

CONFORMED COPY

CREDIT NUMBER 3637 IN

Development Credit Agreement

(Gujarat Emergency Earthquake Reconstruction Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 4, 2002

CREDIT NUMBER 3637 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 4, 2002, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project;

(B) the Project will be carried out by the State of Gujarat with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to the State of Gujarat (Gujarat) as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and Gujarat (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 October 6, 1999) (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Affected Area" means the area in Gujarat (as hereafter defined) damaged by the earthquake of January 26, 2001;

(b) "Eligible Categories" means categories (1), (2), (3), (4) and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(d) "Fiscal Year" or "FY" means the Borrower and Gujarat's fiscal year, beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(e) "GSDMA" means the Gujarat State Disaster Management Authority established as a registered society in accordance with the relevant laws of the Borrower, and includes any successor thereof;

(f) "Gujarat" means the State of Gujarat, a State of India, and includes any

successor thereof;

(g) “Operational Manual” means the manual dated July 3, 2001, prepared and adopted by GSDMA, which sets out the terms, conditions, procedures and eligibility criteria in accordance with which GSDMA shall carry out the Project, as the same may be amended from time to time;

(h) “Project Agreement” means the project agreement between the Association and Gujarat 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;

(i) “Project Management Report” means each report prepared in accordance with Section 3.02 of the Project Agreement;

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

(k) “Water Resource Department” means the Water Resource Department of Gujarat.

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 three hundred and fifty six million Special Drawing Rights (SDR 356,000,000).

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

Section 2.03. The Closing Date shall be October 31, 2005 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 canceled; 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 October 15 and April 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 October 15 and April 15 commencing October 15, 2012 and ending April 15, 2037. Each installment to and including the installment payable on April 15, 2022 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 them 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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Gujarat to perform in accordance with the provisions of the Project Agreement all the obligations of Gujarat 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 Gujarat 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 Credit available to Gujarat in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 Gujarat 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 Credit

Account were made on the basis of Project Management Reports or 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association'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 Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

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

(c) Gujarat shall have taken any action for the dissolution, disestablishment or suspension of operation of GSDMA, or GSDMA shall have amended or repealed its

memorandum or rules and regulations so as to materially and adversely affect the ability of GSDMA to carry out its functions under the Project Agreement.

(d) Any change shall have been made to the Operational Manual, so as to materially and adversely affect the ability of GSDMA to perform any of its functions under the Project Agreement.

Section 5.02. Pursuant to the relevant provision of the General Conditions relating to other events of acceleration, the following additional event is specified, namely, that the event specified in Section 5.01 (a), (c) and (d) of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Project Agreement has been duly authorized or ratified by Gujarat, and is legally binding upon Gujarat in accordance with its terms.

Section 6.02. 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 Gujarat, and is legally binding upon Gujarat in accordance with its terms.

Section 6.03. 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. 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 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
Government of India
New Delhi, India

Cable address:

Telex:

ECOFAIRS
New Delhi

953-31-66175 FINE IN

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
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/ Adarsh Kishore

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin R. Lim

Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works	305,600,000	90%
(2) Goods, equipment, vehicles, furniture, materials and supplies	33,800,000	100% of foreign expenditures 100% of local expenditures (ex factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services	11,600,000	80%
(4) Other consultants, training, workshops and study tours	1,700,000	100%
(5) Incremental operating costs	3,300,000	70% until April 30, 2003; 50% until April 30, 2004; and 30% thereafter
TOTAL	356,000,000	

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 "incremental operating costs" means the costs of operation and

maintenance of additional offices, equipment and vehicles, and salaries of additional staff, incurred for the purpose of carrying out the Project.

3. Notwithstanding the provisions in paragraph 1 above, eligible expenditures under Category (4), shall refer to those expenditures incurred by those entities or persons who are not liable to tax under the laws of the Borrower.

4. 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 the equivalent of \$40,000,000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after February 1, 2002.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) works under contracts not exceeding \$500,000 equivalent; (ii) goods under contracts not exceeding \$200,000 equivalent; (iii) consultants' services under contracts costing less than \$100,000 equivalent each, in the case of firms; (iv) consultants' services under contracts costing less than \$50,000 equivalent each, in the case of individuals; and (v) training, workshops and study tours, all under such terms and conditions as the Association shall specify by notice to the Borrower.

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 Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 3.02(b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, all further 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 3.02(b) of the Project Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower or Gujarat shall have failed to furnish to the Association within the period of time specified in Section 4.01(b)(ii) of this Agreement and Section 3.01 (b)(ii) of the Project Agreement, any of the audit reports required to be furnished to the Association 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 made on the basis of Project Management Reports.

5. The Association 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 Association 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 Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports

1. For the purposes of this Annex the term “Authorized Allocation” means an amount equivalent to \$60,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association 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 Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR75,000,000.

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

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

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association 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 Association from the Credit Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$120,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Gujarat in carrying out the second phase of a program of rehabilitation and reconstruction in the areas affected by the Gujarat earthquake of January 26, 2001, including restoration of housing and public buildings, restoration of basic infrastructure in the roads and irrigation sectors, and development of an institutional framework to allow better disaster mitigation and risk management for future natural disasters.

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

Part A: Permanent Housing Reconstruction

Carrying out a program of reconstruction of fully collapsed houses and repair of partially damaged houses in the Affected Area.

Part B: Dam Safety and Irrigation

Reconstruction, strengthening and repair of damaged earthen dams for medium and minor irrigation and water supply schemes in the Affected Area, including embankments,

appurtenant works, and distribution networks, and provision of technical assistance for design, construction monitoring, quality control, supervision, environmental management and implementation of the works related to such schemes, as well as strengthening the capacity of the Water Resources Department for quality control and supervision monitoring.

Part C: Public Buildings

(a) Repairs and strengthening of damaged public buildings, provision of furniture, equipment and technical assistance.

(b) Reconstruction of administrative buildings and residential quarters, restoration works and retrofitting of buildings including, inter alia, schools, technical education institutions, fire stations, hospitals, administrative and residential buildings of Gujarat and provision of furniture, equipment and technical assistance.

(c) Construction of buildings and control rooms, including emergency response centers, for developing emergency management in the Affected Areas and provision of technical assistance.

Part D: Roads and Bridges

The rehabilitation of damaged State roads in the Affected Area, including strengthening and reconstruction of damaged bridges and structures, and provision of technical assistance for survey, design and technical audit.

Part E: Community Participation

Improving the capacity of government agencies, communities and non-governmental organizations in the Affected Area to participate in activities related to the implementation of the Project through, inter alia, mobilization, communication, and provision of training.

Part F: Disaster Management

Developing a disaster management strategy with focus on reducing risk and vulnerability through:

(a) carrying out a program to address both pre-disaster emergency preparedness and post-disaster emergency response and training;

(b) hazard mitigation and risk transfer activities to support the studies necessary for designing and implementing hazard reduction activities in the Affected Areas; and

(c) strengthening the capacity of GSDMA, and establishing Gujarat Institute of Disaster Management (GIDM) and the Institute for Seismic Research (ISR).

Part G: Project Management Support

Support to GSDMA to ensure the effective carrying out of the Project and the supervision of its execution through the provision of incremental operating costs, equipment and vehicles, and consultant's services focusing, inter alia, on training, program management, quality assurance, monitoring and evaluation, environmental assessment, and audits.

* * *

The Project is expected to be completed by April 30, 2005.

