

CONFORMED COPY

LOAN NUMBER 4796-IN

Loan Agreement

(Maharashtra Water Sector Improvement Project)

between

INDIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 19 , 2005

LOAN NUMBER 4796-IN

LOAN AGREEMENT

AGREEMENT, dated August 19, 2005, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project; and

(B) the Project will be carried out by the State of Maharashtra (“Maharashtra”) with the Borrower’s assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Maharashtra, as set forth in this Agreement;

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower on the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and Maharashtra (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 Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004) (the General Conditions) constitute an integral part of this Agreement.

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply.

Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "Canal Level Association" means a Water Users' Association at the canal level of an irrigation scheme;

(b) "Contract Management Committee" and "CMC" means a committee consisting of two representatives each from the WRD and WUA and which will be responsible for all procurement activities at all the minor level WUAs;

(c) "Cultural Property Strategy" means the strategy dated January 7, 2005, prepared by Maharashtra and acceptable to the Bank describing measures to be undertaken to protect and preserve or rehabilitate cultural property, as necessary, during the execution of physical works under the Project, (including criteria and details for preparation of cultural property plans in cases of irrigation schemes under Part B of the Project where cultural property may be affected by the proposed civil works);

(d) "Dam Safety Plan" means the plan dated January 7, 2005, prepared by Maharashtra and describing a program for ensuring the safety of all existing dams within the Project area, (which contains *inter alia* a series of measures to ensure that all works executed on dams during the course of the Project are undertaken after proper planning and review and are properly supervised; that adequate quality assurance measures are taken; and satisfactory implementation, and dam operation and maintenance);

(e) "Distributory Level Association" means a Water User's Association at the distributory level of irrigation schemes;

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

(g) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(h) “Financial Management Manual” means the manual, dated April 29, 2005 prepared by Maharashtra and agreed with the Bank, that contains measures to be undertaken by Maharashtra for the financial management of the Project;

(i) “Fiscal Year “ means the fiscal year of the Borrower and Maharashtra beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(j) “Gender Development Strategy” means Maharashtra’s strategy dated January 7, 2005 for gender development, detailing measures deemed necessary or appropriate to promote the role of women, enhance their livelihood opportunities, and support social justice and protection actions;

(k) “Maharashtra” means the Borrower’s State of Maharashtra, or any successor thereto;

(l) “Maharashtra Krishna Valley Development Corporation” means the agency of Maharashtra with that name, responsible, *inter alia*, for planning and development of surface water schemes within the Krishna valley in Maharashtra;

(m) “Maharashtra Krishna Valley Water Resources Corporation” means the river basin agency to be established by Maharashtra by reorganizing the Maharashtra Krishna Valley Development Corporation under Part A of the Project ;

(n) “Maharashtra Management of Irrigation Systems by Farmers Act 2005” means the Act passed by Maharashtra on April 13, 2005;

(o) “Maharashtra Water Resources Regulatory Authority” means an independent regulator as defined in the Maharashtra Water Resources Regulatory Authority Act 2005 (as amended from time to time) and to be established by Maharashtra under Part A of the Project ;

(p) “Operating Manual” means the operating manual for Water User’s Associations to be prepared by Maharashtra and agreed with the Bank, that contains detailed procedures, and implementation guidelines for the functioning of WUAs and the operation, maintenance and management of irrigation systems by WUAs under Part B of the Project;

(q) “Persons Affected by the Project” means any person who owns or occupies land, property or other assets or structures which are adversely affected by the Project, or whose livelihood, business, trade or other occupation is adversely affected as a result of the Project, and who is accordingly eligible for compensation or other assistance;

(r) "Procurement Plan" means Maharashtra's procurement plan, dated April 29, 2005, covering initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(s) "Project Agreement" means the agreement between the Bank and Maharashtra 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;

(t) "Project Implementation Plan" means Maharashtra's Project Implementation Plan for carrying out the Project, dated April 29, 2005, as agreed with the Bank;

(u) "Project Level Association" means an apex Water User's Association at irrigation scheme level;

(v) "Project Preparation and Management Unit" and "PPMU" means the unit established for the preparation and management of the Project and referred to in paragraph 1(a) of Schedule 2 of the Project Agreement;

(w) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(x) "Resettlement Action Plan" means a plan prepared, whenever necessary or desirable, by Maharashtra in accordance with the Resettlement and Rehabilitation Entitlement Framework and reviewed and approved by the Bank, for a specific irrigation scheme, containing detailed measures for involuntary resettlement of Persons Affected by the Project within a given geographical area and which sets out, among other things, the principles and objectives of the plan, eligibility criteria for identification of Persons Affected by the Project, compensation, assistance and rehabilitation entitlements, as well as the monitoring and reporting arrangements to ensure compliance with the provisions of the plan;

(y) "Resettlement and Rehabilitation Entitlement Framework" means Maharashtra's framework for involuntary resettlement of Persons Affected by the Project, which forms part of the Social and Environmental Management Framework, and which contains *inter alia* a range of measures to ensure that any involuntary resettlement of Persons Affected by the Project is undertaken in a fair and equitable manner, and that, whenever necessary or desirable, a Resettlement Action Plan is prepared in respect of activities to be carried out under Part B of the Project;

(z) "Social and Environmental Management Framework" means the sequential framework and process governing social and environmental aspects of Project

implementation, prepared by Maharashtra and approved by the Bank, dated January 7, 2005, and setting forth *inter alia* the Sustainable Agriculture Strategy (including a pest management plan) Tribal Development Strategy, Resettlement and Rehabilitation Entitlement Framework, Gender Development Strategy, and Cultural Property Strategy, and the objective of which is to mitigate the environmental and social impacts of irrigation schemes and related water activities under Part B of the Project and maximize the social and environmental benefits accruing under the Project, and which includes a plan with measures to offset, reduce to acceptable levels, or eliminate any adverse environmental or social impacts under the Project;

(aa) “State Water Policy” means the water policy of Maharashtra as contained in Maharashtra State Water Policy, 2003;

(bb) “Sustainable Agriculture Strategy” means Maharashtra’s strategy for addressing likely irrigated agriculture-related environmental consequences of the Project, which forms part of the Social and Environmental Management Framework, and includes *inter alia* measures for integrated pest management (a pest management plan) and integrated nutrient management and development of institutional capacity and training in these fields;

(cc) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(dd) “Tribal Development Strategy” means the strategy dated January 7, 2005, prepared by Maharashtra and acceptable to the Bank and describing a program for the development of the tribal population in the Project area and containing *inter alia* a series of actions, measures and policies designed to maximize the benefits accruing to tribal groups and avoid or mitigate potential impacts adversely affecting such groups, to be implemented as part of the Project and which additionally includes *inter alia* criteria and details for the preparation of tribal development plans whenever necessary and appropriate for irrigation schemes and related activities being carried out under Part B of the Project;

(ee) “Water Resources Department” means the water resources department of Maharashtra, and includes any successor thereto;

(ff) “Water and Land Management Institute” and “WALMI” means the training institute of that name, based in the city of Aurangabad in Maharashtra, responsible, *inter alia*, for training on water and land management;

(gg) “Water Resources Plan” means the state level plan for the development and management of water resources to be prepared by Maharashtra from time to time; and

(hh) “Water User’s Associations” and “WUAs” means a Water User’s Association formed at the minor level or above, which represents the users of irrigation water from that segment of any project, canal or natural flow or storage system.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to three hundred and twenty five million dollars (\$325,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be March 31, 2012 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Maharashtra to perform in accordance with the provisions of the Project Agreement all the obligations of Maharashtra therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Maharashtra 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 Loan available to Maharashtra in accordance with the Borrower's arrangements for development assistance to the States of India.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08, and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Maharashtra pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were Report-based Disbursements or were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a)(i) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such Fiscal Year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) Maharashtra 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 Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Maharashtra will be able to perform its obligations under the Project Agreement.

(c) The Maharashtra Water Resources Regulatory Authority Act 2005, has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the implementation of the Project or the achievement of the Project objectives.

(d) The Maharashtra Management of Irrigation Systems by Farmers Act 2005, has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the implementation of the Project or the achievement of the Project objectives.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely that an event specified in paragraph (a) of section 6.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Project Agreement has been duly authorized or ratified by Maharashtra, and is legally binding upon Maharashtra in accordance with its terms.

Section 6.02. 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 of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-3166175	91-11-2309-2511 91-11-2309-2477 91-11-2309-3133

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD 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/ Madhusudan Prasad

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By Michael Carter

Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Part A: General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in US Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works	248,000,000	90%
(2) Goods	24,000,000	100%
(3) Consultancies	16,000,000	100%
(4) Training	14,000,000	100%
(5) Incremental Operating Costs	8,000,000	50%
(6) Front-end fee	1,625,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	13,375,000	
TOTAL	<u><u>325,000,000</u></u>	

2. For the purposes of this Schedule the term “Incremental Operating Costs” means the recurring costs of operation and maintenance of equipment and vehicles, office and vehicle rental, utilities expenses and incremental staff engaged for Project implementation.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding \$5,000,000 may be made in respect of Categories (1) through (5) of the table in paragraph 1 of this Part on account of payments made for expenditures before that date but after October 1, 2004.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$500,000 equivalent per contract; (b) civil works costing less than \$2,000,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$200,000 equivalent per contract; (e) training; and (f) Incremental Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the Financial Monitoring Report and any other relevant information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit, or shall cause Maharashtra to submit, to the Bank 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.

Part B: Special Account

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

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan 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 out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that it 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 Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) 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 Bank 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 Bank 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 Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b), or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. The term “Authorized Allocation” means an amount of \$60,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$30,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$75,000,000.

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 Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the

Bank 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 Loan Account shall be deposited by the Bank 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 Bank from the Loan Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank 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.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to strengthen the capacity of Maharashtra for multi-sectoral planning, development, and sustainable management of the water resources; and (ii) to improve irrigation service delivery and productivity of irrigated agriculture.

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

Part A: Water Sector Institutional Restructuring and Capacity Building

1. Establish in accordance with the Maharashtra Water Resources Regulatory Authority Act 2005 and operationalize the Maharashtra Water Resources Regulatory Authority.
2. Reorganize the existing Maharashtra Krishna Valley Development Corporation into a new entity to be known as the Maharashtra Krishna Valley Water Resources Corporation which shall function as a river basin agency in accordance with the provisions of the Maharashtra Water Resources Regulatory Authority Act 2005.
3. Restructure the organization and management of, and capacity building within, the Water Resources Department, including carrying out of a detailed study on appropriate institutional reforms.
4. Strengthen and build the capacity of the Water and Land Management Institute, including enhancement of infrastructure.
5. Modernize the Water Resources Department's management information systems, including implementation of a new computer system, and provision of appropriate staff training.

Part B: Improving Irrigation Service Delivery and Management

1. Rehabilitation and modernization of about 286 selected irrigation schemes including, without limitation, re-sectioning channels, strengthening banks, silt and vegetation removal and repair of damaged structures.
2. Implementation of measures to enhance the safety of about 291 dams/headworks in selected irrigation schemes, including remedial works, and structural and technical

modernization works, and establishment of dam safety review panels to review proposed dam safety works prior to their implementation.

3. Formation and fostering of Water User's Associations in all the irrigation schemes selected pursuant to Part B.1 of the Project.

4. Implementation of improved water management practices in six (6) selected irrigation schemes, including volumetric charging and bulk delivery of water to Water User's Associations, as per their entitlement.

5. Strengthening of agricultural support services including establishment of multi-disciplinary technical support groups to assist water users in achieving greater productivity and efficiency in their use of water.

6. Implementation of the plans prepared in accordance with the Social and Environmental Management Framework to address social and environmental issues arising out of implementation of the Project, and to ensure that the positive social and environmental consequences of the Project are maximized.

Part C: Innovative Pilots

1. Establishing four innovative pilot schemes, one each in the Krishna, Bhima, Godavari-Purna and Wardha river basins, for user-centered aquifer-level groundwater management practices to achieve sustainable use of ground water resources.

2. Establishing four pilot schemes for innovative irrigated agriculture to improve farmer's income.

Part D: Project Management

1. Provision of support to a multidisciplinary state level project preparation and management unit (the PPMU), to co-ordinate: (i) the work of the various State departments involved in the Project; (ii) procurement, financial management and reporting under the Project.

2. Provision of technical assistance and consultants' services for: (i) baseline survey; and (ii) monitoring and evaluation on an on-going basis the Project.

3. Provision of technical assistance, consultancies, publications, media coverage and workshops for carrying out of an information, education and communication campaign to create awareness about the Project.

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

SCHEDULE 3

Amortization Schedule

<u>Payment Due Date</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
March 15, 2011	8,310,000
September 15, 2011	8,455,000
March 15, 2012	8,605,000
September 15, 2012	8,760,000
March 15, 2013	8,915,000
September 15, 2013	9,070,000
March 15, 2014	9,230,000
September 15, 2014	9,395,000
March 15, 2015	9,560,000
September 15, 2015	9,730,000
March 15, 2016	9,900,000
September 15, 2016	10,075,000
March 15, 2017	10,250,000
September 15, 2017	10,435,000
March 15, 2018	10,615,000
September 15, 2018	10,805,000
March 15, 2019	10,995,000
September 15, 2019	11,190,000
March 15, 2020	11,385,000
September 15, 2020	11,585,000
March 15, 2021	11,790,000
September 15, 2021	12,000,000
March 15, 2022	12,210,000
September 15, 2022	12,425,000
March 15, 2023	12,645,000
September 15, 2023	12,870,000
March 15, 2024	13,095,000
September 15, 2024	13,330,000
March 15, 2025	13,565,000
September 15, 2025	13,805,000

*The figures in this column represent the amounts in dollars to be repaid, except as provided in Section 4.04(d) of the General Conditions.