

CONFORMED COPY

LOAN NUMBER 3856 IN
LOAN NUMBER 3857 IN
LOAN NUMBER 3858 IN

Project Agreement

(Financial Sector Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

RESERVE BANK OF INDIA

Dated March 24, 1995

LOAN NUMBER 3856 IN
LOAN NUMBER 3857 IN
LOAN NUMBER 3858 IN

PROJECT AGREEMENT

AGREEMENT, dated March 24, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the RESERVE BANK OF INDIA (RBI).

WHEREAS (A) by the Loan Agreement of even date herewith between India (acting by its President) (India) and the Bank (the Capital Restructuring Loan Agreement) the Bank has agreed to make available to India an amount in various currencies equivalent to three hundred and fifty million dollars (\$350,000,000) (the Capital Restructuring Loan) to assist India and RBI in carrying out Part A of the Project described in Schedule 2 to the said Loan Agreement, on the terms and conditions set forth in the said Loan Agreement, but only on condition that RBI agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by the Loan Agreement of even date herewith between Industrial Development Bank of India (IDBI) and the Bank (the Modernization and Institutional Development Loan Agreement) the Bank has agreed to make available to IDBI an amount in various currencies equivalent to one hundred and fifty million dollars (\$150,000,000) (the Modernization and Institutional Development Loan) to assist the Borrower and IDBI in carrying out Part B of the Project described in Schedule 2 to the said Loan Agreement,

on the terms and conditions set forth in the said Loan Agreement, but only on condition that RBI agrees to undertake such obligations toward the Bank as are set forth in this Agreement;

(C) by the Guarantee Agreement of even date herewith between India and the Bank, India has agreed to guarantee the obligations of IDBI in respect of the Modernization and Institutional Development Loan and to undertake such other obligations as are set forth in the Modernization and Institutional Development Guarantee Agreement;

(D) by a Loan Agreement of even date herewith between Industrial Development Bank of India (IDBI) and the Bank (the Backstop Facility Loan Agreement) the Bank has agreed to make available to IDBI an amount in various currencies equivalent to two hundred million dollars (\$200,000,000) (the Backstop Facility Loan) to assist IDBI in carrying out Part C of the Project described in Schedule 2 to the said Loan Agreement, on the terms and conditions set forth in the said Loan Agreement, but only on condition that RBI agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(E) by the Guarantee Agreement of even date herewith between India and the Bank, India has agreed to guarantee the obligations of IDBI in respect of the Backstop Facility Loan and to undertake such other obligations as are set forth in the Backstop Facility Guarantee Agreement;

(F) Parts A, B and C of the Project are to be carried out by RBI; and

WHEREAS RBI, in consideration of the Bank's entering into the Capital Restructuring Loan Agreement with India, the Modernization and Institutional Development Loan Agreement with IDBI, the Modernization and Institutional Development Guarantee Agreement with India, the Backstop Facility Loan Agreement with IDBI and the Backstop Facility Guarantee Agreement with India, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Capital Restructuring Loan Agreement, the Modernization and Institutional Development Loan Agreement and the Backstop Facility Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined in each of the above agreements) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) RBI declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Capital Restructuring Loan Agreement, the Modernization and Institutional Development Loan Agreement and the Backstop Facility Loan Agreement respectively and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as India, the Bank and IDBI

shall otherwise agree, RBI shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) RBI shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively), as defined respectively in each of the Capital Restructuring Loan Agreement, the Modernization and Institutional Development Loan Agreement and the Backstop Facility Loan Agreement, in respect of the Project Agreement and Parts A, B and C of the Project respectively.

(b) Without limitation upon the provisions of paragraph (a) of this Section, RBI shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than nine (9) months after the Closing Date of the Backstop Facility Loan Agreement or such later date as may be agreed for this purpose between the Bank and RBI, a plan for the future operation of the Project;
- (ii) afford the Bank a reasonable opportunity to exchange views with RBI on said plan; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 2.04. (a) RBI shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Loan.

(b) RBI shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by RBI of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. RBI shall maintain, and cause to be maintained, procedures and records adequate to monitor and record the progress of the Project, and of each Investment Project under Parts A and C of the Project (including its cost and the benefits to be derived from it), in accordance with consistently maintained sound accounting practices.

Section 3.02. RBI shall:

- (i) have the records and accounts referred to in Section 3.01 of this Agreement 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.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Capital Restructuring Loan Agreement, the Modernization and Institutional Development Loan Agreement and the Backstop Facility Loan Agreement (hereinafter collectively referred to as "Loan Agreements") become effective.

Section 4.02. This Agreement and all obligations of the Bank and of RBI thereunder shall terminate on the date on which the Loan Agreements shall have terminated in accordance with their respective terms, and the Bank shall promptly notify RBI thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For Reserve Bank of India:

New Central Office Building
Shaheed Bhagat Singh Road
Bombay 400 023
India

Telex:

953-1185673

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of RBI, may be taken or executed by the Governor, RBI or such other person or persons as the Governor shall designate in writing, and RBI shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ N. Valluri

Regional Vice President
South Asia

RESERVE BANK OF INDIA

By /s/ H. Vergin

Acting Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works 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), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part E.2 (a) of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period

if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, RBI shall use, and cause PBs and EBs as the case may be, to 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, RBI shall use, or cause PBs and EBs, as the case may be, to 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 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, RBI may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Goods and works under Parts A and C of the Project, estimated to cost the equivalent of \$5,000,000 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.
2. Goods and equipment under Part B of the Project estimated to cost \$200,000 equivalent or less, but more than \$20,000 equivalent, per contract, up to an aggregate amount of \$6,400,000 equivalent may be procured through competitive bidding, advertised locally, under procedures satisfactory to the Bank.
3. Goods under Part B of the Project estimated to cost \$20,000 equivalent or less per contract, up to an aggregate amount of \$7,000,000 equivalent, may be purchased on the basis of quotations from at least three qualified suppliers, in accordance with procedures satisfactory to the Bank.
4. Proprietary items such as software, books and audio and video cassettes which are not available through distributors or dealers, up to an aggregate amount of \$12,700,000 equivalent, may be purchased by direct contracting, using procedures satisfactory to the Bank.

Part E: 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 for goods and works

under Part B of the Project estimated to cost the equivalent of \$300,000 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 4 to the Modernization and Institutional Development Loan 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.

Section II. Employment of Consultants

1. In order to assist IDBI, RBI and Investment Enterprises in carrying out the Project, each of them 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 2

Implementation Program

Capital Restructuring (Part A of the Project)

1. RBI shall enter into a Performance Agreement with each PB annually, with terms and conditions satisfactory to the Bank, including, inter alia, (i) that the concerned PB shall carry

out its Business Plan each year; and (ii) maintain, at levels satisfactory to the Bank: (a) gross and retained profits; (b) operational costs over assets; (c) capital adequacy ratios; and (d) non-performing assets.

2. RBI shall ensure that each PB shall adopt and carry out an annual Business Plan each year, with scope and content satisfactory to the Bank, including, inter alia: (i) changes to capital structure; (ii) institutional development programs; (iii) profitability improvements; (iv) actions for debt recovery; (v) schedules for issuing equity to private shareholders; (vi) programs for improvement of computers/communications; and (vii) programs for human resource development.

3. RBI shall provide to the Bank by June 30 of each year, starting June 30, 1995, an independent review of the loan portfolio of each PB, carried out by independent auditors satisfactory to the Bank, with scope satisfactory to the Bank.

4. RBI shall take prompt action, satisfactory to the Bank, to ensure the continued safety and soundness of a PB in the event the tier-one risk-adjusted capital adequacy ratio of such PB falls below 4%.

5. RBI shall take prompt remedial action satisfactory to the Bank in the event the net worth of any PB becomes negative.

Modernization and Institutional Development (Part B of the Project)

6. RBI shall enter into and carry out a Pass Through Agreement with IDBI (Modernization and Institutional Development Loan), on terms and conditions satisfactory to the Bank, setting out RBI's and IDBI's respective responsibilities with regard to the provision of proceeds of the Modernization and Institutional Development Loan to PBs.

7. RBI shall ensure that Part B of the Project is carried out by PBs in accordance with a plan for modernization and institutional development of such PB satisfactory to the Bank.

Backstop Facility (Part C)

8. RBI shall enter into and carry out a Pass Through Agreement with IDBI (Backstop Facility Loan), on terms and conditions satisfactory to the Bank, setting out RBI's and IDBI's respective responsibilities with regard to the provision of the proceeds of the Backstop Facility Loan to EBs.

9. (a) RBI shall issue Operating Guidelines for the Backstop Facility satisfactory to the Guarantor, IDBI and the Bank prior to issuing the first commitment pursuant to paragraph 12 (a) of this Schedule (hereinafter called "commitment").

(b) RBI shall maintain Operating Guidelines for the Backstop Facility satisfactory to India, IDBI and the Bank, and shall issue the Operating Guidelines from time to time to commercial banks and financial institutions selected in accordance with criteria satisfactory to the Bank.

10. RBI shall ensure that commitments issued under the Backstop Facility do not result (i) in an aggregate amount of commitments outstanding to eligible banks (EBs) exceeding \$200,000,000 equivalent (the aggregate amount of the Backstop Facility); and (ii) in an exposure under the Backstop Facility to any individual EB in excess of \$35,000,000 equivalent.

11. RBI shall ensure that EBs participating in the Backstop Facility shall at all times meet eligibility criteria satisfactory to the Bank, and that any EB that no longer meets such criteria shall be promptly excluded from participation in

the Facility. Eligibility criteria shall include the following: (i) EBs shall meet capital adequacy ratios satisfactory to the Bank, which shall not be less than 8% of risk weighted assets; (ii) EBs shall be in compliance with RBI exposure limits regarding credit concentration and be experienced in borrowing and lending in foreign exchange markets; (iii) EBs shall have a minimum AA domestic rating by at least two domestic credit rating institutions acceptable to the Bank, in order to be eligible to receive new commitments from the Facility (any domestic credit rating downgrade would result in ineligibility to receive additional commitments from the Facility); and (iv) all undisbursed commitments in respect of any EB that falls below a BBB rating shall be canceled.

12. (a) RBI shall issue commitments to EBs, with terms and conditions satisfactory to the Bank, including the following: (i) the conditions under which EBs may withdraw proceeds of the Loan as Backstop Loans pursuant to the Facility Draw Down Agreements between EBs and IDBI; and (ii) notwithstanding any other provision of this Agreement, an EB shall be entitled to withdraw from a Backstop Loan only during a period in respect of which the reference cost spread, as defined in sub-paragraph (b) of this paragraph, shall be at least 1.5% (150 basis points) higher than the reference cost spread for the month in which a Commitment was issued to the EB.

(b) For the purposes of this Agreement, "reference cost spread" for any month means the average borrowing cost spread announced by RBI for that month relative to one year dollar borrowing priced with reference to six-month dollar LIBOR, or an alternative market instrument acceptable to the Bank, for at least three EBs acceptable to the Bank with a minimum AA credit rating.

(c) RBI shall not issue any commitments pursuant to paragraph 12 (a) of this Schedule after a date seven years after the date of this Agreement.

13. RBI shall receive and review requests from EBs for Backstop Loans pursuant to Commitments, and, where RBI is satisfied that: (a) the event described in paragraph 12 (a) (ii) of this Agreement has occurred with respect to the concerned EB; and (b) such EBs are entitled to such Backstop Loans pursuant to this Agreement, shall issue instructions to IDBI, pursuant to the Pass Through Agreement between RBI and IDBI, to provide Backstop Loans to EBs pursuant to the Facility Draw Down Agreement between IDBI and EBs, on terms and conditions which shall include the following:

- (a) each Backstop Loan shall have a principal amount stipulated by the EB in its request to RBI for a Backstop Loan in a manner consistent with its Facility Draw Down Agreement;
- (b) each Backstop Loan shall have a maturity, not exceeding seven years, stipulated by the EB in its request for a Backstop Loan; and
- (c) each Backstop Loan shall carry a variable interest rate satisfactory to the Bank.

14. RBI shall not issue any new instructions to IDBI to enter any Facility Draw Down Agreement, or to commit, make or disburse, any Backstop Loan pursuant to a Facility Draw Down Agreement, after a date seven years after the date of this Agreement.

15. Without prejudice to the generality of any other provision of this Agreement, RBI shall provide to India, the Bank and IDBI annual reports, with scope and format acceptable to the Bank, on the status of the Facility including the eligibility of EBs and payments of Facility Fees and (if applicable)

interest payments and principal repayments.

16. RBI shall ensure that EBs are allowed to borrow in the domestic market foreign currency funds and make loans in a manner consistent with prudential norms, without being required to match the maturities and currencies of their assets and liabilities.

17. RBI shall ensure that interest rates for foreign currency loans covered by the Backstop Facility are market determined.

18. RBI shall ensure that Indian investors eligible to invest their foreign currency resources under applicable regulations, may do so in any debt instrument issued by banks and financial institutions registered in India.

19. RBI shall carry out a mid-term review of the Project by September 30, 1997, with scope and content satisfactory to the Bank, shall discuss the results of such review with India, the Bank and IDBI and thereafter take necessary action to implement the findings and recommendations of such review.

