

CONFORMED COPY

LOAN NUMBER 4620-IN

Loan Agreement

(Karnataka Economic Restructuring Program)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 26, 2001

LOAN NUMBER 4620-IN

LOAN AGREEMENT

AGREEMENT, dated July 26, 2001, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated May 31, 2001, attaching a letter from the State of Karnataka (Karnataka) describing a program of actions, objectives and policies designed to improve and strengthen the fiscal framework and public institutions of Karnataka (hereinafter called the Program), declaring Karnataka's commitment to the execution of the Program and the Borrower's support thereto, and requesting assistance from the Bank in support of the Program during the execution thereof;

(B) Karnataka has carried out the measures and taken the actions described in the Schedule to the Project Agreement (the Project Agreement) to the satisfaction of the Bank and has maintained a macroeconomic policy framework satisfactory to the Bank;

(C) the Program will be carried out by Karnataka with the assistance of the Borrower and, the Borrower will make the local currency equivalent of the proceeds of the Loan provided for in Article II of this Agreement available to Karnataka, as set forth in this Agreement;

(D) the Borrower has also requested the International Development Association (the Association) to provide additional assistance in support of the Program, and by an agreement of even date herewith between the Borrower and the Association (the

Development Credit Agreement), the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to fifty eight million nine hundred thousand Special Drawing Rights (SDR 58,900,000); and

(E) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in one tranche as hereinafter provided, and to Karnataka as provided in the Project Agreement.

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 May 30, 1995 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made."

(b) Section 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement."

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions."

(d) The last sentence of Section 5.03 is deleted.

(e) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "Fiscal Year" means the Fiscal Year of the Borrower and of Karnataka beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(c) "Karnataka" means the State of Karnataka of the Borrower, or any successor thereto.

(d) "Project Agreement" means the agreement among the Association, the Bank and Karnataka 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; and

(e) "Rupees" and "Rs" mean the currency of the Borrower.

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, an amount equal to seventy five million dollars (\$75,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the amount of the Loan may be withdrawn from the Loan Account in support of the Program and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower shall, promptly after the deposit of the proceeds of the Loan into the Deposit Account, transfer to Karnataka an amount in Rupees equivalent to the amount deposited in the Deposit Account as of the day of such deposit.

(d) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank:

(i) deposit into the Deposit Account an amount equal to the amount of said payment; or

(ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

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

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a

percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period:

(A) three-fourths of one percent (3/4 of 1%); and

(B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.08. 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

Particular Covenants

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Program and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Karnataka to perform in accordance with the provisions of the Project Agreement all the obligations of Karnataka therein set forth, shall take and cause to be taken all action necessary or appropriate to enable Karnataka to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall participate with the Bank and Karnataka in the exchange of views referred to in Section 2.02 (a) of the Project Agreement on the progress achieved in carrying out the Program, the actions specified in the Schedule to the Project Agreement, the performance of Karnataka's obligations under the Project Agreement and other matters relating to the purposes of the Loan.

(c) Without limitation upon the provisions of paragraph (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken by the Borrower after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in the Schedule to the Project Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Remedies of the Bank

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out by Karnataka.

ARTICLE V

Effective date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that all conditions precedent to the effectiveness of the Development Credit Agreement have been fulfilled other than those related to the effectiveness of this Agreement.

Section 5.02. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. 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 6.02. 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
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175 FINE IN 953-31-61430 FINE IN	91-11-3016075

For the Bank:

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

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

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 /s/ Adarsh Kishore

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edwin Lim

Country Director, India

SCHEDULE I

Excluded Expenditures

For purposes of Section 2.02 (d) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit; and
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures: (a) in the territories of any country which is not a member Country of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
March 15, 2007	1,575,000
September 15, 2007	1,625,000
March 15, 2008	1,670,000
September 15, 2008	1,725,000
March 15, 2009	1,775,000
September 15, 2009	1,830,000
March 15, 2010	1,880,000
September 15, 2010	1,940,000
March 15, 2011	1,995,000
September 15, 2011	2,055,000
March 15, 2012	2,120,000
September 15, 2012	2,180,000
March 15, 2013	2,250,000
September 15, 2013	2,315,000
March 15, 2014	2,385,000
September 15, 2014	2,455,000
March 15, 2015	2,530,000
September 15, 2015	2,605,000
March 15, 2016	2,685,000
September 15, 2016	2,765,000
March 15, 2017	2,845,000
September 15, 2017	2,935,000
March 15, 2018	3,020,000
September 15, 2018	3,110,000
March 15, 2019	3,205,000
September 15, 2019	3,300,000
March 15, 2020	3,400,000
September 15, 2020	3,500,000
March 15, 2021	3,605,000
September 15, 2021	3,720,000

* 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.