

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4338-IN

Financing Agreement

(Strengthening Rural Credit Cooperatives Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 2, 2007

CREDIT NUMBER 4338-IN

FINANCING AGREEMENT

AGREEMENT dated November 2, 2007, between INDIA, acting by its President (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

Whereas the Recipient has also requested the International Bank for Reconstruction and Development (“Bank”) to provide additional assistance towards the financing of the project (“Project”) described in Schedule 1 to this Agreement, and by an agreement of even date herewith between the Recipient and the Bank (“Loan Agreement”), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to three hundred million Dollars (\$300,000,000) (“Loan”).

Now therefore, the Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred ninety six million eight hundred thousand Special Drawing Rights (SDR 196,800,000) (“Credit”) to assist in financing the Project.
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III – THE PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the NIMC, and shall cause the Project to be carried out by the Project Implementing Entity, all in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement and of the Project Agreement.

ARTICLE IV – REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the CCS Revival Package, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following: the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: that all conditions precedent to the effectiveness of the Loan Agreement shall have been fulfilled, other than those related to the effectiveness of this Agreement.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Recipient.

6.02. The Recipient's Address is:

Ministry of Finance
North Block
New Delhi 110 001
India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175 FINE IN	91-11-23093422

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at New Delhi, India, as of the day and year first above written.

INDIA

By

/s/ Madhusudan Prasad
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Isabel M. Guerrero
Country Director, India

SCHEDULE 1

Project Description

The objective of the Project is to assist in providing the members of the CCBs, including small and marginal farmers, with significantly enhanced access to formal finance (credit, savings, etc.), by ensuring that the potentially viable CCBs in the Participating States are transformed into efficient and commercially sustainable institutions.

The Project consists of the following components:

1. Capacity Building Technical Assistance

(a) Strengthening the Participating States' CCBs management and staff capacity in the following areas: (i) the new legal, regulatory and supervisory framework, and governance codes; (ii) performance tracking and reporting; (iii) common accounting system and management information system, and enhanced internal controls, and audit mechanisms; (iv) credit appraisal and risk management; (v) business diversification/product development; and (vi) human resources development; (b) capacity building assistance to the PACS to strengthen their efficiency and effectiveness; and (c) capacity building of members of selected PACS through member education, focused on small and marginal farmers.

2. Information Technology

Computerization of the CCBs to enhance their transparency and efficiency by enabling, among other things, efficient implementation of the new common accounting system and the management information system.

3. Financial Restructuring Support

Financial restructuring of eligible CCBs in the Participating States through one time recapitalization of eligible CCBs.

4. Implementation

Assistance in: (a) the implementation and monitoring of the Project; and (b) the preparation and implementation of a communications strategy and action plan covering disclosure and accountability mechanisms at central, state district and village/grassroots levels.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional and Other Arrangements

1. The Recipient shall ensure that: (a) the NIMC shall be responsible for the overall policy and strategic direction of the Project; (b) the SLICs shall be responsible for Project implementation and monitoring at the Participating State level; and (c) the DLICs shall be responsible for Project implementation and monitoring at the district and village level of the Participating States.
2. The Recipient shall ensure that during the implementation of the Project, the NIMC, SLICs and DLICs are maintained with membership, staff, powers and resources adequate to carry out their respective roles and responsibilities under the Project, and satisfactory to the Association.
3. The Recipient shall ensure that:
 - (a) all agencies and institutions of the Recipient involved in Project implementation or monitoring, and SLICs and DLICs, shall adopt and/or adhere to the MOU, the Letters of Undertaking and the Implementation Manual; and
 - (b) the Participating States shall be selected in accordance with the eligibility criteria and procedures, and under the terms and conditions set forth in the CCS Revival Package.
4. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available, through the Project Implementing Entity, to the CCBs, in the form of grants, in accordance with the CCS Revival Package.
5. The Recipient shall protect the interests of the Recipient and the Association to accomplish the purposes of the Financing.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Other Undertakings

1. The Recipient shall ensure that the Project is carried out in accordance with prudent financial, banking and economic policies, and shall ensure that full autonomy of the CCBs shall be provided in all financial and internal administrative matters, as set forth in the CCS Revival Package and the MOUs.
2. The Recipient shall suspend or terminate the right of the Participating States' CCBs to use the proceeds of the Credit, or obtain a refund of all or any part of the amount of the Credit withdrawn, upon the Participating States', or the Participating States' CCBs, failure to perform any of their obligations under the MOUs or the Letters of Undertaking.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports, through the NIMC, assisted by the Project Implementing Entity, SLICs and DLICs, in accordance with the provisions of Section 4.08 of the General Conditions, and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of six (6) months in each Fiscal Year, and shall be furnished to the Association not later than ninety (90) days after the end of the period covered by such report.
2. Notwithstanding the requirement in Section II.A.1 of this Schedule 2, the Recipient shall cause the Project Implementing Entity to prepare and furnish to the Association by July 30, 2009, a comprehensive report on Project implementation, satisfactory to the Association.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause the Project Implementing Entity to maintain a financial management system in accordance with the provisions of Section 4.09(a) of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association, not later than forty five (45) days after the end of each Fiscal Year quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one-half Fiscal Year of the

Recipient for the first two years of the Project, and thereafter shall cover the period of one Fiscal Year. The audited Financial Statements for each such period shall be furnished to the Association not later than three (3) months during the first two (2) years of the Project, and not later than six (6) months after the end of every year thereafter.

Section III. Procurement

A. General

1. **Goods, Works and Services, Other Than Consultants' Services.** All goods, works, and services, other than consultants' services, required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works, and Services, Other than Consultants' Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works, and services, other than consultants' services, shall be procured under contracts awarded on the basis of International Competitive Bidding, subject to the following additional procedures:
 - (a) the Procurement Plan shall specify the circumstances under which such procurement method may be used; and
 - (b) standard bidding documents and procedures approved by the Association shall be used.

2. **Other Methods of Procurement of Goods, Works, and Services, Other Than Consultants' Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works, and services, other than consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection, subject to the following additional procedures:

- (a) the Procurement Plan shall specify the circumstances under which such procurement method may be used; and
- (b) standard Request for Proposal documents and procedures approved by the Association shall be used.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-based Selection

(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection based on Consultants' Qualifications
(e) Single-source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with Article II of the General Conditions, this Section, and such additional instructions as the Association may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects", dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the amount of the Financing allocated to such Category, and the percentage of expenditures to be financed for Eligible Expenditures in such Category:

	Amount of the Credit Allocated (Expressed in	Amount of the Loan Allocated (Expressed	Percentage of Expenditures to be
--	---	--	---

Category	(Expressed in SDR)	(Expressed in Dollars)	Financed
(1) Goods, works, services (other than consultants' services), consultants' services, Training, and Operating Costs under Components 1 and 4 of the Project	8,200,000	11,750,000	80%
(2) Goods, works, services (other than consultants' services), and consultants' services under Component 2 of the Project	26,250,000	40,000,000	80%
(3) Recapitalization Funding under Component 3 of the Project:			
(a) First Disbursement	121,600,000	185,375,000	80%
(b) Second Disbursement	40,750,000	62,125,000	80%
(4) Front-end Fee		750,000	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07(b) of the General Conditions
Total Amount	<u>196,800,000</u>	<u>300,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 32,800,000 equivalent may be made for payments made prior to this date but on or after August 1, 2006, for Eligible Expenditures; or
 - (b) under Category (2), unless the requirements set forth in Section III.C of the Schedule to the Project Agreement have been met.
2. The Closing Date is June 30, 2012.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)⁹
On each May 15 and November 15:	
commencing November 15, 2017, to and including May 15, 2027	1.25%
commencing November 15, 2027, to and including May 15, 2042	2.50%

⁹ The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.04(b) of the General Conditions.

APPENDIX

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “CCBs” means the Credit Cooperative Banks, specifically the PACS, DCCBs and SCBs, in the respective Participating State.
4. “CCS Revival Package” means the Package for Revival of Short term Rural Cooperative Credit Structure, issued by the MOF in January, 2006.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004, and revised in October 2006.
6. “DCCB” means the District Central Cooperative Bank of the Participating State, and “DCCBs” means two or more such banks.
7. “DLIC” means the District Level Implementation Committee in the Participating State, and “DLICs” means two or more such committees.
8. “Fiscal Year” means the Recipient’s and Project Implementing Entity’s fiscal year, beginning on April 1 of any calendar year, and ending on March 31 of the following calendar year.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants,” dated July 1, 2005, as amended through October 15, 2006.
10. “Implementation Manual” means the Implementation Manual, dated May 24, 2007, confirmed by the MOF and the Project Implementing Entity, satisfactory to the Association, which includes the Project operating, implementation, procurement, financial management, administrative, monitoring and reporting arrangements, and, with respect to Component 3 of the Project, the flow of funds terms and conditions, as such manual may be amended from time to time, provided that material amendments shall be made only with the prior approval of the Association.
11. “Letter of Undertaking” means the legally binding commitment undertaken by the Participating State’s CCBs, and issued by: (a) the PACS to the Registrar of Cooperative Societies, the DLIC and the DCCB of the relevant Participating

State; (b) the DCCB to the Registrar of Cooperative Societies, the SLIC and the SCB of the relevant Participating State; and (c) by the SCB to the Registrar of Cooperative Societies and the SLIC of the relevant Participating State, satisfactory to the Association, as such letters may be amended from time to time, provided that material amendments shall be made only with the prior approval of the Association.

12. “MOF” means the Ministry of Finance of the Recipient.
13. “MOU” means the Memorandum of Understanding executed, or to be executed, as the case may be, by the MOF, the Project Implementing Entity and each Participating State, satisfactory to the Association, setting forth the Participating State’s commitment to implement the legal and institutional reforms in the rural cooperative credit structure, in accordance with the CCS Revival Package, as such memorandum may be amended from time to time, provided that material amendments shall be made only with the prior approval of the Association.
14. “NIMC” means the National Implementation and Monitoring Committee, chaired by the Secretary, Financial Sector, the Department of Economic Affairs, the MOF, and whose members include representatives of the Reserve Bank of India, Ministry of Agriculture, Project Implementing Entity and Participating States, or any successor thereto.
15. “Operating Costs” means reasonable and necessary expenditures incurred by the Project Implementing Entity and other agencies with respect to Project implementation, coordination, and monitoring, including salaries of staff deputed to the Project Implementing Entity, office costs, telephone and other communication expenses, and travel expenses.
16. “PACS” means the Primary Agricultural Cooperative Society or the Primary Agricultural Cooperative Societies in the Participating States.
17. “Participating State” means a State of the Recipient that has been selected by the Recipient for Credit financing in accordance with the eligibility criteria and procedures, and under the terms and conditions set forth in the CCS Revival Package, and that has signed the MOU, and the “Participating States” means two or more of the Participating States.
18. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October 2006.
19. “Procurement Plan” means the Project Implementing Entity’s procurement plan for the Project, dated May 24, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the

same shall be updated from time to time in accordance with the provisions of said paragraphs.

20. “Project Implementing Entity” means the National Bank for Agriculture and Rural Development, a development financial institution established and operating under the National Bank for Agriculture and Rural Development Act, 1981, or any successor thereto.
21. “Recapitalization Funding” means financial assistance in the form of a grant made or proposed to be made by the Recipient, through the Project Implementing Entity, to the Participating State’s CCBs, to partially finance recapitalization of eligible CCBs under Component 3 of the Project.
22. “SCB” means the State Cooperative Bank of the Participating State.
23. “SLIC” means the State Level Implementation and Monitoring Committee of the Participating State, and “SLICs” means two or more such committees.
24. “Special Audits” means the financial reviews of the CCBs designed to calculate the accumulated losses of CCBs by applying the prescribed norms, such audits carried out or to be carried out under the supervision of the Project Implementing Entity, in accordance with the criteria, terms and conditions, and procedures set forth in the CCS Revival Package, the Implementation Manual, and Letters of Undertaking.
25. “Training” means reasonable and necessary costs of training related to Project implementation, including the fees of educational or other institutions that provide training, costs related to attendance or organization of conferences, seminars and workshops, and the trainees’ cost of travel, boarding, lodging and per diem allowances.