

CONFORMED COPY

CREDIT NUMBER 2986 IN

Development Credit Agreement

(Coal Sector Rehabilitation Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 19, 1998

CREDIT NUMBER 2986 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 19, 1998, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) CIL has also requested the International Bank for Reconstruction and Development (the Bank) to provide assistance towards financing Parts A and B of the Project and by an agreement of even date herewith between the CIL and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an amount equal to five hundred thirty million dollars (\$530,000,000) (the Loan); and

(C) by an agreement of even date herewith between the Borrower and the Bank (the Guarantee Agreement), the Borrower is agreeing to guarantee the obligations of CIL in respect of the Loan and to undertake such obligations as are set forth in the Guarantee Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement, the Loan Agreement and the Guarantee Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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) "BCCL" refers to Bharat Coking Coal Ltd, a subsidiary of Coal India Ltd.;

(b) "Coal India Ltd." or "CIL" means Coal India Ltd., a limited liability company established under the Borrower's Companies Act, 1956, as amended;

(c) "ECL" refers to Eastern Coalfields Ltd., a subsidiary of Coal India Ltd.;

(d) "Loan Agreement" means the agreement of even date herewith between CIL and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(e) "Project Mine" means any mine listed in Schedule 7 to the Loan Agreement and "Project Mines" means all of such mines;

(f) "Rs" means Rupees in the currency of the Borrower; and

(g) "Subsidiaries" means, collectively, Central Coalfields Ltd., Mahanadi Coalfields Ltd., Northern Coalfields Ltd., South Eastern Coalfields Ltd., Western Coalfields Ltd., Bharat Coking Coal Ltd., Eastern Coalfields Ltd., Central Mining Planning and Design Institute, and any other corporation in which CIL now has or in the future may have majority ownership and "Subsidiary" means any one of the Subsidiaries.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one million five hundred thousand Special Drawing Rights (SDR1,500,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of services required for Part C of the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2003, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on February 15 and August 15 commencing February 15, 2008 and ending August 15, 2032. Each installment to and including the installment payable on August 15, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as

determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the abovementioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Part C of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records, accounts and financial statements adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part C of the Project of the departments or agencies of the Borrower responsible for carrying out Part C of the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

ARTICLE V

Remedies of the Association

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

(a) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that CIL will be able to perform its obligations under the Loan Agreement.

(b) CIL shall have failed to perform any of its obligations under the Loan Agreement.

(c) Any event specified in Section 6.01 of the Loan Agreement shall occur.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the events specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower shall have invited an "expression of interest" under paragraph 2.5 of the Consultant Guidelines, as hereinafter defined, for carrying out a study under Part C of the Project; and

(b) all the conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. 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 VII

Representatives of the Borrower; Addresses

Section 7.01. 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 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, PIN 110001
India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-3166175

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
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 /s/ Sudhakar Rao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Robert Drysdale

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
Consultants' services for Part C of the Project	1,500,000	100%

TOTAL	1,500,000	=====

2. 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.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure or expenditures for: (a) services under contracts costing less than \$200,000 equivalent each for employment of consulting firms; and (b) services under contracts costing less than \$50,000 equivalent each for employment of individual consultants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's market-oriented reforms in the coal sector and to provide financial and technical support for CIL's efforts to make itself commercially viable and self-sustaining.

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

Part A: Improving and Maintaining the Commercial Viability of Project Mines

Increasing and sustaining productivity in the Project Mines through investments in: (i) mining and telecommunications equipment; and (ii) mining surface infrastructures, such as coal handling plants and roads and water supply systems.

Part B: Institutional Development

1. The following parts of the Project will be carried out through the provision of technical assistance:

(a) Commercializing CIL's coal sales through the development and improvement of CIL's coal supply contracts;

(b) Enhancing CIL's capability to prepare and analyze financial models as part of CIL's ongoing commercialization and restructuring process and to implement the restructuring process;

(c) Improving the design practices of the Central Mining Planning and Design Institute ("CMPDI"), a wholly-owned subsidiary of CIL, by reviewing such practices and developing a time-bound improvement program;

(d) Improving the Subsidiaries' equipment utilization ratios;

(e) Developing and enhancing CIL's procurement capabilities;

(f) Supervising the implementation of the Project in the Project Mines;

(g) Improving the quality of coal produced by conducting 4 pilot projects under different mining conditions to: (i) test the selective mining method; (ii) determine the target sites for use of such method; and (iii) identify and provide the equipment required by such method; and

(h) Developing and improving the skills of CIL's managers in commercial mining operations through the provision of training.

Part C: Improving the Coal Industry's Regulatory Framework

Improving the coal industry's regulatory framework and bringing it in line with international best practices through a study on the rules and regulations governing such industry and implementing the recommendations of such study.

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Implementation Program

1. The Borrower shall:

(a) by January 1, 2000, deregulate prices and distribution of regulated low-grade steam coal;

(b) (i) not later than October 31, 1999, complete the study to be carried out under Part C of the Project in a manner satisfactory to the Association; (ii) not later than January 31, 2000, furnish to the Association for comments a draft time-bound action plan regarding the implementation of such study's recommendations which are feasible; and (iii) not later than March 15, 2001, begin implementation of such action plan, taking into account the Association's comments, and in accordance with a timetable prepared in consultation with the Association; and

(c) take all necessary actions to obtain the relevant authorities' commitment to finance BCCL's and ECL's Voluntary Retirement Scheme through the provision of the following amounts to, inter alia, the National Renewal Fund by the following dates: (i) Rs. 0.8 billion by May 31, 1998; (ii) Rs. 1.6 billion by March 31, 1999; and (iii) Rs. 1.6 billion by March 31, 2000.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out of Part C of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 31, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 2(a) of this Schedule, on the progress achieved in the carrying out of Part C of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part C of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by April 30, 2000, or such later date as the Association shall request, the report referred to in paragraph 2(b) of this Schedule, and, thereafter, take all measures required to ensure the efficient completion of Part C of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association views on the matter.

SCHEDULE 4

Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of this Schedule.

Part B: Quality- and Cost-based Selection

Consultants services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection consultants.

Part C: Review by the Association of Procurement Decisions

Prior Reviews

With respect to all contracts, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a) and 5 of Appendix 1 to the Consultant Guidelines) shall apply.

