
LOAN NUMBER 2528-IND

LOAN AGREEMENT
(Ordinary Operations)

(North Eastern Region Capital Cities Development Investment Program –
Project 1)

between

ASIAN DEVELOPMENT BANK

and

INDIA

DATED 4 AUGUST 2009

LAL: IND 35290

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 4 August 2009 between INDIA acting by its President (hereinafter called the "Borrower") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) by a framework financing agreement (hereinafter called "FFA") dated 14 May 2009 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility (hereinafter called "MFF") to the Borrower for purposes of financing projects under the North Eastern Region Capital Cities Development Investment Program (hereinafter called "NERCCDIP");

(B) by a periodic financing request (hereinafter called PFR) dated 14 May 2009 submitted by the Borrower, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement (hereinafter called the "Project");

(C) the Project will be carried out by (i) the Borrower's Ministry of Urban Development (hereinafter called MOUD); (ii) the State of Meghalaya (hereinafter called "Meghalaya"); (iii) the State of Mizoram (hereinafter called "Mizoram"); (iv) the State of Nagaland (hereinafter called "Nagaland"); (v) the State of Sikkim (hereinafter called "Sikkim"); and (vi) the State of Tripura (hereinafter called "Tripura") and for this purpose the Borrower will make available to MOUD, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

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

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

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

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

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

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

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

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

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

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

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

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

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

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

(a) "Capital City" or "Capital Cities" refers to each or all of the following cities: Agartala, in the Borrower's State of Tripura; Aizwal, in the Borrower's State of Mizoram; Gantok, in the Borrower's State of Sikkim; Kohima, in the Borrower's State of Nagaland; and Shillong, in the Borrower's State of Meghalaya;

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

(c) "DEA" means the Borrower's Department of Economic Affairs, and includes any successor thereto;

(d) "EARF" means the Environmental Assessment and Review Framework as agreed between the Borrower, the States, and ADB and incorporated by reference into Schedule 5 to the FFA;

(e) "Facility" means the multitranche financing facility provided by ADB to the Borrower in accordance with ADB's policy on Pilot Financing Instruments and Modalities (R194-05, 4 August 2005);

(f) "FFA" means the framework financing agreement dated 14 May 2009 between ADB and the Borrower with respect to the Facility;

(g) "Goods" means equipment and materials to be financed out of the proceeds of the Loan; including related services such as transportation, insurance,

installation, commissioning, training, and initial maintenance, but excluding consulting services;

(h) "Investment Program" or "Program" refers to the NERCCDIP as defined below;

(i) "IPCC" means Investment Program Coordination Cell, established in accordance with paragraph 3 of Schedule 5 to this Loan Agreement;

(j) "IPEC" means Investment Program Empowered Committee, established in accordance with paragraphs 6 and 7 of Schedule 5 to this Loan Agreement;

(k) "MOUD" refers to the Borrower's Ministry of Urban Development and includes any successor thereto;

(l) "NERCCDIP" means North Eastern Region Capital Cities Development Investment Program, of which the Project is the first project;

(m) "NRW" means non-revenue water;

(n) "NSC" means National Steering Committee, established in accordance with paragraph 2 of Schedule 5 to this Loan Agreement;

(o) "PFR" means the periodic financing request submitted or to be submitted by the Borrower, for the purposes of each loan under the Facility, and for the purpose of this Loan Agreement means the periodic financing request dated 14 May 2009;

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

(q) "Procurement Plan" means the procurement plan for the Project as attached to the PFR, dated 14 May 2009 and agreed between the Borrower, MOUD, the States, and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(r) "Project area" refers to the Capital Cities defined under (a) above;

(s) "Project Executing Agencies" for the purposes of, and within the meaning of the Loan Regulations, means (i) at the national level, MOUD or any legal successor thereto acceptable to ADB; and (ii) at the State Level, the SEAs, as defined hereunder, or any legal successor thereto acceptable to ADB;

(t) "Project facilities" means the equipment or facilities to be provided under the Project;

(u) "RF" means the Resettlement Framework as agreed between the Borrower, the States and ADB and incorporated by reference into Schedule 5 to the FFA;

(v) "RRP" refers to the Report and Recommendations of ADB's President to ADB's Board for the Facility;

(w) "SEA" or "SEAs" means state-level Executing Agency or Agencies and refers to any or all of the following: (i) for Meghalaya: its Urban Affairs Department; (ii) for Mizoram: its Urban Development and Poverty Alleviation Department; (iii) for Nagaland: its Urban Development Department; (iv) for Sikkim: its Urban Development and Housing Department; and (v) for Tripura: its Urban Development Department;

(x) "SIPMIU" means State Investment Program Management and Implementation Unit, established in accordance with paragraphs 8 and 9 of Schedule 5 to this Loan Agreement;

(y) "SSC" means State Steering Committee, established in accordance with paragraph 6 of Schedule 5 to this Loan Agreement;

(z) "State" or "States" means any or all of the States of Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura of the Borrower;

(aa) "ULB" or "ULBs" refers to any or all urban local body or bodies of a State, or all States, as the context may require;

(bb) "Urban Reform Program" refers to the Urban Institutional, Financial, Regulatory, and Operational Program agreed between the Borrower, the States, and ADB and which is included in Appendix 12 to the RRP, in as far as it is applicable to the Project; and

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

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of thirty million dollars (\$30,000,000) 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 twenty (20) years, and a grace period as defined in paragraph (c) of this Section.

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

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest

Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

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

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 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. (a) The Borrower shall make the proceeds of the Loan available to MOUD and the States upon terms and conditions mutually agreeable between ADB and the Borrower and shall cause MOUD and the States to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreements.

(b) Of the Loan proceeds, the Borrower shall provide (i) to MOUD an amount equivalent to four hundred ninety one thousand and nine hundred dollars (\$491,900); (ii) to Meghalaya an amount equivalent to four million six hundred twenty two thousand and five hundred dollars (\$4,622,500); (iii) to Mizoram an amount equivalent to five million three hundred forty nine thousand and five hundred dollars (\$5,349,500); (iv) to Nagaland an amount equivalent to seven million seventy thousand and five hundred dollars (\$7,070,500); (v) to Sikkim an amount equivalent to six million nine hundred sixty five thousand and four hundred dollars (\$6,965,400); and (vi) to Tripura an amount equivalent to five million five hundred thousand and four hundred dollars (\$5,500,400). MOUD and the States shall apply the proceeds of the Loan in accordance with the allocation of Loan proceeds under Schedule 3 to this Loan Agreement.

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

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

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

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 April 2016 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 MOUD and each State to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, governance and urban development practices.

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

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

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

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

Section 4.05. (a) The Borrower shall exercise its rights under the financing arrangements between the Borrower and the States in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the financing arrangements shall be assigned, amended, abrogated or waived without prior notice to ADB.

ARTICLE V

Effectiveness

Section 5.01. 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) MOUD shall have established the IPCC with the Program Director and key staff in place, in accordance with paragraph 3 of Schedule 5 to this Loan Agreement;

(b) the Borrower shall have established the NSC;

(c) each State shall have established its SIPMIU with the State Program Director and key staff in place, in accordance with paragraph 8 of Schedule 5 to this Loan Agreement; and

(d) each State shall have issued a government order to implement a NRW reduction program.

Section 5.02. 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 VI

Miscellaneous

Section 6.01. Any of the Secretary, Additional Secretary, Joint Secretary, Director, or Deputy Secretary in the DEA 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
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) 636-2293.

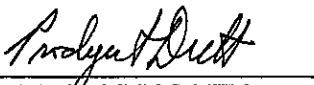
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

INDIA

By 

DR. ANUP K. PUJARI
Joint Secretary
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By 

PRODYUT DUTT
Officer-in-Charge
India Resident Mission

SCHEDULE 1

Description of the Project

1. The expected long-term impact of the NERCCDIP, of which the Project is the first project, is an improved environment and improved well-being of the urban residents in the Project area. The expected outcome of the NERCCDIP is sustainable and increased access to better urban services in the Project area. The outcome is to be achieved through (i) improved and expanded urban infrastructure in the Project area; and (ii) strengthened institutional, managerial, and financial management capacity of urban institutions, including ULBs, in the Project area.

2. The Project comprises the following two parts:

Part A: Urban Infrastructure and Services Improvements

1. Water Supply

a. Agartala

- (i) Supporting a NRW reduction program, including installation of bulk meters;
- (ii) Replacing 24 tube wells in the southern and central zone of the city; and
- (iii) Replacing 17 iron removal plants in the southern and central zone of the city.

b. Aizawl

- (i) Supporting a NRW reduction program;
- (ii) Supplying and installing 13,000 household meters;
- (iii) Supplying and installing chlorinators at two major reservoirs; and
- (iv) Replacing seven zonal reservoirs.

c. Gantok

- (i) Supporting a NRW reduction program;
- (ii) Supplying and installing chlorinators at four major reservoirs;
- (iii) Constructing three new reservoirs with a total capacity of 1.9 megaliters; and
- (iv) Constructing about 31 kilometers of primary pipelines and 38 kilometers of secondary and tertiary pipelines.

d. Kohima

- (i) Supporting a NRW reduction program;
- (ii) Replacing eight zonal reservoirs;
- (iii) Refurbishing the existing water treatment plant; and
- (iv) Supplying and installing chlorinators at three major reservoirs.

2. Solid Waste Management**a. Kohima**

- (i) Constructing and equipping a solid waste management center, including a compost plant and sanitary landfill site; and
- (ii) Improving primary and secondary waste collection.

b. Shillong

- (i) Constructing and equipping a sanitary landfill site.

Part B: Capacity Building, Civic Awareness, and Project Management

- (i) Developing and implementing civic awareness campaigns in each of the Capital Cities, including on: (a) expected improvements from the Project; (b) water conservation and good practices in solid waste and septic management; and (c) cost implications of improved urban services;
- (ii) Supporting Project and Investment Program management activities in each of the Capital Cities, through the recruitment of design, construction supervision and management consultants and operationalization of SIPMIUs;
- (iii) Conducting initial capacity building activities aimed at (a) creating and strengthening ULBs in each of the Capital Cities; (b) introducing service delivery agencies for water supply and sewerage services; and (c) implementing financial management reforms in Aizawl, Gangtok and Kohima; and
- (iv) Implementing a comprehensive institutional reform program in Agartala and Shillong.

- 3. The Project is expected to be completed by 31 October 2015.

SCHEDULE 2**Amortization Schedule****(North Eastern Region Capital Cities Development Investment Program – Project1)**

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>Date Payment Due</u>	<u>Installment Share (Expressed as a % based on 10% annuity)</u>
01 Dec-14	0.827816
01-Jun-15	0.869207
01-Dec-15	0.912667
01-Jun-16	0.958301
01-Dec-16	1.006216
01-Jun-17	1.056526
01-Dec-17	1.109353
01-Jun-18	1.164820
01-Dec-18	1.223061
01-Jun-19	1.284214
01-Dec-19	1.348425
01-Jun-20	1.415846
01-Dec-20	1.486639
01-Jun-21	1.560971
01-Dec-21	1.639019
01-Jun-22	1.720970
01-Dec-22	1.807019
01-Jun-23	1.897369
01-Dec-23	1.992238
01-Jun-24	2.091850
01-Dec-24	2.196442
01-Jun-25	2.306264
01-Dec-25	2.421578
01-Jun-26	2.542657
01-Dec-26	2.669789
01-Jun-27	2.803279
01-Dec-27	2.943443
01-Jun-28	3.090615

<u>Date Payment Due</u>	<u>Installment Share (Expressed as a % based on 10% annuity)</u>
01-Dec-28	3.245146
01-Jun-29	3.407403
01-Dec-29	3.577773
01-Jun-30	3.756662
01-Dec-30	3.944495
01-Jun-31	4.141720
01-Dec-31	4.348806
01-Jun-32	4.566246
01-Dec-32	4.794558
01-Jun-33	5.034286
01-Dec-33	5.286000
01-Jun-34	5.550311
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

Allocation and Withdrawal of Loan Proceeds

General

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

Percentages of ADB Financing

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

Reallocation

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

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

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

Disbursement Procedures

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

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, a first generation imprest account (FGIA) at the Reserve Bank of India. The FGIA shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be the

dollar. The initial amount to be deposited into the FGIA account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten percent (10%) of the Loan amount. The Borrower shall ensure that all funds received from ADB for the Project in the FGIA shall be passed on to the second generation imprest accounts (SGIAs), established in accordance with subparagraph (b) below, within thirty (30) calendar days of receiving such funds.

(b) Except as ADB may otherwise agree, each State may establish immediately after the Effective Date, a SGIA at a commercial bank acceptable to ADB. Each SGIA shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower, the States, and ADB. The currency of the SGIAs shall be the Indian Rupee. The initial amount to be deposited into each SGIA account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation in each respective State; or (ii) the equivalent of ten percent (10%) of the Loan amount allocated to such State in accordance with Section 3.01(b) of this Loan Agreement. Each SIPMIU shall ensure to use the funds in their respective SGIA solely for the purpose of financing eligible expenditure in accordance with the terms and conditions of the Loan Agreement.

(c) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the SGIAs, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower, the States, and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$100,000.

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with (i) civil works, (ii) equipment and materials, (iii) recruitment of consultants, and (iv) Project implementation and administration, subject to a maximum amount equivalent to 20% of the total loan amount.

TABLE
ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS

(North Eastern Capital Cities Development Investment Program – Project 1)			
CATEGORY			ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing \$ Category	Percentage of ADB Financing from the Loan Account
1	Civil Works		
1a	State of Tripura	609,400	62 percent of total expenditure claimed
1b	State of Mizoram	916,500	62 percent of total expenditure claimed
1c	State of Sikkim	3,177,700	62 percent of total expenditure claimed
1d	State of Nagaland	2,767,200	62 percent of total expenditure claimed
1e	State of Meghalaya	214,200	62 percent of total expenditure claimed
2	Equipment		
2a	State of Tripura	475,100	100 percent of total expenditure claimed*
2b	State of Mizoram	1,040,500	100 percent of total expenditure claimed*
2c	State of Sikkim	319,000	100 percent of total expenditure claimed*
2d	State of Nagaland	835,000	100 percent of total expenditure claimed*
2e	State of Meghalaya	122,600	100 percent of total expenditure claimed*
3	Consulting Services		
3a	State of Tripura	3,405,400	100 percent of total expenditure claimed*
3b	State of Mizoram	2,369,600	100 percent of total expenditure claimed*
3c	State of Sikkim	2,206,800	100 percent of total expenditure claimed*
3d	State of Nagaland	2,214,800	100 percent of total expenditure claimed*
3e	State of Meghalaya	3,373,000	100 percent of total expenditure claimed*
3f	Ministry of Urban Development	473,800	100 percent of total expenditure claimed*

4	Project Implementation and Administration		
4a	State of Tripura	572,500	100 percent of total expenditure claimed*
4b	State of Mizoram	572,500	100 percent of total expenditure claimed*
4c	State of Sikkim	572,500	100 percent of total expenditure claimed*
4d	State of Nagaland	572,500	100 percent of total expenditure claimed*
4e	State of Meghalaya	572,500	100 percent of total expenditure claimed*
5	Unallocated	2,616,900	
	Total	30,000,000	

*Exclusive of taxes and duties

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

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

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
- 4.

International Competitive Bidding
National Competitive Bidding
Shopping

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

4. National Competitive Bidding. The Borrower and ADB shall ensure that prior to the commencement of any procurement activity under national competitive bidding, ADB and the States shall review the Borrower's and the States' public procurement laws and regulations to ensure consistency with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.

C. Conditions for Award of Contract

5. The Borrower, through MOUD, shall cause the concerned State not to award any Works contracts financed under the Loan until:

(a) for the Shillong sanitary landfill site to be constructed under Part A 2 (b): (i) the concurrence from the Shillong Pollution Control Board has been obtained; and (ii) adequate land for a long term landfill site has been identified, as evidenced by a notification of the acquisition or transfer of such land; and

(b) for the water supply facilities in Agartala to be rehabilitated under Part A, 1, (a), Tripura shall have submitted to ADB a comprehensive water monitoring report, acceptable to ADB, for all replacement wells, with samples taken and sampled at the end of the dry season, demonstrating that none of the replacement wells have detectable levels of arsenic.

D. Selection of Consulting Services

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

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

Least-Cost Selection for surveys, assessments and awareness raising campaigns costing less than one hundred thousand dollars (\$100,000).

E. Industrial or Intellectual Property Rights

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

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

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

F. ADB's Review of Procurement Decisions

10. All contracts for procurement and all contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower, the States, and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

A. Arrangements and responsibilities for Project management and implementation

1. Central level

National-level Project Executing Agency

1. MOUD shall be the national-level Project Executing Agency.

National Steering Committee

2. Within three (3) months of the Effective Date, MOUD shall establish a NSC to monitor the use of funds under the Project as well as overall Project performance. The NSC shall be chaired by the Secretary MOUD and comprise representatives of DEA, the Ministry for Development of the North Eastern Region, the Planning Commission, and representatives of each State. The NSC shall meet whenever necessary, but not less than once every quarter.

Investment Program Coordination Cell

3. The IPCC established within MOUD shall at all times during Project implementation be headed by an Investment Program Manager who shall be supported by at least one administrative and financial official, one technical official, and one official responsible for environmental and social issues. The IPCC shall be supported by a team of program management and monitoring consultants, to be headed by an experienced urban development or municipal engineering expert, and including an urban management and finance specialist as well as a management information systems specialist.

4. The IPCC shall be responsible for (i) reporting to ADB on Investment Program and Project implementation progress; (ii) preparing and submitting to ADB consolidated quarterly reports; (iii) consolidating payment and reimbursement requests; (iv) coordinating policy-related activities and ensuring that actions highlighted during NSC meetings are acted upon; (v) preparing the overall Investment Program implementation plan and consolidated annual work plans; (vi) coordinating training programs and allocations for each of the States; (vii) conducting monitoring and evaluation activities to ensure compliance with Loan covenants and agreed targets; and (viii) designing and implementing Investment Program performance management system surveys.

2. State level

State-level Project Executing Agencies

5. Each State shall have a SEA as follows: (i) for Meghalaya: its Urban Affairs Department; (ii) for Mizoram: its Urban Development and Poverty Alleviation Department; (iii) for Nagaland: its Urban Development Department; (iv) for Sikkim: its Urban Development and Housing Department; and (v) for Tripura: its Urban Development Department.

State Steering Committee and Investment Program Empowered Committee

6. Within three (3) months of the Effective Date, each State shall have established a SSC and an IPEC. Each SSC shall be chaired by the Chief Secretary of the concerned State, and comprise relevant Secretaries and Heads of Department of such State. The SSC shall meet quarterly to (i) review progress on Project implementation; (ii) provide policy guidance; (iii) advise on matters that affect the scope or cost of the Project, as well as on matters related to the Urban Reform Program; and (iv) facilitate inter-agency coordination.

7. Each IPEC shall be chaired by the Secretary of the concerned SEA and comprise representatives from ULBs and relevant departments of the concerned State. Each IPEC shall decide on matters related to the implementation of the Project that do not affect its scope or cost. The IPEC shall meet whenever needed, at the request of any IPEC member. The Program Director shall be the IPEC's member-secretary.

State Investment Program Management and Implementation Unit

8. The SIPMIU established in each State shall at all times during Project implementation be headed by a full-time Project Director who shall be a senior civil servant authorized to make any decision affecting the Project at State level. S/he shall be assisted by a full-time Deputy Project Director, a senior administration officer, a senior accounts officer, technical and engineering staff, a public relations officer, and a management information systems specialist. Each of the senior staff shall be supported by sufficient qualified junior staff. Each SIPMIU shall establish small engineering cells, as needed, with staff deputed from relevant departments and ULBs. Each engineering cell, headed by a superintending or executive engineer, shall be responsible for designing, contracting, supervising, and administering the work of that cell.

9. Each SIPMIU shall be responsible for overall management and implementation of the Project in its respective State, including (i) recruiting consultants and NGOs; (ii) carrying out detailed surveys, investigations, and engineering designs of investment activities prior to starting any tendering process; (iii) coordinating with agencies and obtaining all required statutory clearances; (iv) conducting all aspects of the procurement process in compliance with ADB's Procurement Guidelines; (v) ensuring compliance with Loan covenants; (vi) administering the contracts of consultants and contractors, certifying payments and preparing change orders; (vii) submitting disbursement requests to MOUD for forwarding to DEA for onward transmission to ADB; (viii) timely submitting reports, including audit reports, to the IPCC and ADB; (ix) supervising the implementation of the gender action plan for the Project as well as other social activities; (x) guiding awareness campaigns and participation programs; (xi) organizing and operating state-level Project performance monitoring systems, including collecting data for key indicators and conducting baseline and completion surveys; (xii) reviewing and facilitating the progress of the Urban Reform Program; and (xiii) designing and organizing capacity building programs.

B. Project implementation matters**1. Financial and institutional issues**

10. The Borrower and the States shall ensure sufficient funds shall be allocated to meet all operation and maintenance costs for all assets created under the Investment Program.

11. MOUD shall ensure that any claims received from any of the States in relation to the Project, shall be reimbursed within 30 calendar days after receiving such claim.

12. Within three (3) months of the Effective Date, MOUD and the States shall have established a Project website, including for procurement issues. The website shall include at a minimum the following information: (i) bidding procedures, bidders, and contract awards for the Project; (ii) use of the funds disbursed under the Project; and (iii) decisions of the SSC.

13. The Borrower and the States shall undertake, through their internal audit wing, annual financial audits, including the investigation of all financial records and transactions.

14. The Borrower and the States shall ensure that all contracts financed by ADB for the Project shall include provisions stipulating ADB's right to examine the records and accounts of the contractor.

2. Policy Reforms

15. Each SEA shall fully and timely implement all actions specified in the Urban Institutional, Financial, Regulatory, and Operational Program agreed between the Borrower, the States, and ADB and which is included in Appendix 12 to the RRP, in as far as it is applicable to this first Project under the Facility.

3. Project scope

16. The Borrower and the States shall ensure that in the event there are any changes to the Project scope as described in Schedule 1 to this Loan Agreement, those changes shall be made in conformity with the selection criteria as set out in schedule 4 to the FFA.

4. Environmental issues

17. The Borrower and the States shall ensure that the design, construction, operation and implementation of the Project facilities are carried out in accordance with the EARF, the applicable Initial Environmental Examination (IEEs) as attached to Annex 5 to the PFR, and complies with the Borrower's environmental laws and regulations and ADB's Environment Policy (2002). The States shall ensure environmental mitigation measures shall be incorporated in bidding documents and civil works contracts.

18. The IPCC shall prepare and submit annually to ADB an environmental monitoring report that describes (a) progress in implementation of the EARF and environmental management plan; and (b) problems encountered and measures adopted.

19. Within nine (9) months of the Effective Date, each SIPMIU shall publicize and make available information on water and effluent discharge testing. This shall include posting of testing results in municipality offices in a place visible to all visitors.

5. Resettlement

20. The Borrower and the States shall ensure that, where applicable, all land and right-of-way required for the Project shall be made available in a timely manner, adequate compensations are provided prior to the signing of relevant civil works contracts, and involuntary

resettlement is carried out in accordance with the RF and the resettlement plan for the Project, as attached to Annex 5 of the PFR, the Borrower's National Policy on Resettlement and Rehabilitation, ADB's Policy on Involuntary Resettlement (1995), and applicable laws and regulations of the Borrower and the States..

6. Indigenous People

21. In the event any issues related to indigenous people arise in the course of Project implementation, the Borrower and the States shall ensure to address those issues in accordance with the applicable laws and policies of the Borrower, ADB's Policy on Indigenous Peoples (1998) and the Indigenous Peoples Development Framework for the Facility as agreed between the Borrower, the States and ADB and incorporated by reference into Schedule 5 to the FFA.

7. Other Social issues

22. The Borrower and each State shall ensure to fully implement the gender action plan for the Investment Program as it applies to the Project.

23. The Borrower and the States shall ensure to take all appropriate and necessary measures to encourage adequate representation of all sections of society in ULBs.

24. The Borrower and the States shall ensure that all civil works contractors comply with all applicable labor laws, including those on occupational health and safety, equal pay for work of equal value between men and women, and do not employ child labor, as defined in national legislation, for construction and maintenance activities.

25. Within six (6) months of the Effective Date, each State shall have established a grievance reporting and redressal mechanism.

8. Construction supervision, recording, and reporting

26. Within three (3) months of the Effective Date, each SEA shall have approved a time-bound plan, with budget allocation, to strengthen construction supervision, recording, and reporting systems through the use of modern technology. Each SEA shall establish a quality control cell and operationalize an internal third party technical audit mechanism. All Works contracts shall include provisions for third party inspection for quality control.

9. Project Performance Monitoring and Evaluation

27. Within three (3) months of the Effective Date, IPCC shall have established an Investment Program performance monitoring system (IPPMS) that shall be used to monitor and evaluate each project under the Facility, including the current Project. The IPPMS shall include: (i) procedures and data collection and reporting; (ii) performance indicators for physical infrastructure, capacity development, and program management support; and (iii) target dates for reaching the performance indicators. Within six (6) months of the Effective Date each State, through its SIPMIU, shall have established baseline indicators for each target.

10. Project Review

28. The Borrower, the States, and ADB shall jointly review the Project at least twice a year and conduct a detailed mid-term review towards the end of the third year of Project implementation.