

CONFORMED COPY

CREDIT NUMBER 3341 IN

Development Credit Agreement

(Uttar Pradesh Fiscal Reform and Public Sector Restructuring Program)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 16, 2000

CREDIT NUMBER 3341 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 16, 2000, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated March 22, 2000, attaching a letter from Uttar Pradesh (Uttar Pradesh) describing a program of actions, objectives and policies designed to improve and strengthen the fiscal framework and public institutions of Uttar Pradesh (hereinafter called the Program), declaring Uttar Pradesh's commitment to the execution of the Program and the Borrower's support thereto, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) Uttar Pradesh has carried out the measures and taken the actions described in the Schedule to the Project Agreement (the Project Agreement) to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association;

(C) the Program will be carried out by Uttar Pradesh with the assistance of the Borrower, and, as part of such assistance, the Borrower will make the local currencies equivalent of the proceeds of the Credit provided for in Article II of this Agreement available to Uttar Pradesh, as set forth in this Agreement;

(D) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance in support of the Program, and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount of one hundred twenty-six million two hundred and seventy thousand dollars (\$126,270,000); and

(E) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in one tranche as hereinafter provided, and to Uttar Pradesh as provided in the Project Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through December 2, 1997) with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) A new paragraph (c) is added to Section 3.04 to read:

"If the Association shall at any time receive less than the full amount then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall in its sole discretion determine."

(c) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.";

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions";

(e) The last sentence of Section 5.03 is deleted;

(f) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.";

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07; and

(h) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the

said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "Fiscal Year" means the fiscal year of the Borrower and of Uttar Pradesh beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(c) "Governance and CSR Core Group" means the group established by Uttar Pradesh to monitor the implementation of the civil service reform program and the anti-corruption strategy of Uttar Pradesh;

(d) "High Priority Development Expenditures" means expenditures for high priority items to be maintained by Uttar Pradesh in Fiscal Year 1999-2000, and set out in a list provided by Uttar Pradesh to the Association and the Bank;

(e) "Poverty Monitoring and Evaluation Cell" means the cell established by Uttar Pradesh in order to manage the PSMS data base, undertake policy analyses, and prepare research reports;

(f) "Project Agreement" means the agreement among the Association, the Bank and Uttar Pradesh 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;

(g) "PSMS" means the Poverty and Social Impact Monitoring System established by Uttar Pradesh to monitor the impact of the implementation of the Program on the poor;

(h) "Reform Implementation Task Force" means the task force established by Uttar Pradesh for monitoring the implementation of reforms in the areas of expenditure and fiscal management, modernization of accounting, and strengthening of internal audit;

(i) "Rupees" and "Rs" mean the currency of the Borrower; and

(j) "Uttar Pradesh" means the State of Uttar Pradesh of the Borrower, or any successor thereto.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to ninety-three million three hundred thousand Special Drawing Rights (SDR93,300,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower shall, promptly after the deposit of the proceeds of the Credit into the Deposit Account, transfer to Uttar Pradesh an amount in Rupees equivalent to the amount deposited in the Deposit Account as of the day of such deposit.

(d) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of the Schedule to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association:

(i) deposit into the Deposit Account an amount equal to the amount of said payment; or

(ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be October 30, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue:

(i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and

(ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid:

(i) at such places as the Association shall reasonably request;

(ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and

(iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2010 and ending April 15, 2035. Each installment to and including the installment payable on April 15, 2020 shall be one and one-fourth percent (1-1/4%) of such principal amount and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the

level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower declares its support to Uttar Pradesh's commitment to the objectives of the Program and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Uttar Pradesh to perform in accordance with the provisions of the Project Agreement all the obligations of Uttar Pradesh therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Uttar Pradesh 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 participate with the Association and Uttar Pradesh in the exchange of views referred to in Section 2.02(a) of the Project Agreement on the progress achieved in carrying out the Program, the actions specified in the Schedule to the Project Agreement, the performance of Uttar Pradesh's obligations under the Project Agreement and other matters relating to the purposes of the Credit.

(c) Without limitation upon the provisions of paragraph (b) of this Section, the Borrower shall inform the Association on any action taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in the Schedule to the Project Agreement, and shall facilitate exchange of views to address the situation.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such

detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out by Uttar Pradesh.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled other than those related to the effectiveness of this Agreement.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by Uttar Pradesh and is legally binding upon Uttar Pradesh in accordance with its terms.

Section 5.03. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-31-66175 FINE IN
953-31-61430 FINE IN

For the Association:

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

Cable address:

INDEVAS

Telex:

248423 (MCI) or

Washington, D.C.

64145 (MCI)

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/ R. S. Sharma

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin R. Lim

Country Director, India

SCHEDULE

Excluded Expenditures

For purposes of Section 2.02 (d) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum

group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)

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Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or Uttar Pradesh or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower or Uttar Pradesh having taken timely and appropriate action satisfactory to the Association to remedy the situation.

