

a

IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Sixth Session

Rome, 12-13 December 2005

REPUBLIC OF INDIA

**POST-TSUNAMI SUSTAINABLE LIVELIHOODS PROGRAMME FOR
THE COASTAL COMMUNITIES OF TAMIL NADU**

INFORMATION PAPER

At its Eighty-Fourth Session in April 2005, the Executive Board approved a loan to the Republic of India for the Post-Tsunami Sustainable Livelihoods Programme for the Coastal Communities of Tamil Nadu (document EB 2005/84/R.16/Rev.1) on the condition that the Board be advised at a future session of the results of the negotiations, which had not taken place prior to the Board's consideration of the programme. Accordingly, the present document provides additional information arising from the negotiations held from 4 to 6 October 2005 and a summary of the important supplementary assurances included in the negotiated loan agreement. This information will be incorporated in a revised version of the document (EB 2005/84/R.16/Rev.2).

REPUBLIC OF INDIA

**POST-TSUNAMI SUSTAINABLE LIVELIHOODS PROGRAMME FOR
THE COASTAL COMMUNITIES OF TAMIL NADU**

The attention of the Executive Board is invited to the following modification to the Report and Recommendation of the President contained in document EB 2005/84/R.16/Rev.1. For ease of reference, the changes are shown in boldface.

Page iii, Abbreviations and Acronyms

Add the following acronym:

TNWS **Tamil Nadu Welfare Society for Self-Help Groups**

Page v, Loan summary:

EXECUTING AGENCY:	Tamil Nadu Welfare Society for Self-Help Groups
TOTAL PROGRAMME COST:	USD 68.59 million
AMOUNT OF COFINANCING:	Scheduled commercial banks and insurance companies: USD 24.92 million
CONTRIBUTION OF BORROWER:	USD 3.41 million
CONTRIBUTION OF BENEFICIARIES:	USD 10.35 million

Page vi, Programme brief

The second sentence should read:

“A community-driven livelihoods approach will be adopted **to build self-reliant coastal communities that are resilient to shocks and able to manage their livelihood base in a sustainable manner.**”

Page 2, paragraph 7

The first bullet should read:

“• **single adult-headed households, especially for people who have been widowed or rendered destitute by the tsunami;**”

A new bullet should be added:

“• **small and marginal farmers (including salinity-affected farmers);**”

The former third bullet should read:

- “• groups that were already vulnerable before the disaster: small-scale **women fish** processors and fish vendors; crew members, collectors and gleaners fishing in inland waters, often for subsistence purposes; catamaran fishers; ___ agricultural (**including animal husbandry**) labourers **and other marginalized occupation groups (e.g. seashell workers).**”

Pages 3 to 6, paragraphs 10 to 26

The paragraphs should be replaced by:

“**Coastal Areas Resource Management**

10. **Community resource planning.** Participatory exercises will be undertaken through community institutions (traditional institutions, self-help groups, etc.) to identify and prioritize basic community infrastructure required for improving the quality of life of the community and key issues vis-à-vis coastal and fisheries resources and their management. This will enable communities to plan for initiatives that will need to be undertaken to protect and improve their environment and their livelihoods, such as development of coastal shelterbelts, regulation and/or phasing out of destructive fishing gear and practices, and pollution control.

11. Initial resource-mapping exercises will be followed by participatory development of micro-plans. Community infrastructure proposals developed through this exercise will be vetted and verified. Implementation of the micro-plans will be reviewed twice a year. The programme will ensure that women and disadvantaged groups fully participate in the process. A community infrastructure fund will be set up to implement proposals developed and verified through the resource-mapping and micro-planning exercises. However, this will require a management system to be in place for maintenance and upkeep of created facilities. Capacity-building and exchange visits will strengthen traditional institutions at the community level by enabling them to play a more prominent role in the planning and management of programmes implemented within their communities.

12. **Fisheries resources management.** Given a context where the resource base is shared and inshore waters are considered to be optimally fished, it will be necessary to initiate a process where stakeholders can work together to agree on a common minimum programme for sustainable resource management. Issues related to coastal and fisheries management identified during the micro-planning process, particularly those needing coordination and action at a broader level, will be discussed at cluster-level workshops. Studies will be undertaken to consolidate the issues emerging from the workshops and examine technologically and socially feasible options. These studies will be used as discussion papers for workshops organized at the state level, and will be linked to ongoing cluster-level workshops and processes. Recommendations and suggestions emerging from state- and cluster-level workshops will be vetted, and proposals will be developed to implement some of them on a pilot basis through a pilot fund. Implementation of this subcomponent is expected to increase awareness about key issues facing coastal and fisheries resources in the state among various stakeholders. It is also expected that its implementation will lead to greater discussion and consensus among various stakeholders about management and other measures that need to be implemented to ensure the sustainability of livelihoods and of the resource base that sustains them.

13. **Community support.** The programme will establish cluster resource centres to coordinate activities with communities at the local level. These centres will work closely with local government and NGOs active in programme districts, and local experience-sharing workshops will be held regularly with local communities.

Rural Finance and Risk-Transfer Instruments

14. **Venture capital fund.** The programme will support the setting up of larger enterprises to provide forward and backward linkages for the microenterprises of members of self-help groups and fisher societies via a venture capital fund. This fund will aim to supplement loans from banks and microfinance institutions (MFIs) by providing quasi-equity financing and will be managed by a professional financial or business development service institution. The modalities of establishing the fund will be worked out during preparation of the programme implementation manual.

15. **Microcredit for self-help groups.** While the linkage between banks and self-help groups is progressing well in the state, nearly one third of the groups still lack access to credit owing to a variety of reasons, including weak capacity. The programme will strengthen such self-help groups (through the support for self-help groups subcomponent) and link them with banks to give them access to credit. In addition, members will receive training to identify income-generation opportunities, which they can take up when they are able to access higher amounts of credit from banks, as well as skills development training where needed.

16. Local bankers will be sensitized to the needs of the programme through workshops, training and exposure visits. However, in cases where they are not enthusiastic about lending to coastal village groups, the programme will invite MFIs already functioning in other districts to set up branches to lend to these groups and will provide funds to support their set-up costs. The programme will also support setting up marketing societies through which fishers will be in a position to gain access to financial services.

17. **Financial innovation.** The programme will commission a study on finance in the fisheries sector in each district to gain an insight into the complicated financing arrangements in the marketing chain and identify how fishers can be enabled to access credit while minimizing risks for lending institutions. The programme will also investigate the potential for linking to the Post Office, which is planning to start a savings and credit operation. MFIs will be supported through grants for product development, systems development and start-up costs to cater to the market of financing microenterprises. Furthermore, staff from financial institutions involved in the programme will undertake exposure visits within India and abroad.

18. **Risk management and insurance.** The programme will look for ways to expand the outreach of insurance, pension and savings products to equip targeted households to mitigate risks; it will also pilot new products and adapt existing products of insurance companies to the needs of the poor. As the rural poor have no culture of insurance as a risk management strategy, the programme will undertake an extensive training programme for members of self-help groups and fisher societies to encourage groups to link up with insurance companies for endowment and pension schemes. Disaster management funds, which provide interest-free loans in times of need, may be created by self-help groups and fisher societies and managed by federations or other apex bodies. The programme will provide a matching grant to get these funds started.

Employment Generation and Skills-Training

19. **Support for self-help groups.** The programme will provide comprehensive training for 3 000 self-help groups (SHGs) covering around one third of village households. It is expected that at least 75% of SHG members will be women. Although many more households are currently members of SHGs, some of these groups may be mature enough not to require support or to receive support through other resources. To ensure the long-term sustainability of SHGs, the programme will support about 30 federations of SHGs or other types of apex organizations.

20. **Formation of fish marketing societies.** About 50 village-level fish marketing societies will be formed to enable fishers to control the first point of sale of fish, and thus get a better price for their catch. Each society will have between 50 and 75 members, limited to owners of small-scale and artisanal craft. Three district-level federations will be established later on. SHGs of crew members will also be formed and they will be assisted in securing access to financial services through the societies. In addition, the programme will support the creation of basic infrastructure for the societies (e.g. fish auction halls, sheds for net mending and repair, fish drying platforms, water, lighting, sanitation and waste disposal facilities), set up motor repair centres to provide quality services to fishers, and provide technical and professional support to women so they can improve their incomes through fish selling and processing. Funds will be provided on a grant basis to redeem loans of fishers who, because of indebtedness, are prevented from joining societies. Societies will also deduct compulsory savings, insurance premiums and loan repayments, if any, from amounts payable to fishers from the proceeds of sales. Savings will be used for lending to fishers, especially during lean periods and for emergency purposes, but societies will also mobilize loans from banks. As the societies gain experience, more need-based financial products will be developed.

21. **Microenterprise development.** The programme intends to help beneficiaries move beyond self-employment to microenterprise development through income-generating activities using a subsector business approach, which takes into account the subsector's potential for growth, economies of scale required for promoting the enterprise and the whole gamut of forward and backward linkages. The approach will include four major steps: (i) subsector survey and selection based on potential for growth in income and employment; (ii) subsector analysis to gain an understanding of the context for the microenterprise, the market, and backward and forward linkages; (iii) technology piloting to demonstrate the commercial feasibility of the proposed enterprise; and (iv) expansion of the activity by way of training (including overseas training) and investment. The proposed venture capital fund in the rural finance and risk-transfer instruments component, together with loans from banks and MFIs, will assist in providing the financing required. The capacity of entrepreneurs will be built up, new technologies introduced, and market linkages developed.

22. Microenterprise development will be undertaken by specialist NGOs and/or private companies. The programme will have a fund to demonstrate, on a limited scale, new technologies – such as new ways of drying fish. New ideas will also be introduced by sending selected entrepreneurs overseas for training and by hiring experts from other countries to come and share their ideas and participate in training. Using the subsector approach, the programme will help entrepreneurs to build market linkages.

23. **Vocational training.** The programme will organize workshops that bring together fishers, technical experts and other resource persons to discuss resource management, opportunities for better incomes and diversification within the sector as part of an overall framework of responsible fisheries. Based on the recommendations of the workshops, training courses will be organized for skills upgrading and diversification, as appropriate. The

programme will also fund courses in subjects such as motor mechanics, welding and metalwork at local technical training institutes to allow youths to move away from fishing as an occupation. It is hoped that at least 25% of the participants in such courses will be women.

Community-Based Sea-Safety and Disaster Management

24. **Sea safety.** Fishing is one of the riskiest known occupations – in Tamil Nadu an estimated 1 000 fishers die each year at sea. To improve safety at sea, it is essential to ensure means of rapid communication with land, both to warn fishers about imminent bad weather and to enable them to call for help when they are in danger. As a pilot initiative, the programme will explore the use of appropriate communications technology.

25. **Support for coastal schools.** Educating children of coastal communities about their habitat will foster a better awareness among the next generation about how to respond to disaster and the importance of coastal and fisheries resources and their sound management. The views of village communities on the disaster preparedness and environmental education needs of their school-going children will be canvassed and subsequently compiled in a discussion paper. A state-level workshop will then be organized, with the participation of resource persons involved in education and in coastal and fisheries management, to discuss the development of appropriate resource material and curriculum for use in primary schools in coastal areas of Tamil Nadu. Resource persons will be contracted to develop materials, which will be vetted by experts, tried out in selected schools, and then finalized. The materials will be printed and then disseminated to primary schools in coastal areas of the state. Teachers will also receive training.

Programme Management

26. The programme will be implemented through the Tamil Nadu Welfare Society for Self-Help Groups, a state-level federation of district supply and marketing societies (DSMSs). These societies are promoted by the Rural Development Department and this arrangement will allow the required flexibility with regard to financial management of the programme. The programme will have a three-tier management structure: a programme management unit located in Chennai; district implementation offices housed within the DSMS in each programme district; and cluster resource centres covering about 5-7 villages each. The programme will establish a steering committee under the chairmanship of the Secretary of Rural Development.”

Page 6, paragraph 29

The paragraph should be replaced by:

“29. The total programme cost over eight years, including price and physical contingencies, duties and taxes, is estimated at USD 68.59 million. Of this amount, about USD 934 000 represents foreign exchange costs. Taxes and duties have been calculated at prevailing rates and amount to USD 1.02 million, or about 1.4% of total programme costs. The total base costs, including duties and taxes, have been calculated using April 2005 prices, and amount to USD 64.28 million. Physical and price contingencies are estimated to add another USD 4.31 million – or 7% of the base costs – to this amount. Investment costs account for 92% and recurrent costs account for 8% of the base costs.”

A new paragraph 30 should be added before the summary of programme costs table. The paragraph should read:

“30. The proposed IFAD loan will amount to about USD 15 million³. The loan will be used to finance revolving funds, training, workshops and demonstrations, the venture capital fund, technical assistance and studies; contracted service providers; vehicles; equipment; a share of 75% of civil works and the infrastructure fund; 50% as a matching grant for the disaster management funds; and 75% of the operation and management costs. The Government of Tamil Nadu state will contribute an amount equivalent to USD 3.41 million in the form of taxes and other local expenditure, including 25% of the cost of civil works and 25% of operation and management costs. Scheduled commercial banks and insurance companies will contribute – through lending to SHGs, microenterprises and fish marketing societies – an amount of about USD 24.92 million. The beneficiaries will contribute USD 10.35 million. Their contribution covers 25% of the cost of community infrastructure (via contribution of labour), 25% of the incremental credit fund (via SHG savings), and 50% of the cost of the disaster management funds.

Page 7

The summary of programme costs table should read as follows, and the financing plan should be added:

³ A further amount, equivalent to USD 15 million, will be mobilized or covered from loan allocations under the Programme of Work and Budget of IFAD for 2006.”

TABLE 1: SUMMARY OF PROGRAMME COSTS^a
(USD '000)

Component	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Coastal areas resource management	9 223	90	9 313	1	14
Rural finance and risk-transfer instruments	35 754	122	35 876	-	56
Employment generation and skills-training	14 749	494	15 243	3	24
Community-based sea-safety and disaster management	402	11	414	3	1
Programme management	3 357	72	3 429	2	5
Total base costs	63 486	790	64 276	1	100
Physical contingencies	2 138	77	2 215	3	3
Price contingencies	2 033	67	2 100	3	3
Total programme costs	67 657	934	68 591	1	107

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Component	IFAD		Banks/Insurance Companies		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Coastal areas resource management	7 664	78.1	-	-	664	6.8	1 486	15.1	9 814	14.3	104	9 570	140
Rural finance and risk-transfer instruments	2 312	6.4	24 924	69.0	-	-	8 860	24.5	36 096	52.6	144	35 952	-
Employment generation and skills-training	16 287	90.2	-	-	1 778	9.8	-	-	18 065	26.3	588	16 772	704
Community-based sea-safety and disaster management	485	98.7	-	-	7	1.3	-	-	491	0.7	13	472	7
Programme management	3 168	76.8	-	-	957	23.2	-	-	4 125	6.0	84	3 876	164
Total disbursement	29 916	43.6	24 924	36.3	3 405	5.0	10 346	15.1	68 591	100.0	934	66 642	1 015

^a Discrepancies in totals are due to rounding.

Page 8, original paragraph 30, now paragraph 31

The paragraph should read:

“31. All procurement financed from the IFAD loan will be made under the terms of IFAD’s procurement guidelines. As procurement under the programme will be for smaller-scale items, international competitive bidding is not anticipated. Local competitive bidding procedures will apply for procurement of: (i) all vehicles and office equipment and all civil works relating to fisheries infrastructure; and (ii) goods and consultant services costing the equivalent of USD 25 000 or more. In relation to goods and consultant services for amounts between USD 10 000 and USD 25 000 equivalent, local shopping procedures will be applied. Local competitive bidding will apply to procurement of civil works (other than fisheries infrastructure) for amounts of USD 35 000 equivalent or more; for amounts between USD 10 000 and USD 35 000 equivalent, local shopping will apply. Direct procurement (which will not apply for vehicles and office equipment or fisheries infrastructure works) will be used on terms and conditions approved by IFAD for goods, works and services of amounts estimated at less than USD 10 000 equivalent. The programme management unit (PMU) will provide copies of the terms of reference and all bidding documents relative to the procurement of consultant services/studies to IFAD for its prior review and approval. ___ All contracts of USD 50 000 equivalent or more will be subject to prior review by the cooperating institution. ___”

Page 8, original paragraph 31, now paragraph 32

The paragraph should be replaced by:

“32. The proposed IFAD loan of USD 15 million (see footnote 1) will be disbursed over an eight-year period. The Government of India will establish a special account to receive funds from IFAD. The initial deposit will be USD 1 million. Replenishment of the special account by IFAD will be made against withdrawal applications, supported by appropriate documentation or certified statements of expenditure.”

Page 8, original paragraph 32 should be renumbered as 33.

Pages 8 and 9, original paragraphs 33 to 36, now paragraphs 34 to 37

The paragraphs should be replaced by:

“34. The Tamil Nadu Welfare Society for Self-Help Groups (TNWS) will be the executing agency of the programme. This will ensure a flow of funds free of government restrictions with regard to the return of unutilized funds to the Government at the end of the financial year and bundling of releases towards the end of the financial year. It is important that the programme funding arrangements and management structures are able to quickly respond to changing needs and coordinate with other agencies involved in post-tsunami development. TNWS will establish a PMU, which is expected to coordinate all programme activities and ensure the flow of funds, financial management, and monitoring and evaluation support, including those activities related to start-up of the programme. The PMU will be headed by a programme director appointed from the state civil service. Core programme activities will be carried out by the district implementation offices, service providers and NGOs. In addition, the programme will engage specialist NGOs, facilitating agencies and service providers to implement various activities related to enterprise development, resource management and infrastructure development.

35. At the state level, the Rural Development Department will be the nodal agency for the programme. No separate staff creation is seen as necessary at this level for the purpose of coordination. Committees will be established at all three tiers of programme management to ensure coordination with the government and non-government sectors in the programme area. The programme will establish a steering committee under the chairmanship of the Secretary, Rural Development; the committee will consist of members from the departments of Finance, Fisheries, Social Welfare and other relevant departments, and collectors of participating districts. The programme director will be the member secretary of this committee. The steering committee will meet at least twice a year and will become the focal point for ensuring coordination among line departments and implementing agencies. The need for any policy dialogue or policy changes will be discussed at these meetings.

36. Although programme implementation is coordinated by a specially created district implementation office, the need for coordination at the district level with various public and private institutions is self-evident. Hence, a district-level implementation advisory committee chaired by the collector for the district is envisaged to perform a coordination role and facilitate programme implementation. This committee will meet biannually and have as members the district-level officials of the relevant departments, the Programme Officer of the District Rural Development Agency, a representative of the Tamil Nadu Women's Development Corporation, and representatives of partner NGOs and the district supply and marketing society. The district implementation officer will be the secretary of the committee. The cluster resource centres will have a cluster advisory committee consisting of representatives from the *panchayat raj* institutions, NGOs working in the area, traditional institutions, production societies and SHGs. The cluster coordinator will be the member secretary of this committee.

37. **Monitoring and evaluation (M&E).** Monitoring and evaluation will be a crucial part of programme implementation and will involve regular beneficiary impact assessments. An independent M&E unit will be established within the PMU, headed by an M&E manager with six M&E officers based in the field, plus a manager of communication and information technology. The PMU will engage a consultant during the first year to help the programme in designing a results-based M&E system.”

Page 9, original paragraph 37 should be renumbered as 38.

Page 9, original paragraph 38, now paragraph 39

The paragraph should be replaced by:

“39. The logical framework shows that the programme will face a number of risks in meeting its objectives of improving the livelihoods of coastal communities. The risks include:

- (i) The large scale of post-tsunami assistance being provided by many agencies could result in these communities becoming reliant on external assistance and thus failing to develop their own capacities and self-reliance.
- (ii) Fishers may use the compensation they receive for tsunami losses to improve their boats and equipment and new boats may be provided to poorer people who previously did not have access to fishing as an occupation, thus putting pressure on fisheries and reducing catches. This could, however, be mitigated by reduced trawling because of lost trawlers not being replaced by the Government and more effective resource management in the sector as a result of the World Bank's fisheries policy study.

- (iii) Although local institutions, such as fishers' *panchayats*, church committees and village organizations, are cohesive and effective, they might not want to get involved in resource planning.
- (iv) Considerable resources are being channelled into tsunami recovery. Unless programmes are carefully coordinated at the state, district and village level, there is a danger of overlapping. There is also a risk that some programmes may provide a much greater degree of subsidy to groups (e.g. capital grants), that the latter may then come to expect.
- (v) It may be difficult to find a suitable institutional home for the venture capital fund at a commercial bank that is prepared to put significant effort into locating investment opportunities that both are viable and bring benefits to the target group.
- (vi) It may be difficult to foster the repayment culture that is necessary to make SHGs viable and sustainable. The current relaxation of conditions for disbursement of bank loans in tsunami-affected villages, the hasty formation of new SHGs with little or no training, and the availability of grant assistance all contribute to undermining the development of a repayment culture.
- (vii) There is no certainty that viable approaches will be found to insure assets such as fishing boats and nets, and crops. The proposed disaster management fund may not appeal to groups or federations that may be unwilling to use their resources to build such funds.
- (viii) The programme may not find sufficient potential entrepreneurs who, once trained, will have the capacity and resources to invest in larger-scale microenterprises.
- (ix) After graduation from vocational training courses, young people may fail to find jobs."

Page 9, original paragraph 39, now paragraph 40

The paragraph should be replaced by:

"40. Overall, the interventions proposed are expected to create environmental and social impacts of a positive nature. Development proposals do not involve the abstraction of large quantities of water, construction of reservoirs, development of large-scale irrigation schemes or clearing of forests. The enterprises that will be supported are unlikely to be significant producers of hazardous waste. Only small-scale artisanal fishers will be supported – the programme will specifically exclude larger trawlers, which are said to damage the inshore marine ecosystem. In addition, community resource planning will increase environmental awareness and result in actions to conserve the environment, including tree-planting for shelter belts and more rational use of marine resources. As such, the programme has been classified by IFAD as Category B."

Page 9, original paragraph 40, now paragraph 41

The paragraph should read:

“**41.** A loan agreement between the Republic of India and IFAD **will constitute** the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement **is attached as an annex.**”

Pages 9 and 10, original paragraphs 41 to 43 should be renumbered as 42 to 44.

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 6 October 2005)

1. **Programme account.** TNWS will open and thereafter maintain in a commercial bank acceptable to IFAD an account denominated in local currency to receive loan and other funding for programme operations (“programme account”). The programme director will be authorized to operate the programme account.
2. **Memorandum of understanding and programme agreement.** The Government will cause the State of Tamil Nadu (the State) to enter into a programme agreement with IFAD (“programme agreement”) and a memorandum of understanding with TNWS. The State will submit a draft of the memorandum of understanding to IFAD for comment and mutual acceptance thereof by IFAD and the State before its signature.
3. **Availability of loan proceeds.** The Government will ensure that the State makes the proceeds of the loan available to TNWS in accordance with the memorandum of understanding to carry out the programme.
4. **Counterpart funds.** The Government will ensure that the State makes available to TNWS during the programme implementation period counterpart funds from its own resources as required in the annual workplans and budgets (AWP/Bs) in accordance with the memorandum of understanding, the programme agreement and the loan agreement. The State will release the first advance of counterpart funds from its own resources to TNWS within 90 days after the effective date.
5. **Programme implementation manual.** The PMU will prepare and submit a draft programme implementation manual to the programme steering committee (PSC) for approval. When so approved, the PMU will forward the draft programme implementation manual to the State and IFAD for their comment and acceptance. The PSC will then adopt the programme implementation manual in the form accepted.
6. **Flow of funds.** TNWS will release programme funds (loan, counterpart and other) to the district implementation offices in accordance with the AWP/Bs as follows: the first advance following the effective date will cover the first three months of estimated expenditures in the AWP/B for the first programme year; thereafter, the district implementation offices will submit statements of expenditure attesting to the utilization of at least 60% of the previous advance and request reimbursement on a quarterly basis.
7. **Venture capital fund (VCF) management agreement and credit by-laws.** (a) TNWS and the manager of the venture capital fund (“VCF manager”) will enter into an agreement (VCF management agreement). TNWS will submit a draft of the VCF management agreement to IFAD for comment and approval before its signature.
 - (b) The VCF manager will establish and maintain a revolving fund whose operation and terms relating to the quasi-equity and other financing made available, directly or indirectly, from the loan proceeds to eligible beneficiaries will be laid out in the VCF management agreement.
 - (c) TNWS will prepare draft credit by-laws for accessing the services and benefits of the VCF and submit the draft to the PSC for approval. They will form an integral part of the VCF management agreement.

8. **Pest management practices.** The programme parties will maintain appropriate pest management practices under the programme and, to that end, the Government, through the State, will ensure that pesticides procured under the programme do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.

9. **Monitoring.** Monitoring and evaluation activities will include: activity reporting, whereby all programme parties will report monthly on the activities undertaken and the information will be stored in the programme's management information system (MIS); progress monitoring, whereby the M&E officer will make regular visits to a sample of beneficiary groups to obtain feedback from participating communities on programme outputs, which data will be stored in the MIS; and impact monitoring, whereby information on indicators of programme objectives, including those indicators required under IFAD's Results and Impact Management System (RIMS) will be gathered. The Government will ensure that the RIMS indicators required by IFAD are incorporated in and form part of the programme's monitoring system.

10. **Gender focus.** The targeting approach of the programme will ensure equitable programme benefits for women. Each programme party will ensure that women participate fully in the community resources planning process under the coastal areas resource management component.

11. **Progress reports.** Each programme party will prepare and submit quarterly physical and financial progress reports to the PMU, based on reporting formats developed and communicated by the PMU to all programme parties. Among other things, the reports will track financial progress of the programme implemented by each such programme party against the AWP/B for the relevant period. Each programme party will submit its quarterly report to the PMU not later than two months after the end of each quarter during the programme implementation period. The PMU will base its six-monthly and annual reporting obligations to IFAD on such quarterly reports.

12. **Development of fisheries infrastructure/basic facilities.** The Government and/or State will ensure that development of fisheries infrastructure/basic facilities under the programme will only be undertaken after a clear structure and responsibilities thereunder have been put in place for the maintenance and management of such facilities.

13. **Suspension.** In addition to the events specified in Section 12.01 of the General Conditions for Agricultural Development Financing:

- (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the events set forth therein or any of the following events:
 - (i) The credit by-laws, or any provision thereof, have been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the VCF.
 - (ii) The programme implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.

- (iii) Any competent authority has taken any action for the dissolution of TNWS or the VCF manager, or the suspension of the operations of either or both, or any action or proceeding has been commenced for the distribution of any assets of TNWS or the VCF manager among their respective creditors, and no alternative solution is proposed by the State to the satisfaction of IFAD.
 - (iv) Either the State, with respect to the programme agreement and the memorandum of understanding, or TNWS, with respect to the memorandum of understanding only, will have failed to perform any of its obligations under the programme agreement or the memorandum of understanding.
 - (v) TNWS will have amended or abrogated any provision of its constitutional documents, with the exception of those amendments as required by the loan agreement as will have been approved by IFAD, without the prior consent of IFAD, and which amendment or abrogation, in the opinion of IFAD, may impact TNWS's ability to implement the programme in accordance with the terms of the loan agreement.
 - (vi) The recommendations and action plan resulting from the mid-term review have not been implemented to the satisfaction of IFAD within the time specified therefor.
- (b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the audit report required by the loan agreement has not been satisfactorily completed within 12 months after the financial reporting period set forth therein.

14. **Conditions precedent to withdrawals – overall programme.** No withdrawals may be made from the loan in respect of expenditures under the programme until:

- (a) TNWS has appointed the finance and administration manager;
- (b) the PMU has selected the 200 programme villages for programme implementation in accordance with selection criteria approved by IFAD; and
- (c) the programme implementation manual has been approved by IFAD in draft, and a copy of the programme implementation manual as adopted by the PSC, substantially in the form so approved and certified as true and complete by a competent officer of TNWS, has been delivered to IFAD.

15. **Conditions precedent to withdrawals – VCF.** No withdrawals may be made from the loan in respect of expenditures under the VCF subcomponent until:

- (a) the credit by-laws have been approved by IFAD in draft, and a copy of the credit by-laws as adopted by the PSC, substantially in the form so approved and certified as true and complete by a competent officer of TNWS, has been delivered to IFAD;
- (b) the VCF manager has been selected by TNWS under terms of reference approved by IFAD, and the VCF management agreement, acceptable to IFAD, has been duly entered into, and a copy thereof has been provided to IFAD; and

- (c) a model agreement to be entered into between the VCF manager and the recipient SHGs/fisher societies, including those terms applicable to loan financing therefrom with respect to near-equity financing, has been provided to and approved by IFAD for use under the programme.

16. **Condition precedent to withdrawals – programme districts.** No withdrawals may be made from the loan in respect of expenditures in a programme district until the district implementation office has been duly established and staffed in such programme district.

17. **Condition precedent to withdrawals – programme villages.** No withdrawals may be made from the loan in respect of expenditures in a cluster of programme villages until the cluster resource centre for such cluster has been duly established and staffed in such cluster of programme villages.

18. **Conditions of effectiveness.** The following are specified as conditions precedent to the effectiveness of the programme loan agreement:

- (a) the programme director has been appointed by the State from among the cadre of civil servants;
- (b) TNWS has duly amended its by-laws and any other necessary constitutional document/legal instrument required to permit the appointment of the programme director to be its chief executive officer; and a legal opinion has been provided to IFAD by duly qualified counsel to TNWS attesting to the procedure followed, validity and legally binding effect of such amendment;
- (c) the district supply and marketing society in each programme district has duly amended its by-laws and any other necessary constitutional document/legal instrument required to permit the appointment of a district implementation officer, who will be appointed by the State, to be its chief executive officer; and a legal opinion has been provided to IFAD by duly qualified counsel to each such district supply and marketing society attesting to the procedure followed, validity and legally binding effect of such amendment;
- (d) the PSC has been duly established by the State;
- (e) the PMU has been duly established;
- (f) the State has issued a Government Order authorizing implementation of the programme through TNWS;
- (g) the Government has duly opened the special account;
- (h) TNWS has duly opened the programme account;
- (i) the loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action;
- (j) the programme agreement has been duly signed and a favourable legal opinion has been issued by competent legal counsel for the State in respect of the programme agreement's legally binding nature upon the State and delivered to IFAD; and the signature and performance thereof by the State has been duly authorized or ratified by all necessary administrative and governmental action;

ANNEX

- (k) a copy of the signed memorandum of understanding has been delivered to IFAD; the signature and performance thereof by the State and TNWS has been duly authorized or ratified by all necessary administrative, corporate and/or governmental action; all conditions precedent to the effectiveness thereof (other than the effectiveness of the loan documents) have been fulfilled; and a favourable legal opinion has been issued by a competent legal counsel for the State and of TNWS and delivered to IFAD in respect of: (i) the memorandum of understanding's legally binding nature upon the State and TNWS, respectively, and (ii) the fact that TNWS is duly organized, validly existing and in good standing under the laws of the State and has the legal right to conduct the business in which it is engaged; and
- (l) a favourable legal opinion, issued by the solicitor general of the Government and in form and substance acceptable to the IFAD, has been delivered by the Government to IFAD.