
LOAN NUMBER 4004-IND

LOAN AGREEMENT
(Ordinary Operations)

(West Bengal Public Finance Management Reforms Program)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 2 DECEMBER 2020

IND 54001

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 2 December 2020 between INDIA acting by its President ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower and the State of West Bengal ("State") a development policy letter dated 29 September 2020 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the State's public finance sector ("Program");

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

(C) the Program will be carried out by the State acting through its Department of Finance, 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

(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 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 ADB's Ordinary Operations Loan Regulations, dated 1 January 2017 ("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(tt) is deleted and the following is substituted therefor:

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(uu) is deleted and the following is substituted therefor:

The term "Program Agreement" means the program agreement between ADB and the Program Executing Agency, being the Program Agreement referred to in the Loan Agreement, as such agreement may be amended from time to time, and such program agreement includes all schedules, if any, to the Program Agreement;

- (d) The term "Project Agreement" wherever it appears in the Loan Regulations shall be substituted by the term "Program Agreement".
- (e) Section 2.01(vv) is deleted and the following is substituted therefor:

The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.
- (f) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".
- (g) Section 6.01(b) is deleted.

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 5 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) "DOF" means the Department of Finance of the State, or any successor thereto;
- (d) "Financing Arrangements" means the arrangements between the Borrower and the State as per current policy of the Borrower, and acceptable to ADB;
- (e) "First Tranche" means the portion of the proceeds of the Loan in an amount of \$25,000,000 to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;
- (f) "FY" means financial year;
- (g) "IFMS" means integrated financial management system;
- (h) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);

- (i) "MTEF" means medium-term expenditure framework;
- (j) "PAG" means the State's Office of the Principal Accountant General;
- (k) "parastatals" means State-aided institutions which are supported wholly or partially through grants from the State's budget and include educational institutions, statutory boards and corporations, and local governments;
- (l) "PFM" means public financial management;
- (m) "Policy Matrix" means the policy matrix as agreed between the Borrower, the State and ADB, which sets forth actions accomplished or to be accomplished by the Borrower under the Program and is attached to the Policy Letter;
- (n) "Program Executing Agency" or "EA" for the purposes of, and within the meaning of, the Loan Regulations means the State acting through DOF or any successor thereto, which is responsible for the carrying out of the Program;
- (o) "RBI" means the Reserve Bank of India, the central bank of the Borrower;
- (p) "RLBs" means rural local bodies of the State;
- (q) "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 6 of Schedule 3 to this Loan Agreement; and
- (r) "ULBs" means urban local bodies 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 fifty million Dollars (\$50,000,000), 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 May and 15 November 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(f) 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 ensure the proceeds of the Loan are 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 31 December 2022 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed by the State and the EA, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. (a) As part of the information and reports referred to in Sections 7.01 and 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished by the EA, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

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

Section 4.03. (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. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: (i) the Borrower has met the policy actions for the release of the First Tranche, and (ii) those policy actions continue to be in effect.

Section 5.02. 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:

(9111) 2309 4075

For ADB

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


Facsimile Numbers:

(632) 8636-2444

(632) 8636-2338.

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

By 

C S Mohapatra
Additional Secretary
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By 

Takeo Konishi
Country Director

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to improve the operational efficiency of the State's PFM systems linking DOF, parastatals and other government agencies such as RBI and PAG, and the scope includes (a) improved management of social protection benefits and grants to parastatals; (b) improved resource planning, management and control; and (c) improved information management and service delivery. The Program is described in more detail in the Policy Letter.

2. The Program is expected to be completed by 31 December 2022.

SCHEDULE 2

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 shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 May 2024	4.166667
15 November 2024	4.166667
15 May 2025	4.166667
15 November 2025	4.166667
15 May 2026	4.166667
15 November 2026	4.166667
15 May 2027	4.166667
15 November 2027	4.166667
15 May 2028	4.166667
15 November 2028	4.166667
15 May 2029	4.166667
15 November 2029	4.166667
15 May 2030	4.166667
15 November 2030	4.166667
15 May 2031	4.166667
15 November 2031	4.166667
15 May 2032	4.166667
15 November 2032	4.166667
15 May 2033	4.166667
15 November 2033	4.166667
15 May 2034	4.166667
15 November 2034	4.166667
15 May 2035	4.166667
15 November 2035	4.166659
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; and
- (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 2 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 set out in this Schedule or as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.
2. 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.
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 RBI into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with the applicable regulations and procedures of the Borrower.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.
4. No Loan proceeds shall be withdrawn to finance any item specified in Attachment 1 to this Schedule.
5. The Borrower may withdraw the First Tranche upon effectiveness of this Loan Agreement.
6. 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 and the EA, that: (a) sufficient progress has been achieved by the Borrower, acting through the EA, in the carrying out of the Program, (b) the policy actions that were met for the release of the First Tranche continue to be complied with by the Borrower, acting through the EA, and (c) the Borrower, acting through the EA, has met the policy actions for the release of the tranche specified in Attachment 2 to this Schedule.

Negative List

No withdrawals of Loan proceeds 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 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;
- (iii) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (iv) expenditures for narcotics;
- (v) 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
- (vi) 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 Second Tranche

1. DOF shall have improved efficiency and transparency of the State's pension sanction system by enabling online submission of service records and sanctioning of pensions by the respective pension sanctioning authorities of the State to the PAG.
2. DOF shall have completed the full operationalization of the ePension system, with features to obtain gender disaggregated data, in parastatals including at least 1,000 ULBs, RLBs and other autonomous institutions, covering a total of approximately 180,000 employees.
3. DOF shall have completed the full operationalization of scheme-wise bank account management system for improved management of payment transactions and account balances, including:
 - (a) a system to enable State departments and parastatals to execute transactions through ePayment advices for their respective institutional bank accounts;
 - (b) a system for tracking transactions and balances under institutional bank accounts for government projects and schemes; and
 - (c) a system for monitoring disbursements and institutional account balances for grants-in-aid.
4. For improved financial management of ULBs' projects and schemes, DOF shall have (a) operationalized a web-based Rapid Scrutiny Protocol with standard formats for providing in-principle detailed project report approval of projects and schemes of ULBs, and (b) integrated the existing online system for ULBs' scheme management with the State's IFMS.
5. The Directorate of Pension, Provident Fund, and Group Insurance of DOF shall have developed and operationalized an automated provident fund management system, with features for generating gender-disaggregated data, for efficient management of parastatal employees' provident fund contributions.
6. DOF shall have added the following additional features in the government receipt portal system for improved accessibility and taxpayer compliance:
 - (a) 'My Profile' facility for registered users;
 - (b) online application for refund of receipts;
 - (c) facility for making payment for multiple services through a single debit transaction;
 - (d) direct payment by ULBs and RLBs into the treasury deposit account of the State; and
 - (e) capture of gender-disaggregated data for registered users.

7. As steps towards adoption of outcome-based budgeting, the State's Department of Women and Child Development and Social Welfare shall have (a) implemented the MTEF in accordance with the DOF circular linking the FY2022 budget allocations with the MTEF; and (b) submitted gender impact assessment reports for FY2022 to DOF for at least 2 schemes.
8. DOF shall have developed and operationalized the project management and public works accounting module in IFMS with gender-disaggregated data of beneficiaries to track annual physical and financial progress of projects from sanction until completion.
9. DOF shall have established a centre for fiscal policy and public finance to train State and parastatal officers in various aspects of PFM, including adoption of MTEFs and gender-responsive budgeting, and signed a memorandum of understanding with at least one PFM institution to provide such trainings.
10. DOF shall have operationalized a comprehensive management information system for availability of need-based management information reports in real-time for all modules of IFMS, including gender-related information.
11. DOF shall have upgraded the centralized treasury system module of IFMS to enable online and paperless submission of monthly account statements to the PAG.
12. For improved user feedback and service delivery, the State's Department of Transport and Department of Urban Development and Municipal Affairs shall have established web-based grievance redress systems for transport corporations and at least 5 ULBs, with features for gender disaggregated data on grievances.

SCHEDULE 4**Program Implementation and Other Matters**Implementation Arrangements

1. (a) The Borrower shall cause the State to assume all responsibility for the execution and coordination of the Program by and amongst the various concerned departments and agencies of the State.

(b) Without limiting the generality of the foregoing clause, the EA shall oversee all policy, legal and regulatory actions to be taken in connection with the Program. The EA shall also be responsible for Program implementation and monitoring, and maintenance of all Program records.

(c) The Borrower shall cause the State to constitute a steering committee chaired by the Principal Secretary, and including the secretaries of the implementing agencies to provide overall Program oversight, and resolve interdepartmental issues during Program implementation. A senior official (joint secretary or above) from the DOF will manage the Program as the Program director in coordination with the eGovernance group of the DOF. The Program director and other key officials from the DOF shall also be on the steering committee.

2. The Borrower shall cause the State to ensure that (a) critical Program staff remain in their position on a full-time basis for a reasonable duration to ensure continuity in the implementation of the Program; and (b) the EA is provided with the necessary financial, technical and other resources to perform their functions under the Program.

Policy Actions and Dialogue

3. The Borrower shall ensure, or cause the EA to ensure, that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program.

4. The Borrower shall keep, and shall 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 and the State, as applicable, shall take into account ADB's views before finalizing and implementing any such proposal.

Use of Counterpart Funds

5. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

Governance and Anticorruption

6. The Borrower, the State and the EA 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

7. The Borrower shall cause the EA to monitor the outcomes of the Program using a set of indicators and targets that has been agreed amongst the Borrower, the EA and ADB to assess progress towards meeting the objectives of the Program. For each of the agreed indicators, progress shall be measured against the baselines in the design and monitoring framework for the Program.