Financing Agreement

(Karnataka Watershed Development Project II)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 11, 2013
FINANCING AGREEMENT

AGREEMENT dated February 11, 2012 entered into between INDIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). 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 thirty nine million six hundred thousand Special Drawing Rights (SDR 39,600,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are March 1 and September 1 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause the Project to be carried out by the Recipient's State of Karnataka in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.

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.

ARTICLE IV — TERMINATION

4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

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

5.02. The Recipient's Address is:

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

Facsimile:

91-11-23092039
5.03. The Association’s Address is:

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

Facsimile:
1-202-477-6391

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

INDIA

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to demonstrate more effective watershed management through greater integration of programs related to rain-fed agriculture, innovative and science based approaches, and strengthened institutions and capacities.

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

Part A: Improved Program Integration in Rain-fed Areas

Provision of support for improved program integration in rain-fed areas, including:

1. developing and piloting new decision-support models for integrated watershed management and site selection.

2. developing a spatial digital library for an integrated landscape approach for watershed management planning in Karnataka’s National Bureau of Soil Survey and Land Use Planning and state agricultural universities.

3. developing and piloting integrated sub-watershed assessment and planning, focusing on broader hydrological dynamics.

4. strengthening integrated micro-watershed master planning under Karnataka’s Integrated Watershed Management Program to develop more effective linkages with agricultural, horticulture and agro-forestry development programs.

5. strengthening community-based monitoring and documentation through the provision of simple water monitoring equipment, IT tools and related training.

Part B: Research, Development and Innovation

Provision of support to develop necessary knowledge tools to carry out Part A and C of the Project, through, inter alia, the following:

1. carrying out applied research studies across key thematic areas including integrated landscape management and agricultural intensification, climate smart agriculture, and agriculture value chains.

2. developing best practice approaches and tools for basic and advanced hydrological assessment and monitoring.
3. strengthening demand-driven technology transfer through the development/adaptation of best practice models and tools for increased adoption by end-users.

4. strengthening the relevant institutional arrangements for longer-term/needs-based research identification, technology transfer, research quality assurance, and coordination of rain-fed agriculture and watershed management research.

Part C: Institutional Strengthening

Provision of support to help selected farmers improve integrated watershed management practices and sustain rain-fed productivity and incomes, through, *inter alia*:

1. training and capacity building that would assess the needs of end users in terms of extension, integrated watershed management and value addition.

2. training to strengthen the development of in-house monitoring and evaluation systems, at the state level, supporting relevant national and international exposure visits and improving farmer contact centers’ capacity in selected areas under the Project.

3. upgrading existing training centers including strengthening their IT and communication systems relevant to the Project.

Part D: Strengthening Horticulture in Rain-fed Areas

Provision of support to Karnataka’s Horticulture Department to strengthen horticulture in rain-fed areas, through, *inter alia*:

1. training and demonstrations of farmer groups around annual and perennial crops, nutrition gardens, crop water management, production methods, model nurseries and diversification.

2. promoting farmer horticulture soil and crop monitoring through the use of soil and leaf tissue testing and related training and literature.

3. strengthening horticulture post-harvest management, value-addition and market linkages through demonstrations and the provision of technical support to develop farmer-focus producer companies.

4. developing recommendations for various crops on harvest and post harvest management and to carry out feasibility studies and participatory value chain investigations.
Part E: Project Management and Coordination

Provision of support to strengthen WDD and DOH's capacity to comply with their management and implementation responsibilities under the Project, including the carrying out of Project audits, independent Project monitoring and evaluation and the design and implementation of a comprehensive communication and review strategy.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds
of the Financing available to Karnataka, in accordance with the Recipient's
standard arrangements for development assistance to the States of India.

2. The Recipient shall protect the interests of 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 and the GAAP.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and shall
cause Karnataka to prepare Project Reports in accordance with the provisions of
Section 4.08 of the General Conditions and on the basis of the Key Performance
Indicators. Each Project Report shall cover the period of six (6) months of
Project Implementation, and shall be furnished to the Association not later than
one (1) month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain, and shall cause Karnataka to maintain, a financial
management system in accordance with the provisions of Section 4.09 of the
General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall,
and shall cause Karnataka to, prepare and furnish to the Association, not later
than forty-five (45) days after the end of each quarter, Interim Unaudited
Financial Reports (IUFR) for the Project covering the quarter, in form and
substance satisfactory to the Association.

3. The Recipient shall have the Designated Account referred to in Section 2.04 of
the General Conditions audited, and shall cause Karnataka to have the Project's
Financial Statements audited in accordance with the provisions of
Section 4.09(b) of the General Conditions. Each audit of the Designated Account and the Project Financial Statements shall cover the period of one (1) financial year of the Recipient, commencing with the financial year in which the first withdrawal under the Project was made. The audited Project Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods and Non-consulting Services. All goods and non-consulting 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 Section.

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 Section.

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 Sections II, III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Non-consulting Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Limited International Bidding</td>
</tr>
<tr>
<td>(b) National Competitive Bidding (subject to the additional provisions agreed upon from time to time between the Recipient and the Association and set forth in the Procurement Plan)</td>
</tr>
<tr>
<td>(c) Shopping</td>
</tr>
</tbody>
</table>
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.

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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality Based Selection</td>
</tr>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Least Cost Selection</td>
</tr>
<tr>
<td>(d) Selection Based on Consultant's Qualifications</td>
</tr>
<tr>
<td>(e) Single Source Selection</td>
</tr>
<tr>
<td>(f) Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Association 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 the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall 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 categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, and consultants’ services, training and operating costs for the Project</td>
<td>39,600,000</td>
<td>70%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>39,600,000</td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this Section IV:

(a) the term “training” means non-consultant expenditures incurred in connection with the provision of training, including, study tours and workshops, training institution fees, logistics, materials, and the cost of travel and per diem of trainers and trainees; and

(b) the term “operating costs” means incremental costs incurred by Karnataka for the purposes of carrying out the Project, including salaries of incremental staff, office rent and utilities, office and equipment insurance, office maintenance and repair, vehicle hiring, maintenance and repair, communication and other administrative costs directly associated with, and necessary under, the Project.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 1,600,000 equivalent may be made for payments made prior to this date but on or after October 1, 2011, for Eligible Expenditures; and

2. The Closing Date is December 31, 2018.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 1 and September 1:</td>
<td></td>
</tr>
<tr>
<td>commencing March 1, 2018 to and including September 1, 2027</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing March 1, 2028 to and including September 1, 2037</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* 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 3.03(b) of the General Conditions.
APPENDIX

Section I. Definitions


2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. "EMF" means Karnataka’s environmental management framework, acceptable to the Association, dated July 12, 2012, and set forth as Annex XII to the PIP (as hereinafter defined), which provides for the principles and procedures governing the environmental management, mitigation, monitoring and institutional measures to be undertaken in the carrying out of the Project, as such framework may be amended from time to time by agreement between Karnataka and the Association.

6. "Financial Management Manual" means Karnataka’s financial management manual, acceptable to the Association, dated July 12, 2012, and set forth as Annex XIII to the PIP (as hereinafter defined), which manual provides for the financial management obligations under the Project, as such manual may be amended from time to time by Agreement between Karnataka and the Association.

7. "GAAP" means the Recipient’s Governance and Accountability Action Plan, dated June 20, 2012 acceptable to the Association, which identifies key governance issues under the Project and sets forth mitigation measures to address said issues, as said Plan may be amended from time to time by agreement between the Association and the Recipient.


9. "Karnataka" means the Recipient’s State of Karnataka or any successor thereto.
10. "Key Performance Indicators" means the indicators for monitoring and evaluating progress towards the attainment of Project objectives set forth in the PIP.

11. "PIP" means the Project Implementation Plan, including all annexes thereto, acceptable to the Association, dated July 12, 2012, which describes the detailed Project implementation and institutional arrangements, and is comprised of, among others, the EMF, the Financial Management Manual, the GAAP, the Key Performance Indicators and the Procurement Manual (as hereinafter defined), as such plan may be amended from time by agreement between Karnataka and the Association.

12. "PPMU" means the Project Planning and Management Unit referred to in Section I.A.4 of the Schedule to the Project Agreement, to be maintained for the purpose of providing Project planning, coordination and monitoring support throughout project implementation.


14. "Procurement Manual" means the Karnataka's Procurement Manual, acceptable to the Association, dated June 25, 2012, and set forth as Annex XIV to the PIP, which manual sets out the procurement management and institutional arrangements and obligations under the Project, as such manual may be amended from time to time by agreement between Karnataka and the Association.

15. "Procurement Plan" means the Recipient's procurement plan for the Project, dated July 13, 2012 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

16. "WDD" means the Watershed Development Department of the Government of Karnataka or any successor thereto.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

"Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the
Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

2. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the remaining paragraphs accordingly:

"32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02 (a).