
LOAN NUMBER 2536-IND

LOAN AGREEMENT
(Ordinary Operations)
(Mizoram Public Resource Management Program)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 17 SEPTEMBER 2009

PLL:IND 41607

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 17 September 2009 between INDIA, acting by its President (hereinafter called the "Borrower") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 7 July 2009 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Mizoram Public Resource Management Program (hereinafter called the "Program");

(B) the Borrower has applied to ADB for a loan from its ordinary capital resources for the purposes of the Program;

(C) The Program will be carried out by the State of Mizoram (hereinafter called 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;

(D) The Borrower has also applied to ADB for a technical assistance loan for the Developing Public Resource Management in Mizoram Project (hereinafter called the "TA Loan") and by an agreement of even date herewith, ADB has agreed to provide a TA Loan to the Borrower for this purpose in an aggregate amount equivalent to six million dollars (\$6,000,000) (hereinafter called the "TA Loan Agreement"); and

(E) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions hereinafter set forth and in the Program Agreement of even date herewith between ADB and the State for the purpose of the Program;

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 2.01(49) is deleted and the following is substituted therefor:

(49.) The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(51) is deleted and the following is substituted therefor:

(51.) The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

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

Commitment Charge; Credit. (a) 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.

(b) 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.

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

(a) 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.

(b) 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.

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

(a) 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.

(b) 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.

(h) Section 6.01(a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Loan Agreement, the Borrower shall be entitled to withdraw from the Loan Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Loan Agreement.

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

(a) "Counterpart Funds" means the Rupee proceeds accruing to the Borrower and generated from the Loan proceeds under the Program, as referred to in paragraphs 10 and 11 of Schedule 5 to this Loan Agreement;

(b) "DAT" means the Directorate of Accounts and Treasuries under the DOF and any successor thereto;

(c) "DCPS" means the Defined Contributory Pension Scheme established by the State;

(d) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(e) "DOF" means the State's Department of Finance and any successor thereto;

(f) "DOHFW" means the State's Department of Health and Family Welfare and any successor thereto;

(g) "DOLRS" means the State's Department of Land Revenue and Settlement and any successor thereto;

(h) "DOPPI" means the State's Department of Planning and Program Implementation and any successor thereto;

(i) "DOSE" means the State's Department of School Education and any successor thereto;

(j) "DOT" means the State's Department of Taxation and any successor thereto;

(k) "DOTr" means the State's Department of Transport and any successor thereto;

(l) "DPHE" means the State's Department of Public Health Engineering and any successor thereto;

(m) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to the Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(n) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$47,000,000 to be initially withdrawn and utilized;

(o) "Fiscal Year" or "FY" means the fiscal year of the Borrower, in relation to any year, the twelve (12) month period starting from 1 April of such year and ending on 31 March of the following year;

(p) "FMC" means the Finance Commission and Project Monitoring Cell under the DOF and any successor thereto;

(q) "FMU" means the Fiscal Management Unit established within the DOF and any successor thereto;

(r) "GSDP" means the gross state domestic product;

(s) "Guarantee Redemption Fund" or "GRF" means the Guarantee Redemption Fund established by the State;

(t) "Matching Funds" means the funds provided by the State to finance a portion of the Program and Project activities;

(u) "MHCS" means the Mizoram Health Care Society;

(v) "MHC Scheme" means the Mizoram Health Care Scheme;

(w) "MIS" means management information system;

(x) "MTEF" means medium term expenditure framework;

(y) "O&M" means operations and maintenance;

(z) "OVM" means objective valuation method;

(aa) "Policy Matrix" means the policy matrix attached to the Policy Letter as agreed between the Borrower, the State and ADB;

(bb) "Program Agreement" means the program agreement of even date herewith between ADB and the State to implement the Program;

(cc) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, the State acting through the DOF, which is responsible for the carrying out of the Program;

(dd) "Program Implementing Agencies" means DAT, DOT, DPHE, DOTr, DOHFW, DOSE and DOLRS, as described in paragraph 1 of Schedule 5 to this Loan Agreement;

(ee) "Program Period" means the period covered by the Program;

(ff) "Program Steering Committee" means the committee set up by the State for the purpose of the Program, as described in paragraph 2 of Schedule 5 to this Loan Agreement;

(gg) "Project" means the project described in the TA Loan Agreement;

(hh) "Project Agreement" means the project agreement of even date herewith between ADB and the State to implement the Project;

(ii) "PSE" means a public sector enterprise of the State;

(jj) "RBI" means the Reserve Bank of India;

(kk) "Rupees" or the sign "Rs" means rupees in the currency of the Borrower;

(ll) "Second Tranche" means, after the utilization of the First Tranche under the Program, the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$40,000,000 to be withdrawn subject to meeting the conditions set forth in paragraph 6 of Schedule 3 to this Loan Agreement;

(mm) "State" means the State of Mizoram, where the Program is to be implemented;

(nn) "Third Tranche" means, after the utilization of the Second Tranche under the Program, the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$7,000,000 to be withdrawn subject to meeting the conditions set forth in paragraph 7 of Schedule 3 to this Loan Agreement; and

(oo) "VRS" means the voluntary retirement scheme.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of ninety four million dollars (\$94,000,000), 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 12 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 determined 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 to ADB a commitment charge of 0.15% per annum on the unwithdrawn amount of the Loan. Such charge shall accrue from a date sixty (60) days after the date of this Loan Agreement to the respective dates on which amounts shall be withdrawn from the Loan Account or shall be cancelled.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 February and 1 August 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. The Borrower shall cause the State to apply the proceeds of the Loan to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement and the Program Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program 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 Eligible Items to be financed out of the proceeds of the Loan shall be produced in, and procured from, ADB's member countries in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

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 31 January 2013 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 Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, fiscal and public resource management practices.

(b) In the carrying out of the Program, the Borrower shall perform, or cause the State to perform, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall cause the State to make available, promptly as needed, and on terms and conditions acceptable to ADB, the funds, facilities, services, and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.

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

Section 4.04. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.

(b) The Borrower shall enable ADB's representatives to examine any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.05. (a) As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Suspension; 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(l) of the Loan Regulations: the TA Loan Agreement shall have been suspended and/or cancelled.

Section 5.02 The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations:

- (a) the conditions for the release of the First Tranche, as specified in the Policy Matrix, have been complied with to the satisfaction of ADB;
- (b) the Program Agreement shall have been duly executed and delivered on behalf of the State and all conditions precedent to their effectiveness (other than conditions requiring the effectiveness of this Loan Agreement, the TA Loan Agreement and the Project Agreement) shall have been fulfilled;
- (c) the TA Loan Agreement shall have been duly executed and delivered on behalf of the Borrower and all conditions precedent to their effectiveness (other than conditions requiring the effectiveness of this Loan Agreement, the Program Agreement and the Project Agreement) shall have been fulfilled; and

- (d) the Project Agreement shall have been duly executed and delivered on behalf of the State and all conditions precedent to their effectiveness (other than conditions requiring the effectiveness of this Loan Agreement, the TA Loan Agreement and the Program Agreement) shall have been fulfilled.

Section 6.02. 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 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 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
India

Facsimile Numbers:

(91-11) 2309-2477
(91-11) 2309-7511

For ADB

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2377.

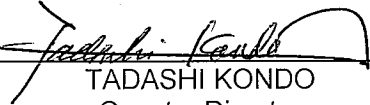
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

INDIA

By 

GOVIND MOHAN
Joint Secretary
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By 

TADASHI KONDO
Country Director
India Resident Mission

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to attain the creation of greater fiscal space in and financial flexibility of the State's budget. The Program includes specific policy actions to support the Program policy reforms, which include (i) tax and non-tax reserve reforms; (ii) debt management; (iii) public expenditure management; (iv) service improvements in the health and education sectors; (v) pension reforms; and (vi) PSE reforms. The Program is described in more detail in the Policy Letter. The Program will be implemented during the Program Period.

2. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraphs 10 and 11 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be utilized by 31 July 2012.

SCHEDULE 2**Amortization Schedule
(Mizoram Public Resource Management Program)**

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.

<u>Sequence</u>	<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a % based on 10% annuity)
1	1 February 2013	2.247090
2	1 August 2013	2.359445
3	1 February 2014	2.477417
4	1 August 2014	2.601288
5	1 February 2015	2.731352
6	1 August 2015	2.867920
7	1 February 2016	3.011316
8	1 August 2016	3.161881
9	1 February 2017	3.319975
10	1 August 2017	3.485974
11	1 February 2018	3.660273
12	1 August 2018	3.843286
13	1 February 2019	4.035451
14	1 August 2019	4.237223
15	1 February 2020	4.449085
16	1 August 2020	4.671539
17	1 February 2021	4.905116
18	1 August 2021	5.150371
19	1 February 2022	5.407890
20	1 August 2022	5.678285
21	1 February 2023	5.962199
22	1 August 2023	6.260309
23	1 February 2024	6.573324
24	1 August 2024	6.901991
	Total	100.000000

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**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Loan expected to be disbursed during such year.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at the RBI into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any

event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. The First Tranche shall be released as soon as reasonably practicable following the Effective Date.

6. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the State in the carrying out of the Program; (b) all First Tranche conditions continue to be complied with; and (c) the State has fulfilled the conditions for the release of the Second Tranche specified in Attachment 2 to this Schedule.

7. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Third Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the State in the carrying out of the Program; (b) all First and Second Tranches conditions continue to be complied with; and (c) the State has fulfilled the conditions for the release of the Third Tranche specified in Attachment 3 to this Schedule.

Negative List

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Public Resource Management Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table A12: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics; and
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Conditions for Release of the Second Tranche**Tax and Non-Tax Revenue Reforms**

1. DOT, DOLRS and DOTr shall have completed the changes prescribed in their respective organizational restructuring plans.
2. DOT shall have finalized an audit manual for introducing risk-based audit and shall have provided training to the staff on risk based audit.
3. The State shall have issued and notified the OVM for property tax.
4. DOLRS shall have carried out upward revision of the tax rates on land, building, house, shops, and stalls.
5. The State shall have approved a plan for collection of tax arrears.
6. The State shall have enacted and notified an act to introduce a lump sum payment system of road tax for a specific period of time in place of annual payments.
7. The State shall have issued and notified an increase the Professional Tax rates within the ceiling fixed by the Constitution of India.
8. DPHE shall have finalized a quality and cost based methodology to revise water charges periodically, and shall have revised the charges accordingly.

Debt Management

9. DOF shall have finalized a debt management manual that includes provisions on institutional arrangements for improved management of the debt stock and new borrowings.
10. DOF shall have finalized a debt database, which includes data on debt stock, cost of funds, and maturity profile.
11. The State shall have augmented the GRF based on the plan for fund augmentation and the risk assessment report on the State guarantees.

Public Expenditure Management

12. DOHFW and DOSE shall have prepared a long-term sector strategy and roadmap for the health and education sectors, respectively, and have identified concrete and detailed goals for each sector.

Attachment 2 to Schedule 3

13. DOF shall have instituted a system of project appraisal reports for all new projects and project performance evaluation for existing projects, and have institutionalized a system of linking them with fund allocation.

14. DOHFW and DOSE, respectively, shall have prepared departmental rolling MTEFs for the health and education departments based on the projected resources available and sectoral goals/targets.

15. DOF shall have finalized a performance evaluation report of the treasury pilot in South Aizawl, and based on the report shall have prepared a blueprint for computerization and capacity building requirements for the remaining eight treasuries (including the capacity building requirements).

Service Improvements in Health and Education Sectors

16. DOHFW shall have completed and published an evaluation of the MHC Scheme, including any corrective actions required to improve the performance of the health insurance scheme.

17. DOF shall have prepared a report on the performance of the MHC Scheme corpus fund.

18. DOSE shall have completed the implementation of the VRS for primary school teachers determined to be the least qualified.

19. DOSE shall have prepared and completed an annual administrative report.

Pension Reforms

20. The State shall have approved and implemented the DCPS for new recruits. The DCPS shall have a specific cut-off date.

Public Sector Enterprise Reforms

21. DOF shall have finalized an assessment report on the restructuring/consolidation of PSEs, and based on such report, shall have prepared plans for the implementation of its recommendations, including plans for labor rehabilitation.

Conditions for Release of the Third Tranche**Tax and Non-Tax Revenue Reforms**

1. DOT shall have completed a review and reassessment of at least top 3 most serious cases identified by the risk-based audit for the Assessment Year 2010-2011.
2. DOLRS shall have completed a pilot on the use of OVM in at least one district.

Debt Management

3. DOF shall have completed the implementation of the plan for the debt management software (CS-DRMS).
4. DOF shall have prepaid at least 80% of the high cost loans.
5. The total of new high cost loans incurred by the State shall not exceed the ceiling of 5% of GSDP.

Public Expenditure Management

6. DOHFW and DOSE shall have prepared their respective budget, in consultation with DOF, in line with the MTEFs developed for their respective departments.
7. DOF shall have completed the computerization for all eight remaining treasuries.

Service Improvements in Health and Education Sector

8. DOHFW shall have completed the implementation of the managerial capacity development plan for the MHCS.
9. The State shall have augmented the health corpus from its own resources in line with the investment plan.
10. DOHFW shall have published the results of an independent assessment to ascertain the effectiveness of MHC Scheme and have specified how the recommendations will be implemented.
11. DOSE shall have completed the implementation of the VRS for primary and middle school teachers.
12. DOSE shall have published the results of an independent survey to ascertain demand for vocational education, both from prospective students and potential employers, and shall have revised existing curriculum based on the survey result.
13. DOSE shall have prepared and finalized a plan for strengthening vocational training for students for employment generation, including the required cost.

Pension Reforms

14. DOF shall have concluded an agreement with a fund manager for managing the new pension scheme.

15. DOF shall have submitted a report on new employees' contribution to the pension fund.

Public Sector Enterprise Reforms

16. The State shall have implemented the plan on the restructuring and/or closure of PSEs, in particular the PSEs that are recommended for closure shall have been closed and the compensation payments for the labor of the closed PSEs shall have been finalized.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items (other than consulting services) to be financed out of the proceeds of the Loan.

2. (a) Except as provided in paragraph 2(b) below, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Program Executing Agency and Program Implementing Agencies

1. (a) The State shall be responsible for the coordination and execution of the Program with the various concerned departments and agencies of the State.

(b) Without limiting the generality of the foregoing subparagraph, DOF shall be the Program Executing Agency and shall be responsible for implementation and monitoring of the Program. The Program Implementing Agencies shall be responsible for complying with the policy actions.

(c) The State shall endeavor that (i) critical Program staff shall remain in their position on a full-time basis for a reasonable duration to ensure continuity in the implementation of the Program; and (ii) all implementing agencies will be adequately staffed and provided with the necessary financial, technical, and other resources to perform their functions under the Program.

Program Coordination

2. The Program Steering Committee shall be: (a) the body responsible for overall direction, guidance, monitoring and providing an oversight role under the Program; and (b) chaired by the Principal Secretary of DOF and include the Principal Secretaries/ Secretaries of DOPPI and of each of the Program Implementing Agencies, including their heads of departments. The PSC shall report to the Chief Minister through the Chief Secretary. The PSC shall meet, as and when necessary, at least once every quarter.

3. The FMU, in DOF, shall serve as the PMU and shall facilitate the various reforms under the Program. The FMU shall be responsible for daily implementation of the Program under the guidance of the PSC. Towards this end, FMU shall (i) coordinate with, and help to the extent necessary, the various PIUs established in each of the Program Implementing Agencies, to carry out their functions in support of the reforms; and (ii) coordinate with ADB and various stakeholders and solicit feedback from experts from within and outside the Government on a regular basis.

4. The PIUs shall liaise closely with the PSC through the FMU. Each of the PIUs shall be chaired by the head of the relevant Department and shall report directly to the Principal Secretary/Secretary of the respective Program Implementing Agency.

Policy Actions

5. The Borrower and the State shall (a) ensure that all policies adopted and actions taken under the Program, as set forth in the Policy Letter and the Policy Matrix, shall continue to be in effect for and beyond the duration of the Program, and (b) promptly adopt and implement the policies and actions included in the Program as set forth in the Policy Letter and the policy Matrix.

6. The Borrower and the State shall give due consideration to the findings and recommendations proposed as a result of the Program while carrying out the policies and actions under the Program.

Policy Dialogue

7. The Borrower shall cause the State to keep ADB informed of, and the State and ADB shall from time to time exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix and in the formulation and implementation of new related policies, and keep the Borrower informed.

8. The Borrower, the State and ADB shall promptly discuss problems and constraints encountered during the implementation of the Program and appropriate measures to overcome or mitigate such problems and constraints.

9. The Borrower and the State shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower and the State shall take into account ADB's views before finalizing and implementing any such proposals.

Loan Proceeds and Counterpart Funds

10. The Borrower shall transfer the Counterpart Funds generated under the Loan under the normal arrangements for transfer of external assistance to the State and shall treat such Counterpart Funds as an addition to its transfers allocated annually to the State.

11. The Borrower shall cause the State to use the Counterpart Funds to support the adjustment costs for the policies adopted and actions taken for Program implementation. The Borrower shall cause the State to ensure that sufficient budgetary allocations are made in a timely manner for the efficient and timely implementation of Program.

VRS, Health Corpus and GRF

12. The Borrower shall cause the State to provide the necessary matching funds for the (a) complete disbursement of VRS and related compensation for school teachers, (b) augmentation of the health corpus to ensure its sustainability; and (c) augmentation of the GRF to ensure compliance with the relevant tranche conditions.

13. The Borrower shall cause the State to ensure that information relating to the implementation of VRS compensation for teachers is made available to all teachers uniformly.

14. The Borrower shall cause the State to ensure that (a) consultation plans shall be prepared for and applied to teachers affected by reforms; (b) men and women shall be given equal access to, and use of, relevant services, resources, assets, and opportunities in the MHC Scheme and VRS; (c) the Program Implementing Agencies shall receive support in upgrading their information gathering capabilities; (d) specific health care products for women will be made available in the MHC Scheme; and (e) a labor restructuring plan shall be prepared once it is determined the PSEs that are to be restructured.

Program Review

15. The State shall, through DOF, undertake periodic reviews during Program implementation to evaluate the scope, implementation arrangements, progress and achievement of the objectives of the Program. DOF shall ensure that ADB shall have the opportunity to participate in these reviews. The State shall approve a time bound action plan on staffing, computerization, and reporting arrangements for the FMC, as well as the FMU.

Plan for Program Monitoring

16. The Borrower shall cause the State to ensure that all relevant baseline data related to the Program and its components shall be regularly monitored and continually updated. Within 6 months after the Effective Date, the State shall finalize a methodology or plan satisfactory to ADB, for monitoring the performance of the Program in line with the design and monitoring framework and the Policy Matrix.

Fund Flow Tracking System

17. The Borrower shall cause the State to establish a fund flow tracking system to track the use of the counterpart funds generated by the loan on a quarterly basis, particularly on ring-fenced Program investments (such as high-cost debt pre-payment, the health corpus, and the VRS for teachers).