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LOAN NUMBER 2456 - IND  
(Supplementary to Loan No. 2046 – IND)

LOAN AGREEMENT  
(Ordinary Operations)

(Urban Water Supply and Environmental Improvement in Madhya Pradesh Project-  
Supplementary)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 10 November 2008

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LAL: IND 32254

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 10 November 2008 between INDIA, acting by its President (hereinafter referred to as the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter referred to as ADB).

WHEREAS

(A) by a loan agreement (Loan No. 2046-IND: Urban Water Supply and Environmental Improvement in Madhya Pradesh Project) dated 09 March 2005 between the Borrower and ADB, as amended to date (hereinafter referred to as the Initial Loan Agreement), ADB agreed to make a loan in the amount equivalent to one hundred and eighty one million dollars (\$181,000,000) (hereinafter referred to as Initial Loan) to the Borrower from ADB's ordinary capital resources for the purposes of the project described in Schedule 1 to the Initial Loan Agreement and this Loan Agreement (hereinafter referred to as the Project);

(B) the Borrower has applied to ADB for a supplementary loan (hereinafter referred to as the Loan) for the purposes of financing cost overruns incurred under the Project due to cost increases and appreciation of the Borrower's currency;

(C) the Project will be carried out by the State of Madhya Pradesh (hereinafter referred to as the State) and for this purpose the Borrower will make available to the State, the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and the State;

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 3.03 is deleted and the following is substituted therefor:

**Commitment Charge; Credit.** (aa) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(bb) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

(b) Section 3.06 is deleted and the following is substituted therefor:

(aa) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(bb) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

(aa) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal

amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(bb) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations and the Initial Loan Agreement have the respective meanings therein set forth and reiterated hereinbelow, and the following additional terms have the following meanings:

(a) "AIF" means the Area Improvement Fund described in paragraph 4(a)(i) of Schedule 1 to this Loan Agreement;

(b) "CIF" means the Community Initiatives Fund described in paragraph 4(a)(ii) of Schedule 1 to this Loan Agreement;

(c) "City Steering Committee" means the committee established in each Project City pursuant to paragraph 5 of Schedule 5 to this Loan Agreement

(d) "Collaborative Framework" means the Collaborative Framework for the Water for Asian Cities Program in India agreed among ADB, UN-HABITAT and the State;

(e) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2007, as amended from time to time);

(f) "District" means a district in the State;

(g) "DSC" means each of the design and supervision consultants;

(h) "Empowered Committee" means the committee established pursuant to paragraph 4 of Schedule 5 to this Loan Agreement;

(i) "Financial Improvement Action Plan" means the action plan described in paragraph 6 of Schedule 5 to this Loan Agreement;

(j) "Goods" means equipment and materials to be financed out of the

proceeds of the Loan; including provisional sums and including related services such as transportation, insurance, inspection, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(k) "Initial Loan" means the amount of \$181,000,000 as referred under Recital A of this Loan Agreement;

(l) "Initial Loan Agreement" means the loan agreement between the Borrower and ADB as referred to under Recital A of this Loan Agreement;

(m) "MAPP" means the Municipal Action Plan for Poverty Reduction prepared by each Project City Corporation pursuant to paragraph 4(a) of Schedule 1 to this Loan Agreement;

(n) "NGO" means a non-governmental organization;

(o) "Onlending Agreement" means each agreement between the State and the Project Cities referred to in Section 3.01(b) of this Loan Agreement;

(p) "Part" means any of Part A, Part B and Part C of the Project, as described in Schedule 1 to this Loan Agreement;

(q) "PIU" means each Project Implementing Unit established in accordance with paragraph 3 of Schedule 5 to this Loan Agreement;

(r) "PMU" means the Project Management Unit established in accordance with paragraph 3 of Schedule 5 to this Loan Agreement;

(s) "Procurement Guidelines" means ADB's Procurement Guidelines (2007, as amended from time to time);

(t) "Procurement Plan" means the procurement plan for the Project dated 4 September 2008 and agreed between the Borrower, State, and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(u) "Project Cities" means Bhopal, Gwalior, Indore and Jabalpur, and "Project City" means any one of them;

(v) "Project City Corporations" means the municipal governments of the Project Cities, and "Project City Corporation" means any one of them;

(w) "Project Director" means the head of the PMU;

(x) "Project Executing Agency" for the purposes of and within the meaning of, the Loan Regulations, means the UADD, or its successor;

(y) "Scheduled Castes" means the castes, races or tribes or parts of or groups within castes, races or tribes notified as such for the State by the Borrower under Article 341 of the Constitution of India;

(z) "Scheduled Tribes" means the tribes or tribal communities or parts of or groups within tribes or tribal communities notified as such for the State by the Borrower under Article 342 of the Constitution of India;

(aa) "SGIA" means the Second Generation Imprest Account as referred in paragraph 6 of Schedule 3 to this Loan Agreement;

(bb) "Loan" means the supplementary loan amount of \$71,000,000 as referred under Recital B and Section 2.01 of this Loan Agreement;

(cc) "UADD" means the Urban Administration and Development Department of the State;

(dd) "UN-HABITAT" means the United Nations Human Settlements Program, and any successor thereto;

(ee) "ULB" means an urban local body;

(ff) "WAC Program" means the Water for Asian Cities Program in India, developed pursuant to the Memorandum of Understanding on the Water for Asian Cities Program between ADB and UN-HABITAT dated 18 March 2003; and

(gg) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## **ARTICLE II**

### **The Loan**

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of seventy one million dollars (\$71,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 January and 15 July in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. (a) The Borrower shall make available or cause to be made available, the proceeds of the Loan required for the Project to the State for carrying out the Project upon terms and conditions as mutually agreeable to ADB and the Borrower.

(b) The Borrower shall cause the State to (i) apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project agreement; and (ii) relend the proceeds of the Loan, together with other funds required for the Project, to the respective Project City Corporations pursuant to individual Onlending Agreements.

Section 3.02. The Goods, Works and consulting services to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works and consulting services shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 September 2011 or such other date as may from time to time be agreed between the Borrower and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. (a) The Borrower shall cause the State to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and urban development practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed by the State, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall make available, or cause to be made available, to the State, promptly as needed the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.03. The Borrower shall cause the State to ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. The Borrower shall take all action which shall be necessary on its part to enable the State to perform its obligations under the Project Agreement and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall cause the State to exercise its rights under each Onlending Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Onlending Agreements shall be assigned, amended, abrogated or waived without consultation between ADB and the State; provided however that the State may revise the Onlending Agreements as acceptable to ADB, to reflect changes if any, but limited to stipulate for the Loan amount provided under this Loan Agreement, in addition to the Initial Loan.

## **ARTICLE V**

### **Suspension; Cancellation; Acceleration of Maturity**

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(1) of the Loan Regulations: any Onlending Agreement shall have become liable for suspension, cancellation or termination, and no remedial measures satisfactory to ADB have been taken to ensure successful implementation of the relevant part of the Project.

Section 5.02. The following is specified an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: any Onlending Agreement shall have become liable for suspension, cancellation or termination, and no remedial measures satisfactory to ADB have been taken to ensure successful implementation of the relevant part of the Project..

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

## **ARTICLE VII**

### **Miscellaneous**

Section 7.01. Any of the Secretary, Additional Secretary, Joint Secretary, Director, or Deputy Director 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 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

The Secretary to the Government of India  
Department of Economic Affairs  
Ministry of Finance  
North Block  
New Delhi – 110001

Facsimile Numbers:

(91-11) 2309-4075  
(91-11) 2309-7511.

For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Cable Address:


ASIANBANK  
MANILA

Facsimile Numbers:


(632) 636-2444  
(632) 636- 2293.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

INDIA

By   
GOVIND MOHAN  
Director (Infra)  
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By   
TADASHI KONDO  
Country Director  
India Resident Mission

## SCHEDULE 1

### Description of the Project

1. The Project will assist in achieving the objectives of the Project under the Initial Loan Agreement by financing the cost overruns of the Project described below.

2. The Project comprises following Parts:

#### Part A. Urban Water Supply and Environmental Improvement

3. Improvement and expansion of the following municipal infrastructure and services in the Project Cities: (i) urban water supply, (ii) sewerage and sanitation, (iii) storm water drainage, and (iv) solid waste management.

#### Part B. Public Participation and Awareness Program

4. This Part comprises two components.

(a) MAPP and Community Funds - The Project shall institute the MAPP process in each Project City to integrate the provision of tertiary urban services for urban poor settlements into Project City-wide development and to build capacity within the Project City Corporations for participatory planning with community groups. Based on the MAPP process, the Project shall establish:

(i) the Area Improvement Fund (AIF) for: Project City Corporations within the MAPP framework for projects including the upgrading of slum and poor settlements including improved water supply, sanitation, drains, roads and/or street lighting; and

(ii) the Community Initiatives Fund (CIF) for: Project City communities within slums identified through the MAPP process to finance social sector and non-physical initiatives.

(b) Capacity building, awareness, advocacy and education activities in urban water conservation and demand management, among other activities in the State, to be implemented by UN-HABITAT under the WAC Program as set out in the Collaborative Framework.

#### Part C: Project Implementation Assistance

5. This Part shall provide support to the Project Management Unit (PMU) at State level and the Project Implementation Units (PIUs) in each Project City with activities immediately related to the implementation of the Project.

6. The Project is expected to be completed by 31 March 2011.

## SCHEDULE 2

### Amortization Schedule

#### (Urban Water Supply and Environmental Improvement in Madhya Pradesh Project-Supplementary)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Sequence	Date Payment Due	Installment Share (Expressed as a % based on 10% annuity)
1	15 Jan 2009	0.827816
2	15 Jul 2009	0.869207
3	15 Jan 2010	0.912667
4	15 Jul 2010	0.958301
5	15 Jan 2011	1.006216
6	15 Jul 2011	1.056526
7	15 Jan 2012	1.109353
8	15 Jul 2012	1.164820
9	15 Jan 2013	1.223061
10	15 Jul 2013	1.284214
11	15 Jan 2014	1.348425
12	15 Jul 2014	1.415846
13	15 Jan 2015	1.486639
14	15 Jul 2015	1.560971
15	15 Jan 2016	1.639019
16	15 Jul 2016	1.720970
17	15 Jan 2017	1.807019
18	15 Jul 2017	1.897369
19	15 Jan 2018	1.992238
20	15 Jul 2018	2.091850
21	15 Jan 2019	2.196442
22	15 Jul 2019	2.306264
23	15 Jan 2020	2.421578
24	15 Jul 2020	2.542657

Sequence	Date Payment Due	Installment Share (Expressed as a % based on 10% annuity)
25	15 Jan 2021	2.669789
26	15 Jul 2021	2.803279
27	15 Jan 2022	2.943443
28	15 Jul 2022	3.090615
29	15 Jan 2023	3.245146
30	15 Jul 2023	3.407403
31	15 Jan 2024	3.577773
32	15 Jul 2024	3.756662
33	15 Jan 2025	3.944495
34	15 Jul 2025	4.141720
35	15 Jan 2026	4.348806
36	15 Jul 2026	4.566246
37	15 Jan 2027	4.794558
38	15 Jul 2027	5.034286
39	15 Jan 2028	5.286000
40	15 Jul 2028	5.550311
	<b>Total</b>	<b>100.000000</b>

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

**SCHEDULE 3****Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, and consulting services to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.

Local Taxes

2. No withdrawals from the Loan Account shall be made in respect of any local taxes.

Percentages of ADB Financing

3. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, and consulting services shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest/Special Account; Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest at the Reserve Bank of India. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) Except as ADB may otherwise agree, the State shall establish immediately after the Effective Date a Second-Generation Imprest Account (SGIA) in a scheduled commercial bank acceptable to ADB for the purpose of meeting Project expenditures. The SGIA shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The Borrower shall immediately and fully transfer amounts received by it in the Imprest Account to the SGIA for speedy implementation of the Project.

(c) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for the Project and to liquidate advances provided into the imprest account and the SGIA, in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB.

(d) If ADB shall have determined at any time that any payment out of the Loan Account or Imprest Account or the SGIA was made for any expenditure or in any amount not eligible for financing under this Loan Agreement (including any local currency taxes or duties), the Borrower shall, promptly upon notice from ADB, deposit or caused to be deposited into the Imprest Account or SGIA (or if ADB shall so request, refund to the ADB) such payment or portion thereof not so eligible. The Imprest Account shall not be replenished by ADB until the Borrower has made such deposit or refund.

Retroactive Financing

7. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with items to be retroactively financed, subject to a maximum amount equivalent to twenty (20) percent of the Loan amount.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Urban Water Supply and Environmental Improvement in Madhya Pradesh Project-Supplementary)</b>			
<b>CATEGORY</b>			<b>ADB FINANCING BASIS</b>
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing (\$)</b>	<b>Percentage of ADB Financing from the Loan Account</b>
		<b>Category</b>	
1	Works	53,110,000	75 percent of total expenditure claimed
2	Equipment	7,605,000	70 percent of total expenditure claimed
3	National Consultants	3,840,000	80 percent of total expenditure claimed
4	Area Improvement Facilities	3,280,000	80 percent of total expenditure claimed
5	Community Initiative Fund	1,280,000	80 percent of total expenditure claimed
6	Unallocated	1,885,000	
	Total	71,000,000	

## SCHEDULE 4

### Procurement of Goods and Works, and Consulting Services

#### A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

#### B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
Limited International Bidding
National Competitive Bidding
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The State may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The State may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. The State's standard procurement procedures, under use under the Initial Loan Agreement for the Project and consistent with the Procurement Guidelines shall be applicable. Any modifications or clarifications to such procedures agreed between the State and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the State and ADB.

#### C. Conditions for Award of Contract

6. The Borrower shall ensure that the State shall not award any Works contracts financed under the Loan (i) in areas in which involuntary resettlement is identified in accordance with paragraph 14(b) of Schedule 5 to this Loan Agreement unless and until the conditions set out paragraph 14(c) of Schedule 5 to this Loan Agreement have been met; and (ii) for the Bhopal water supply network expansion and sewerage under Part A of the Project unless and until the conditions set out in paragraph 19 of Schedule 5 to this Loan Agreement have been met, in each case to the satisfaction of ADB.

7. The State shall ensure that the Project City Corporations adopt ADB approved standard bidding documents, evaluation criteria and procedures for awarding contracts for all procurement contracts under the Project and prior to any procurement.

**D. Selection of Consulting Services**

8. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall cause the State to apply quality- and cost-based selection for selecting and engaging consulting services.

9. The Borrower shall cause the State to apply the following methods for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

Least-Cost Selection
Consultants' Qualifications Selection
Single Source Selection

**E. Industrial or Intellectual Property Rights**

10. (a) The Borrower shall cause the State to ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall cause the State to ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

11. The Borrower shall cause the State to ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

**F. ADB's Review of Procurement Decisions**

12. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower, the State and ADB and set forth in the Procurement Plan.

## SCHEDULE 5

### Execution of Project and Operation of Project Facilities; Financial Matters

#### Project Management, Coordination and Implementation

1. The Borrower shall ensure that the Project continues to be implemented in accordance with Schedule 6 to the Initial Loan Agreement as reiterated and supplemented herein below.

2. The Project Executing Agency shall continue to be UADD responsible for execution of the Project.

3. (a) PMU. UADD shall maintain the PMU, which shall be responsible for coordination and management of the Project and shall report to the Principal Secretary/Secretary, UADD. The PMU shall be led by a fulltime Project Director charged exclusively with the execution of the Project and who shall have no other duties within UADD. There shall be at least one deputy project director (DPD) responsible for management and implementation of the urban infrastructure and services, overseeing and guiding the urban governance and institutional development activities, and compliance with Loan covenants. UADD shall ensure that the PMU is staffed by qualified and experienced staff appointed as required throughout the period of Project implementation.

(b) PIUs. The State shall continue to ensure that a PIU is maintained in each Project City and the respective PIUs are headed by the Municipal Commissioner concerned and supported by full-time senior technical personnel experienced in public health and environmental engineering. Each PIU shall comprise 3 sections: (i) urban infrastructure and services; (ii) community awareness and participation; and (iii) finance and administration. Each PIU shall be staffed by qualified and experienced staff appointed as required throughout the period of Project implementation.

4. Empowered Committee. The State shall cause the Empowered Committee established under the Initial Loan Agreement to be delegated, or cause to be delegated, appropriate authority to take decisions on matters related to the Project. The Empowered Committee shall consist of the Project Director as Member Secretary, the Chief Secretary (chair), the Secretaries of UADD, Public Health Engineering Department (PHED) and Finance Department of the State, and Commissioner of UADD. Other relevant officials may be invited as necessary. The State shall ensure that the Empowered Committee shall continue to meet at least once every three months to review Project performance and take decisions on major issues including counterpart funding, implementation bottlenecks, land disputes, procurement and policy reforms.

5. City Steering Committees. The State shall ensure that each Project City Corporation shall continue to maintain the City Steering Committees established under the Initial Loan Agreement to monitor and guide performance of the PIU. Each City Steering Committee, under chairmanship of the Mayor, shall comprise, the Collector of the relevant District or his/her nominee, representatives from PHED, State Pollution Control Board, State Electricity Board, and four elected municipal counselors (including one woman and one from Scheduled Caste or Scheduled Tribe) of the respective ULBs. The State shall ensure that each City

Steering Committee shall continue to meet at least once every three months.

Financial Improvement Action Plan

6. The State shall ensure that the Project City Corporations execute the Financial Management Improvement Action Plan already approved, in accordance with the timetable agreed among the Borrower, the State, the Project City Corporations and ADB and described under the Initial Loan Agreement for the Project, including (a) revision in water charges and introduction of progressive block rate water tariff; (b) improvement in the property tax coverage ratio and collection efficiency; (c) introduction of sewerage surcharge; and (d) improved collection efficiency. There shall be no amendments to the timetable without the prior consent of the ADB.

Urban Water Supply Management Improvement Plan

7. The State shall ensure that the Project City Corporations undertake the actions to meet the long-term objective of improving water supply management in accordance with the timetable agreed among the State, the Project City Corporations and ADB as described under the Initial Loan Agreement, unless otherwise agreed among the State, ADB and the Project City Corporations.

Public Participation and Awareness

Program WAC Program

8. The State shall ensure that the Project Cities implement the WAC Program in accordance with the detailed implementation strategy and plan agreed by the Borrower, the State, ADB, and UN-HABITAT.

Municipal Action Plan for Poverty Reduction

9. The State shall ensure that each Project City Corporation continues to submit annually the MAPP to the PMU in accordance with the MAPP framework agreed among the Borrower, the State and the Project Cities as described under the Initial Loan Agreement.

10. (a) The State shall ensure that adequate allocations are made (i) from the AIF to the Project City Corporations; and (ii) from the CIF to the PIUs for community based activities; in each case only for approved schemes under the MAPP and in a manner satisfactory to ADB. The State shall ensure that the quarterly reports prepared by the PMU include progress made and statements on use of funds under AIF and CIF.

(b) The State shall ensure that the Loan proceeds allocated for AIF and CIF shall not be reallocated until each Project City Corporation awards a contract under AIF and/or CIF.

11. The State shall ensure that the PMU undertakes an appraisal of each MAPP, including an appraisal of the schemes funded from the AIF and CIF, on an annual basis in the third quarter of each MAPP cycle.

Environmental and Social Measures

12. Gender Action Plan. The State shall ensure that the gender action plan as agreed among the Borrower, the State and ADB and described under the Initial Loan Agreement is implemented and that the PMU prepares field manuals and conducts training on the gender action plan for the PMU and PIU staff.

13. Environmental Management. The State and the Project City Corporations shall ensure that (a) the Project is carried out in accordance with the existing environmental laws and regulations of India and ADB's environmental guidelines, in particular the *Environment Policy of the Asian Development Bank (2002)*; (b) all monitoring and mitigation measures indicated in the initial environmental examination and provided for under the environmental management plan are undertaken for the Project; (c) Project implementation shall include consultation with local communities on environmental issues; (d) Project City Corporations shall take a proactive role in environmental planning, management and monitoring; (e) State Pollution Control Board clearance shall be obtained for the Project components requiring such clearance, prior to commencement of work on those components; and (f) existing waste disposal sites that have reached full capacity shall be properly sealed within three months of commencement of operation of the new sanitary landfills

14. Land Acquisition and Resettlement. (a) The State shall cause the Short Resettlement Plan as described under the Initial Loan Agreement relating to the sewage treatment plant in Jabalpur, including the provision of all required counterpart funds for agreed compensation to affected persons, to be implemented prior to award of the relevant civil works contracts in accordance with government laws and procedures, ADB's *Policy on Involuntary Resettlement*, and the Project's agreed Land Acquisition and Resettlement Framework as applicable under the Initial Loan Agreement.

(b) The State shall ensure that (i) Project components are designed so as to minimize resettlement and (ii) if, during detailed design of Project components, involuntary resettlement arises from land acquisition or temporary disruption of income generation, a resettlement plan (the Resettlement Plan) shall be prepared and implemented in accordance with government laws and procedures, ADB's *Policy on Involuntary Resettlement*, and the Project's agreed Land Acquisition and Resettlement Framework as applicable under the Initial Loan Agreement.

(c) If any involuntary resettlement is required as described in paragraph (b) above, based on the final engineering designs for the Project, the State shall prepare the Resettlement Plan, submit this for ADB's approval, and ensure the provision of all required counterpart funds for agreed compensation to affected persons prior to award of civil works contracts in the affected area. ADB's approval of the Resettlement Plan and disbursement of agreed compensation shall be a condition for award of civil works contracts in the affected area.

(d) All land required for a Project component, including any that may entail involuntary resettlement, shall have been acquired no later than twelve months after effectiveness of the Initial Loan Agreement, failing which the component shall be eliminated from the Project unless ADB agrees otherwise.

15. Social measures. The State shall cause UADD to ensure that civil works contracts under the Project follow all applicable labor laws of the Borrower and the State and that these further include provisions to the effect that contractors; (i) carry out HIV/AIDS awareness programs for labor and disseminate information at worksites on risks of sexually transmitted diseases and HIV/AIDS as part of health and safety measures for those employed during construction; and (ii) follow and implement all statutory provisions on labor (including equal pay for equal work, and not employing or using children as labor), health, safety, welfare, sanitation, and working conditions. Such contracts shall also include clauses for termination by the State/UADD in case of any breach of the stated provisions by the contractors.

#### Other Technical Project Implementation Matters

16. The State shall ensure that the route of the proposed water supply transmission pipeline from Narmada River to Indore shall be within the existing right-of-way with no new acquisition of forest or other land, unless identified as necessary during detail Project design.

17. The State shall ensure that Indore City Corporation is allowed to discharge and treat sewage in the sewage treatment plants constructed under the centrally sponsored schemes prior to award of sewerage network contracts under the Project.

18. The State shall ensure that Project City Corporations maintain a facility for providing financial assistance to the low-income group households (income limit shall be fixed in consultation with ADB) to ensure connection to the water and sewer systems.

19. The State shall endeavor that the Project City Corporations are regular in payment of their electricity bills to the Madhya Pradesh State Electricity Board and shall not have accumulated any new arrears starting in the Borrower's fiscal year beginning April 2004.

20. The State shall ensure that each Project City Corporation undertakes operation and maintenance of Project facilities in accordance with good practice for water supply, sewerage and solid waste management, and in accordance with the regulations of India and of the State.

#### Allocation of Resources

21. (a) The State shall allocate, and shall ensure that the Project City Corporations allocate, adequate amounts in their annual budgets to meet their respective investment requirements in accordance with the disbursement schedule in each Project City.

(b) The State shall cause the Project City Corporations to ensure that sufficient funds shall be provided to meet any shortfall between the cost of and revenues for the operation and maintenance of the infrastructure assets created under the Project.

Accounts, Auditing and Reporting

22. The State shall ensure that the PMU and PIUs establish and maintain separate accounts and records adequate to identify the incomes and expenditures related to the Project. Detailed consolidated annual Project accounts, as maintained by the PMU, shall be audited by independent auditors acceptable to ADB and shall be submitted to ADB within nine months of the close of the related fiscal year. The annual audit shall include the audit of the SGIA and SOE procedure, and a separate audit opinion on the use of the SGIA and SOE procedure shall be included in the annual audit report.

23. The State shall ensure that a system of audit of accounts by externally appointed auditors is introduced for the Project Cities for the purposes of the Project. The external auditors shall complete the audit of accounts of the Project City Corporations for the Project within nine months of each year-end.

(a) The State shall provide ADB with quarterly progress reports on Project implementation. The PMU shall be responsible for obtaining and consolidating relevant information from the respective PIUs for the progress reports which shall provide (i) a description of physical progress, (ii) details of any modification required to the Project implementation schedule, (iii) problems encountered, (iv) use of AIF and CIF, (v) an outline of the work in the ensuing quarter, and (v) summary financial accounts of the Project, consisting of expenditure during the quarter, year-to-date expenditure during the quarter, year-to-date expenditure, and expenditure to date.

(b) The State shall ensure that the PMU shall submit to ADB, within three (3) months of the physical completion of the Project, a Project completion report that shall cover the details of Project implementation, costs, monitoring and evaluation activities and other information requested by ADB.

24. The State shall ensure that Project performance shall be reviewed in a three-tier system comprising the reviews set out below.

(a) The PMU shall review the progress on each component and the performance of each PIU in the first ten days of the month for the previous month's performance. Based on this review and in consultation with the relevant DSC, the PMU shall suggest changes in the Project design and implementation or refer the issues to the Empowered Committee. The review report shall be sent to ADB, the Empowered Committee and the city-level Steering Committees for necessary action.

(b) The Empowered Committee shall conduct the second tier review during each quarterly meeting. The proceedings of the review shall be circulated to ADB, UADD and Project City Corporations.

(c) The State shall ensure that each Project City Corporation shall participate in the third tier review by ADB approximately every six months during Project implementation.

25. In addition to reviews undertaken during Project implementation, the Borrower and the State shall carry out a comprehensive mid-term review approximately twelve months after the Effective Date to critically evaluate actual Project progress, implementation procedures, procurement methodology, public relations and community awareness, BME activities, and the performance of the design and supervision consultants. The Borrower and the State shall ensure that ADB shall have the right to participate in the midterm review. Following the review, the Borrower and the State shall ensure that appropriate corrective action is taken.

#### Project Performance Monitoring System

26. The State shall ensure that PMU establishes the a Project Performance Monitoring System (PPMS) acceptable to ADB to monitor indicators including (i) physical progress for infrastructure works, (ii) institutional development and capacity building, and (iii) impact assessment indicators. The State shall ensure that the PMU shall conduct initial baseline physical and socio-economic surveys and submit a detailed implementation plan for monitoring performance and for preparing benchmark information for ADB's review and concurrence within six months of the Effective Date. Thereafter, the PMU shall submit annual monitoring and evaluation reports to ADB throughout the Project implementation.

#### Amendments to Initial Loan Agreement

27. (a) Section 3.05 of the Initial Loan Agreement is amended hereby as follows: "The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 September 2011 or such other date as may from time to time be agreed between the Borrower and ADB."

(b) Paragraph 6 of Schedule 1 to the Initial Loan Agreement is amended hereby as follows: "The Project is expected to be completed by 31 March 2011."