

CONFORMED COPY

CREDIT NUMBER 2801 IN

Development Credit Agreement

(Orissa Water Resources Consolidation Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 5, 1996

CREDIT NUMBER 2801 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 5, 1996, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated July 11, 1995, from Orissa describing sector reforms that constitute the framework for improving the development of water resources in Orissa including policy, institutional and administrative reforms (hereinafter called the Policy Reform Program), and declaring Orissa's commitment to carry out such Policy Reform Program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(C) the Project will be carried out by the State of Orissa (Orissa) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Orissa the proceeds of the Credit as provided 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 Project Agreement of even date herewith between the Association and Orissa;

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, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment of import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (b) "Orissa" means the State of Orissa, a State of the Borrower, or any successor thereto;
- (c) "Project Agreement" means the agreement between the Association and Orissa 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;
- (d) "DOWR" means Orissa Department of Water Resources, or any successor thereto;
- (e) "NGO" means non-governmental organization;
- (f) "NWMP" means National Water Management Project, financed under Credit No. 1770-IN, between India and International Development Association dated May 12, 1987;
- (g) "Subernarekha Project" means Subernarekha Irrigation Project, financed under Credit No. 1289-IN, between India and International Development Association dated November 9, 1982;
- (h) "Resettlement and Rehabilitation Plan" means the resettlement and rehabilitation plan related to the implementation of Part F of the Project, furnished by Orissa to the Association and attached to a supplemental letter of even date herewith; and
- (i) "Indigenous Peoples Development Plan" means the indigenous peoples development plan related to the implementation of Part G of the Project, furnished by Orissa to the Association and attached to a supplemental letter of even date herewith.

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 one hundred ninety-four million eight hundred thousand Special Drawing Rights (SDR 194,800,000).

Section 2.02. (a) 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 goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2002 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 or 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 payment 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 semi-annually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 15 and November 15 commencing May 15, 2006 and ending November 15, 2030. Each installment to and including the installment payable on November 15, 2015 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 objective 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 Orissa to perform in accordance with the provisions of the Project Agreement all the obligations of Orissa 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 Orissa 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 Orissa 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 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) in respect of the Project shall be carried out by Orissa 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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and 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 nine 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 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 (h) of the General Conditions, the following additional events are specified:

- (a) Orissa shall have failed to perform any of its obligations under the Project Agreement.
- (b) An event has occurred which shall make it improbable that the Policy Reform Program or a significant part thereof will be carried out.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 (a) and (b) 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 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 Orissa, and is legally binding upon Orissa 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

Representatives 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:

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

Cable address:

ECOFAIRS
New Delhi

Telex:

953-3166175

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INDIA

By /s/ N. Valluri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Heinz Vergin

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	142,200,000	90%
(2) Goods	15,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services, studies and training (including NGO's services)	18,300,000	100%
(4) Incremental staff salaries and allowances, and incremental operation and maintenance costs for Parts C, F and G of the Project	1,600,000	90% until March 31, 1998, 75% until March 31, 1999, and 50% until March 31, 2001
(5) Unallocated	17,000,000	
TOTAL	194,800,000 =====	

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; and

(c) the term "incremental staff salaries and allowances" means staff salaries and allowances in respect of posts created for Parts C, F and G of the Project after January 15, 1995, and "incremental operation and maintenance costs" means operation and maintenance costs of additional vehicles, equipment and office space incurred for Parts C, F and G of the Project after January 15, 1995.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures (i) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 9,400,000 may be made on account of payments made for expenditures before that date but after January 15, 1995; and (ii) under Category (4) after March 31, 2001.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) goods under contracts not exceeding \$200,000 equivalent, and works under contracts not exceeding \$300,000 equivalent, except for the first five contracts of each goods and civil works; (b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, respectively; (c) training and fellowships; (d) works procured under direct contracting and force account; and (e) incremental salaries and allowances and incremental operation and maintenance costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Orissa in: (a) improving the planning, management and development process for its water resources; (b) increasing agricultural productivity through investment to improve existing schemes and complete viable incomplete schemes; and (c) enhancing DOWR's institutional capability.

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 objective:

Part A: Scheme Completions

1. Completion of viable investments on on-going irrigation, drainage and bulk water supply schemes including Rengali, Mahanadi-Chitrotpala, Naraj barrage, Badanalla, Harabhangi, Hariharjore, Upper Jonk, and Baghua.
2. Provision of equipment, vehicles, training and consultants' services.

Part B: Systems Improvement and Farmer Turnover

1. Rehabilitation and modernization of selected existing headworks and bulk distribution and irrigation and drainage infrastructure of major and medium level schemes, including Mahanadi Delta Stage I, (Kendrapara Canal), Mahanadi Delta Stage II, (Sakhigopal & Puri Canal), Rushikulya (Main & Disty No. 10), Baitarani (HLC III), Hirakud (Main & BMTKR Disty), Janivilli Anicut, Dadaraghati, Pitamahar, Aunli, Kalo, Baldiha, Jayamangal, Jayamangal Headworks, Hiradharbati, Ghodahada, Pilasalki, Bhaskel, Uttei, Budhabudhiani, and ex-NWMP schemes comprising Rushikulya (Distributaries 2, 11, 12, 13 and 14), Dhanei, Salia, Derjang, Hirakud, Mahanadi Delta Stage I (Karandia and Pundalo Branch), Salandi (Charampa Canal) and Mahanadi Delta Stage II (Gop Branch and Phulnakhara

Distributary).

2. Provision of equipment, vehicles, training and consultants' services.

3. Promoting beneficiary participation in irrigation development, operations and maintenance through (i) provision of training, consultants' and NGOs' services, equipment, vehicles and civil works; and (ii) progressive turnover of select commands of the system rehabilitated and modernized under B.1 above to the beneficiary farmers for operation and maintenance.

Part C: Basin Planning and Environmental Action Plan

1. Introducing multi-sectoral water planning and allocation, and incorporation of environmental management in all aspects of water planning and allocation, investment and management through provision of civil works, incremental staff and operating costs, consultants' services, training, vehicles and equipment.

2. Strengthening DOWR's environmental management capabilities through provision of civil works, training, incremental staff and operating costs, equipment, vehicles, and consultants' services.

Part D: Water Resources Research and Agricultural Intensification

1. Establishment of a water resources research fund within DOWR for supporting water sector related research and technology development.

2. Enhancing the quality of extension services in irrigated commands and improving agricultural practices through provision of adaptive research programs and field demonstrations in key areas of water management and irrigation agronomy, civil works, consultants' services, study tours and training.

Part E: Institutional Strengthening

Strengthening the capabilities of DOWR in all technical and managerial areas through provision of consultants' services, training, study tours, equipment, vehicles, materials and civil works.

Part F: Resettlement and Rehabilitation

1. Resettlement and rehabilitation, with the assistance of NGOs, of about 2,596 displaced persons, and rehabilitation of about 31,207 persons affected, but not displaced, both as a result of acquisition of about 5,115 hectares of land, through provision of civil works, equipment, materials, vehicles and training.

2. Carrying out retrofit surveys for the Rengali Hydropower Project and Subernarekha Project (Orissa components), and provision of additional economic rehabilitation measures for affected persons, and community infrastructure for relocation villages.

3. Strengthening DOWR's capabilities for implementing resettlement and rehabilitation through provision of consultants' and NGOs' services, incremental staff and operating costs, training, vehicles and equipment.

Part G: Indigenous Peoples Development Plan

1. Protecting and improving, with the assistance of NGOs, the livelihood of tribal communities through provision of (i) physical community assets including schools, community centers, link roads, tube wells, minor irrigation; (ii) community

activities including plantations, restoration of gochar land, small check dams, formation of women's groups, literacy programs, and (iii) training in the areas of agroforestry, literacy and health.

2. Strengthening DOWR's capabilities for implementing the Indigenous Peoples Development Plan through provision of consultants' and NGOs' services, incremental staff and operating costs, vehicles and equipment.

* * *

The Project is expected to be completed by March 31, 2002.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures 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 Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$5,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 33,000,000.

2. (a) Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than the equivalent of \$3,000,000 shall be made exclusively out of the Special Account. The Association may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Association shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account

at such intervals as the Association shall specify.

- (ii) 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 paragraph 4 of this Schedule 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.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

- (b) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) 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 the provisions of Section 6.02 of the General Conditions; and

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to

paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

