

CONFORMED COPY

LOAN NUMBER 3436 IN

(Power Utilities Efficiency Improvement Project)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 14, 1992

LOAN NUMBER 3436 IN

LOAN AGREEMENT

AGREEMENT, dated February 14, 1992, 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) the Project will be carried out by Power Finance Corporation Limited (the Corporation) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Corporation 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 and in the Project Agreement of even date

herewith between the Bank and the Corporation;

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 set forth below (the General Conditions) constitute an integral part of this Agreement:

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

(b) 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."

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

(b) "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;

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

(d) "Operational Policy Statement" means the policy statement of the Corporation dated November 12, 1990, as amended from time to time;

(e) "Power Utility" means a State Electricity Board, a government undertaking or a government company engaged in the business of power generation and/or transmission under The Electricity (Supply) Act, 1948 of the Borrower; and

(f) "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 sixty-five million dollars (\$265,000,000), 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 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.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in 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, 1997 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."

"(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 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause the Corporation to perform in accordance with the provisions of the Project Agreement all the obligations of the Corporation 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 the Corporation 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 relend the proceeds of the Loan to the Corporation under a subsidiary loan agreement to be entered into between the Borrower and the Corporation, under terms and conditions which shall have been approved by the Bank, which shall include, inter alia, that the Corporation shall pay interest on the principal amount so relent and withdrawn and outstanding from time to time at a rate of not less than 11-1/2% per annum, repay the principal amount so relent over a period of 15 years, included therein a period of grace of 3 years, and the foreign exchange risk shall be borne by the Borrower.

(c) The Borrower shall exercise its rights under the Sub-sidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project 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) shall be carried out by the Corporation pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. 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.

Section 4.02. The Borrower shall, prior to the beginning of each financial year communicate to the Corporation a firm commitment on the amount the Corporation is authorized to raise in the domestic bond market in the following year, including the type of bonds to be issued and estimated dates of such issues.

ARTICLE V

Remedies of the Bank

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

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

(b) 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 the Corporation will be able to perform its obligations under the Project Agreement.

(c) The Memorandum and Articles of Association of the Corporation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Corporation to perform any of its obligations under the Project Agreement.

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

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

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (c), (d) or (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 the Borrower 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 Project Agreement has been duly authorized or ratified by the Corporation, and is legally binding upon the Corporation in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Corporation and is legally binding upon the Borrower and the Corporation in accordance with its terms.

Section 6.03. 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 VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary and Under Secretary in the Ministry of Finance, Department of Economic Affairs 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:

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

Cable address:

ECOFAIRS
New Delhi

Telex:

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:

INTBAFRAD
Washington, D.C.

Telex:

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

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 /a/ Lalit Mansingh
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ D. Joseph Wood
Regional Vice President
South 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) Equipment and foreign materials expendi- factory tures, 100%	248,000,000	100% of expendi- of local tures (ex- cost) and 75% of local expenditures for other items procured locally
(2) Consultants' services and training	7,000,000	100%

(3) Unallocated	10,000,000
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TOTAL	265,000,000
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the 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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) strengthen the Corporation and selected Power Utilities; (ii) improve utilization of existing power facilities; (iii) mitigate the adverse environmental impact of thermal plants; and (iv) provide technical assistance to improve preparation of power projects in India.

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: Institutional Strengthening of the Corporation

The carrying out of a program of institutional development for the Corporation to provide specialized services, equipment, software and training for the purposes of:

- (i) enhancement of management information system;
- (ii) development of administrative manuals and procedures to guide internal operations;
- (iii) development of manuals for project appraisal and monitoring;
- (iv) staff training in financial management; utility management; project management; power economics; upgrading of power plants, transmission and distribution; and planning and design of distribution systems; and
- (v) establishment of a unit for sector studies.

Part B: Preinvestment Operations

The carrying out of preinvestment activities for project preparation, studies and training aimed at enhancing the performance of the Power Utilities through utilization of technical assistance and the establishment of a Preinvestment Fund.

Part C: Transmission and Distribution Systems

The construction of transmission and distribution systems through implementation of specific schemes of sub-transmission and associated distribution works in urban areas, and of transmission lines and sub-stations by the Power Utilities.

Part D: Environmental Upgrading of Power Plants

The carrying out of studies, engineering and works to upgrade the environmental operating conditions of selected power plants.

Part E: System Renovation

The carrying out of a program of improvement and modernization of thermal stations to supplement the rehabilitation investments during the Seventh Five-Year Plan (1985 - 1990) of the Borrower, and high-priority upgrading of other system components.

Part F: Institutional Strengthening of Power Utilities

The carrying out of a program of institutional development for Power Utilities, including, inter alia, improvements in operation and management, provision of technical and training services, and acquisition of data processing equipment and software.

Part G: Billing and Collections

The carrying out of a program of improvements in the billing and collection systems of the Power Utilities including, inter alia, studies, equipment, software and technical assistance for establishing the necessary systems and procedures.

* * *

The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due dollars)*	Payment of Principal (expressed in
August 15, 1997	4,835,000
February 15, 1998	5,020,000
August 15, 1998	5,215,000
February 15, 1999	5,415,000
August 15, 1999	5,625,000
February 15, 2000	5,840,000
August 15, 2000	6,065,000
February 15, 2001	6,300,000
August 15, 2001	6,545,000
February 15, 2002	6,800,000
August 15, 2002	7,060,000
February 15, 2003	7,335,000
August 15, 2003	7,615,000
February 15, 2004	7,910,000
August 15, 2004	8,220,000
February 15, 2005	8,535,000
August 15, 2005	8,865,000
February 15, 2006	9,210,000
August 15, 2006	9,565,000
February 15, 2007	9,935,000

August 15, 2007	10,315,000
February 15, 2008	10,715,000
August 15, 2008	11,130,000
February 15, 2009	11,560,000
August 15, 2009	12,005,000
February 15, 2010	12,470,000
August 15, 2010	12,955,000
February 15, 2011	13,455,000
August 15, 2011	13,975,000
February 15, 2012	14,510,000

* 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
pressed annum) the plied by:	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 4

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and

services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$14,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

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

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

ment; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories 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.

