

CONFORMED COPY

LOAN NUMBER 3421 IN

Loan Agreement

(Structural Adjustment Loan)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 5, 1991

LOAN NUMBER 3421 IN

LOAN AGREEMENT

AGREEMENT, dated December 5, 1991, between INDIA, acting by its President, (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated November 11, 1991 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during such execution;

(B) 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 one hundred eighty three million eight hundred thousand Special Drawing Rights (SDR 183,800,000) (the Credit);

(C) the Borrower and the Bank intend, to the extent practicable, that the proceeds of each tranche of the Credit as set forth in the Development Credit Agreement be disbursed on account of

expenditures in respect of the Program before disbursements of the proceeds of each respective tranche of the Loan as set forth in this Agreement are made; and

(D) 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 two tranches as hereinafter provided;

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" of the Bank, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.n;

"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.";

(c) The last sentence of Section 3.02 is deleted; and

(d) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement. n

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) "SITC" means 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); and

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

#### 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 two hundred fifty million dollars (\$250,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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.

(b) The Borrower shall, for the purposes of the Program,

open and maintain in the Reserve Bank of India a special deposit account 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 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1992 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 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester. (c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter. n

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year. Section 2.07. The Bo

rrower 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 and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

Section 3.02. Without limitation or restriction upon the provisions of Section 3.01 of this Agreement, the Borrower shall no later than January 31, 1992 discuss with the Bank the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(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 Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, 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
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) 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 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 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 audits 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 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.

#### ARTICLE IV

##### Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) 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.

#### 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 shall have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 5.02. 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.

#### ARTICLE VI

##### Representatives of the Borrower; Addresses

Section 6.01. The 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:

The Secretary to the Government  
of India  
Ministry of Finance  
Department of Economic Affairs  
New Delhi, PIN 110001, India

Cable address:

Telex:

ECOFAIRS  
New Delhi

953-3166175  
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:

INTBAFRAD  
Washington, D.C.

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

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.

INDIA

By /s/ Abid Hussain  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Joseph Wood  
Regional Vice President  
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subj;awaked to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-Group	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
Group	Sub-Group	Description of Items
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)

(b) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$50,000,000 may be made on account of payments made for such expenditures before that date but after July 31, 1991;

(d) expenditures for goods procured under contracts costing less than \$100,000 equivalent;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance; and

(f) expenditures for goods intended for a military or para-military purpose or for luxury consumption.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost less than \$5,000,000 may be permitted by the Bank upon the basis of statements of expenditure under such terms and conditions as the Bank shall specify.

4. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$150,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank.

#### SCHEDULE 2

#### Amortization Schedule

Date Payment	Payment of Principal Due expressed in dollars*
August 1, 1997	4,560,000
February 1, 1998	4,735,000
August 1, 1998	4,920,000
February 1, 1999	5,110,000
August 1, 1999	5,305,000
February 1, 2000	5,510,000
August 1, 2000	5,725,000
February 1, 2001	5,945,000
August 1, 2001	6,175,000
February 1, 2002	6,415,000
August 1, 2002	6,660,000
February 1, 2003	6,920,000
August 1, 2003	7,185,000
February 1, 2004	7,465,000
August 1, 2004	7,750,000
February 1, 2005	8,050,000
August 1, 2005	8,365,000
February 1, 2006	8,685,000
August 1, 2006	9,020,000
February 1, 2007	9,370,000
August 1, 2007	9,735,000
February 1, 2008	10,110,000
August 1, 2008	10,500,000
February 1, 2009	10,905,000
August 1, 2009	11,325,000

February 1, 2010	11,765,000
August 1, 2010	12,220,000
February 1, 2011	12,690,000
August 1, 2011	13,185,000
February 1, 2012	13,695,000

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

✓ Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

✓ SCHEDULE 3

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding 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 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:



- (i) a notice in the United Nations publication, Development Business; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for the procurement of goods estimated to cost the equivalent of less than \$5,000,000 shall be awarded:

(a) by purchasers required to follow the Borrower's public procurement procedures for the importation of goods, on the basis of such procedures, provided that such procedures shall have been found acceptable by the Bank; and

(b) by other purchasers, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation and comparison of quotations obtained from suppliers from at least two countries, except that direct contracting procedures acceptable to the Bank may be used where considered appropriate under paragraph 3.5 of the Guidelines.

3. Subject to the prior approval of the Bank, commonly traded commodities may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Bank, in accordance with procedures acceptable to the Bank.

4. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request. Where payments under a contract are to be made out of the proceeds of the Special Account, such copies together with the other information required to be furnished to the Bank pursuant to this paragraph shall be furnished to the Bank as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

5. With respect to each contract referred to in paragraphs 2 and 3 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract. Where payments under a contract are to be made out of the proceeds of the Special Account, the documentation and the information to be furnished to the Bank pursuant to as part of the evidence required under paragraph 4 of Schedule 5 to this Agreement.

6. The provisions of the preceding paragraph 5 of this Schedule 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.

#### SCHEDULE 4

##### Actions Referred to in Paragraph 4 (c) of Schedule 1 to this Agreement

1. That the Borrower has introduced in its Parliament a Bill to amend its Sick Industrial Companies Act of 1985 (SICA), satisfactory to the Bank, providing, inter alia, for the following:

(a) improving the criteria for determining sick industries;  
and

(b) strengthening the Board for Industrial and Financial Reconstruction (BIFR) created under SICA and improving and streamlining its functions and procedures.

2. That the Borrower has specified, in respect of its National Renewal Fund established for the purpose of financing unemployment insurance and redeployment and retraining for public and private workers, all relevant details including, inter alia, its objectives, scope, structure, operations, sources and methods of funding, criteria and mechanisms for providing support to workers and, nature and amount of such support.

3. That the Borrower has issued guidelines under its Industries (Development and Regulations) Act 1951, as amended, clarifying that industrial licensing decisions in respect of projects and facilities located within less than 25 kms of cities of over one million population will be based solely on environmental, safety, land-use, congestion, urban planning, and other related considerations.

4. That the Borrower has adopted a plan of action, including a timetable for implementing such plan, satisfactory to the Bank, to deregulate and decontrol the steel industry, such plan to provide, inter alia, for the removal of price and distribution controls.

5. That the Borrower has:

(a) completed a review of the relevant laws and regulations governing labor relations and transfer of land, the role of state and local governments in industrial restructuring, and the procedures for liquidation under the Borrower's Companies Act of 1956, as amended; (b) based on the recommendations of such review, formulated a policy, including a timetable for implementing such policy, satisfactory to the Bank, to facilitate the process of adjustment by industrial firms, including rehabilitation, winding up and liquidation, taking into account the need for adequate safeguards for workers, including programs for redeployment, retraining, and appropriate compensation where necessary; and

(c) begun the implementation of such policy in accordance with such timetable.

6. That the Borrower has adopted appropriate measures, as may be required or necessary, in order to provide automatic approval for the import of capital goods in projects requiring such imports, where the CIF value of such imported capital goods is less than 50% of the total value of plant and equipment (net of taxes) required for such project and does not exceed Rs. 100 million.

7. That the Borrower has adopted appropriate measures, as may be required or necessary, to abolish the following restrictions imposed by its Reserve Bank since October 25, 1990:

(a) cash margins requirement for imports;

(b) the requirement that capital goods are importable only with foreign financing; and

(c) the preferential queuing system for approval of letters of credit.

8. That the Borrower has adopted appropriate measures, as may be required or necessary:

(a) to implement a program, satisfactory to the Bank, to reduce and eliminate the availability of foreign exchange at the official exchange rate to its public sector agencies for importing those products with respect to which imports by the private sector have been permitted solely with the use of Eximscip;

(b) to further reduce the list of products with respect to which its public sector agencies have the exclusive monopoly to import so that private sector imports relating thereto are permitted and such monopoly is retained only for the following products and such other products acceptable to the Bank; petroleum products; fertilizers; oilseeds; cereals; and certain fatty acids and acid oils; and

(c) to require its public sector agencies, in respect of the import of products for which private sector importers are required to use Eximscip, to also use Eximscip from the date private sector imports are permitted pursuant to clause (b) of this paragraph 8, or to adopt an action plan, satisfactory to the Bank, to reduce and eliminate the availability of foreign exchange at the official exchange rate to its public sector agencies for such imports.

9. That the Borrower has adopted appropriate measures, as may be required or necessary, to permit such intermediate items, except items related to health, environment and security, as set forth in Appendix 2-B (Restricted List) of the Borrower's Import and Export Policy, 1991-93 (hereinafter "Import and Export Policy") corresponding to at least two-thirds of the domestic production of such goods to be freely importable using Eximscip or using Open General License under Appendix 6 thereinafter "Open General License" of the Import and Export Policy.

10. That the Borrower has adopted appropriate measures, as may be required or necessary, to permit the import of all unlisted capital goods with Eximscip whether or not such Eximscip is earned by the exports of the importing firm.

11. That the Borrower has eliminated licensing requirements for imports of such capital goods, except capital goods related to health, environment and security, included in the Capital Goods Restricted List as set forth in Appendix 1-A of the Import and Export Policy corresponding to at least 50 percent of the aggregate domestic production of such goods.

12. That the Borrower has abolished the requirement that importers actually use the items imported.

13. That the Borrower has adopted appropriate measures, as may be required or necessary, to abolish the Limited Permissible List as set forth in Appendix 3 to the Import and Export Policy and to revise such Policy so as to permit any item not included in any of the Appendices to be imported with the use of Eximscip.

14. That the Borrower has adopted appropriate measures, as may be required or necessary, to abolish the preference provided by its Director General of Supplies and Disposals in the procurement of goods to domestic suppliers over the duty paid price of imports.

15. That the Borrower has removed export licensing, canalization and minimum export price requirements for all products except those included in a negative list, satisfactory to the Bank, with respect to which such requirements are retained.

16. That the Borrower has completed a review to reform the customs tariffs and, based on the recommendations of such review, has: (a) adopted a medium-term plan of action, including a timetable for implementing such plan, satisfactory to the Bank, in order to simplify the structure of tariff rates so as to substantially reduce

their variability and the incidence of exemptions and partial exemptions, minimize the use of specific tariffs, and substantially reduce the average and maximum levels of tariffs; and (b) reduced the maximum level of customs tariffs to a level satisfactory to the Bank.

17. That the Borrower has:

(a) adopted a plan of action, including a timetable for implementing such plan within a period of three years from the date of such adoption, satisfactory to the Bank, in order to:

- (i) eliminate budgetary transfers and loans to central public enterprises deemed to be sick under criteria set forth in SICA, as such criteria may be amended;
- (ii) eliminate budgetary plan support through loans and equity for public enterprise investments except in the energy, transport and other infrastructure sectors; and
- (iii) limit government guarantees of central public enterprise borrowings to those enterprises engaging in essential infrastructure, exploitation of oil and mineral reserves, and strategic activities; and

(b) begun the implementation of such plan in accordance with such timetable.

18. That the Borrower has: (a) adopted a plan of action, including a timetable for implementing such plan, satisfactory to the Bank, in order to initiate the closure or winding up of unviable central public enterprises in accordance with existing procedures; and (b) taken all necessary steps, satisfactory to the Bank, in order to require central public enterprises deemed to be sick under criteria set forth in SICA, as such criteria may be amended, to be referred to BIFR for assessment of their prospects and subsequent rehabilitation or winding up and that all such enterprises meeting such criteria have been referred to BIFR and the procedures for such assessment have been initiated, except in respect of those enterprises for which closure and winding up proceedings have already begun prior to requiring such enterprises to be referred to BIFR.

19. That the Borrower has completed the divestment of at least 20% of the equity of selected central public enterprises satisfactory to the Bank so as to yield a sum of at least Rs. 25 billion.

20. That the Borrower has adopted a plan of action, including a timetable for implementing such plan within a period of three years from the date of such adoption, satisfactory to the Bank, to increase the private equity share in profitable central public enterprises to at least 49 per cent, including preparation of a list of such enterprises.

21. That the Borrower has adopted measures, satisfactory to the Bank, to gradually reduce the Statutory Liquidity Ratio required to be maintained by Scheduled Commercial Banks, in a manner consistent with the reduction of the Borrower's fiscal deficit, such measures to be implemented beginning in April 1992.

22. That the Borrower has completed a review to reform the financial system and, based on the recommendations of such review, has adopted a plan of action, including a timetable satisfactory to the Bank, to gradually reduce and eliminate interest rate subsidies in direct credit schemes, such plan to be implemented beginning in April 1992.

23. That the Borrower has introduced in its Parliament appropriate legislation, satisfactory to the Bank, to confer on the Stock Exchange Board of India statutory powers to operate as an independent regulatory body, including power to investigate with due diligence.

24. That the Borrower has adopted a plan of action, including a timetable for implementation, satisfactory to the Bank, to reform the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust. 25. That the Borrower has adopted a plan of action, including a timetable for implementation, satisfactory to the Bank, for setting up of mutual funds in the private sector, and has begun the implementation of such plan in accordance with such timetable.

#### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$100,000,000 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 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, 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 Program, shall equal the equivalent of \$100,000,000.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

