
LOAN NUMBER 4753 -IN

Loan Agreement

(Rural Roads Project)

between

INDIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 8, 2004

LOAN NUMBER 4753 - IN

LOAN AGREEMENT

AGREEMENT, dated November 8, 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 Borrower has adopted a nationwide rural roads program or *Pradhan Mantri Gram Sadak Yojana* (the Program), whose objective is to promote rural connectivity and provide all-weather access to every eligible habitation, and declared its commitment to the execution of the Program;

(C) in support of the Program, the Project will be carried out in part by the States of Himachal Pradesh, Jharkhand, Rajasthan and Uttar Pradesh (hereinafter called the Participating States), with the Borrower's assistance and, as part of such assistance, the Borrower will make available to each of the Participating States a part of the proceeds of the Loan as provided in this Agreement;

(D) the Borrower has also requested the International Development Association (the Association) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Association (the Development Credit Agreement), the Association has agreed to provide such assistance in an aggregate principal amount equivalent to two hundred and six million Special Drawing Rights (SDR 206,000,000) (the Credit);

(E) the Borrower and the Bank intend, to the extent practicable, that the proceeds of the Credit be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in Article II of this Agreement (the Loan) are made; 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 among the Bank, the Association and the Participating States (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 IBRD General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the IBRD 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) “District” means an administrative subdivision of a Participating State;
- b) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;
- c) “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;
- d) “Environmental and Social Management Framework” or “ESMF” means the Environmental and Social Management Framework, dated August 6, 2004, setting forth a framework of social and environmental actions, measures and policies applicable to the Project, and designed to maximize the benefits thereunder, avoid or mitigate any adverse impacts and, in the case of PAPs, if such adverse impacts cannot be avoided altogether, provide PAPs with alternative opportunities to enhance or restore their livelihoods;
- e) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 (a) of this Agreement and Section 3.02 (a) of the Project Agreement;
- f) “First Phase” means the initial batch of Subprojects to be funded under the Loan or Credit in accordance with pre-existing criteria applicable under the Program;
- g) “Fiscal Year” means the Fiscal Year of the Borrower beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;
- h) “MoRD” means the Borrower’s Ministry of Rural Development;
- i) “Participating District” means any District of a Participating State which is a recipient of funds provided under the Loan or Credit for purposes of implementing one or more Subprojects in the District;

j) “Participating State” means any State which is, or may become, party to the Project Agreement, or the successor thereto;

k) “Procurement Plan” means the Borrower’s procurement plan, dated August 6, 2004, covering the initial 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 18 month periods (or longer) of Project implementation;

l) “Program Implementation Unit” or “PIU” means a branch of SRRDA located in a Participating District;

m) “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 as such under the ESMF;

n) “Project Agreement” means the agreement between the Bank, the Association and Participating States 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;

o) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan/Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

p) “Second Phase” means subsequent batches of Subprojects to be funded under the Loan or Credit other than those supported under the First Phase;

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

r) “State-level Rural Road Development Agency” or “SRRDA” means the State-level Rural Road Development Agency, however named, referred to in paragraph 1 (b) of the Schedule to the Project Agreement;

s) “Subproject” means any package of construction or upgrading activities supported under Part A.1 of the Project; and

t) “Supplemental Operations Manual” means the Supplemental Operations Manual, dated August 6, 2004, adopted by the Borrower, giving details of the guidelines and procedures as shall have been agreed with the Bank and the Association for the implementation, supervision and monitoring of the Project, as the same may be amended from time to time.

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 ninety nine million five hundred thousand Dollars (\$99,500,000).

Section 2.02. (a) 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 the fee referred to in Section 2.04 of this Agreement, and to be financed out of the proceeds of the Loan.

(b) On each of the semiannual interest payment dates specified in Section 2.07 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 2.03. The Closing Date shall be March 31, 2010, 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 June 15 and December 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 5 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:

- (i) shall carry out Part C.1 of the Project through MoRD with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and engineering practices, and with due regard to social and environmental considerations, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and
- (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Participating States to perform in accordance with the provisions of the Project Agreement all the obligations of Participating States 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 Participating States to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Borrower and the Bank shall otherwise agree, the Borrower shall cause MoRD to carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, and the ESMF.

(c) The Borrower shall make part of the proceeds of the Loan available to the each of the Participating States in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

Section 3.02. (a) 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 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. 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), in respect of Parts A, B and C.2 of the Project shall be carried out by the Participating States pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such Fiscal Year (or such other period agreed to by the Bank), (A) certified copies of the respective financial statements referred to in paragraph (a) of this Section for such Fiscal Year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Report-based Disbursements or statements of expenditure, the Borrower shall:

- (i) 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, or covering, the Fiscal Year in which the last withdrawal from the Loan Account was made;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports or statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) For purposes of Part C.1 of the Project, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty five (45) days after the end of the first semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first semester; thereafter, each FMR shall be furnished to the Bank not later than forty five (45) days after each subsequent semester, and shall cover such semester.

ARTICLE V

Remedies of the Bank

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

(a) any Participating State 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 Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating State will be able to perform its obligations under the Project Agreement; and

(c) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that event specified in paragraph (a) 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 each of the Participating States, and is legally binding upon each of the Participating States 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:

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

Cable address:	Telex:
ECOFAIRS New Delhi	953-3166175

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 1

Withdrawal of the Proceeds of the Loan

Part 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 US Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)	Works	94,352,500	90%
(2)	Goods	940,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 80% of local expenditures for other items procured locally
(3)	Consultants' services other than services provided by tax-exempt providers	2,970,000	90%
(4)	Consultants' services provided by tax-exempt providers, and training	740,000	100%
(5)	Front End Fee	497,500	Amount due under Section 2.04 of this Agreement
	TOTAL	<u>99,500,000</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; and

(c) 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.

3. 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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) civil works under contracts costing less than \$1,500,000 equivalent each; (b) goods under contracts costing less than \$200,000 equivalent each; (c) consultants' services under contracts costing less than \$100,000 equivalent each, in the case of consulting firms, and \$50,000 equivalent each, in the case of individual consultants; and (d) training, 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 Participating States 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 may 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 subparagraph (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

1. The term “Authorized Allocation” means an amount of \$30,000,000 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 \$15,000,000 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 \$75,000,000.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank 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 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.

(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 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 achieve broader and more sustainable access to markets and social services in Participating Districts.

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: New Construction and Upgrading of Core Rural Road Networks

1. New construction and upgrading of the core rural road networks in Participating States to provide all-weather road access to eligible habitations in Participating Districts.
2. Provision of technical advisory services to assist in the preparation of designs, supervision of civil works and management of the Project.
3. Implementation of ancillary social and environmental measures arising out of the application of the ESMF.

Part B: Periodic and Routine Maintenance of Core Rural Road Networks

Implementation of periodic and routine maintenance works to be conducted on the core rural road networks in Participating Districts in accordance with an annual maintenance plan.

Part C: Institutional Development

Provision of technical advisory services, and acquisition of goods and equipment:

1. at the national level, to establish a poverty impact and rural road user satisfaction monitoring mechanism, and build the capacity of central departments; and
2. at the state-level, to assist SRRDAs in planning, procuring, supervising and reporting on their roads works programs.

* * *

The Project is expected to be completed by September 30, 2009.

SCHEDULE 3

Procurement

Section I: General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II: Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract, and works, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than \$30,000 equivalent per contract, and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Force Account. Works which the Bank agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.

Section III: Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis subject to prior approval of the Bank.

Section IV: Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 4

Implementation Program

1. The Borrower shall maintain adequate staffing resources to be responsible for establishment of agreed financial management arrangements, preparation and timely submission of financial reports, ensuring the smooth and timely flow of funds, and provision of overall guidance in the area of financial management under the Project.
2. The Borrower shall ensure that the Project shall be implemented in accordance with the Supplemental Operations Manual and, except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision thereof if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the implementation of the Project.
3. The Borrower shall allocate the proceeds of the Loan among Participating States:
 - (a) in the case of the First Phase, on the basis of existing criteria applicable to the Program as a whole; and
 - (b) in the case of the Second Phase, on the basis of weightages, performance indicators, targets, and verified achievements thereof as shall have been agreed with the Bank.
4. The Borrower shall on no less than three occasions in the course of implementation of the Project undertake a study on the poverty impact of the Project, using terms of reference which shall be acceptable to the Bank, and publish a report of the findings thereof, the first such report being the baseline report to be made public not later than March 2005, the second such report to be made public not later than March 2007, and the final such report to be made public not later than March 2010.
5. Not later than forty five (45) days after the end of each calendar quarter, beginning not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, the Borrower shall cause MoRD to submit to the Bank consolidated quarterly reports on the progress of the Project, according to a format acceptable to the Bank and set forth in the Supplemental Operations Manual, including quarterly progress reports on compliance with social and environmental safeguard measures under the Project, giving details of measures taken in furtherance of the ESMF, conditions, if any, which interfere or threaten to interfere with the smooth implementation of the ESMF, and remedial measures taken or required to be taken to address such conditions.
6. The Borrower shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank not later than December 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Bank by March 31, 2007, or such later date as the Bank shall request, the reports referred to in paragraph (b) of this Section, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

SCHEDULE 5

Amortization Schedule

<u>Payment Due Date</u>	<u>Payment of Principal</u>
June 15, 2010	2,855,000
December 15, 2010	2,885,000
June 15, 2011	2,910,000
December 15, 2011	2,940,000
June 15, 2012	2,970,000
December 15, 2012	3,000,000
June 15, 2013	3,030,000
December 15, 2013	3,065,000
June 15, 2014	3,095,000
December 15, 2014	3,125,000
June 15, 2015	3,155,000
December 15, 2015	3,190,000
June 15, 2016	3,220,000
December 15, 2016	3,255,000
June 15, 2017	3,285,000
December 15, 2017	3,320,000
June 15, 2018	3,355,000
December 15, 2018	3,390,000
June 15, 2019	3,425,000
December 15, 2019	3,460,000
June 15, 2020	3,495,000
December 15, 2020	3,530,000
June 15, 2021	3,565,000
December 15, 2021	3,600,000
June 15, 2022	3,635,000
December 15, 2022	3,675,000
June 15, 2023	3,710,000
December 15, 2023	3,750,000
June 15, 2024	3,785,000
December 15, 2024	3,825,000
TOTAL	<u><u>99,500,000</u></u>