
LOAN NUMBER 2281 - IND

LOAN AGREEMENT
(Ordinary Operations)

(Rural Cooperative Credit Restructuring and Development Program)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 11 DECEMBER 2006

PLL: IND 36343

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 11 December 2006 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 14 November 2006 (hereinafter called the DPL), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's Rural Cooperative Credit sector (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 Borrower has also applied to the Government of the United Kingdom, through its Department for International Development (hereinafter referred to as "DFID") for a technical assistance grant (hereinafter referred to as "TA") in an amount equivalent to two million dollars (\$2,000,000) to finance the Capacity Building for Rural Cooperative Credit Structure Reform; and requested that ADB administer such grant under a TA letter agreement of even date; and

(D) 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;

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 Department" 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" (further substituted as "Program Executing Department" under clause (c) of this Section), wherever it appears in the Loan Regulations shall be substituted by the term "ED" or "Executing Department".

(e) 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) "APR" means Action Plan for Revival;

(b) "CCS" means the Cooperative Credit Structure of the Borrower, as also referred as CCS in the DPL;

(c) "CSA" means the relevant Cooperative Societies Acts at the PSs levels;

(d) "Counterpart Funds" means the Rupees proceeds accruing to the Borrower and generated from the Loan proceeds under the Program and referred to in paragraph 4 of Schedule 5 to this Loan Agreement;

(e) "DCCB" means each of the District Central Cooperative Bank situated in the Districts of all PSs;

(f) "DLIC" means each of the District Level Implementation Committee in all PSs;

(g) "DPL" means the Development Policy Letter dated 14 November 2006,, addressed by the Borrower to ADB and referred to in Recital (A) of this Loan Agreement;

- (h) "DAP" means the Development Action Plan;
- (i) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;
- (j) "District" means a district in any PS as defined in Article 243-P of the Constitution of India;
- (k) "ED" or "Executing Department" means for purposes of this Loan Agreement the Ministry of Finance (Banking Division) of the Borrower;
- (l) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to 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;
- (m) "FY" means year ending on 31 March for the relevant year;
- (n) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$250,000,000 to be initially withdrawn and utilized;
- (o) "Fourth Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, the Second Tranche, and the Third Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement
- (p) "IA" or "Implementing Agency" means the implementing agency responsible for implementation of the Program in all PSs and for purposes of this Loan Agreement is NABARD;
- (q) "Independent Agency" means the agency to undertake CCS reforms implementation, as further described in the attachments to Schedule 3 to this Loan Agreement;
- (r) "KfW" means the *Kreditanstalt fur Wiederaufbau Bankengruppe* of Germany that is the parallel co-financier for the Program;
- (s) "MOU" means a memorandum of understanding between relevant parties as the context requires;
- (t) "NIMC" means the National Implementation and Monitoring Committee established by the Borrower for purposes of the CCS reforms;
- (u) "NABARD" means the National Bank for Agriculture and Rural Development of the Borrower, established in 1982 under the NABARD Act, 1982;
- (v) "PACS" mean a primary agricultural credit society situated in the PSs;
- (w) "PPMS" means the Program Performance Monitoring System required to be established and implemented for the Program in accordance with paragraph 13 of Schedule 5 to this Loan Agreement;

(x) "PS" means a participating State listed under the Program as may be further revised in accordance with paragraph 5 of Schedule 5 to this Loan Agreement;

(y) "Policy Matrix" means the policy matrix attached to the DPL as agreed between the Borrower and ADB;

(z) "RBI" means the Reserve Bank of India, which is the central bank of the Borrower;

(aa) "RRP" means the Report and Recommendation of the President of ADB to its Board for the Program;

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

(cc) "SCB" means any state cooperative bank situated in each PS;

(dd) "SLIC" means State level Implementation Committee in each PS;

(ee) "Second Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$250,000,000 to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;

(ff) "State" means any of the PS of the Borrower as the context may require;

(gg) "TA" means the technical assistance grant as referred in Recital C of this Loan Agreement;

(hh) "Third Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$300,000,000 to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement; and

(ii) "Tranche" means any of the First Tranche, Second Tranche, Third Tranche, or Fourth Tranche, as the context may require.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of one billion dollars (\$1,000,000,000), 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 term of 15 years, including a grace period of 3 years, as provided 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.

Section 2.03. The Borrower shall pay to ADB a commitment charge at the rate of three-fourths of one percent (0.75%) 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 June and 1 December 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 proceeds of the Loan to be applied to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account for the purposes of financing foreign currency expenditures incurred for Eligible Items in accordance with the provisions of Schedule 1 and 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. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2010 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, environmental, and rural credit practices.

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

Section 4.02. The Borrower shall make available, 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 Program.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program 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 inspect 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 bi-annual

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 VI

Effectiveness

Section 5.01. 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 VI

Miscellaneous

Section 6.01. 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 6.02. 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 Number:
(91-11) 2309-2477
(91-11) 2309-7511.

For ADB

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

Cable Address:
ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)

42205 ADB PM (ITT)

63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444

(632) 636- 2337.

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



ARVIND MAYARAM

Joint Secretary

Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By



TADASHI KONDO

Country Director

India Resident Mission

SCHEDULE 1**Description of the Program**

The principal objective of the Program is to assist the Borrower in carrying out the CCS reform agenda developed by the Task Force and the scope specifically includes developing a sustainable CCS for providing affordable services for the rural poor. The Program is described in more detail in the Policy Letter. The Program will be implemented during the period 2006-2010.

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 Schedule 5 to this Loan Agreement.

The proceeds of the Loan are expected to be utilized by 31 December 2009.

SCHEDULE 2**Amortization Schedule****(Rural Cooperative Credit Restructuring and Development 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>Payment Due Date</u>	<u>Payment of Principal</u> (Expressed in percentage)
01-Jun-2010	2.25
01-Dec-2010	2.36
01-Jun-2011	2.48
01-Dec-2011	2.60
01-Jun-2012	2.73
01-Dec-2012	2.87
01-Jun-2013	3.01
01-Dec-2013	3.16
01-Jun-2014	3.32
01-Dec-2014	3.49
01-Jun-2015	3.66
01-Dec-2015	3.84
01-Jun-2016	4.04
01-Dec-2016	4.24
01-Jun-2017	4.45
01-Dec-2017	4.67
01-Jun-2018	4.91
01-Dec-2018	5.15
01-Jun-2019	5.41
01-Dec-2019	5.68
01-Jun-2020	5.96
01-Dec-2020	6.26
01-Jun-2021	6.57
01-Dec-2021	6.89
TOTAL	100.00

Schedule 2

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 application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(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 open an account (the Deposit Account) at 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.

Schedule 3

(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. 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 any of the Tranches unless ADB shall be satisfied, after consultation with the Borrower, that (i) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (ii) the Borrower has maintained compliance with earlier Tranche(s) conditions and fulfilled the conditions for the release of the related Tranche specified in respective Attachment to this Schedule.

Condition of Release of the First Tranche

6. Notwithstanding any other provisions of this Loan Agreement, the First Tranche shall not be released until the compliance with following First Tranche condition: at least four PSs shall have signed the MOUs with the Borrower and NABARD, accepting the CCS reform package, including commitment to share the cost of reforms and to ensure autonomy of CCS in all financial and internal administrative matters.

List of Ineligible Items

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Rural Cooperative Credit Restructuring and Development Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods (included in the following Standard International Trading Commodity chapters or headings):

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
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)
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) payments made for expenditures incurred more than 180 days before the effectiveness date of the loan;
- (iv) 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 loans from the Asian Development Bank;
- (v) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (vi) expenditures for narcotics; and
- (vii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in classes I-a and I-b, Classification of Pesticides by Hazard and Guidelines to Classification.

Conditions for Release of the Second Tranche

1. **Establishing a Policy Reform and Implementation Framework**
 - (a) PSs establish SLICs.
 - (b) PSs establish DLICs.
 - (c) All PSs make budgetary provisions to support CCS reforms.
 - (d) The Borrower makes budgetary provision to support CCS reforms.
 - (e) NABARD constitutes State Task Forces in PSs to periodically review the performance of CCS especially on good governance and compliance with statutory requirements and suggest improvements.
 - (f) One other PS (1) signs MOU with the Borrower and NABARD accepting CCS reform package, including commitment to share the cost of reforms and to ensure autonomy of CCS in all financial and internal administrative matters, and (2) is in compliance with Second Tranche conditions as applicable.

2. **Building a Facilitating Legal, Regulatory and Governance Framework**
 - (a) **Establishing a Conducive Legal Framework for CCS**
 - (i) PSs under NIMC guidance take measures to amend the CSAs as per the MOUs.
 - (ii) The Borrower assesses the need to amend NABARD Act, 1982 and Deposit Insurance and Credit Guarantee Corporation Act, 1961 to facilitate CCS reforms.
 - (b) **Instituting Effective Regulation**
 - (i) Amendments to Banking Regulation Act, 1949 finalized by the ED.
 - (ii) PSs issue prudential norms for PACSs and non-bank CCS.
 - (c) **Enhancing Good Governance**
 - (i) PSs prepare plans to hold elections for CCS where the term of office bearers and boards have expired.
 - (ii) PSs commence the reduction of their equity to a maximum of 25% of the capital at any level of the CCS and convert the equity over 25% to grants to the CCS.
 - (iii) NABARD issues a policy of annual audits of SCBs and DCCBs by independent chartered accountants commencing FY 2006-2007.

- (iv) NABARD issues guidelines for independent rating of SCBs and DCCBs.

3. **Institutional Reforms for Sustainability**

(a) NABARD

- (i) NABARD finalizes and issues to CCS in PSs the (1) accounting standards; and (2) management information system, including internal control and audit systems.
- (ii) NABARD finalizes and issues to CCS in PSs; (1) computerization plan; and (2) human resources development plan.
- (iii) NABARD develops model APRs/DAPs for SCBs, DCCBs, and PACSs including financial, productivity, and operational benchmarks.
- (iv) NABARD considers refinance to CCS either directly or through other regulated financial institutions at terms set by its Board.
- (v) Model plans for ineligible PACSs developed by NABARD.

(b) PACS

- (i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of PACSs completed in at least two PSs.
- (ii) At least fifty percent eligible PACSs, in the PSs that have completed special audits, sign agreements with DCCBs/DLICs to implement CCS reforms.
- (iii) At least 50 percent Eligible PACSs in the PSs that have completed special audits, adopt APRs/DAPs.
- (iv) PSs discontinue further placement of cadre based secretaries in PACSs.
- (v) PSs prepare plans for phasing out of cadre based secretaries in PACSs.
- (vi) Support provided by NABARD for cleaning accumulated losses of eligible PACSs in PSs that meet the benchmark requirements of the MOU signed between the Borrower, relevant PS, and NABARD.
- (vii) Plan for ineligible PACSs developed by all PSs for selected Districts (with at least one District in each PS) based on the framework developed by NABARD and implementation commenced.

(c) DCCBs

- (i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in at least two PSs.
- (ii) DCCBs that have completed special audits, sign agreements with DLICs to implement CCS reforms.

(d) SCBs

- (i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) completed in at least two SCBs in PSs.
- (ii) SCBs that have completed special audits, sign agreements with SLICs to implement CCS reforms.

Conditions for Release of the Third Tranche

1. **Establishing a Policy Reform and Implementation Framework**
 - (a) The Borrower completes first stakeholder consultation on the assessment of CCS reform, undertaken by the Independent Agency and as required, advises stakeholders on appropriate measures to address related feedback on the assessment.
 - (b) The Borrower makes budgetary provision to support CCS reforms.
 - (c) All PSs make budgetary provisions to support CCS reforms.

2. **Building a Facilitating Legal, Regulatory and Governance Framework**
 - (a) **Establishing a Conducive Legal Framework for CCS**
 - (i) PSs enact legislation amending the CSAs.
 - (ii) PSs issue rules and regulations as required under the amended CSAs.
 - (iii) Based on the assessment under earlier Tranche, if required, NABARD Act, 1982, and Deposit Insurance and Credit Guarantee Corporation Act, 1961, amended.

 - (b) **Instituting Effective Regulation**
 - (i) Banking Regulation Act, 1949 amended.
 - (ii) Supervision and regulation of CCS classified as banks, undertaken in the PSs in accordance with the amended CSAs.
 - (iii) Prudential norms for CCS (SCBs and DCCBs) and eligibility for boards of directors and chief executive officers developed based on amended Banking Regulation Act, 1949, and applied on the CCS (SCBs and DCCBs).

 - (c) **Enhancing Good Governance**
 - (i) PS government nominees on PACSs' boards withdrawn.
 - (ii) PSs hold elections in the CCS and install new boards of directors and office bearers in all the SCBs and half of the number of DCCBs.
 - (iii) PSs complete the reduction of equity to a maximum of 25% of the capital at any level of the CCS and convert the equity over 25% to grants to the CCS.
 - (iv) PS government nominees on boards of SCBs and DCCBs limited to one.
 - (v) Directors on boards of all the CCS (SCBs and DCCBs) not meeting the approved criteria identified by PSs.

- (vi) CCS (SCBs and DCCBs) terminate the tenure of directors on CCS boards representing defaulting PACSs.
- (vii) Rating of SCBs conducted by approved rating agency.

3. Institutional Reforms for Sustainability

(a) NABARD

- (i) NABARD implements in all PSs the (1) accounting standards; (2) management information system including internal control and audit systems; (3) computerization plan; and (4) human resources development plan for the CCS.

(b) PACS

- (i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of PACSs completed in all PSs.
- (ii) PSs implement plans to phase out cadre based secretaries in PACSs.
- (iii) Eligible PACSs adopt APRs/DAPs in all PSs.
- (iv) Plan for ineligible PACSs developed and implementation commenced in PSs that have ineligible PACSs.
- (v) Support provided by NABARD for cleaning accumulated losses of eligible PACSs in PSs that meet benchmark requirements of the MoUs.

(c) DCCBs

- (a) Eligible DCCBs adopt APRs/DAPs.
- (b) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in all PSs.
- (c) Support provided by NABARD for cleaning accumulated losses of DCCBs in PSs that meet benchmarks requirements of the MoUs.

(d) SCBs

- (i) SCBs adopt APRs/DAPs.
- (ii) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of SCBs completed in all PSs.
- (iii) Support provided by NABARD for cleaning accumulated losses of SCBs in PSs the meet benchmark requirement of the MoUs.

Conditions for Release of the Fourth Tranche

1. **Establishing a Policy Reform and Implementation Framework**
 - (a) The Borrower completes the second stakeholder consultation on the second assessment of CCS reform, undertaken by the Independent Agency, and as required advises stakeholders on appropriate measures to address related feedback on the assessment.
 - (b) The Borrower makes budgetary provision to support CCS reforms.

2. **Building a Facilitating Legal, Regulatory and Governance Framework**
 - (a) Establishing a Conducive Legal Framework for CCS
 - (i) Implementation status of rules and regulations corresponding to the amended CSAs in all PSs.
 - (b) Instituting Effective Regulation
 - (i) Prudential norms applied to the PACSs.
 - (c) Enhancing Good Governance
 - (i) PSs complete elections to all DCCBs and PACSs and install new boards of directors and office bearers.
 - (ii) Rating of SCBs and at least 50 percent DCCBs in PSs conducted by approved rating agency.
 - (iii) Directors on boards of the CCS (SCBs and DCCBs) not meeting the approved criteria removed by PSs.

3. **Institutional Reforms for Sustainability**
 - (a) NABARD
 - (i) NABARD continues implementation in all PSs of the (1) accounting standards; (2) management information system, including internal control and audit systems; (3) computerization plan and (4) human resources development plan for the CCS.
 - (b) PACS
 - (i) Support provided by NABARD for cleaning accumulated losses of Eligible PACSs in PSs that meet benchmarks requirements of the MoUs.

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- (ii) PSs implement plans for phase out of cadre based secretaries in PACSs.
 - (iii) Implementation of APRs/DAPs.
 - (iv) Implementation of plan for ineligible PACSs by PSs.
- (c) DCCBs
- (i) Support provided by NABARD for cleaning accumulated losses of DCCBs in PSs that meet benchmark requirements of the MoUs.
 - (ii) Progress on implementation of APRs/DAPs.
- (d) SCBs
- (i) Support provided by NABARD for cleaning accumulated losses of SCBs in PSs that meet benchmark requirements of the MoUs.
 - (ii) Progress on implementation of APRs/DAPs.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items 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 Implementation and Coordination

1. (a) The Borrower's Ministry of Finance (Banking Division) shall be the ED responsible for coordination and management of overall implementation of the Program. NABARD shall be the Implementing Agency (IA) responsible for day-to-day implementation of the Program.

(b) Towards compliance with the requirements of this Loan Agreement, the Borrower shall ensure that the ED, the IA and all PSs undertake activities and respective responsibilities as included under this Loan Agreement and related documents in a timely manner to achieve the objectives of the Program.

2. The Borrower through the ED, NABARD, and the PSs shall

(a) maintain the policies adopted and actions taken prior to the date of this Loan Agreement and during its implementation, as described in the DPL and the Policy Matrix, for the duration of the Program and subsequently;

(b) promptly adopt and implement the policies and take the actions included in the Program as specified in the DPL and the Policy Matrix;

(c) ensure that such policies and actions continue in effect for the duration of the Program and subsequently; and

(d) ensure that all agencies involved in the Program shall at all times maintain adequate staff and funds for satisfactory and timely completion of the Program.

3. The Borrower shall ensure that the Program is implemented in a timely and effective manner in accordance with the Program Implementation Mechanism attached as Appendix 7 to the RRP for the CCS reforms. The Borrower shall ensure that

(a) the NIMC set up under First Tranche requirements serves as the Program Steering Committee for the duration of the Program;

(b) the SLICs set up by the PSs under Second Tranche requirements shall be responsible for guiding and monitoring the implementation of the CCS reforms package and the Program at PS levels; and

(c) the DLICs to be set up by the PSs under the Second Tranche requirements shall be responsible for guiding and monitoring the implementation of the CCS reforms and the Program at District levels of the PSs.

Counterpart Funds

4. The Borrower through the ED shall ensure that

(a) the Counterpart Funds shall be used for the costs associated with the CCS reforms under the Program and shall, in particular, transfer the counterpart funds generated under the Loan, through NABARD under normal arrangements for transferring external assistance to the PSs and shall treat such counterpart funds as an additionality to its transfers allocated to the PSs; and

(b) all PSs make available on a timely basis, the counterpart funds required for the Program through timely budget appropriations/allocations and in accordance with the relevant MOUs/agreements.

Participating States (PSs)

5. (a) Notwithstanding the inclusion of four identified PSs under the First Tranche, in the event that any one of such identified PS has not achieved or is not likely to achieve the subsequent Tranche (i.e., the Second Tranche) conditions in time and that may cause delay in release of the Second Tranche for benefit of other identified PSs, and unless otherwise required by ADB, the Borrower may substitute such PS with another PS, subject to following principles:

- (i) the PS proposed to be included shall have fulfilled the conditions under the First Tranche as also shall be in compliance with the actions listed in the Policy Matrix and this Loan Agreement, as of the date of such substitution;
- (ii) the substitution shall be limited to only one PS and shall not be revocable;
- (iii) the substitution shall be not beyond a date six months after release of the First Tranche, or the date of Second Tranche, whichever is earlier;
- (iv) the substitution shall not disturb the adjustment costs already incurred towards release of First Tranche under the Program; and
- (v) it shall also be required that under such substitution arrangements, the Borrower shall:
 - (1) continue to finance and support the PS that has been taken out from the Program, towards CCS reforms as reflected in the DPL;
 - (2) provide Borrower's share of financing under the Program to the newly included PS; and

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- (3) will require all PSs (including that taken out and newly included) to be included in reports to be provided to ADB for PPMS, accounts and related reforms and reports as required under this Loan Agreement.

(b) The Borrower shall ensure that the additional PS to be included as stipulated under Second Tranche release is included not later than six months of release of the First Tranche.

CCS Policy Reforms

6. (a) The Borrower shall and shall cause PSs to ensure that the reforms under the Program, including institutional, legal and financial reforms and respective MoUs/agreements between various agencies under the CCS reforms are formulated, finalized and implemented to the satisfaction of ADB.

(b) As part of the legal and institutional reforms and compliance of various Tranche release activities, the Borrower through the ED shall ensure that the PSs undertake necessary amendments referred in the DPL; as also adhere to agreed implementation schedule for timely compliance of Tranche conditions.

7. The Borrower shall ensure that CCS will have autonomy in all financial and internal administrative matters as outlined in the MoUs/respective agreements.

8. In case of natural calamities and unforeseen circumstances that affect the equity and liquidity of the CCS, the Borrower shall consult with ADB immediately and prepare within a month a remedial action plan acceptable to ADB.

Accounts; Disbursements

9. (a) Without limiting the generality of paragraph 4 of Schedule 3 to this Loan Agreement, in addition to the Deposit Account, the Borrower through the ED, shall cause NABARD to maintain separate records and accounts on the use of Program funds following sound accounting principles, and shall have such accounts and records audited annually by auditors acceptable to ADB, and shall furnish, within six (6) months of the close of the financial year, certified copies of the audit reports together with the auditor's opinion to the ED, ADB, and KfW.

(b) Considering the larger number of entities covered by the Program, NABARD shall additionally confirm to the ED, the usage of funds for the purposes of the Program (recapitalization, audits, human resources development, and implementation costs) in the PSs.

Safeguards and social issues

10. The Borrower through the ED shall cause NABARD and PSs to ensure that activities under the Program, if become applicable, shall be carried out in accordance with applicable safeguard policies of ADB (i.e., Involuntary Resettlement Policy, 1995, Environment Policy, 2002, and Indigenous Peoples Policy, 1998) and related laws and regulations of the Borrower/PS.

Information sharing, review

11. Without limiting the generality of Sections 7.04 and 7.05 of the Loan Regulations

(a) the Borrower shall keep ADB informed of modifications if any in the CCS reform package in so far as these may impact the Program in any manner;

(b) the ED shall keep ADB and KfW informed of progress on activities relating to fulfillment of Tranche releases as also other covenants agreed with ADB and KfW. As and when CCS reforms are supported by other agencies, the ED shall facilitate coordination amongst the various agencies; and

(c) the ED shall regularly exchange views and information with ADB and KfW on any problems, constraints encountered during Program implementation to address any changes to overcome or mitigate these.

Stakeholder Participation

12. The Borrower through the ED, NABARD and PSs, respectively shall

(a) ensure that all activities, documents, and enactments under the Program are undertaken in consultation with relevant stakeholders and their feedback incorporated as appropriate in finalizations; through proper institutional mechanisms in place for communication and feedback on all relevant policy actions from stakeholders; and

(b) take all steps necessary to ensure that relevant enactments including amendments to existing laws under the agreements reached with the Borrower (as reflected in the DPL), are (i) undertaken with full stakeholder participation and views thus provided are incorporated as appropriate, (ii) tabled in the Parliament/State legislatures, respectively, for consideration and enactment well in time and in sync with related Tranche release requirements, and (iii) brought into force, and implemented effectively.

Performance Monitoring, reports

13. Without limiting the generality of Section 7.04 of the Loan Regulations

(a) the Borrower shall through the ED, cause NABARD to set up by not later than January 2007, a Program Performance Management System (PPMS) as agreed on with the ADB and cause it to be operated by NABARD throughout the Program implementation at the PSs. Under the PPMS, the Borrower through the ED shall periodically review the Program, drawing on requirements agreed with ADB, to evaluate and assess the scope, implementation arrangements, benefit monitoring, progress, and achievements under the Program;

(b) the Borrower through the ED shall require NABARD to provide bi-annual PPMS reports to the ED and ADB within two (2) months of the end of each half-year; and

(c) regular review missions and a mid-term review mission around June 2008 shall be undertaken by ADB, KfW, the Borrower through the ED, NABARD, and PSs, that shall include evaluation of Program scope, implementation, progress, reform agenda, capacity building, disbursements to end beneficiaries, governance, anticorruption risk assessment and related matters. The reviews shall include modifications and improvements in achieving the overall objectives of the Program.

Technical Assistance

14. (a) In carrying out policy measures and activities under the Program and Policy Matrix, the Borrower through the ED shall cause NABARD and PSs to ensure that recommendations provided under the TA are duly considered for appropriate adoption in a timely manner in consultation with ADB.

(b) As and when other agencies support the Program or the CCS Reforms, the ED shall facilitate coordination of related inputs.