

CONFORMED COPY

LOAN NUMBER 4750 - IN

Loan Agreement

(Madhya Pradesh Water Sector Restructuring Project)

between

INDIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 30, 2004

LOAN NUMBER 4750 - IN

LOAN AGREEMENT

AGREEMENT, dated November 30, 2004, 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;

(B) the Project will be carried out by the State of Madhya Pradesh (Madhya Pradesh) 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 Madhya Pradesh, as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and Madhya Pradesh (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.

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) "Action Plan" means an action plan for the application of a CPMF, DSF, GAF, PMF, RF or TDF, as the case may be, issued pursuant to a SMP and to be implemented thereunder;

(b) "Consultation Framework" or "CF" means a Consultation Framework, giving details of a strategy for consultations with stakeholders under the Project;

(c) “Cultural Property Management Framework” or “CPMF” means a Cultural Property Management Framework, giving details of measures deemed necessary or appropriate to protect and preserve places of religious significance, historical monuments or other cultural property, and to avoid loss or damage to such assets or, if unavoidable, to mitigate such loss or damage;

(d) “Dam Safety Framework” or “DSF” means a Dam Safety Framework, giving details of measures deemed necessary or appropriate to ensure dam safety, including construction, supervision and quality assurance requirements, operational and maintenance arrangements, and emergency preparedness plans;

(e) “Eligible Categories” means Categories (1) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means expenditures for goods, works and services to be financed out of the proceeds of the Loan allocated from time to time to the Eligible Categories;

(g) “Environment and Social Assessment” or “ESA” means Madhya Pradesh’s Environment and Social Assessment, dated April 2004, giving details of the environmental and social status of the Project, including a detailed assessment of the social and environmental impacts of the Project, and an analysis of measures required to maximize the social and environmental benefits accruing under the Project, and avoid or mitigate any adverse impacts;

(h) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 (a) of the Project Agreement;

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

(j) “Gender Action Framework” or “GAF” means a Gender Action Framework, giving details of measures deemed necessary or appropriate to promote the role of women, enhance their livelihood opportunities, and support social justice and protection actions;

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

(l) “NGO” means non-governmental organization;

(m) “Panchayat” means a local self government body established under the Madhya Pradesh’s Panchayat Raj Adhiniyam Act 1993 (No. 1 of 1994);

(n) “Pest Management Framework” or “PMF” means a Pest Management Framework, giving details of a strategy to promote the use of biological or environmental control methods, and to reduce reliance on chemical pesticides, except as a last resort and under strict conditions;

(o) “Procurement Plan” means the Borrower’s procurement plan, dated May 2, 2004, covering the 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;

(p) “Project Affected Person” or “PAP” 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 declared accordingly eligible to compensation or other assistance under the relevant RF;

(q) “Project Implementation Coordination Unit” or “PICU” means the Project Implementation Coordination Unit referred to in paragraph 2 (a) of Schedule 2 to the Project Agreement;

(r) “Project Implementation Entity” or “PIE” means any entity involved in the implementation of the Project and referred to as such in the PIP;

(s) “Project Implementation Plan” or “PIP” means the Project Implementation Plan, dated May 2, 2004, adopted by Madhya Pradesh, giving details of the guidelines and procedures as shall have been agreed with the Bank for the implementation, supervision and monitoring of the Project, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Implementation Plan;

(t) “Project Agreement” means the agreement between the Bank and Madhya 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;

(u) “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;

(v) “Resettlement Framework” or “RF” means a Resettlement Framework, giving details of measures necessary or appropriate to avoid or minimize any adverse impact or hardship to PAPs or, if such adverse impact or hardship cannot be avoided altogether, facilitate the compensation and resettlement of such PAPs;

(w) “River Basin” means any one of more of the river basins of Madhya Pradesh;

(x) “Scheme Modernization Plan” or “SMP” means a Scheme Modernization Plan referred to in paragraph 12 of Schedule 2 to the Project Agreement, as such SMP may be amended from time to time, and such term includes all schedules and agreements supplemental to the SMP;

(y) “Selected River Basins” means five of the River Basins to be found in the northern part of Madhya Pradesh, and which have been selected of purposes of implementation of the Project, namely: Betwa, Chambal, Ken, Sindh and Tons;

(z) “Scheme” means any one or more of the rehabilitation or modernization schemes referred to under Part C.1 of the Project, and to be supported thereunder;

(aa) “Sind Basin Development and Management Board” or “SBDMB” means the Sind Basin Development and Management Board referred to in paragraph 3 (d) of Schedule 2 to the Project Agreement;

(bb) “Social and Environment Management Framework” or “SEMF” means Madhya Pradesh’s Social and Environment Management Framework, dated April 2004, issued pursuant to the ESA, and describing a process framework governing the implementation of the Project, designed to maximize the social and environmental benefits accruing under the Project, and avoid or mitigate any adverse impacts, including a CF, a CPMF, a DSF, a GAF, a PMF, a RF and a TDF, as such SEMF may be amended from time to time;

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

(dd) “State Water Board” or “SWB” means the State Water Board of Madhya Pradesh;

(ee) “State Water Resources Agency” or “SWaRA” means the State Water Resources Agency referred to in paragraph 3 (a) of Schedule 2 to the Project Agreement;

(ff) “State Water Resources Data and Analysis Center” or “SWaRDAC” means the State Water Resources Data and Analysis Center referred to in paragraph 3 (b) of Schedule 2 to the Project Agreement;

(gg) “State Water Tariff Regulatory Commission ” or “SWaTReC” means the State Water Tariff Regulatory Commission referred to in paragraph 3 (c) of Schedule 2 to the Project Agreement;

(hh) “Tons Basin Development and Management Board” or “TBDMB” means the Tons Basin Development and Management Board referred to in paragraph 3 (d) of Schedule 2 to the Project Agreement;

(ii) “Tribal Development Framework” or “TDF” means a Tribal Development Framework, giving details of measures deemed necessary or appropriate to ensure that Tribal Groups do not suffer adverse effects as a result of the Project and are able to receive culturally-compatible social and economic benefits therefrom;

(jj) “Tribal Group” means a tribal group specified in the ESA;

(kk) “WRD” means the Water Resources Department of Madhya Pradesh; and

(ll) “WUA” means water user association.

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 ninety four million and twenty thousand Dollars (\$394,020,000).

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 and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be March 31, 2011, 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 May 15 and November 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 objective of the Project and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Madhya Pradesh to perform in accordance with the provisions of the Project Agreement all the obligations of Madhya Pradesh 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 Madhya 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 make the proceeds of the Loan available to Madhya Pradesh in accordance with the Borrower's standard arrangements for developmental assistance to the states of India.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' 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.

Section 3.03. 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 Madhya Pradesh 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) as a result of events that have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that Madhya Pradesh will be able to perform its obligations under the Project Agreement; and
- (b) Madhya Pradesh shall have failed to perform any of its obligations under the Project Agreement.

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 (b) of Section 5.01 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 Madhya Pradesh, and is legally binding upon Madhya Pradesh 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, India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175 FINE IN	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/ Ranjit Bannerji
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Michael F. Carter
Country Director, India

SCHEDULE 1Part 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 Dollars)</u>	<u>% of Experience to be Financed</u>
1) Works	271,640,000	90%
2) Goods	47,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
3) (a) Consultants' services (other than services provided by tax-exempt providers)	19,800,000	90%
(b) Consultants' services Provided by tax-exempt Providers	2,000,000	100%
4) Training	18,109,900	100%
5) Operating costs	20,300,000	80% until June 30, 2007 70% until June 30, 2008 60% until June 30, 2009, and 50% thereafter
6) Voluntary Retirement Scheme	13,000,000	100%
7) Front End Fee	1,970,100	Amount due under Section 2.04 of this Agreement
TOTAL	<u><u>394,020,000</u></u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “operating costs” means the incremental costs arising under the Project on account of the operation and maintenance of any rehabilitated or modernized Schemes, buildings, equipment or vehicles; office rental and expenses; hiring of vehicles; supplies; salaries of additional staff, and travel and other allowances;

(d) the term “tax-exempt providers” means non-governmental organizations, community-based organizations, training providers and other educational and research institutions, which are tax exempt under the laws of the Borrower; and

(e) the term “Voluntary Retirement Scheme” or “VRS” means payments under Part B.1 of the Project made pursuant to a Voluntary Retirement Scheme approved by Madhya Pradesh, and in accordance with guidelines and procedures set forth in a VRS action plan adopted by Madhya Pradesh and acceptable to the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) 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 February 1, 2004; and

(b) payments under VRS, except on the basis of, and in accordance with, an action plan referred to in paragraph 2 (e) of Part A.2 of this Schedule.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than \$2,000,000 equivalent each; (b) consultants’ services under contracts costing less than \$200,000 equivalent each, in the case of consulting firms, and \$50,000 equivalent each, in the case of individual consultants; (c) operating costs; (d) training; and (e) payments under VRS amounting to less than \$15,000 per beneficiary, 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 Madhya Pradesh 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 shall 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 by the Borrower 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 sub-paragraph (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

For the purposes of this Annex:

1. The term “Authorized Allocation” means an amount of \$40,000,000 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 \$20,000,000 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 \$100,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Special Account’s Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts that in the aggregate do not exceed the said 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 said 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 Special Account’s 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.
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.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve productivity of water, thus contributing to sustainable growth and poverty reduction, in Selected River Basins.

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 Resources Management – Institutions and Instruments

Provision of technical advisory services and other material support as needed for the establishment and maintenance of SWaRA, SWB, SWaRDAC, SWaTReC, SBDMB and TBDMB, and to strengthen their capacity to discharge their respective functions.

Part B: Service Delivery – Irrigation and Drainage Institutions

1. Provision of technical advisory services and training, acquisition of goods and implementation on a pilot basis of a Voluntary Retirement Scheme, to assist Madhya Pradesh in achieving its vision of modern, lean and financially sustainable institutions with appropriate human resources and skills-mix, knowledge base and other analytical tools, to deliver efficient, socially and environmentally sustainable, and cost effective irrigation and drainage services to farmers, using modern techniques and business processes.

2. Provision of technical advisory services and material assistance to support piloting of options for the decentralized management of irrigation and drainage schemes, through strengthening of WUAs, Panchayats and other stakeholders, and increased public-private partnerships.

Part C: Improving Productivity of Selected Existing Irrigation and Drainage Assets in Five River Basins

1. Rehabilitation and modernization of irrigation assets in Selected River Basins on a demand-driven basis to achieve reliable delivery of water measured and delivered on a volumetric basis in the irrigation systems, through provision of technical advisory services and equipment, and rehabilitation works, for the design and installation of volumetric delivery mechanisms, electronic and other measuring devices, and computerized operations and management information systems, development of an appropriate knowledge base, and detailed consultations with WUAs, Panchayats and other stakeholders at the appropriate levels.

2. Provision of technical advisory services and other material assistance to support a participatory and demand-driven program of agricultural intensification and crop diversification, including improved agricultural support services, extension activities and on-farm adaptive trials, study tours and other forms of training for farmers, promotion of environmentally sustainable techniques, improvements in livestock and dairy management, investments in related infrastructure for preservation of perishable goods produced under any Scheme, and knowledge dissemination and outreach programs using village kiosks.

3. Provision of technical advisory services and other material assistance to improve fish production techniques for fish produced in village ponds and other water bodies to be found within the boundaries of the Selected River Basins.

Part D: Project Management Support

Provision of technical advisory services and other material assistance to assist PICU in the coordination, and monitoring and evaluation, of the Project, and facilitate the preparation of feasibility studies of further irrigation and drainage infrastructure.

* * *

The Project is expected to be completed by September 30, 2010.

SCHEDULE 3**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal</u>
May 15, 2010	11,300,000
November 15, 2010	11,415,000
May 15, 2011	11,530,000
November 15, 2011	11,650,000
May 15, 2012	11,770,000
November 15, 2012	11,885,000
May 15, 2013	12,010,000
November 15, 2013	12,130,000
May 15, 2014	12,255,000
November 15, 2014	12,375,000
May 15, 2015	12,505,000
November 15, 2015	12,630,000
May 15, 2016	12,760,000
November 15, 2016	12,885,000
May 15, 2017	13,020,000
November 15, 2017	13,150,000
May 15, 2018	13,285,000
November 15, 2018	13,420,000
May 15, 2019	13,555,000
November 15, 2019	13,690,000
May 15, 2020	13,830,000
November 15, 2020	13,970,000
May 15, 2021	14,115,000
November 15, 2021	14,255,000
May 15, 2022	14,400,000
November 15, 2022	14,550,000
May 15, 2023	14,695,000
November 15, 2023	14,845,000
May 15, 2024	14,995,000
November 15, 2024	<u>15,145,000</u>
TOTALS:	<u>394,020,000</u>