

CONFORMED COPY

CREDIT NUMBER 2115 IN

Development Credit Agreement

(Hyderabad Water Supply and Sanitation Project)

between

INDIA

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 23, 1990

CREDIT NUMBER 2115 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 23, 1990, 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, has requested the Association to assist in the financing of the Project;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to ten million dollars (\$10,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) the Project will be carried out by the State of Andhra Pradesh and the Hyderabad Metropolitan Water Supply and Sewerage Board with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the State of Andhra Pradesh the proceeds of the Credit as provided for in this Agreement and the

proceeds of the Loan as provided for in the Loan 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, in the Andhra Pradesh Agreement of even date herewith among the Association, the Bank and the State of Andhra Pradesh, and in the Project Agreement of even date herewith among the Association, the Bank and the Hyderabad Metropolitan Water Supply and Sewerage Board;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Andhra Pradesh" means the State of Andhra Pradesh, a State of India, acting by its Governor;

(b) "Andhra Pradesh Agreement" means the agreement among the Association, the Bank and Andhra Pradesh of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Andhra Pradesh Agreement;

(c) "Board" means the Hyderabad Metropolitan Water Supply and Sewerage Board established under the Hyderabad Metropolitan Water Supply and Sewerage Act, 1989;

(d) "Project Agreement" means the Agreement among the Association, the Bank and the Board 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;

(e) "Singur Dam" means the dam impounding a reservoir on the Manjira River, approximately 60 kilometers west of Hyderabad, which reservoir will be the source of the additional water to be provided to Hyderabad under the Project;

(f) "DRP" means the Singur Dam Review Panel, established by Order of the Government of Andhra Pradesh No. 459 MA dated October 12, 1988;

(g) "Displaced Person" means any person, whether land owning or landless, who would be, or has been, involuntarily displaced from the usual place of residence or work, or has lost a sufficient portion of land to affect significantly his or her livelihood due to the filling of the Singur Dam reservoir;

(h) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank,

dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(i) "Subsidiary Loan Agreement" means the agreement to be entered into between Andhra Pradesh and the Board pursuant to Section 2.02 of the Andhra Pradesh Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(j) "Operational Action Plan" means the Plan dated October 6, 1989 agreed upon among the Association, the Bank, Andhra Pradesh and the Board on actions to be taken during the implementation of the Project as the same may be updated from time to time; and

(k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

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 sixty-three million nine hundred thousand Special Drawing Rights (SDR 63,900,000).

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 and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special 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 March 31, 1998 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 a 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 cancelled; 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 as of 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 ($\frac{3}{4}$ 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 January 15 and July 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 January 15 and July 15 commencing July 15, 2000 and ending January 15, 2025. Each installment to and including the installment payable on January 15, 2010 shall be one and one-fourth percent ($1\frac{1}{4}\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2\frac{1}{2}\%$) 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 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 Andhra Pradesh and the Board to perform in accordance with the provisions of the Andhra Pradesh Agreement and the Project Agreement all the respective obligations of Andhra Pradesh and the Board 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 Andhra Pradesh and the Board 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 Andhra Pradesh 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 the Schedule to the Andhra Pradesh 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 Part A of the Project shall be carried out by the Board pursuant to Section 2.03 of the Project Agreement, and in respect of Part B of the Project shall be carried out by Andhra Pradesh pursuant to Section 2.04 of the Andhra Pradesh Agreement.

ARTICLE IV

Particular 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 expenditures, 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 financial 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 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 financial 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.

Section 4.02. The Borrower shall have the Special Account for each financial year audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association and furnish to the Association as soon as available, but in any case not later than six months after the end of each year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested.

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) Andhra Pradesh or the Board shall have failed to perform any of its respective obligations under the Andhra Pradesh Agreement or 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 Andhra Pradesh or the Board will be able to perform its respective obligations under the Andhra Pradesh Agreement or the Project Agreement.
- (c) The Hyderabad Metropolitan Water Supply and Sewerage Act, 1989, of Andhra Pradesh shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Board to perform any of its obligations under the Project Agreement.
- (d) Andhra Pradesh or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Board or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

- (a) the event specified in paragraph (a) of Section 5.01 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 and Andhra Pradesh or the Board, as the case may be; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

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:

(a) the Subsidiary Loan Agreement has been executed on behalf of Andhra Pradesh and the Board; and

(b) all conditions precedent to the effectiveness of the Loan Agreement shall have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Andhra Pradesh Agreement has been duly authorized or ratified by Andhra Pradesh, and is legally binding upon Andhra Pradesh in accordance with its terms;

(b) that the Project Agreement has been duly authorized or ratified by the Board, and is legally binding upon the Board in accordance with its terms; and

(c) that the Subsidiary Loan Agreement has been duly authorized or ratified by Andhra Pradesh and the Board and is legally binding upon Andhra Pradesh and the Board 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.

Section 6.04. The provisions of paragraph (b) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date 20 years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary in the Department of Economic Affairs of 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
Ministry of Finance
Department of Economic Affairs
New Delhi, India

Cable address: Telex:
ECOFAIRS 953-3166175
New Delhi

For the Association:

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

Cable address: Telex:
INDEVAS 197688 (TRT)
Washington, D.C. 248423 (RCA)
64145 (WUI) or
82987 (FTCC)

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/ Anil Kumar
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Attila Karaosmanoglu
Regional Vice President
Asia

SCHEDULE I

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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)	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	32,400,000	10,000,000	61%
(2) Equipment and materials	19,600,000	-	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and

			65% of local expenditures for other items procured locally
(3) Water treatment plant	1,500,000	-	80%
(4) Rehabilitation services	600,000	-	80%
(5) Consultants' services	2,300,000	-	100%
(6) Training	1,100,000	-	100%
(7) Unallocated	6,400,000	-	
TOTAL	63,900,000	10,000,000	

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; and

(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.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,400,000, may be made in respect of Categories (1), (2) and (5) on account of payments made for expenditures before that date but after December 31, 1988; and

(b) expenditures under Category (6) until a training action plan for carrying out Part A (v) (d) as approved by the Association has been formally adopted by the Board.

SCHEDULE 2

Description of the Project

The objectives of the Project are to help Andhra Pradesh in improving, for Hyderabad, the adequacy and reliability of the water supply, the collection, treatment and disposal of waste water and the provision of excreta disposal facilities; and in strengthening the management and technical capacity of the concerned institutions and in the preparation of future urban and water supply and sanitation projects in Andhra Pradesh.

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: The Board

(i) Manjira Phase III Stage 2

The provision of an additional 135 million liters per day of treated water from the Singur dam through the construction and commissioning of works including a transmission main, a water treatment plant, clear water storage, pumping, distribution reservoirs and the installation of bulk flow meters.

(ii) Rehabilitation and Strengthening of the Existing Water System

The rehabilitation and strengthening of the existing water system including the construction of distribution reservoirs and the rehabilitation of existing reservoirs, various trunk distribution mains, the replacement of leaking transmission mains including the main at Ramachandrapuram, the rehabilitation of four existing water treatment plants and existing pumping stations and the construction of new pumping stations, the rehabilitation and strengthening of the existing distribution system by the twinning or replacement or repair of existing distribution mains and service connections and meters, the provision of bulk flow meters and related equipment to improve system operation and management, the construction of office space and the provision of equipment for leak detection.

(iii) Rehabilitation and Strengthening of the Sewerage System

The implementation of a program to connect sanitary building drains to the sewerage system, the construction of branch and trunk sewers, pumping stations and pumping mains, the construction and commissioning of sewage treatment facilities including the provision of power supply, laboratory facilities and maintenance equipment for said system.

(iv) Low Cost Sanitation

The construction of about 20,000 pour-flush water-seal or equivalent low cost household latrines.

(v) Technical Assistance and Training
(a) Water Supply and Sewerage

The carrying out of surveys and infrastructure mapping, and studies for unaccounted water management, preparation of final design of works to be carried out under Part A (ii) of the Project, and preparation of operation and maintenance manuals for the water supply and sewerage systems; and the carrying out of sewer condition assessment studies and the preparation of final design of works to be carried out under Part A (iii) of the Project.

(b) Future Projects

The carrying out of studies for the preparation of future projects in the water supply and sewerage

sector.

(c) Management and Financial Systems

Development of accounting and management information systems, project planning and control systems, improved water billing and collection system, and materials management and stores inventory systems, and the implementation of said systems, including personnel training.

(d) Training

The implementation of a personnel training plan.

Part B: Andhra Pradesh

(i) Resettlement

The preparation and carrying out of a resettlement and rehabilitation program for the Displaced Persons.

(ii) DRP

The establishment of DRP.

* * * *

The Project is expected to be completed by October 31, 1997.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) 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 and services required for the Project and to be financed out of the proceeds of the Credit or the Loan 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 \$6,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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 or the Loan Account and deposit in the Special Account such amount or amounts as the Borrower 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 or 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 made out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account or the Loan 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 from the Loan Account in accordance with the provisions of Article V of the General Conditions Applicable to the Loan Agreement or Section 2.02 of the Loan Agreement; or

(b) once the total unwithdrawn amount of the Credit or the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining unwithdrawn amount of the Credit or the Loan 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 or the Bank) 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 or the Bank such outstanding amount.

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

(d) Refunds to the Association or the Bank made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement and the Loan Agreement, including the General Conditions applicable thereto.

