

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 8022-IN

Loan Agreement

(Second Karnataka State Highways Improvement Project)

between

INDIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 30, 2011

LOAN AGREEMENT

AGREEMENT dated May 30, 2011, between INDIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank 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.

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 three hundred and fifty million Dollars (\$350,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 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.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead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 3 to this Agreement.

- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause Karnataka to carry out the Project in accordance with the provisions of Article V of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that KRDC's Memorandum and Articles of Association has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KRDC to perform any of its obligations under this Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is any of the following: Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Recipient.
- 6.02. The Borrower's Address is:

Secretary
Department of Economic Affairs
Ministry of Finance, Government of India
North Block
New Delhi 110001, India

Facsimile:

91-11-2309 4075

- 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 Bangalore, India, as of the day and year first above written.

INDIA

By /s/ Venu Rajamony
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hubert Nove-Josserand
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to accelerate the development of Karnataka's Core Road Network through leveraging public sector outlays with private sector financing, and the improvement of the institutional effectiveness of road sector agencies to deliver effective and safe roads to users.

The Project consists of the following parts:

Part A: Road Improvement

- (1) Supporting the improvement of Karnataka's Core Road Network through traditional contracts, including engineering and advisory consulting services, and associated land acquisition, resettlement, rehabilitation, and environmental management activities.
- (2) Supporting the improvement of Karnataka's Core Road Network through PPP concessions, including engineering and advisory consulting services, and associated land acquisition, resettlement, rehabilitation, and environmental management activities.

Part B: Highway Financing Modernization

- (1) Strengthening the capacity of KRDCCL to expand private sector participation in highway development and to undertake fiscally prudent market borrowing.
- (2) Supporting KRDCCL in developing highways with co-financing from other financial institutions or through PPP concessions with private sector developers, including engineering and advisory consulting services, and associated land acquisition, resettlement and rehabilitation activities.
- (3) Strengthening Project management through the provision of operating costs to KRDCCL.

Part C: Road Safety Improvement

- (1) Implementing a result-based safe corridor demonstration program on selected corridors.
- (2) Strengthening the capacity of TD and its traffic and road safety cell to fulfill its lead agency functions.

- (3) Strengthening the capacity of PWD staff in integrating road safety and work zone safety in the planning and asset management processes.
- (4) Establishing a centre of excellence for road safety training, education and research.

Part D: Road Sector Policy and Institutional Development

Supporting the implementation of a medium-term Institutional Development and Strengthening Action Plan for the period 2010-2016 and strengthening Project management through the provision of operating costs to the PIU.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

Availability of Funds

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to Karnataka in accordance with the Borrower's standard arrangements.
2. The Borrower shall protect the interests of the Bank to accomplish the purposes of the Loan.

Anti-Corruption

3. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and those of the GAAP.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall cause Karnataka to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain and cause Karnataka to maintain a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause Karnataka to prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have the Designated Account referred to in Section 2.04 of the General Conditions audited and shall cause Karnataka to have the Project

Financial Statements audited, all in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Designated Account and the Project Financial Statements shall cover the period of one (1) Fiscal Year of the Borrower, commencing with the fiscal year in which the first withdrawal was made under Project. The audit reports for the Designated Account and the audited Project Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, except that the contract packages for goods and works, for which advance procurement action has been initiated before December 31, 2010, as specified in the Procurement Plan, shall be procured in accordance with the Guidelines: Procurement under IBRD Loans and IDA Credits published by the Bank in May 2004 and Revised October 2006, and May 2010, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, except that the contracts for consultants services, for which advance procurement action has been initiated before December 31, 2010, as specified in the Procurement Plan, shall be procured in accordance with the Guidelines: Selection and Employment of Consultants by World Bank Borrowers published by the Bank in May 2004 and Revised October 2006, and May 2010, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive

Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Competitive Bidding (subject to the additional provisions agreed upon from time to time between the Borrower and the Bank and referred to in the Procurement Plan)
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Selection Under a Fixed Budget
(c) Least Cost Selection
(d) Selection Based on Consultant's Qualifications
(e) Single Source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower

(including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Consultants’ services, training, studies, Incremental Operating Costs under Parts A.1, A.2, C, and D of the Project	24,000,000	80%
(2) Consultants’ services, training, studies, Incremental Operating Costs under Parts B.1, B.2, and B.3 of the Project	5,300,000	80%
(3) Goods and works under Parts A.1, C, and D of the Project	120,825,000	80%
(4) Goods and works under Part A.2 of the Project	137,000,000	100%
(5) Goods and works under Part B.2 of the Project	62,000,000	100%
(6) Front-end Fee	875,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
(7) Premium for Interest Rate Cap or Interest Rate Collar	0	Amount payable pursuant to Section 2.07(c) of this Agreement and Section 4.05(c) of the General Conditions
TOTAL AMOUNT	350,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$20,000,000 equivalent may be made for payments made prior to this date but on or after May 1, 2010, for Eligible Expenditures under Category (1); or
 - (b) under Category (5), until KRDCCL has entered into a co-financing arrangement with a financial institution, or a concession agreement with a private sector developer, acceptable to Karnataka and the Bank, for developing selected corridors under Karnataka's Core Road Network.
2. The Closing Date is December 31, 2016.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each March 15 and September 15 Beginning September 15, 2016 through September 15, 2028	3.85%
On March 15, 2029	3.75%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one (1) Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credit and Grants by World Bank Borrowers” published by the Bank in January 2011.
4. “Core Road Network” means the road network designated by Karnataka as core road network.
5. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a “Displaced Person” means any of such Displaced Persons.
6. “Environment Management Plans” or its acronym “EMPs” means, collectively, the environmental management plans prepared for the Project, all dated November 30, 2010 acceptable to the Bank, which plans set out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plans, as said plans may be revised from time to time with the written agreement of the Bank; and such term includes all schedules and annexes supplemental to the Environmental Management Plans.
7. “Fiscal Year” mean the financial year of the Borrower, commencing on April 1 and ending on March 31 of each year.
8. “Financial Management Manual” means the manual dated February 14, 2011, acceptable to the Bank, which sets out the financial management arrangements under the Project, and as such manual may be amended from time to time in agreement with the Bank.

9. “GAAP” the governance and accountability action plan, dated February 14, 2011 which sets out the key actions to be undertaken by PWD and KRDCCL to strengthen governance, transparency, and accountability under the Project, as such plan may be amended from time to time by agreement between the Borrower and the Bank.
10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010.
11. “Grievance Redressal Committee” means the committee referred to in paragraph 1(d) of Section I of the Schedule to the Project Agreement.
12. “Incremental Operating Costs” means the incremental costs directly related to the Project including, *inter alia*, incremental office expenses for the Project; salaries of contractual staff; and travel expenses and per diem.
13. “Institutional Development and Strengthening Action Plan” means the plan, dated February 14, 2011, developed for improving the institutional capacity of PWD, KRDCCL, and other related road agencies.
14. “Karnataka” means the State of Karnataka, a state of India, or any successor thereto.
15. “KRDCCL” means Karnataka Road Development Corporation Limited, constituted and existing under the Borrower’s Companies Act 1956, as amended, or any successor thereto.
16. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
17. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 14, 2011 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. “Project Governing Board” means the governing board referred to in paragraph 1(a) of Section I of the Schedule to the Project Agreement.
19. “Project Implementing Entity” means Karnataka.
20. “Project Implementation Unit” means the unit referred to in paragraph 1(c) of Section I of the Schedule to the Project Agreement.

21. “Project Steering Committee” means the committee referred to in paragraph 1(b) of Section I of the Schedule to the Project Agreement.
22. “PPP” means public-private partnership.
23. “PWD” means the Public Works, Ports and Inland Water Transport Department of Karnataka.
24. “RAP” means the Resettlement Action Plan dated October 21, 2010 acceptable to the Bank, setting forth, *inter alia*, the entitlement framework, land acquisition and compensation payment procedures, institutional arrangements, implementation schedules, monitoring and coordination mechanism, and cost estimates for the resettlement and rehabilitation of people affected by the implementation of the Project; as said plan may be revised from time to time with the written agreement of the Bank; and such term includes all schedules and annexes supplemental to the RAP.
25. “Resettlement Policy Framework” means the resettlement policy framework described in chapter II of the RAP, dated October 21, 2010, setting out the policies and procedures for the acquisition of land and other assets, compensation, resettlement and rehabilitation of Displaced Persons, entitlement matrix, and for the preparation of resettlement action plans as may be required for Project activities under Part B.2 of the Project, as said frameworks may be revised from time to time with the prior written concurrence of the Bank; and such term includes all schedules and agreements supplemental to said framework.
26. “Respective Parts of the Project” means, in the case of PWD, Parts A, C, and D of the Project, and in case of KRDC, Part B of the Project.
27. “TD” means the Transport Department of Karnataka.