "TTS" means Tribal and Transhumant Strategy, dated February 21, 2004, issued by Uttaranchal and designed to ensure that the Vulnerable Groups in Uttaranchal benefit from the activities implemented

under the Project, as such Strategy may be amended from time to time, and such term includes all schedules and agreements supplemental to the Strategy;

(x) “Uttaranchal” means the State of Uttaranchal, or any successor thereto;

(y) “Vulnerable Groups” means persons or groups of persons defined as such in accordance with criteria set forth in the Operations Manual; and

(z) “Watershed Management Directorate” or “WMD” means the Watershed Management Directorate of Uttaranchal.

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 this Agreement, an amount in various currencies equivalent to forty seven million four hundred thousand Special Drawing Rights (SDR 47,400,000).

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, works and services required for the Project, as well as amounts paid or to be paid under Subprojects, and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be March 31, 2012, 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 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 May 15 and November 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 May 15 and November 15, commencing November 15, 2014 and ending May 15, 2039. Each installment to and including the installment payable on May 15, 2024, 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 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 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 Uttaranchal to perform in accordance with the provisions of the Project Agreement all the obligations of Uttaranchal as 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 Uttaranchal 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 Uttaranchal 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 Uttaranchal 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 for each fiscal year (or other period agreed to by the Association), 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 months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), 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 (l) of the General Conditions, the following additional events are specified:

(a) Uttaranchal 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 Uttaranchal 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 any event specified in Section 5.01 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 event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Project Agreement has been duly authorized or ratified by Uttaranchal, and is legally binding upon Uttaranchal in accordance with its terms.

Section 6.02. The following event 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 Uttaranchal, and is legally binding upon Uttaranchal 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

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance or successor thereto of the Borrower are each designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175 FINE IN	91-11-3016075

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/ Rahul Bhatnagar

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael F. Carter

Country Director
India

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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) Goods, works and services under Subprojects	29,000,000	95%
(2) Works (other than under Subprojects)	2,500,000	80%
(3) Goods (other than under Subprojects)	4,300,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(4) (a) Consultants' services (other than services provided by tax-exempt providers)	1,700,000	90%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR equivalent)</u>	<u>% of Expenditures to be Financed</u>
(b) Consultants' services provided by tax-exempt providers, training workshops and study tours	8,200,000	100%
(5) Operating Costs	1,700,000	80% until March 31, 2007; 60% from April 1, 2007 until March 31, 2009; and 40% thereafter
TOTAL	<u>47,400,000</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 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 "tax-exempt providers" means non-governmental organizations, community-based organizations, training providers and other educational and research institutions, which are tax exempt under the laws of the Borrower;

(d) the term "operating costs" means the incremental costs of operation and maintenance of buildings, equipment and vehicles, office rental and expenses, hiring of vehicles, salaries of additional staff other than public officials, and travel and other allowances of all project staff, incurred for the purposes of carrying out the Project.

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 SDR 1,000,000 may be made on account of payments made for expenditures before that date but after July 1, 2004;

(b) expenditures under category (1) of the table in Part A.1 of this Schedule, unless the Subproject has been approved in accordance with guidelines and procedures set forth or referred to in this Agreement, the Project Agreement and the Operations Manual, and disbursements thereunder have been made on the basis of the terms and conditions set forth in the relevant Financing Agreement.

4. The Association may require withdrawal from the Credit Account to be made on the basis of statements of expenditures for expenditures: for (a) Subprojects; (b) goods under contracts costing less than \$200,000 equivalent each; (c) civil works under contracts costing less than \$300,000 equivalent each; (d) consultants' services under contracts costing less than \$100,000 equivalent each, in the case of consulting firms, and \$25,000 equivalent each, in the case of individual consultants; (e) training, workshops and study tours; and (f) 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 relevant 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, or shall cause Uttaranchal to submit, to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in the Reserve Bank of India, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) 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 or Uttaranchal shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of the Agreement or Section 3.01 (b)(ii) of the Project Agreement, as the case may be, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (i) the records and accounts for the Special Account; or (ii) 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 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 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 Development 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 an amount equivalent to \$8,000,000 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 \$4,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 15,000,000.

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-month period following the date of such reports.
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.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Uttaranchal in improving the productive potential of natural resources in the Project Area and increasing incomes of rural inhabitants in selected watersheds through socially inclusive, institutionally and environmentally sustainable approaches.

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 Development and Management

1. Promotion of social mobilization and community-driven decision-making activities to develop RVC Proposals and facilitate their integration into GPWDPs, including identification of specific interventions for treatment of the watershed on arable and non-arable lands, identification of vulnerable sections of selected villages, and identification of inter-GP areas and planning for treatment of such areas.
2. Development of GPWDPs based on the RVC Proposals and implementation of activities provided for therein, including soil conservation activities on arable lands, development of non-arable lands and other ancillary activities unrelated to watershed-treatment, including upgrading of link roads, bridle paths and mule tracks.

Part B: Enhancing Livelihood Opportunities

1. Provision of support to FIGs for the implementation of demonstration activities, including introduction of improved technologies and practices for agriculture, horticulture, silvi-pastoral treatments and animal husbandry, to increase the role of the non-governmental sector in input supply and support services, and increase the participation of farmers in the choice of technologies.
2. Implementation of an agribusiness pilot to identify potential market opportunities, establish linkages with private sector entrepreneurs to exploit the market potential and disseminate agricultural production related information and technology to FIGs, and provision of support to contribute to the financing of activities undertaken by FIGs, as well as storage, processing and other marketing infrastructure facilities.
3. Provision of support to finance small income generating micro-enterprises for the benefit of vulnerable groups, and provide training to vulnerable groups to encourage their entrepreneurial development.

Part C: Institutional Strengthening

1. Provision of technical assistance and material support to strengthen the capacity of Gram Panchayats and other local agencies and institutions in the Project Area in the areas of planning, budgeting, financial management, implementation and reporting, and establishment of a Gram Panchayat Incentive Scheme to fund activities designed to encourage good performance.
2. Design and implementation of a comprehensive information, education and communications strategy to increase general awareness about the Project, communicate terms of participation and promote transparency amongst stakeholders.
3. Provision of technical assistance and material support to strengthen the capacity of WMD to implement and monitor the Project, including implementation of organizational change management initiatives; development of linkages between management information systems, geographic information systems and impact evaluation; construction of offices and other related facilities for WMD field staff; and establishment of effective and coordinated management, monitoring and evaluation systems.

* * *

The Project is expected to be completed by September 30, 2011.