
LOAN NUMBER 3182-IND

LOAN AGREEMENT
(Ordinary Operations)
(Rajasthan Urban Sector Development Program)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 11 SEPTEMBER 2015

IND 42267

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 11 September 2015 between INDIA acting by its President ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower and the State of Rajasthan ("State") a development policy letter dated 11 September 2014 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the State's urban sector ("Program");

(B) the Borrower has applied to ADB for a loan for the purposes of the Program;

(C) the Borrower has also applied to ADB for a loan from its ordinary capital resources in connection to the Rajasthan Urban Sector Development Project and by a Loan Agreement of even date herewith between the Borrower and ADB ("Project Loan Agreement"), ADB has agreed to provide a loan in an amount of two hundred fifty million Dollars (\$250,000,000) ("Project Loan");

(D) the Borrower has, through ADB, also applied to the Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility ("WFPP") for a grant and by a Grant Agreement of even date herewith between the Borrower and ADB, ADB has agreed to make the proceeds of a grant from the Sanitation Financing Partnership Trust Fund under WFPP available to the Borrower in an amount of two million Dollars (\$2,000,000) for the purposes of financing a portion of the Rajasthan Urban Sector Development Project;

(E) the Program will be carried out by the State acting through its Local Self Government Department ("LSGD"), and for this purpose the Borrower will make available to the State the proceeds of the loan provided for herein upon terms and conditions mutually satisfactory to ADB and the Borrower; and

(F) 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 Program Agreement of even date herewith between ADB and the State;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital

Resources, dated 1 July 2001 (“Loan Regulations”), 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:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) “Counterpart Funds” means the local currency generated from the Loan proceeds under the Program and referred to in paragraph 9 of Schedule 4 to this Loan Agreement;

(b) “Deposit Account” means the account referred to in paragraph 3 of Schedule 3 to this Loan Agreement;

(c) “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 of ineligible items specified in Attachment 1 to Schedule 3 to this Loan Agreement; and
- (iii) imports financed by official international or bilateral aid agencies or any other loans or grants made by ADB;

(d) “Eligible Items” means the Eligible Imports and services in connection with the delivery and installation of such imports and consulting services;

(e) “Empowered Committee” means the committee, established by the State and chaired by the Minister, UDH, with representatives from other departments;

(f) “Financing Arrangements” means the arrangements between the Borrower and the State as per current policy of the Borrower, and acceptable to ADB;

(g) “First Tranche” means the portion of the proceeds of the Loan in an amount of \$125,000,000 to be withdrawn pursuant to, and subject to, the provisions of paragraph 4 of Schedule 3 to this Loan Agreement;

(h) “GIS” means geographic information system;

(i) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2012, as amended from time to time);

(j) “LSGD” means the Local Self Government Department of the State, or any successor thereto acceptable to ADB;

(k) “NRW” means nonrevenue water;

(l) “O&M” means operation and maintenance;

(m) “PHED” means the Public Health Engineering Department of the State;

(n) “Policy Actions” means the actions to be met by the Borrower and the State for the release of First Tranche and Second Tranche as applicable;

(o) “Policy Matrix” means the policy matrix attached to the Policy Letter as agreed between the Borrower, State, and ADB and included in the RRP;

- (p) “PPP” means public-private partnership;
- (q) “Program” means the Rajasthan Sector Development Program;
- (r) “Program Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means the State acting through its LSGD or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;
- (s) “Program Implementing Agency” for the purposes of, and within the meaning of, the Loan Regulations means RUIDP or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;
- (t) “Project Cities” means the following six cities: Pali, Tonk, Jhunjhunu, Sri Ganganagar, Hanumangarh, and Bhilwara; and for the purposes of water supply component these shall be five Project cities, i.e., excluding Bhilwara;
- (u) “RBI” means the Reserve Bank of India, the central bank of the Borrower;
- (v) “RRP” means the Report and Recommendation of the President to the ADB Board for the Program;
- (w) “RUIDP” means the Rajasthan Urban Infrastructure Development Project under the Local Self Government Department, or any successor thereto acceptable to ADB;
- (x) “Second Tranche” means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;
- (y) “TA” means the technical assistance in an amount of \$1,000,000 provided by ADB to the Borrower for Capacity Development of the Institutions in the Urban Sector in Rajasthan; and
- (z) “UDH” means the Urban Development and Housing Department of the State.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of two hundred fifty million Dollars (\$250,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 12 years, and a grace period as defined in paragraph (c) of this Section.

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

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

- (a) LIBOR; and
- (b) 0.60% as determined by Section 3.02 of the Loan Regulations less a credit of 0.10% 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 60 days after the date of this Loan Agreement.

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

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

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

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

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

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the State to 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 shall be withdrawn 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. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2020 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the State to cause the Program to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Program, the Borrower shall perform, or cause by the Program Executing Agency to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. The Borrower shall make available or cause to be made available by the Program Executing Agency, promptly as needed, the funds, facilities, services and other resources, as required, in addition to the proceeds of the Loan, for the carrying out of the Program and for the operation and maintenance of the Program facilities.

Section 4.03. The Borrower shall ensure, and cause the State to likewise 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 by the Program Executing Agency, 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 by the Program Executing Agency, to ADB all such reports and information as ADB shall reasonably request concerning 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 by the Program Executing Agency, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

Section 4.06. (a) In so far as it relates to the Program, the Borrower shall exercise its rights under the Financing Arrangements in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) In so far as it relates to the Program, 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. A date 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. 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 2309-2511.

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

+63 2 636-2444
+63 2 636-2293.

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 as of the day and year first above written and to be delivered at the principal office of ADB.

INDIA

Chandra 11.9.15

By _____

RAJ KUMAR
Joint Secretary (MI)
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

M. Teresa Kho

By _____

M. TERESA KHO
Country Director

SCHEDULE 1**Description of the Program**

1. The objective of the Program is to provide support to the State to improve urban service delivery in the State. The Program is described in more detail in the Policy Letter. The implementation period of the Program is from December 2014 to December 2019.
2. In support of the Program:
 - (a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and
 - (b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraphs 9 and 10 of Schedule 4 to this Loan Agreement.
3. The Program is expected to be completed by 31 December 2019.

SCHEDULE 2**Amortization Schedule****(Rajasthan Urban Sector 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.

| Date Payment Due | Installment Share (Expressed as a %) |
|------------------|---|
| 15 April 2018 | 4.166667 |
| 15 October 2018 | 4.166667 |
| 15 April 2019 | 4.166667 |
| 15 October 2019 | 4.166667 |
| 15 April 2020 | 4.166667 |
| 15 October 2020 | 4.166667 |
| 15 April 2021 | 4.166667 |
| 15 October 2021 | 4.166667 |
| 15 April 2022 | 4.166667 |
| 15 October 2022 | 4.166667 |
| 15 April 2023 | 4.166667 |
| 15 October 2023 | 4.166667 |
| 15 April 2024 | 4.166667 |
| 15 October 2024 | 4.166667 |
| 15 April 2025 | 4.166667 |
| 15 October 2025 | 4.166667 |
| 15 April 2026 | 4.166667 |
| 15 October 2026 | 4.166667 |
| 15 April 2027 | 4.166667 |
| 15 October 2027 | 4.166667 |
| 15 April 2028 | 4.166667 |
| 15 October 2028 | 4.166667 |
| 15 April 2029 | 4.166667 |
| 15 October 2029 | <u>4.166659</u> |
| TOTAL | 100.000000 |

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

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

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

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

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

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

SCHEDULE 3**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.
2. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

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

(c) 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.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (Deposit Account) at the RBI into which all withdrawals from the Loan Account shall be deposited.

(b) 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.
4. The Borrower may withdraw the First Tranche upon effectiveness of this Loan Agreement.
5. Notwithstanding any other provisions of this Loan Agreement and except as ADB may otherwise agree, no withdrawal shall be made from the Loan Account for the Second Tranche unless ADB is satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; (b) the Policy Actions that were met for the release of the First Tranche, as specified in Attachment 2 to this Schedule, continue to be complied with by the Borrower; and (c) the Borrower has met the Policy Actions for the release of the Second Tranche as specified in Attachment 3 to this Schedule.

Negative List

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table: Ineligible Items

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

Source: United Nations.

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

Policy Actions for Release of the First Tranche**I. Urban Institutions Strengthened****Establish sustainable corporatized state-level organization for urban development**

1. The State shall have approved the corporatization of RUIDP to form a sustainable state-level organization with the mandate to design and implement urban infrastructure projects, and provide project management support to municipal bodies.

Establish an independent corporatized utility at the city level to manage water supply and wastewater services, and promote PPPs in the urban water and wastewater sectors

2. The State shall have approved the establishment of an independent corporatized utility for the Jaipur urban area, with the mandate to manage water supply and wastewater services in the Jaipur urban area.

Delegate water supply operations from the State to the municipal bodies

3. The State shall have transferred water supply operations, including tariff-setting authority, to the municipal bodies in the five Project Cities.

Rationalize urban property tax in the State

4. The State shall have issued an order rationalizing the property tax (urban development tax or equivalent) by making it applicable to all properties in all municipal bodies in the State (with the exception of properties eligible for exemptions and reductions, as decided by the State).

II. Urban Governance Improved**Develop a long-term urban development policy**

5. The State shall have prepared a draft Rajasthan urban development policy and consulted stakeholders for a review of such draft policy.

Develop a human resource development plan for urban governance

6. (a) The State shall have prepared a draft human resource development plan for urban governance that includes training over a period of five years, of at least 10,000 functionaries (including all women functionaries) and elected representatives (including all elected women representatives), and will have consulted with stakeholders, including by posting the draft plan on its website, for a review of the draft plan.

(b) The State shall have approved the establishment of a state-level urban governance training institute that incorporates gender-responsive urban governance as a key training module.

Improve revenue realization from water and sewerage charges

7. The State shall have prepared a roadmap that includes a system to rationalize water tariffs, with provisions for more advantageous rates for the poor and female-headed households, to (i) recover full costs in the State in a phased manner, (ii) recover at least 30 % of the O&M costs by 2017 and at least 100% of the O&M costs by 2019 in the five Project Cities, (iii) link water tariffs to inflation rate every year in the five Project Cities, and (iv) set different tariffs for different categories of urban areas instead of a uniform tariff for all urban areas.

Improve water supply and wastewater service delivery in the State

8. The State shall have prepared a draft urban water and sanitation policy, and consulted with stakeholders for review and comments. The draft policy shall include, among others, (i) NRW reduction, (ii) operationalization of 24x7 water supply, (iii) sewerage and septage management, (iv) provision of individual water supply and sewerage connections to households in slums and poor settlements, (v) development of water supply and sewerage GIS and computerized gender-disaggregated customers' database, (vi) guidelines to set water tariffs, (vii) water and wastewater quality monitoring systems, (viii) system to monitor billing and collection efficiency, (ix) waste and wastewater recycle and reuse, (x) bridging gaps between sanitation and health outcomes, (xi) water and sanitation linkages with economic growth and competitiveness of cities.

Establish benchmarking of urban services in the State

9. The State shall have approved recruitment of a service provider to develop benchmarking of urban services in the State.

Policy Actions for Release of the Second Tranche**I. Urban Institutions Strengthened****Establish sustainable corporatized state-level organization for urban development**

1. (a) The State shall have corporatized the RUIDP that shall have supported at least 25 municipal bodies for project management.

(b) The corporatized RUIDP shall have adopted a business plan and a human resource development policy, endorsed by UDH/LSGD. The business plan shall include, among others, the corporation's vision, organizational structure, and strategy for long-term organizational growth. The human resource development policy will include provisions for independent recruitment of employees, including through campus recruitment.

(c) The corporatized RUIDP shall have established, as internal units, a technical design center with technical expertise for preparation of urban sector projects, and a safeguards and gender-equality unit with capacity to prepare and/or review environmental and social safeguards and gender equality frameworks/plans for individual projects.

Establish an independent corporatized utility at the city level to manage water supply and wastewater services, and promote PPPs in the urban water and wastewater sectors

2. (a) The State shall have established an independent corporatized utility, with the mandate to manage water supply and wastewater services in the Jaipur urban area.

(b) The independent corporatized utility for the Jaipur urban area shall have adopted a business plan and a human resource development policy, endorsed by the State. The business plan will include, among others, the corporation's vision, organizational structure, and strategy for long-term organizational growth. The human resource development policy will include provisions for independent recruitment of employees, including through campus recruitment, as well as provisions that encourage the recruitment of female employees.

Delegate water supply operations from the State to the municipal bodies

3. The State shall have (i) transferred adequate personnel with required technical expertise, and equipment and facilities; and (ii) provided sufficient budget allocation for O&M expenditures to the municipal bodies in the five Project Cities; and the municipal bodies in the five Project Cities shall have established appropriate procedures for carrying out water supply operations and commenced carrying out water supply operations.

Rationalize urban property tax in the State

4. The municipal bodies shall have collected property tax (urban development tax or equivalent) from at least 50% of all eligible properties in 50% of municipalities in the State.

II. Urban Governance Improved

Develop a long-term urban development policy

5. The State shall have approved and publicly disclosed, including posting on its website, the urban development policy for the State.

Develop a human resource development plan for urban governance

6. (a) The State shall have approved the human resource development plan for urban governance as finalized under the First Tranche, and will have disclosed such a plan on its website.

(b) The State shall have operationalized the urban governance training institute to train functionaries of urban local bodies and elected representatives and shall have trained at least 3000 functionaries and elected representatives (including at least 30% of the women functionaries and elected representatives).

Improve revenue realization from water and sewerage charges

7. The State shall have implemented the roadmap and rationalized water tariff to recover at least 30% of the O&M costs in the five Project Cities.

Improve water supply and wastewater service delivery in the State

8. The State shall have approved and publicly disclosed, including posting on its website, the urban water and sanitation policy for the State; and shall have established a system to monitor implementation of the policy.

Establish benchmarking of urban services in the State

9. The State shall have operationalized a system of regular benchmarking of urban services for 25 cities in the State.

SCHEDULE 4

Program Implementation and Other Matters

Implementation Arrangements

1. (a) The Borrower shall cause the State to accept all responsibility for the coordination and execution of the Program with the various concerned ministries and agencies of the State.

(b) Without limiting the generality of the foregoing clause, the State acting through LSGD of the State and RUIDP, as the Program Executing Agency and the Program Implementing Agency, respectively, shall be responsible for the implementation and monitoring of the Program.

2. The State shall ensure that the Empowered Committee, established by the State and chaired by the Principal Secretary, UDH, with representatives from other departments, meets regularly at least once every quarter to facilitate and give directions for complying with Policy Actions under the Program.

3. RUIDP shall be responsible for:

- (a) overall coordination and monitoring of the Program, including the Policy Actions;
- (b) preparing and submitting all required reports to the Empowered Committee and ADB; and
- (c) implementing the TA.

4. The Borrower, the Program Executing Agency and the Program Implementing Agency shall ensure that:

- (a) the Program and the TA shall conform to all applicable ADB policies, including those concerning safeguards, gender, anticorruption measures, procurement, consulting services and disbursement; and
- (b) the recommendations of the TA and other necessary actions shall be undertaken in a timely manner to ensure completion of the required Policy Actions and Program on time.

Policy Actions and Dialogue

5. The Borrower shall ensure, and cause the State to ensure, that (a) the Policy Actions taken prior to the date of the Loan Agreement, as described in the Policy Letter and the Policy Matrix, shall continue to be in effect for at least the duration of the Program; (b) the other Policy Actions, as described in the Policy Letter and the Policy Matrix, shall be promptly effected; and (c) such Policy Actions shall continue to be in effect for at least the duration of the Program.

6. The Borrower shall keep, and cause the State to keep, ADB informed of, and the Borrower, the State and ADB shall from time to time exchange views on sector issues and policy reforms that may be considered necessary or desirable, including the progress made in carrying out the Policy Actions as set forth in the Policy Letter and the Policy Matrix.

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

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

Use of Counterpart Funds

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

10. The Borrower shall ensure that the Counterpart Funds are used by the State to finance the implementation of programs and activities consistent with the objectives of the Program, and shall, in particular, provide necessary budget appropriations in support of the Program.

Budgetary Allocations

11. The State shall ensure that sufficient budgetary allocations are made in a timely manner for the efficient and timely implementation of the Program.

Sector Reform Measures

12. By December 2017, the municipal bodies of the Project Cities shall have exercised their authority to set water tariffs.

13. By December 2015, the State through PHED/UDH shall have established a monitoring system for billing and collection of water tariff for the urban areas in the State.

14. By December 2017, the State through PHED/UDH shall have improved billing and collection efficiency to at least 90% in the five Project cities.

15. By December 2015, the State through PHED/UDH shall have decided to develop computerized gender-disaggregated databases of water supply consumers in 50 cities.

16. By December 2017, the State through PHED/UDH shall have developed and updated computerized gender-disaggregated databases of water supply consumers in 50 cities.

17. By December 2017, at least 25 municipal bodies in the State shall have established computerized gender-disaggregated databases of property tax payers.

18. By December 2017, the State shall have trained, through the state-level urban governance training institute, at least 3000 functionaries and elected representatives.

19. For each calendar year after the State's approval of its human resource development plan for urban governance, the State through LSGD/UDH shall have trained at least 1,000 functionaries of urban local bodies and elected representatives per year.

Governance and Anticorruption

20. The Borrower, the Program Executing Agency and the Program Implementing Agency shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Monitoring and Review

21. Without limiting the generality of Section 2.05 of the Program Agreement, the State and ADB shall closely monitor the implementation of the Program and its impact.

22. (a) The Borrower, the State, and ADB shall undertake a midterm review of the Program within one year of Effective Date. The midterm review shall (i) review the scope, design and implementation arrangements of the Program; (ii) identify changes needed since the time of the Program processing; (iii) assess implementation performance against Program performance indicators and objectives; (iv) review and establish compliance with the legal covenants; and (v) identify problems and constraints and remedial measures.

(b) In case of any changes required in Program implementation as may be assessed during the midterm review, the Borrower, the State, and ADB shall mutually agree on appropriate measures, including changes in implementation arrangements, to ensure that obligations under the Program are met.