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**LOAN NUMBER 4879-IN**

# **Loan Agreement**

**(Bihar Development Policy Operation-I)**

**between**

**INDIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated January 15, 2008**

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## **LOAN AGREEMENT**

AGREEMENT dated January 15, 2008, entered into between INDIA, acting by its President (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement), being carried out by the Borrower’s State of Bihar (“Bihar”).

The Borrower has also requested the International Development Association (“the Association”), and the Association has agreed, to provide additional assistance in support of the Program under a Financing Agreement (“Financing Agreement”) of same date between the Borrower and the Association. The Bank has decided to provide financing under this Agreement on the basis, *inter alia*, of: (a) the actions which Bihar has already taken under the Program as described in Part A of Schedule 2 to the Program Agreement of same date among the Association, the Bank and Bihar (“Program Agreement”); (b) the actions which are to be taken by Bihar under the Program as described in Part B of Schedule 2 to the Program Agreement; and (c) Bihar’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

### **ARTICLE I – GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II – LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred and fifty million Dollars (\$150,000,000) (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Part B of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. 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.

- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.07. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

### **ARTICLE III – PROGRAM**

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end:
  - (a) the Borrower shall cause Bihar to carry out the Program in accordance with the provisions of Article V of the General Conditions and the Program Agreement;
  - (b) the Borrower shall participate with the Bank and Bihar in the exchange of views referred to in Section 2.03 of the Program Agreement, on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to the Program Agreement; and
  - (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 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 Schedule 2 to the Program Agreement.

### **ARTICLE IV – REMEDIES OF THE BANK**

- 4.01. The Additional Event of Suspension consists of the following:

A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

**ARTICLE V – EFFECTIVENESS; TERMINATION**

5.01. The Additional Condition of Effectiveness consists of the following:

All conditions precedent to the effectiveness of the Financing Agreement (other than the effectiveness of the Loan Agreement) have been fulfilled.

5.02. The Effectiveness Deadline is the date sixty (60) days after the date of this Agreement.

**ARTICLE VI – REPRESENTATIVE; ADDRESSES**

6.01. The Borrower's Representative is 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.

6.02. The Borrower's Address is:

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	91-11-23092477

6.03. The Bank's Address is:

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)	1-202-477-6391

AGREED at New Delhi, India, as of the day and year first above written.

INDIA

By /s/ Madhusudan Prasad  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Isabel M. Guerrero  
Country Director, India

## SCHEDULE 1

### Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan shall (except for amounts required to pay the Front-end Fee) be withdrawn in two tranches. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>
First Tranche	74,812,500
Second Tranche	74,812,500
Front-end Fee	375,000
<b>TOTAL AMOUNT</b>	<b><u>150,000,000</u></b>

- C. Tranche Release Conditions.**
1. No withdrawal shall be made of the Second Tranche unless the Bank is satisfied, after an exchange of views as described in Section 3.01(b) of this Agreement and Sections 2.03(a) and (b) of the Program Agreement based on evidence satisfactory to the Bank, that: (i) the macroeconomic policy framework of the Borrower is appropriate; and (ii) the actions described in Part B of Schedule 2 to the Program Agreement have been taken.
  2. If, after this exchange of views, the Bank is not so satisfied, it may give notice to the Borrower to that effect and, if within ninety (90) days after the notice, the Borrower has not taken steps satisfactory to the Bank, with respect to paragraphs 1, 2, and 3 above, then the Bank may, by notice to the Borrower, cancel all or any part of the Unwithdrawn Loan Balance.
- D. Deposits of Loan Amounts.**
1. 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.

2. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account. Upon each deposit of an amount of the Loan into the Deposit Account, the Borrower shall transfer to Bihar an amount in Rupees equivalent to the amount deposited in the Deposit Account as of the day of such deposit. Such transfer shall be made in accordance with the Borrower's standard arrangements for onlending of external development funds to the states of India.

**E. Audit.**

Upon the Bank's request, the Borrower shall:

1. have the Deposit Account audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;
2. furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request; and
3. furnish to the Bank such other information concerning the Deposit Account and its audit as the Bank shall reasonably request.

**F. Excluded Expenditures.**

1. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
2. The Borrower shall promptly refund to the Bank any amount refunded to the Borrower by Bihar pursuant to Section 2.04(b) of the Program Agreement. Amounts so refunded to the Bank shall be cancelled.

- G. Closing Date.** The Closing Date is December 31, 2008.

**SCHEDULE 2****Amortization Schedule**

<b><u>Principal Payment Date</u></b>	<b><u>Principal Amount of the Loan Payable (Expressed in Dollars*)</u></b>
September 15, 2013	3,240,000
March 15, 2014	3,330,000
September 15, 2014	3,425,000
March 15, 2015	3,520,000
September 15, 2015	3,620,000
March 15, 2016	3,725,000
September 15, 2016	3,830,000
March 15, 2017	3,940,000
September 15, 2017	4,050,000
March 15, 2018	4,165,000
September 15, 2018	4,280,000
March 15, 2019	4,405,000
September 15, 2019	4,530,000
March 15, 2020	4,655,000
September 15, 2020	4,790,000
March 15, 2021	4,925,000
September 15, 2021	5,065,000
March 15, 2022	5,210,000
September 15, 2022	5,355,000
March 15, 2023	5,510,000
September 15, 2023	5,665,000
March 15, 2024	5,825,000
September 15, 2024	5,990,000
March 15, 2025	6,160,000
September 15, 2025	6,335,000
March 15, 2026	6,515,000
September 15, 2026	6,700,000
March 15, 2027	6,890,000
September 15, 2027	7,085,000
March 15, 2028	7,265,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 3.08 of the General Conditions.



## APPENDIX

### Section I. Definitions

1. “Bihar” means the State of Bihar of the Borrower, or any successor thereto which is the Program Implementing Entity for purposes of the General Conditions, this Agreement and the Program Agreement.
2. “Deposit Account” means the Account referred to in Part D.1 of Schedule 1 to this Agreement.
3. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
  - (b) for goods included in the following groups or sub-groups 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	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious 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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous 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;
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
4. “Financing Agreement” means the agreement between the Borrower (in its capacity as the Recipient of financing from the Association) and the Association in support of the Program, of the same date as this Agreement, as such agreement may be amended from time to time. “Financing Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.
  5. “First Tranche” means the amount of the Loan allocated to the category entitled “First Tranche” in the table set forth in Part B of Schedule 1 to this Agreement.
  6. “Fiscal Year” means the Fiscal Year of the Borrower and of Bihar beginning on April 1 of a calendar year and ending on March 31 of the following calendar year.
  7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) with the modifications set forth in Section II of this Appendix.
  8. “Program” means Bihar’s program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated November 20, 2007 from the Borrower to the Bank declaring Bihar’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
  9. “Program Implementing Entity” means Bihar which is a party to the Program Agreement.
  10. “Rupees” means the lawful currency of the Borrower.

11. “Second Tranche” means the amount of the Loan allocated to the category entitled “Second Tranche” in the table set forth in Part B of Schedule 1 to this Agreement.
12. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Schedule 1 to this Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably

request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
  - (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”
  - (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
  - (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.
8. All references to “Project Agreement” throughout these General Conditions are deemed to be references to “Program Agreement”; and all references to “Program Implementing Entity” throughout these General Conditions as modified above are deemed to be references to “Bihar” as defined in Section I of this Appendix.