

CONFORMED COPY

LOAN NUMBER 3779 IN

IDBI Loan Agreement

(Industrial Pollution Prevention Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

INDUSTRIAL DEVELOPMENT BANK OF INDIA

Dated November 21, 1994

LOAN NUMBER 3779 IN

LOAN AGREEMENT

AGREEMENT, dated November 21, 1994, between INDUSTRIAL DEVELOPMENT BANK OF INDIA (Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) India (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Development Credit Agreement as hereinafter defined, have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the IDBI Guarantee Agreement), the Guarantor is agreeing to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as are set forth in the IDBI Guarantee Agreement;

(C) the Guarantor has requested the International Development Association (the Association) to provide assistance towards the financing of Parts A, B(2) and C of the Project and by an agreement of even date herewith between the Guarantor and the Association (the Development Credit Agreement), the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to seventeen million seven hundred thousand Special Drawing Rights (SDR 17,700,000) (the Credit);

(D) The Guarantor will make available to the Borrower a part of the

proceeds of the Credit as provided in the Development Credit Agreement for the purposes of carrying out Part B(2) of the Project;

(E) the Industrial Credit and Investment Corporation of India (ICICI) has also requested the Bank to provide assistance towards the financing of Part B(1) of the Project and by an agreement of even date herewith between the Bank and ICICI (the ICICI Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to fifty million dollars (\$50,000,000) (the ICICI Loan);

(F) by an agreement of even date herewith between the Guarantor and the Bank (the ICICI Guarantee Agreement), the Guarantor is agreeing to guarantee the obligations of ICICI in respect of the ICICI Loan and to undertake such other obligations as are set forth in the ICICI Guarantee Agreement; and

(G) Parts A, C(1), C(2) and C(4) of the Project will be carried out by the Guarantor, Part B(1) of the Project will be carried out by ICICI and the Borrower and Parts B(2) and C(3) of the Project will be carried out by the Borrower with the assistance of the Guarantor; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth or referred to in this Agreement, the Development Credit Agreement, the IDBI Guarantee Agreement, the ICICI Loan Agreement and the ICICI Guarantee Agreement respectively;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated February 9, 1993, with the modifications set forth in Schedule 3 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Charter" means the Industrial Development Bank of India Act, 1964 (Act 18 of 1964) of the Borrower, as amended to the date of this Agreement;

(b) "Development Credit Agreement" means the agreement of even date herewith between the Guarantor and the Association for the Project, as such agreement may be amended from time to time, and such term includes the "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Development Credit Agreement;

(c) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2(b) of Schedule 4 to this Agreement;

(d) "Investment Enterprise" means an enterprise to which the Borrower proposes to make or has made a Sub-loan and/or a Sub-grant;

(e) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing a Sub-loan and/or a Sub-grant;

(f) "Sub-grant" means a grant made or proposed to be made by the Borrower out of the Credit to an Investment Enterprise for an Investment Project under Part B(2) of the Project;

(g) "Sub-loan" means a loan made or proposed to be made by the Borrower, and reimbursed from or financed by the Loan, to an Investment Enterprise for an Investment Project under Part B(1) of the Project;

(h) "Subsidiary Grant Agreement" means the agreement to be entered into between the Guarantor and the Borrower, as the same may be amended from time to time, pursuant to Section 3.01(b) of the Development Credit Agreement;

(i) "Special Account" means the account referred to in Section 2.02(b) hereof;

(j) "Statement of Policy" means the statement of lending and investment policy of the Borrower, as amended to the date of this Agreement; and

(k) "rupees" or "Rs." means the currency of the Guarantor.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of ninety-three million dollars (\$93,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-loan under Part B(1) and Part B(2) and a Sub-grant under Part B(2) of the Project to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in (i) a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment; or (ii) in the Reserve Bank of India, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to Single Currency LIBOR, plus one-half of one percent ($1/2$ of 1%), plus or minus the Average Margin as provided in paragraph (b) (iv) below.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to but not including the first Interest Payment Date and thereafter the period from and including any Interest Payment Date to but not including the next Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "Single Currency LIBOR" means the London interbank offered rate for dollar, expressed as a percentage per annum, reasonably determined by the Bank in accordance with Schedule 7 to this Agreement for the January 15 or July 15 on which an Interest Period commences (or, for the initial Interest Period, the January 15 or July 15 preceding the date of this Agreement or on which such

Interest Period commences).

- (iv) "Average Margin" means, for any Interest Period, the weighted average margin, for the Semester preceding the relevant January 15 or July 15, between: (A) the cost of the outstanding borrowings of the Bank or portions thereof allocated to the funding of single currency loans in all currencies, and (B) the specific London and, for French francs, Paris interbank offered rates or other such reference rates attributable to such borrowings in each such currency, all as reasonably determined by the Bank and expressed as a percentage per annum. For any Interest Period in which (A) exceeds (B), the Average Margin shall be added under paragraph (a) above. For any Interest Period in which (B) exceeds (A), the Average Margin shall be subtracted under paragraph (a) above.
- (v) "Semester" means the first six months or second six months of a calendar year.

(c) After the Bank shall have determined Single Currency LIBOR and the Average Margin for any Interest Period, the Bank shall promptly notify the Guarantor and the Borrower of such determination.

Section 2.06. Interest and other charges shall be payable January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Parts B(1), B(2) and C(3) of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter and the Statement of Policy.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans and Sub-grants will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

(c) The Borrower shall pass on the proceeds of the Credit provided to it under the Subsidiary Grant Agreement as Sub-grants for Investment Projects under Parts B(2) and C(3) of the Project in accordance with terms and conditions satisfactory to the Bank including those set forth in Schedule 4 to this Agreement.

(d) Without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall perform all its obligations set forth in the Subsidiary Grant Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the Loan shall be governed by the provisions of Schedule 5 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than nine months after the end of each such year: (A) certified copies of said financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) retain, or cause to be retained by sub-borrowers under terms and conditions satisfactory to the Bank, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. (a) The Borrower shall maintain on the average a Risk-Based Capital Adequacy Ratio satisfactory to the Bank.

(b) For purposes of this Section the term "Risk-Based Capital Adequacy Ratio" means the ratio calculated according to criteria and methods satisfactory to the Bank.

(c) In the event the Reserve Bank of India, or any other regulatory or supervising entity or agency shall enact regulations prescribing a higher level of capital for banks or financial institutions than that required by the Bank pursuant to sub-section (a) of this Section, any non-compliance by the Borrower with such regulations shall be deemed to constitute non-compliance with the provisions of this Section.

Section 4.04. The Bank and the Borrower shall, from time to time, at the request of either party, exchange views through their representatives

with regard to the operations and financial condition of the Borrower and the Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the operations and financial condition of the Borrower.

ARTICLE V

Remedies of the Bank

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

(a) The Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Grant Agreement has been executed on behalf of India and the Borrower;

(b) all conditions precedent to the effectiveness of the ICICI Loan Agreement, other than those related to the effectiveness of this Agreement, have been fulfilled; and

(c) all conditions precedent to the effectiveness of the Development Credit Agreement, other than those related to the effectiveness of this Agreement, have been fulfilled.

Section 6.02. 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 Bank, namely that the Subsidiary Grant Agreement has been duly authorized or ratified by the Borrower and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. The date 90 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Chairman and Managing Director or any Executive Director 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 Bank:

International Bank for
Reconstruction and Development

TOTAL 93,000,000
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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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

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

(a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement;

(b) in respect of expenditures financed by the Borrower under rupee Sub-loans unless such expenditures shall already have been financed out of the Borrower's local currency resources; and

(c) in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for (a) goods and works under contracts not exceeding \$500,000 equivalent; and (b) services and training under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)
January 15, 2000	2,355,000
July 15, 2000	2,395,000
January 15, 2001	2,440,000
July 15, 2001	2,485,000
January 15, 2002	2,530,000
July 15, 2002	2,580,000
January 15, 2003	2,625,000
July 15, 2003	2,675,000
January 15, 2004	2,720,000
July 15, 2004	2,770,000
January 15, 2005	2,820,000
July 15, 2005	2,875,000
January 15, 2006	2,925,000
July 15, 2006	2,980,000
January 15, 2007	3,035,000
July 15, 2007	3,090,000
January 15, 2008	3,145,000
July 15, 2008	3,205,000
January 15, 2009	3,265,000
July 15, 2009	3,325,000
January 15, 2010	3,385,000
July 15, 2010	3,445,000
January 15, 2011	3,510,000
July 15, 2011	3,570,000
January 15, 2012	3,640,000
July 15, 2012	3,705,000
January 15, 2013	3,770,000
July 15, 2013	3,840,000

January 15, 2014	3,910,000
July 15, 2014	3,985,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 3

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows: the words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 3 (c) of Schedule 4 to this Loan Agreement, the Bank shall, in respect of any portion of the Loan; (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 4

Procedures for and Terms and Conditions of Sub-loans, Sub-grants and Investment Projects

1. (a) Sub-loans: Terms and conditions of Sub-loans shall include the following:

- (i) onlending rates to Investment Enterprises shall be determined by the Borrower based on market conditions and its lending policies and set at levels not lower than prevailing minimum lending rates; and
- (ii) repayment terms of Sub-loans shall not exceed 10 years, inclusive of up to 2 years of grace.

(b) Sub-grants: Sub-grants shall only be made for Investment Projects under Part B.2 of the Project.

(c) Investment Projects: All Investment Projects shall satisfy the following eligibility criteria:

- (i) Investment Projects shall be of heavily polluting industries as defined by the Guarantor's Ministry of Environment and Forests;
- (ii) Investment Projects shall have a substantial positive effect on the environment and shall meet the environmental standards prescribed for the concerned industry;
- (iii) Investment Projects shall include a statement, identifying the nature of the environmental problem to be addressed and the positive impacts of the actions proposed;
- (iv) Investment Projects shall obtain statutory clearances, if any are required, from environmental authorities;
- (v) when examining Investment Projects that seek to control similar pollutants, priority shall be given to the most cost-effective approach; and

- (vi) to the extent practicable, and subject to commercial considerations, the Borrower shall consider for financing Investment Projects which incorporate replicable and innovative approaches with a demonstration effect.

(d) Investment Projects shall, in addition, satisfy the following financial and operational conditions:

- (i) the sponsoring Investment Enterprises shall meet acceptable financial benchmarks with respect to debt-equity ratio, debt-service coverage, and liquidity ratio;
- (ii) Investment Projects shall be appraised by the Borrower, including sub-sector level analysis when deemed necessary, and shall meet appropriate tests of financial and economic feasibility;
- (iii) except as the Bank shall otherwise agree, for any single Investment Enterprise, no sub-loan or combination of sub-loans shall exceed US\$5 million; and
- (iv) the concerned sub-borrower shall contribute, out of its own resources, a minimum of 25% of the cost of an Investment Project under Part B(1) and a minimum of 20% of the cost of an Investment Project under Part B(2) of the Project.

(e) Common Treatment Facilities under Part B(2) of the Project: Investment Projects under Part B(2) of the Project shall comply with the following criteria:

- (i) a thorough survey of the effluent at the site shall have been undertaken and provisions shall have been made for adequate pre-treatment or disposal of effluents not suitable for common treatment;
- (ii) a feasibility study shall have been conducted, the economic and financial viability of the Investment Project shall have been established and operating and maintenance costs shall have been estimated;
- (iii) an adequate sponsor shall have been constituted or identified with institutional and technical capability to manage, operate and maintain the facility;
- (iv) legal and financial responsibilities shall have been properly defined and the facility owner shall be liable to the enforcement agencies for the quality of the common effluent after treatment; and
- (v) adequate cost formulae shall have been adopted with associated mechanisms for cost sharing or fee structures from individual Investment Enterprises.

2. No expenditures for goods or services required for an Investment Project shall be eligible for Loan financing unless:

(a) the Sub-loan or Sub-grant for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than six months prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Sub-loan or Sub-grant; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than six months prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed under the Loan which shall not exceed the sum of \$3,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed under the Loan or of any other loan, provided for in any

outstanding loan agreement between the Bank and the Borrower or the Guarantor entered into before the date of this Agreement, which have been or are being used for financing goods and services directly and materially related to such Investment Project.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed under the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed under the Loan, and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before March 31, 2000, or such later date as the Bank shall specify.

4. Sub-loans shall be made on terms whereby the Borrower shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including, in the case of any Sub-loan the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them procured in accordance with the provisions of Schedule 5 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed under the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to financing under the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the Borrower.

SCHEDULE 5

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 1 hereof, goods manufactured in India may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Equipment and civil works under Part B of the Project, estimated to cost the equivalent of \$3,000,000 or less per contract, may be procured by sub-borrowers at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the equipment and availability of maintenance facilities and spare parts therefor, and, in the case of civil works, of their quality and the competence of the parties rendering them.

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed under the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of paragraph 2 (b) of Schedule 4 to this Agreement, payments for expenditures to be financed by free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan 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.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Single Currency LIBOR Determination

1. Single Currency LIBOR for any Interest Period shall be the offered rate for deposits in dollars for a period of six months which appears on the display designated as page "3750" on the Telerate monitor (or such other page or service as may replace it for the purpose of displaying London interbank offered rates of major banks for dollar deposits), as of 11:00 a.m. (London time) on the second day on which banks and foreign exchange markets are open for business in London prior to the relevant January 15 or July 15 (the Interest Determination Date).

2. If such rate does not appear on the Telerate monitor or on such service as may replace it, the Bank shall request the London offices of four major banks to provide the Bank with the rate at which deposits in dollars are offered by such banks on the Interest Determination Date to leading banks in the London interbank market for a period of six months ending on the last day of such Interest Period. Single Currency LIBOR for such Interest Period shall be the arithmetic mean (rounded upwards if necessary to the fifth decimal place) of such offered quotations as determined by the Bank.

3. If not more than one major bank provides the Bank with such quotations under paragraph 2 above, Single Currency LIBOR shall be arithmetic mean (rounded upwards if necessary to the fifth decimal place) determined by the Bank of the rates quoted by at least two major banks in New York City selected by the Bank on the Interest Determination Date for loans in dollars to leading European banks for a period of six months ending on the last day of such Interest Period. If fewer than two of the banks so selected are quoting such rates, Single Currency LIBOR shall be the single currency LIBOR in effect for the last preceding Interest Period.

