

CONFORMED COPY

LOAN NUMBER 2827 IN

(Karnataka Power Project)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 21, 1987

LOAN AGREEMENT

AGREEMENT, dated December 21, 1987, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) Part A of the Project will be carried out by the Karnataka Power Corporation Limited (the Corporation) with the Borrower's assistance;

(C) Part B of the Project will be carried out by the State of Karnataka (Karnataka) through the Karnataka State Electricity Board (the Board) with the Borrower's assistance;

(D) Part C of the Project will be carried out by the Borrower through the Central Electricity Authority (the Authority);

(E) For the purposes of carrying out Parts A and B of the Project, as part of the Borrower's assistance, the Borrower will make available to Karnataka funds equivalent to \$329,000,000 out of the proceeds of the Loan as provided in this Agreement; 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 in this Agreement, in the Project Agreement of even date herewith between the Bank and the Corporation, and in the Karnataka Agreement of even date herewith between the Bank and Karnataka.

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Karnataka" means the State of Karnataka, a State of India;

(b) "Karnataka Agreement" means the agreement between 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;

(c) "Corporation" means the Karnataka Power Corporation Limited, a company registered under the Companies Act, 1956, of the Borrower;

(d) "Project Agreement" means the Agreement between the Bank and the Corporation 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;

(e) "Subsidiary Loan Agreement" means the agreement to be entered into between Karnataka and the Corporation pursuant to Section 3.01 (b) of the Karnataka Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(f) "Board" means the Karnataka Electricity Board established under the provisions of the Borrower's Electricity (Supply) Act, 1948, as amended to the date of this Agreement;

(g) "Kalinadi Complex" means the existing and future power generation facilities in the Kalinadi Basin;

(h) "Authority" means the Central Electricity Authority established under the Borrower's Electricity (Supply) Act, 1948;

(i) "Oustee" means any person, whether landed or landless, who would be displaced from his usual habitat or whose livelihood would be substantially affected due to the acquisition of land for the purposes of the carrying out of the Project;

(j) "Rehabilitation and Resettlement Plan" means the Plan dated November 1986 supplemented by the note dated March 1987 and furnished by Karnataka to the Bank for the rehabilitation of Ousteers; and

(k) "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, an amount in various currencies equivalent to three hundred thirty million dollars (\$330,000,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan and in respect of interest and other charges on the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special account 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 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 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 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part C of the Project

through the Authority with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause Karnataka to perform in accordance with the provisions of the Karnataka Agreement all the obligations of Karnataka therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, 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.

(c) The Borrower shall make an amount equivalent to \$329,000,000 out of the proceeds of the Loan available to Karnataka in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

Section 3.02. 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 the Karnataka Agreement.

Section 3.03. The Bank and the Borrower hereby agree that 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) in respect of Part A of the Project shall be carried out or caused to be carried out by the Corporation pursuant to Section 2.03 of the Project Agreement, and in respect of Part B of the Project, shall be carried out or caused to be carried out by Karnataka pursuant to Section 2.03 of the Karnataka Agreement.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part C of the Project of the Authority.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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 nine 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, accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) 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 sound accounting practices, records and

accounts reflecting such expenditures;

- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
 - (iii) enable the Bank's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section 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 seven months in respect of withdrawals for the Corporation and nine months in respect of withdrawals for the Authority and Karnataka, after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including 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; 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.

Section 4.03. The Borrower shall have the Special Account for each financial year audited in accordance with appropriate auditing principles, consistently applied by independent auditors acceptable to the Bank and furnish to the Bank as soon as available, but in any case not later than six months after the end of each year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested.

ARTICLE V

Remedies of the Bank

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

(a) Karnataka or the Corporation shall have failed to perform any of its respective obligations under the Karnataka Agreement or the Project Agreement.

(b) The Board is unable to obtain by October 31, 1988 the clearance under the Forest (Conservation) Act, 1980, of the Borrower for the purposes of construction of transmission lines running through forests under the Project.

(c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Karnataka or the Corporation will be able to perform its respective obligations under the Karnataka Agreement or the Project Agreement.

(d) A change shall have been made in the Memorandum and Articles of Association of the Corporation amended to the date of this Agreement, without the consent of the Bank, which would

materially and adversely affect the financial conditions or operations of the Corporation.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Board or the Corporation 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 paragraphs (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 the Subsidiary Loan Agreement has been executed on behalf of Karnataka and the Corporation.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Karnataka Agreement has been duly authorized or ratified by Karnataka and is legally binding upon Karnataka in accordance with its terms.

(b) that the Project Agreement has been duly authorized or ratified by the Corporation, and is legally binding upon the Corporation in accordance with its terms; and

(c) that the Subsidiary Loan Agreement has been duly authorized or ratified by Karnataka and the Corporation and is legally binding upon Karnataka and the Corporation 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. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

Telex:

ECOFAIRS
New Delhi

953-313546

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ N. Misra

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ B. Alisbah

Acting Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	37,000,000	70%
(2) Equipment and materials	247,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(3) Resettlement	3,600,000	100%
(4) Afforestation	3,000,000	50%
(5) Consultants'	7,600,000	100%

services and training	
(6) Unallocated	31,800,000
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TOTAL	330,000,000

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made on account of payments made for expenditures before that date but after June 1, 1986.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) develop low cost hydro resources to meet power shortages in the Southern Region; (ii) optimize generation in, and provide efficient evacuation of power from, the Kalinadi Complex; and (iii) renovate the Sharavathi Power Station.

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

Part A: The Corporation

- (i) the construction of a 3 x 40 MW hydro scheme at Kodasalli;
- (ii) the construction of a 3 x 50 MW hydro scheme at Kadra;
- (iii) the resettlement, rehabilitation and compensatory afforestation measures associated with (i) and (ii) above;
- (iv) the renovation of the existing Sharavathi Power Station involving, inter alia, replacement of stator coils, excitation systems and instruments;
- (v) the implementation of a computerized generation management scheme for the Kalinadi Complex, including installation of 'System Control and Data Acquisition' (SCADA) equipment and associated communications;
- (vi) the computerization of management information and accounting systems and certain planning activities in the Corporation;
- (vii) the execution of a training program for the Corporation; and
- (viii) the utilization of consultancy services for Part A

(i) through Part A (vii) of the Project and for developing a program of treatment for the Talakale dam.

Part B: The Board

(a) The construction of about 570 kms of single and double circuit 400-kV line and about 300 kms of single and double circuit 220-kV line together with associated substations.

(b) Utilization of consultancy services for:

- (i) the design and construction supervision of 400-kV lines and substations;
- (ii) preparation of a distribution master plan for the city of Bangalore followed by supervisory assistance for further distribution planning by the Board; and
- (iii) advice on protection and compensation aspects of transmission.

(c) The implementation of an institutional development program for the Board, including acquisition of data processing facilities, consultancy and training services for:

- (i) development of a system for maintaining technical records;
- (ii) establishment of proper fixed asset registers;
- (iii) establishment of a management information system;
- (iv) an organization and management study for the finance function;
- (v) computerization of certain activities in planning, operational statistics, accounting and inventory control; and
- (vi) a tariff and metering study.

Part C: The Authority

Utilization of consultancy services for the design of load dispatch facilities for the Southern Region.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each February 15 and August 15	
beginning February 15, 1993 through August 15, 2007	11,000,000



