

CREDIT NUMBER IN

Development Credit Agreement

(Technical/Engineering Education Quality Improvement Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated _____, 2002

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DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated _____, 2002, between INDIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association)

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Borrower, and the Project States (as herein defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to the Project States, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and the Project States (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

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ARTICLE 1

General Conditions; Definitions

Section 1.01 The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement.

The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BTE" means the Bureau of Technical Education within the Department of Secondary and Higher Education of the Borrower;

(b) "DSHE" means the Department of Secondary and Higher Education within the Ministry of Human Resource Development of the Borrower;

(c) "Eligible Categories" means categories 1 through 6 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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(d) "Eligible Expenditures" means the expenditures for goods, works and services;

(e) "Institutional Development Subproject" means an institutional project consisting of activities classified in Part A of the Project and which has been prepared and agreed in accordance with the criteria and procedures set forth in the PIP for selection of institutional projects.

(f) "MOU" means a memorandum of understanding to be entered into between an institution selected in accordance with the criteria and procedures set forth in the PIP and a Project State or the BTE, as appropriate, for Project implementation, and in form of the draft sample MOU annexed to the PIP;

(g) "NPIU" means the National Project Implementation Unit established by the Borrower in accordance with paragraph 3 of Schedule 3 of this Agreement;

(h) "Project Agreement" means the agreement between the Association and the Project States of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(i) "Project Implementation Plan" or "PIP" means the Borrower's implementation plan for the Project dated August 2002, including time-bound action plans, procedures and criteria for implementation of the Project, all as necessary, and agreed with the Association;

(j) "Project Management Report" means each report prepared in accordance with Section 3.02 of the Project Agreement.

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(k) "Project Institution" means a technical/engineering education institution, as defined in the PIP, duly selected for support under the Project and which has entered into an MOU for the purposes of Project implementation.

(l) "Project States" means the following selected States of the Borrower: Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra and Uttar Pradesh and includes any successor or successors thereof and such other States of the Borrower as the Borrower and the Association shall agree from time to time such States to be selected on the basis of the criteria set forth in the PIP.

(m) "respective Part of the Project" means, in connection with the Borrower, activities to be carried out under Parts A and B of the Project pertaining to Project Institutions under the jurisdiction of the Borrower, and, in connection with the Project States, activities to be carried out under Parts A and B of the Project pertaining to Project Institutions under the jurisdiction of the Project States;

(n) "SPFU" means the State Project Facilitation Unit established by each of the Project States in accordance with paragraph 4 of Schedule 2 of the Project Agreement;

(o) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(p) "Tribal Development Plan" means the Borrower's plan dated May 2002 prepared to ensure that scheduled tribes and scheduled castes benefit from the activities financed under the Project and referred to in Paragraph 8 of Schedule 2 to the Project Agreement; for the purposes of this definition the following terms have the following meanings: "Scheduled Castes" means the population groups specified as Scheduled

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Castes pursuant to Article 341 of the Constitution of India; and "Scheduled Tribes" means the population groups specified as Scheduled Tribes pursuant to Article 342 of the Constitution of India.

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ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred eighty nine million Special Drawing Rights (SDR189,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule I to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Credit

Section 2.03. The Closing Date shall be June 30, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

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(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled, and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement

(c) The commitment charge shall be paid (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing April 15, 2013, and ending October 15, 2037. Each installment to and including the installment payable on October 15, 2022, shall be one and

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one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate

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agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions

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ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out its respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for its respective Part of the Project; and
- (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause the Project States to carry out their respective Part of the Project with due diligence and efficiency, in conformity with appropriate administrative, financial and educational practices and perform in accordance with the provisions of the Project Agreement all the respective obligations of the Project States therein set forth, and, to this end, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project States to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation to the provisions to paragraph (a) of this section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall

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carry out its respective Part of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(c) The Borrower shall make part of the proceeds of the Credit available to the Project States for their respective Part of the Project in accordance with the Borrower's standard arrangements for development assistance to the States of India

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. (a) The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project States' respective Part of the Project shall be carried out by the respective Project State pursuant to Section 2.03 of the Project Agreement

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall: (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association, not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and the Borrower, a plan for the future operation of the Project, such plan to consist of a consolidation of the Borrower's own plan together with the plan submitted by the Project States to the Borrower in accordance with the provisions of Section 2.03 (b) of the Project Agreement; and (ii) afford the Association a reasonable opportunity to exchange views with the Borrower and the Project States on said plan.

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ARTICLE IV

Financial Covenants

Section 4.01 (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of: (i) the departments and agencies of the Borrower responsible for the Project and of the Project Institutions sponsored by the BTE, and (ii) the Project States responsible for carrying out their respective parts of the Project and of the Project Institutions sponsored by the Project States.

(b) The Borrower shall

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested including a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such Fiscal year, together with the procedures

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and internal controls involved in their preparation, can be relied upon to support the necessary withdrawals; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the

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procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, by January 1, 2002 or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report,
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

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ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Any of the Project States shall have failed to perform any of its obligations under the Project Agreement

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that any of the Project States will be able to perform its obligations under the Project Agreement.

Section 5.02 Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

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ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by each of the Project States, and is legally binding upon each Project State in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

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ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretary to the Government of India
Ministry of Finance
Department of Economic Affairs
New Delhi, India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-3166175	91113093404

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written

INDIA

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Country Director, India

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SCHEDULE I

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category.

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Institutional Development Subprojects	175,400,000	80%
(2) Goods under Part B of the Project	480,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Books and learning resources under Part B of the Project	120,000	100%
(4) Consultants' Services under Part B of the Project, including audit fees	733,000	80%
(5) Training and workshops under Part B of the Project	1,060,000	100%

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Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(6) Incremental Operating Costs under Part B of the Project	2,680,000	80% until December 31, 2004, 65% until December 31, 2006 and 25% thereafter
(7) Unallocated	8,527,000	
TOTAL	189,000,000	

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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means the costs of operation and maintenance of equipment and vehicles, office rental and expenses, hiring of vehicles, salaries and allowances of additional staff, and travel costs incurred for the purposes of carrying out the Project.

3 Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in :

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(a) respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDRI,000,000, may be made on account of payments made for expenditures before that date but after January 1, 2002; and

(b) respect of an Institutional Development Subproject unless (i) the Institutional Development Subproject has been prepared in accordance with the requirements set forth in the PIP; and (ii) an MOU has been entered into between the relevant Project Institution and a Project State or BTE in respect of such Institutional Development Subproject.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding \$300,000; (b) goods under contracts not exceeding \$300,000 equivalent, (c) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 for employment of individual consultants, respectively; (d) books and learning resources, (e) training and workshops; and (f) Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account, in the Reserve Bank of India, on terms and conditions satisfactory to the Association

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows.

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(a) until the Association shall have received (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule, and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports

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required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports or statements of expenditure.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures

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during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement

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Annex A

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SCHEDULE I

Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports

1. For the purposes of this Annex the term "Authorized Allocation" means an amount equivalent to \$12,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$6,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR30,000,000.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

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(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of this Schedule to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

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Annex B

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SCHEDULE I

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule I to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$50,000,000.

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SCHEDULE 1

Description of the Project

The objective of the Project is to support production of high quality technical professionals through reforms in the technical/engineering education system in order to raise productivity and competitiveness of the Indian economy. The Project is part of a long-term program of the Borrower designed in pursuance of the Borrower's National Policy on Education whose objective is to improve the quality of technical/engineering education including inter alia through: (i) creating an environment in which engineering education institutions can achieve their own goals for excellence and sustain the same; (ii) supporting Institutional Development Subprojects of competitively selected institutions to achieve higher levels of academic performance and relevance to the society and the economy, and (iii) supporting improvements in the system management capacity.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objective:

Part A: Institutional Development

The carrying out of Institutional Development Subprojects comprising the following activities

(a) promotion of academic excellence including, among others, the following activities:

- (i) improvements in institutional governance and, management and administrative practices;
- (ii) improvements in teaching, training and learning facilities;

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- (iii) improvements in curricular practices;
- (iv) faculty and staff development.
- (v) enhancement in postgraduate education and research, and consultancy activities.
- (vi) enhanced interaction with industry; and
- (vii) increased attention to equity issues.

(b) networking of academic institutions for quality enhancement and resource sharing; and

(c) enhancing quality and reach of academic services to community and economy.

Part B: System Management Capacity Improvement

Improving system management capacity through:

(a) development of modern management practices through training of policy planners, managers and administrators from the central and participating State governments, and their bodies concerned with the management of technical/engineering education;

(b) carrying out policy and system research studies at the State and national levels;

(c) carrying out audits in respect of reforms, performance, quality and efficiency of Project Institutions; and

(d) establishment of structures and facilities for Program management at the central and State levels.

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The Project is expected to be completed by December 31, 2007.

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SCHEDULE 3

Implementation Program

1. **The Borrower shall**

(a) implement, through BTE, its respective Part of the Project in accordance with the Project Implementation Plan agreed with the Association, and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially or adversely affect the objectives or implementation of the Project;

(b) without prejudice to the generality of paragraph (a) above shall rigorously enforce the eligibility criteria for Project States set forth in the PIP and shall only allow for inclusion in the Project those States which adequately demonstrate preparedness to carry out all such reforms as are required by the eligibility criteria and which meet the criteria in all respects;

(c) without prejudice to the generality of paragraph (a) above, shall, and shall cause Project States to, rigorously enforce the eligibility criteria for Project Institutions agreed between the Borrower and the Association set forth in the PIP and ensure that only institutions which meet the criteria in all material respects are considered under the Project.

(d) ensure that the selection of Project Institutions to participate and benefit under the Project is transparent and in accordance with the agreed eligibility criteria and selection process set forth in the PIP; and

(e) enter, through BTE, into MOU's with institutions selected to become Project Institutions, as appropriate, for carrying out the Project and shall cause the Project

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institutions to carry out the Project in accordance with the obligations under the MOU and the PIP.

2. The Borrower shall ensure that the Project States and BTE implement and sustain all measures required to be taken in accordance with the eligibility criteria and requirements set forth in the PIP throughout the period of Project implementation.

3. The Borrower shall have in place a fully operational implementation unit with adequate staff and resources as provided in the PIP.

4. The Borrower through BTE and jointly with the Project States: (i) by no later than March 31 in each year shall develop an annual training and study tour program (for the purposes of this paragraph "the Training Program") for improvement of system management capacity at the central, state and institutional levels, and (ii) shall provide by no later than April 30 in each year a copy of the Training Program to the Association and (iii) shall thereafter implement the Training Program, taking into account the comments of the Association thereon;

5. The Borrower shall provide to the Association: (a) semi-annually by no later than April 30 and October 31 in each year, the findings of the independent performance, reforms, quality and efficiency audits carried out by each Project State and BTE in accordance with the PIP; and (b) within 3 months of receiving the results of the research studies being carried out by SPFUs and NPIU a copy of such research studies.

6. The Borrower shall, through BTE, and together with the Project States and the Association undertake bi-annual reviews of Project implementation on the basis of

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performance indicators agreed with the Association, and, thereafter, shall implement the Project taking into account the results of such reviews.

7. The Borrower shall, through BTI and the Project States, ensure that all Project Institutions implement the Tribal Development Plan to ensure that tribal and vulnerable groups benefit from Project activities.

8. The Borrower, through NPIU, shall ensure that, as part of the selection process, a financial management evaluation of all institutions seeking to become Project Institutions and receive financing under the Project is carried out, such evaluation to be made on the basis of the financial management evaluation criteria set forth in the PIP.

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators agreed with the Association, the carrying out of the Project and the achievement of the objectives thereof.

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the

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efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, by October 31, 2005, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

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