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CONFORMED COPY

CREDIT NUMBER 4254 -IN

Financing Agreement

(Third Andhra Pradesh Economic Reform Program)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 8, 2007

CREDIT NUMBER 4254-IN

FINANCING AGREEMENT

AGREEMENT dated February 8, 2007, entered into between INDIA, acting by its President ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement), being carried out by the Recipient's State of Andhra Pradesh ("Andhra Pradesh"). India has also requested the International Bank for Reconstruction and Development ("Bank"), and the Bank has agreed, to provide additional assistance in support of the Program under a Loan Agreement ("Loan Agreement") of same date between India and the Bank. The Association has decided to provide financing under this Agreement on the basis, *inter alia*, of: (a) the actions which Andhra Pradesh has already taken under the Program as described in Part A of Schedule 2 to the Program Agreement of same date between the Association, the Bank and Andhra Pradesh ("Program Agreement"); (b) the actions which are to be taken by Andhra Pradesh under the Program as described in Part B of Schedule 2 to the Program Agreement; and (c) Andhra Pradesh's maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to fifty million eight hundred thousand Special Drawing Rights (SDR 50,800,000).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III – PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
 - (a) the Recipient shall cause Andhra Pradesh to carry out the Program in accordance with the provisions of Article IV of the General Conditions and the Program Agreement.
 - (b) the Recipient shall participate with the Association and Andhra Pradesh on the exchange of views referred to in Section 2.03 of the Program Agreement, on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to the Program Agreement.
 - (c) without limitation upon the provisions of paragraph (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing 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 Schedule 2 to this Agreement.

ARTICLE IV – REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:

A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following:

The event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V – EFFECTIVENESS

5.01. The Additional Condition of Effectiveness consists of the following:

All conditions precedent to the effectiveness of the Loan Agreement (other than the effectiveness of the Financing Agreement) have been fulfilled.

5.02. The Effectiveness Deadline is the date sixty (60) days after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is 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 Recipient.

6.02. The Recipient's Address is:

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	91-11-23092477

6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

INDIA

By

/s/ Madhusudan Prasad
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Rachid Benmessaoud
Acting Regional Vice President
South Asia Region

SCHEDULE 1

Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Schedule and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing shall be withdrawn in two tranches. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (Expressed in SDRs)
First Tranche	33,840,000
Second Tranche	16,960,000
TOTAL AMOUNT	50,800,000

- C. **Tranche Release Conditions.** No withdrawal shall be made of the Second Tranche unless the Association is satisfied, after an exchange of views as described in Section 3.01(b) of this Agreement, and Sections 2.03(a) and (b) of the Program Agreement based on evidence satisfactory to the Association that the actions described in Part B of Schedule 2 to the Program Agreement have been taken.

If, after this exchange of views, the Association is not so satisfied, it may give notice to the Recipient and Andhra Pradesh to that effect and, if within ninety (90) days after the notice, Andhra Pradesh has not taken steps satisfactory to the Association with respect to the actions referred to above, then the Association may, by notice to the Recipient and Andhra Pradesh, cancel all or any part of the Unwithdrawn Financing Balance.

- D. **Deposits of Financing Amounts**
1. The Recipient 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.

2. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account. Upon each deposit of an amount of the Credit into the Deposit Account, the Recipient shall transfer to Andhra Pradesh an amount in Rupees equivalent to the amount deposited in the Deposit Account as of the day of such deposit. Such transfer shall be made in accordance with the Recipient's standard arrangements for onlending of external development funds to the States of India.

E. **Audit.** Upon the Association's request, the Recipient shall:

1. have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning the Deposit Account and its audit as the Association shall reasonably request.

F. **Excluded Expenditures**

1. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
2. The Recipient shall promptly refund to the Association any amount refunded to the Recipient by Andhra Pradesh pursuant to Section 2.04 of the Program Agreement. Amounts so refunded to the Association shall be cancelled.

G. **Closing Date.** The Closing Date is June 30, 2008.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (Expressed as a percentage)*
June 15, 2017 to December 15, 2026	1.25%
June 15, 2027 to December 15, 2041	2.50%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX

1. “Andhra Pradesh” means the state of Andhra Pradesh of the Borrower, or any successor thereto which is the Program Implementing Entity for purposes of the General Conditions, this Agreement and the Program Agreement.
2. “Deposit Account” means the Account referred to in Part D.1 of Schedule 1 to this Agreement.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups 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 Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient, Andhra Pradesh or other recipient of the Financing during the procurement or execution of such contract, without the Recipient, Andhra Pradesh or other such recipient having taken timely and appropriate action satisfactory to the Association to remedy the situation.
4. "First Tranche" means the amount of the Financing allocated to the category entitled "First Tranche" in the table set forth in Part B of Schedule 1 to this Agreement.
 5. "Fiscal Year" means the Fiscal Year of the Recipient and of Andhra Pradesh beginning on April 1 of a calendar year and ending on March 31 of the following calendar year.
 6. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
 7. "Loan Agreement" means the agreement between the Recipient and the Bank in support of the Program, of the same date as the Financing Agreement, as such agreement may be amended from time to time. "Loan Agreement" includes all appendices, schedules and agreements supplemental to the Loan Agreement.
 8. "Program Implementing Entity" means Andhra Pradesh which is a party to the Program Agreement.
 9. "Program" means Andhra Pradesh's program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the attachment to the letter dated December 7, 2006, from the Recipient to the Association declaring the Recipient's commitment to the objectives of the Program and its implementation, and Andhra Pradesh's

commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

10. “Rupees” means the lawful currency of the Borrower.
11. “Second Tranche” means the amount of the Financing allocated to the category entitled “Second Tranche” in the table set forth in Part B of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient and the Program Implementing Entity shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient and the Program Implementing Entity shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient, the Program Implementing Entity and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
 - (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“Eligible Expenditure” means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”
 - (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
 - (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

““Program” means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”, provided, however, that all references to “Project Agreement” throughout these General Conditions are deemed to be references to “Program Agreement”.
8. All references to “Program Implementing Entity” throughout these General Conditions as modified above are deemed to be references to “Andhra Pradesh” as defined in Section I of this Appendix.