

Public Disclosure Authorized

OFFICIAL DOCUMENTS

LOAN NUMBER 8753-IN

Loan Agreement

(Himachal Pradesh Public Financial Management Capacity Building Program)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated MAY 31, 2017

INDIA
CONSTRUCTION

LOAN NUMBER 8753-IN

LOAN AGREEMENT

Agreement dated MAY 31, 2017, between INDIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty-six million Dollars, (US\$36,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan"), to assist in financing the program described in Schedule 1 to this Agreement ("Program").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. All withdrawals from the Loan Account shall be deposited by the Bank into an account specified by the Borrower and acceptable to the Bank.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, however, that the interest payable shall in no event be less than zero percent (0%) per annum; and provided furthermore that, upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.06. The Payment Dates are August 15, and February 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.08. (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, withdrawn or unwithdrawn, to an Approved Currency; and (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference 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 the Variable Rate or the Reference Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.09. a) If on any given day, the Total Exposure exceeds the Standard Exposure Limit (as said terms are defined in sub-paragraphs (b) (ii) and (b)(iii) of this Section), the Borrower shall pay to the Bank a surcharge at the rate of one half of one percent (0.5%) per annum of the Allocated Excess Exposure Amount (as defined in sub-paragraph (b)(i) of this Section) for each said day ("Exposure Surcharge"). The Exposure Surcharge (if any) shall be payable semi-annually in arrears on each Payment Date.

- (b) For purposes of this Section the following terms have the meanings set forth below:
- (i) "Allocated Excess Exposure Amount" means for each day during which the Total Exposure exceeds the Standard Exposure Limit, the product of: (A) the total amount of said excess; and (B) the ratio of all (or, if the Bank so determines, a portion) of the Loan to the aggregate amount of all (or the equivalent portions) of the loans made by the Bank to the Borrower and to other borrowers guaranteed by the Borrower that are also subject to an exposure surcharge, as said excess and ratio are reasonably determined from time to time by the Bank.
 - (ii) "Standard Exposure Limit" means the standard limit on the Bank's financial exposure to the Borrower which, if exceeded, would subject the Loan to the Exposure Surcharge, as determined from time to time by the Bank.
 - (iii) "Total Exposure" means for any given day, the Bank's total financial exposure to the Borrower, as reasonably determined by the Bank.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the objectives of the Program. To this end, the Borrower shall ensure that the State of Himachal Pradesh carries out the Program in accordance with the provisions of Article V of the General Conditions and the Program Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Program is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. Except as provided in Section 2.02 of this Agreement, the Borrower's Representative is any of the following officials, acting severally: the Secretary, or the Additional Secretary, or the Joint Secretary, or any Director, Deputy Secretary, or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower.

5.02. The Borrower's Address is:

Secretary
Department of Economic Affairs
Ministry of Finance
Government of India
North Block
New Delhi 110001, India

Facsimile:

+91 (11) 23094075

5.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex:


Facsimile:

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at NEW DELHI, India, as of the day and year first above written.


INDIA

By  31.05.2017
Authorized Representative

Name: RAS KUMAR

Title: JOINT SECRETARY

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By 
Authorized Representative

Name: JUNAID KAMAL AHMAD

Title: COUNTRY DIRECTOR, INDIA

SCHEDULE 1

Program Description

The objective of the Program is to improve the efficiency of public expenditure management and tax administration in Himachal Pradesh.

The Program consists of the following activities:

I. Results Area 1: Improving Efficiency of the Finance Department (FD) in an enhanced control environment

1.1. Strengthening Treasury functioning and implementing second generation Treasury/Integrated Financial Management Information System (IFMIS) reforms

Supporting activities include: (i) improving Treasury infrastructure through replacement of obsolete hardware and construction/upgrading of its own buildings for about 20 selected sub-treasuries; (ii) carrying out capacity building activities on a range of financial management functions including new Treasury applications (*inter alia*: conducting training needs analysis, training of trainers program, and rolling out the training across the State) for all Treasury officials, DDOs staff, Accountant General office, banks and other stake holders; (iii) setting up Facilitation Centers; (iv) providing a permanent IT team for software support; (v) preparing user manuals for all Treasury applications and training materials for DDOs and Treasury; (vi) developing a security policy and risk management framework for DoTA and training for its implementation; and (vii) shifting the handling of public works to Treasury mode.

1.2. Strengthening PFM reforms architecture

Supporting activities include: (i) developing a policy note on revenue and expenditure management; (ii) strengthening fund management (through, *inter alia*: (a) carrying out a study on fund management; (b) developing a fund planning module in IFMIS; and (c) developing software to automate the manual function); (iii) strengthening debt management (through, *inter alia*: (a) carrying out a debt sustainability analysis; (b) conducting a debt management performance assessment using the DeMPA tool; (c) developing a roadmap for a study of the current debt management systems in Himachal Pradesh's government; and (d) developing a system/software for management of debt).

1.3. Establishing/Strengthening enabling IT systems and support

Supporting activities include financial support for the Himachal State Wide Area Network (HISWAN) including the costs of hardware and software, licenses, operation and maintenance, and the provision of additional connectivity to over 1000 government offices and citizens on 24x7 basis.

2. Results Area 2: Increasing efficiency and performance through better Contract Management

2.1. Establishing and Integrated Contract Management System (CMS)

Supporting activities include: (i) implementation of CMS covering tendering, works execution, and works accounting; (ii) the enhancement of the CMS software, its roll-out across all the divisions and the head office of the Irrigation and Public Health Department (IPH); and (iii) procurement of hardware and connectivity required for implementation and integration with the e-procurement system, and capacity building of the intended users.

2.2. Roll-out of the e-Procurement in all government departments

Supporting activities include: (i) enhancing the e-procurement application and rolling it out in over 2000 offices; (ii) setting up and operating a helpdesk; (iii) providing the appropriate central and decentralized training for departmental officials; and (iv) procurement of essential hardware required for the software's operation.

3. Results Area 3: Unlocking revenue potential through modernization of the Excise and Taxation Department (ETD)

3.1. Diagnostic of the Institutional Framework and Revenue Administration

Supporting activities will include: (i) assessment of the existing institutional and managerial set up in ETD and the development of a roadmap for enhanced institutional framework for revenue administration; (ii) conducting a Training Needs Analysis (TNA); (iii) developing a medium-term action plan, a formal training plan and conducting capacity building pilots; and (iv) developing a communications strategy to facilitate the introduction of GST for field level department staff, trade bodies, tax counselors and other stakeholders.

3.2. Strengthening Analytical skills and Business Intelligence (BI) Capabilities

Supporting activities will include: (i) improving the existing MIS and systems within the department; (ii) carrying out a survey of best practices for MIS reporting; (iii) developing protocols for automatic sharing of information across tax office jurisdictions; and (iv) establishing an Economic Intelligence Unit (EIU) to strengthen tax analysis capabilities within ETD.

3.3. e-Governance in the Excise Function

Supporting activities will include: (i) designing a comprehensive e-Governance solution for excise administration; (ii) carrying out an "as-is assessment" of processes; (iii) carrying out process reengineering and integration of the excise administration processes with systems of the Himachal Pradesh Beverages Limited (HPBL); and (iv) replacing obsolete IT hardware in the ETD offices.

3.4. Independent Third Party Audit

Conducting performance and security audits and operational reviews of existing software through an independent agent to identify and mitigate risks.

3.5. Support for addressing backlog of VAT and CST assessments

Supporting activities will include: (i) financial support for the hiring of personnel to assist the departmental officers in clearing the pending VAT and CST assessments; (ii) undertaking domestic study tours; and (iii) participating in workshops for exchange of ideas and learning from good practices in other states.

4. Program Management

Provision of support for, *inter alia*: (i) operational costs incurred in connection with carrying out of the Program including salaries of staff; (ii) outstation travel, local travel, office space, and per diem; (iii) financial audit, internal audit, procurement post review, and independent verification by an IVA; and (iv) consultancy for management and Monitoring & Evaluation.

SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Fiduciary, Environmental and Social Systems

Without limitation on the provisions of Article V of the General Conditions, the Borrower shall cause Himachal Pradesh to carry out the Program, in accordance with financial management, procurement and environmental and social management systems acceptable to the Bank ("Program Fiduciary, Environmental and Social Systems") including those set out in the ESSA, the Program Manual, and Program Action Plan which are designed to ensure that:

1. the Loan proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and
2. the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process.

In the event of any inconsistency between the provisions of the ESSA, the Program Manual and/or the Program Action Plan and those of this Agreement, this Agreement shall govern.

B. Anti-Corruption

Without limitation upon the provisions of Part A of this Section, the Borrower shall cause Himachal Pradesh to ensure that the Program is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Other Program Institutional and Implementation Arrangements

1. Without limitation on the generality of Part A of this Section I, the Borrower shall ensure that Himachal Pradesh:
 - (a) shall carry out the Program in accordance with the institutional and administrative arrangements set forth in the ESSA, the Program Agreement, the Program Manual, and the Program Action Plan;
 - (b) shall not, except as the Bank shall otherwise agree in writing, amend or waive any of such arrangements if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the Program's implementation or the achievement of the objectives thereof;

- (c) shall maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the Program in accordance with the ESSA, the Program Manual and the Program Action Plan; and
 - (d) shall maintain at all times during Program implementation a Program Steering Committee (PSC) to provide strategic leadership and interdepartmental coordination for Program implementation.
2. To facilitate the carrying out of the Program, the Borrower shall make the proceeds of the Loan available to Himachal Pradesh in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.
 3. Notwithstanding paragraph 3 above, in the event that any provision of this Agreement, including the instructions that the Bank shall have specified by notice to the Borrower pursuant to Section IV.A.1 of this Schedule, were to be found inconsistent with the Borrower's standard arrangements for development assistance to the States of India, the provisions of this Agreement and related instructions shall govern.
 4. The Borrower shall protect its own interests and the interests of the Bank to accomplish the purpose of the Program.

Section II. Excluded Activities

The Borrower shall ensure that the Program excludes any activities which:

- (a) in the opinion of the Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; or
- (b) involve the procurement of: (1) works, estimated to cost fifty million United States Dollars (USD 50,000,000) equivalent or more per contract; (2) goods, estimated to cost thirty million United States Dollars (USD 30,000,000) equivalent or more per contract; (3) non-consulting services, estimated to cost twenty million United States Dollars (USD 20,000,000) equivalent or more per contract; or (4) consultants' services, estimated to cost fifteen million United States Dollars (USD 15,000,000) equivalent or more per contract.

Section III. Program Monitoring, Reporting and Evaluation; Audits

A. Program Reports

The Borrower shall cause Himachal Pradesh to monitor and evaluate the performance of the Program and prepare Program Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Program Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Verification Process

The Borrower shall cause Himachal Pradesh:

- (a) to undertake an independent verification process, in accordance with terms of reference agreed with the Bank, for the fulfillment of the Disbursement Linked Results as measured against specific indicators ("Disbursement Linked Indicators" or "DLIs") all as set out in the table in paragraph A.2 of Section IV of this Schedule 2 and the Annex to this Schedule 2; and
- (b) to furnish to the Bank corresponding verification reports, in form and substance agreed with the Bank.

C. Program Financial Audits

Without limitation on the generality of Section I.A of this Schedule 2 and Section 5.09 of the General Conditions, the Borrower shall have the Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Unless otherwise agreed with the Bank, each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower commencing with the fiscal year in which the first withdrawal was made under the Loan. The audited Financial Statements for each such period shall be furnished to the Bank not later than nine months after the end of such period.

Section IV. Withdrawal of Financing Proceeds

A. General

- 1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify from time to time by notice to the Borrower to: (a) pay the Front-end Fee; (b) pay each Interest Rate Cap or Interest Rate Collar premium; and (c) finance the results ("Disbursement Linked Results" or "DLRs") achieved by the Program Implementing Entity, as measured against specific indicators ("Disbursement Linked Indicators" or "DLIs"); all as set forth in the table in Schedule 3 to this Agreement.

2. The following table specifies each category of withdrawal of the proceeds of the Loan (including the Disbursement Linked Indicators as applicable) ("Category"). The actual amounts authorized for disbursement (Allocated Amount) and/or the formula for their determination upon the achievement of an individual DLR for any given DLI financed under a Category, are set forth in the Annex to this Schedule 2:

Category (including Disbursement Linked Indicator as applicable)	Amount of the Loan Allocated (expressed in USD)
(1) DLI # 1: Electronic interface of IFMIS implemented in all departments	US\$ 8,000,000
(2) DLI # 2: Internal controls of the FD strengthened	US\$ 5,000,000
(3) DLI # 3: Increased transparency and citizen engagement	US\$ 3,000,000
(4) DLI # 4: Increased value of transactions processed through the e-Procurement system	US\$ 5,000,000
(5) DLI # 5: CMS in IPH Department implemented	US\$ 3,910,000
(6) DLI # 6: Backlog of pending VAT/ CST assessments reduced	US\$ 4,000,000
(7) DLI # 7: Institutional performance of the ETD improved	US\$ 3,000,000
(8) DLI # 8: e-Governance application for excise function implemented	US\$ 4,000,000
(9) Front End Fee	US\$ 90,000
(10) Interest Rate Cap or Interest Rate Collar premium	0
TOTAL AMOUNT	US\$ 36,000,000

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for any DLI under Category (1) to (8), until and unless the Borrower has furnished evidence satisfactory to the Bank that said DLIs have been achieved.
2. Notwithstanding the provisions of Part B.1 of this Section, the Borrower may withdraw: (i) an amount not to exceed US\$ 7,200,000 as an advance; provided, however, that if the DLIs in the opinion of the Bank, are not achieved (or only partially achieved) by the Closing Date, the Borrower shall refund such advance to the Bank promptly upon notice thereof by the Bank. Except as otherwise agreed with the Borrower, the Bank shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Bank shall specify by notice to the Borrower.
3. Notwithstanding the provisions of Part B.1 of this Section, if any of the DLRs under Categories(1) to (8) have not been achieved by the date by which said DLR is set to be achieved, the Bank after discussions with the Borrower and Himachal Pradesh, may, by notice to the Borrower and Himachal Pradesh: (a) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Loan then allocated to said Category which, in the opinion of the Bank, corresponds to the extent of achievement of said DLR; (b) reallocate all or a portion of the proceeds of the Loan then allocated to said DLR to any other DLR; and/or (c) cancel all or a portion of the proceeds of the Loan then allocated to said category.
4. Unless otherwise agreed by the Bank, for any subsequent DLR in the event that: (i) a reversal of a previous DLR has occurred in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program; and (ii) said previous DLR has already been vetted by the IVA(s) using the Verification Protocol agreed with the Bank, and for which the corresponding disbursements have been already made by the Bank. The Borrower shall refund the disbursements already made by the Bank for said previous DLR promptly upon notice thereof by the Bank.
5. The Closing Date is September 30, 2022.
6. Notwithstanding the foregoing provisions of this Section IV, if at any time after the Closing Date the Borrower has failed to provide evidence satisfactory to the Bank that the Withdrawn Loan Balance does not exceed the total amount of Program Expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such excess amount of the Withdrawn Loan Balance. The Bank shall cancel the refunded amount of the Withdrawn Loan Balance.

Annex to Schedule 2

Disbursement-Linked Indicators, Disbursement-Linked Results and Allocated Amounts Applicable to the Program

DISBURSEMENT-LINKED INDICATORS	DISBURSEMENT-LINKED RESULTS*				
	RESULTS TO BE ACHIEVED IN FY2017/18 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY2018/19 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY19/20 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY2020/21 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY 2021/22 (YEAR 5)
DLI 1: Electronic interface of IFMIS implemented in all departments ^{1 2}	Rollout to 30% DDOs	Rollout to 65% DDOs including all DDOs of any two LoC departments	Rollout to 100% DDOs including all DDOs of all three LoC departments	Online submission of monthly accounts by treasuries to the AG	
<i>Allocated Amounts US \$ 8.0 million</i>	US\$2.0 million	US\$2.0 million	US\$2.0 million	US\$2.0 million	
DLI 2: Internal controls of the FD strengthened ³	Revised treasury rules, manuals (for DDOs, treasuries staff) adopted and made operational	Budget preparation process automated and rolled out to cover 100% of the plan/scheme budget	Commitment Control and Debt Management Modules implemented	Interface with RBI's e-Kuber operational and biometric verification system for all IFMIS users implemented ⁴	Variance between originally approved budget to expenditure outturns of six large departments reduced to 15%
<i>Allocated Amounts US \$ 5.0 million</i>	US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million

¹ "Roll-out to DDOs" is defined as: (a) extending of electronic interface for payment processing to each DDO; and (b) at least two staff of each DDO given 1-day training on the IFMIS. There shall be a Government order covering the electronic submission by DDOs with a cut-off date. Specific locations (as notified through a Government order) are affected by climatic conditions or poor connectivity; coverage would be 100% after excluding these locations. On-line submission of monthly accounts to the Auditor General shall start for the offices where electronic interface for IFMIS has been rolled out.

² Flexibility in reallocation of budgets may be retained for LoC departments.

³ A Government order will be issued to make the following mandatory: revised Treasury rules; commitment control system; debt management system; and budget management system. There shall be full, real time interface between IFMIS; public financial management system; debt management system; and budget management system.

⁴ An operational interface with RBI's e-Kuber includes full electronic exchange of data and a reconciliation functionality.

DISBURSEMENT-LINKED INDICATORS	DISBURSEMENT-LINKED RESULTS*				
	RESULTS TO BE ACHIEVED IN FY2017/18 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY2018/19 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY19/20 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY2020/21 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY2021/22 (YEAR 5)
DLI 3: Increased transparency and citizen engagement		Better disclosure including public consultations and accepting off-line feedback on the budget ⁵	Real-time disclosure on the GoHP website of contracts awarded/ procurement opportunities through e-Procurement and progress on large IPH contracts ⁶	BI tools (on treasury systems) rolled out for citizens to access key fiscal information	
<i>Allocated Amounts US \$ 3.0 million</i>		US\$1.0 million	US\$1.0 million	US\$1.0 million	
DLI 4: Increased value of transactions processed through the e-Procurement system ⁷	Increase of 30% over baseline ⁸		Increase of 60% over baseline ⁹		Increase of 90% over baseline, ¹⁰ including at least 20 departments
<i>Allocated Amounts US\$ 5.0 million</i>	US\$1.5 million		US\$1.5 million		US\$2.0 million

⁵ "Better disclosure" means inter-year budget and expenditure reports/analysis (semi-annually on FD website); stakeholders' consultations through workshops (at least three each year); accepting off-line feedback on the budget and capacity building for citizens' budget literacy.

⁶ "Large IPH contract" means a contract involving procurement of works, goods and/or services costing above INR 1 million.

⁷ Processing through the e-Procurement system includes usage of all modules of the e-Procurement software, namely tender creation, tender publication, bid submission, tender opening, negotiations and award of contract.

⁸ For all procurement contracts with a value above INR 2 million, to be prescribed through a Government order.

⁹ For all procurement contracts with a value above INR 1 million, to be prescribed through a Government order.

¹⁰ For all procurement contracts with a value above INR 500,000, to be prescribed through a Government order.

DISBURSEMENT-LINKED INDICATORS	DISBURSEMENT-LINKED RESULTS*				
	RESULTS TO BE ACHIEVED IN FY2017/18 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY2018/19 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY19/20 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY2020/21 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY 2021/22 (YEAR 5)
DLI 5: CMS in IPH Department implemented¹¹	CMS customized to all needs of IPH and implemented in 25% divisions	Implemented in 60% divisions	Implemented in 100% divisions		
<i>Allocated Amounts US\$ 3.91 million</i>	US\$1.0 million	US\$1.0 million	US\$1.91 million		
DLI 6: Backlog¹² of pending VAT/ CST assessments reduced¹³	Backlog reduced by 20% over baseline and 75% of in-year assessments completed within 1 year of return filing	Backlog reduced by 50% over baseline and 80% of in-year assessments completed within 1 year of return filing	Backlog reduced by 70% over baseline and 85% of in-year assessments completed within 1 year of return filing	Backlog reduced by 100% over baseline and 90% of in-year assessments completed within 1 year of return filing	
<i>Allocated Amounts US\$ 4.0 million</i>	US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million	

¹¹ "Implemented" means: (a) full usage of all 14 modules of CMS at head office and in the field; (b) all transactions at divisions and sub-divisions; (c) discontinuation of manual transactions/ record keeping; and (d) submission of monthly accounts to the accountant general. A Government order shall be issued in Year 1, stating that all works contracts in Himachal Pradesh above INR 1 million in value shall be managed using a contract management software. Specific locations (as notified through a Government order) are affected by climatic conditions or poor connectivity; coverage would be 100% after excluding these locations.

¹² "Backlog" shall include cases of 2015-16 till date of GST implementation and shall exclude assessments when the matter is sub-judice.

¹³ Sample for in-year assessments shall follow a risk based approach with 75%/80%/85%/90% of VAT/CST assessments selected completed within 1 year of return filing. The balance shall be completed within 2 years of return filing. This shall be issued in form of a Government order.

DISBURSEMENT-LINKED INDICATORS	DISBURSEMENT-LINKED RESULTS*				
	RESULTS TO BE ACHIEVED IN FY2017/18 (YEAR 1)	RESULTS TO BE ACHIEVED IN FY2018/19 (YEAR 2)	RESULTS TO BE ACHIEVED IN FY19/20 (YEAR 3)	RESULTS TO BE ACHIEVED IN FY2020/21 (YEAR 4)	RESULTS TO BE ACHIEVED IN FY2021/22 (YEAR 5)
DLI 7: Institutional performance of the ETD improved		EIU functionally integrated within the ETD ¹⁴	Formal service tax specialization created in the ETD ¹⁵	Audit system strengthened ¹⁶	
<i>Allocated Amounts US\$ 3.0 million</i>		US\$1.0 million	US\$1.0 million	US\$1.0 million	
DLI 8: e-Governance application for excise function¹⁷ implemented¹⁸	FRS and System Requirement Specifications (SRS) developed for core excise function; full rollout of the HPBL software	Systems Integrator (SI) appointed; solution design (user acceptance testing UAT) approved and rolled out in 25% offices	Excise e-Governance system rolled out in 80% of the offices	Excise e-Governance system rolled out in 100 % of the offices	
<i>Allocated Amounts US\$ 4.0 million</i>	US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million	

*Note: DLI results are not time-bound; the Fiscal Years in which they are expected to be achieved as per this schedule are for indicative purposes. These DLI results can accordingly be met up and until the Closing Date.

¹⁴ Integration of EIU functionality shall be evidenced by: (i) EIU created with positions such as excise and taxation officers, statistician, data analyst etc. reporting to the Commissioner or Additional Commissioner; (ii) training and handholding provided to a select officers; and (iv) production of analytic reports on tax revenue risk.

¹⁵ Service tax specialization shall be evidenced by: (i) a senior officer responsible for administering service tax be assigned; (ii) an adviser to handhold the department in service tax assessments be appointed for two years; and (iii) select staff be trained in service taxation.

¹⁶ Strengthened audit system shall be evidenced by: (i) specialized function; (ii) staff complement; (iii) audit manual; (iv) audit strategy and plan; and (v) reports on the outcome from previous year's audit plan.

¹⁷ E-Governance application for excise function will include full linkages with the HPBL software.

¹⁸ Rollout includes issuance of at least 90% transport permits through the e-Governance system and discontinuation of manual processes. Specific locations (as notified through a Government order) are affected by climatic conditions or poor connectivity; coverage would be 100% after excluding these locations. Rollout should include all modules of the Excise e-governance software to all district offices and check-posts and have clear service standards in terms of 'time'. Software to include transport permits, excise licenses, registration of labels, permits for hospitals, scanning of QR codes. Further all collections should be electronic and on-line.

SCHEDULE 3

Amortization Schedule

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 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 the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each August 15 and February 15, Beginning August 15, 2022 through August 15, 2035	3.57 %
On February 15, 2036	3.61 %

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn 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.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is 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.

APPENDIX

Section I. Definitions

1. "Anti-Corruption Guidelines" means the Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing" dated February 1, 2012, and revised on July 10, 2015.
2. "BI" means business intelligence.
3. "Category" means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
4. "CMS" means contract management systems.
5. "CST" means Central Sales Tax, a tax on sales of goods levied by the Central Government of India, applicable only in the case of inter-state sales and not on sales made within the state or import/export of sales.
6. "DDOs" mean the drawing and disbursing officers of the Himachal Pradesh's Finance Department.
7. "DeMPA" means Debt Management Performance Assessment.
8. "Disbursement Linked Indicator" or "DLI" means in respect of a given Category, the indicator related to said Category as set forth in the tables in Section IV.A.2 of Schedule 2 to this Agreement.
9. "Disbursement Linked Result" or "DLR" means in respect of a given Category, the result under said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, on the basis of the achievement of which, the amount of the Loan allocated to said result may be withdrawn in accordance with the provisions of said Section IV.
10. "DoTA" means the Himachal Pradesh's Directorate of Treasuries and Accounts, under the Finance Department, responsible for all government financial transactions inter alia collection of government receipts, making payments on behalf of the state, and compilation of accounts for rendition to the state's Accountant General (AG).
11. "EIU" or "Economic Intelligence Unit" means the unit to be established under Himachal Pradesh's ETD to strengthen its tax analytics capabilities.
12. "e-Kuber" means the core banking solution of RBI which provides a single current account for each bank across the country with decentralized access to this account using safe portal based services.

13. "ESSA" means the Environmental and Social Systems Assessment, dated February 7, 2017, and applicable to the Program setting forth the description of the Program's activities, assessing the Project Implementing Entity's environmental and social management systems, detailing the Program's environmental and social benefits, risks and impacts, and recommending remedial measures to strengthen the social and environmental systems performance.
14. "ETD" means Himachal Pradesh's Excise and Taxation Department.
15. "GoHP" means Government of Himachal Pradesh.
16. "GST" means the "Goods and Services Tax", a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout the territory of the Borrower, to replace taxes levied by the central and state governments.
17. "Facilitation Centers" mean the centers to be established for purposes of on line bill generation by DDOs with connectivity and hardware issues.
18. "FD" means Himachal Pradesh's Finance Department.
19. "FRS" means functional requirement specifications.
20. "HISWAN" means Himachal State Wide Area Network.
21. "HPBL" means Himachal Pradesh Beverages Limited.
22. "IFMIS" means Integrated Financial Management Information System.
23. "IPH" means Himachal Pradesh's Irrigation and Public Health Department
24. "IT" means information technology.
25. "IVA" means an independent verification agency.
26. "INR" means Indian Rupees, the Borrower's currency.
27. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
28. "LoC" means Letter of Credit.
29. "MIS" means management information systems.
30. "PFM" means Public Financial Management.

31. "Program Action Plan" means the Himachal Pradesh's plan dated April 6, 2017, and referred to in Section I.A. and I.C of Schedule 2 to this Agreement and Sections I.A. and I.C. of the Schedule to the Project Agreement, as may be amended from time to time with the agreement of the Bank.
32. "Program Implementing Entity" means the Borrower's state of Himachal Pradesh.
33. "Program Manual" means the manual adopted by Himachal Pradesh on April 5, 2017 acceptable to the Bank, setting out, inter-alia: Program activities, results, budget and program expenditures, environmental, social, financial management, and procurement arrangements for Program implementation and monitoring, and reporting, and; as the same may be amended from time to time by agreement between the Borrower and the Bank.
34. "PSC" means the Program Steering Committee created under the leadership of Himachal Pradesh's Additional Chief Secretary, for purposes of providing strategic leadership and interdepartmental coordination for Program implementation.
35. "RBI" or "Reserve Bank of India" means the Borrower's central bank.
36. "Treasury" means Himachal Pradesh's treasury.
37. "VAT" means the value added tax.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. Wherever used throughout the General Conditions, the term "the Project" is modified to read "the Program", the term "the Project Agreement" is modified to read "the Program Agreement", the term "Project Implementing Entity" is modified to read "the Program Implementing Entity", the term "Project Report" is modified to read "Program Report"; and the term "Eligible Expenditures" is modified to read "Program Expenditures".
2. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the amendments set forth below.
3. Section 2.02, *Special Commitment by the Bank*, is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.
4. In Section 2.02 (originally numbered as Section 2.03), the heading "*Applications for Withdrawal or for Special Commitment*" is replaced with "*Applications for Withdrawal*", and the phrase "or to request the Bank to enter into a Special Commitment" is deleted.

5. The section originally numbered as Section 2.04, *Designated Accounts* is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.
6. Paragraph (a) of Section 2.03 (originally numbered as Section 2.05), *Eligible Expenditures* (renamed "Program Expenditures" in accordance with paragraph 1 of this Section II), is modified to read: "(a) the payment is for the financing of the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Loan in accordance with the provisions of the Legal Agreements;".
7. The last sentence of Section 2.04 (originally numbered as Section 2.06), *Financing Taxes*, is modified to read: "To that end, if the Bank at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Bank may, by notice to the Borrower, exclude such amount or such Tax from the Program Expenditures to be financed out of the proceeds of the Loan, as required to ensure consistency with such policy of the Bank."
8. Section 2.06 (originally numbered as Section 2.08), *Reallocation*, is modified to read:

"Notwithstanding any allocation of an amount of the Loan to a withdrawal category under the Loan Agreement, the Bank may, by notice to the Borrower, reallocate any other amount of the Loan to such category if the Bank reasonably determines at any time that such reallocation is appropriate for the purposes of the Program.
9. Section 3.01. (*Front-end Fee*) is modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

 - (a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").
 - (b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."
10. Section 7.01, *Cancellation by the Borrower*, is modified to read: "The Borrower may, by notice to the Bank, cancel any amount of the Unwithdrawn Loan Balance."

11. Paragraph (d) of Section 7.03, *Cancellation by the Bank*, entitled "*Misprocurement*", is deleted, and subsequent paragraphs are relettered accordingly.
12. Section 7.04, *Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Bank*, is deleted in its entirety, and subsequent Sections in Article VII and references to such Sections are renumbered accordingly.
13. In the Appendix, **Definitions**, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth above.
14. A new paragraph 19 is inserted with the following definition of "Commitment Charge", and the remaining paragraphs are renumbered accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."
15. In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of "Front-end Fee" is modified by replacing the reference to Section 3.01 with Section 3.01 (a).
16. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term "Loan Payment" is modified to read as follows:

"68. "Loan Payment" means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower."
17. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of "Payment Date" is modified by deleting the word "is" and inserting the words "and Commitment Charge are" after the word "interest".
18. Renumbered paragraph 88 (originally paragraph 87) of the Appendix, setting forth the definition of "Special Commitment" is deleted in its entirety, and all subsequent paragraphs are renumbered accordingly.