

CONFORMED COPY

LOAN NUMBER 3992 IN

Loan Agreement

(Private Infrastructure Finance (IL&FS) Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

INFRASTRUCTURE LEASING AND FINANCIAL
SERVICES LIMITED

Dated July 10, 1996

LOAN NUMBER 3992 IN

LOAN AGREEMENT

AGREEMENT, dated July 10, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and INFRASTRUCTURE LEASING AND FINANCIAL SERVICES LIMITED (the Borrower).

WHEREAS (A) India, acting by its President (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee 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;

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 for Single Currency Loans" of the Bank, dated May 30, 1995, with the modifications set forth in Schedule 4 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Directions" means the Non-Banking Financial Companies (Reserve Bank) Directions, 1977 issued by the Reserve Bank of India under the Reserve Bank of India Act, 1934 including clarifications and amendments issued or made from time to time to such Directions for the purpose of regulating the credit system and setting forth, inter alia, categories of non-banking financial companies and the prudential requirements applicable in respect thereof;

(b) "Environmental and Social Report" means the report dated November 1995 approved by the Board of Directors of the Borrower on November 27, 1995 setting forth, inter alia, the policies and procedures for carrying out environmental and social assessments of Investment Projects, preparing environmental mitigation plans and, where applicable, resettlement and rehabilitation plans and, indigenous peoples development plans for populations adversely affected and/or displaced as a result of the implementation thereof, carrying out consultation with affected people, processing and redressing grievances of affected people, and monitoring related impacts;

(c) "Investment Enterprise" means an enterprise to which the Borrower proposes to make or has made a Sub-loan;

(d) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(e) "Memorandum and Articles of Association" means the Memorandum and Articles of Association of the Borrower as amended to the date of this Agreement;

(f) "Operating Framework" means the framework approved by the Directors of the Borrower in July 1995 setting forth its (i) operating policy, (ii) risk management framework and policies, and (iii) guidelines and framework of operation;

(g) "RBI" means the Reserve Bank of India established under the Reserve Bank of India Act, 1934, as amended, for purposes, inter alia, of performing the functions of the central bank of the Guarantor;

(h) "Rupees" means the currency of the Guarantor;

(i) "Security Documents" means documents to be executed, inter alia, by the Borrower for purposes of providing the Bank a pari passu interest in the liens created on its assets as security for debt existing as of the date of this Agreement in order to equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan;

(j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(k) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to an Investment Enterprise for an Investment Project; and

(l) "Swap Account" means the account referred to in Section 2.02 (c) of this Agreement;

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to two hundred million dollars (\$200,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; and (ii) 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 Part B of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment.

(c) On or after the opening of a special deposit account, the Borrower shall open and maintain in Rupees a Swap Account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment.

(d) Deposits into, and payments out of, the Special Account and the Swap Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent ($1/2$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London inter-

bank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Guarantor and Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable on May 15 and November 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; Management and Operations of the Borrower

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 the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Directions and the Operating Framework.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 6 to this Agreement.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank, the Guarantor and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 7 to this Agreement.

Section 3.04. For the purposes of Section 9.08 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, a plan for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account and the Swap Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than three months after the end of each such year, (A) certified copies of said 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 Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such

debt the ratio of debt to equity shall be greater than 6:1.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the case of currency converted under swap agreements the rate at which such currency was converted, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.04. (a) Except as the Bank shall otherwise agree, the borrower shall not incur any debt unless the net revenue of the Borrower for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.25 times the estimated maximum debt service requirements of the Borrower for any succeeding fiscal year on all debt of the Borrower, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues and payments from all sources related to operations adjusted to take account of the Borrower's rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and
 - (B) the sum of all expenses related to operations

including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

- (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the case of currency converted under swap agreements the rate at which such currency was converted, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.05. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.06. In order to make available to its management and Board sufficient information to monitor and evaluate the relative profitability of its major product lines, the Borrower shall, no later than March 31, 1997, establish, and thereafter implement and maintain, a comprehensive cost accounting system, satisfactory to the Bank, for such major product lines taking into account costs related to marketing, product and project development, financing, and administration, including designing an appropriate mechanism for allocating such costs in order to determine gross and net earnings.

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 Memorandum and Articles of Association or the Directions shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement;
- (b) Any Security Document shall have been amended, suspended, abrogated, repealed or waived without the prior approval of the Bank and the Guarantor or the Borrower shall have failed to enforce or implement any provision of any such Security Document;
- (c) The agreement referred to in Section 6.01 (c) of this Agreement shall have been amended, suspended, abrogated, repealed or waived without the prior approval of the Bank or the Borrower or the Guarantor, as the case may be, shall have failed to enforce or implement any provision of such agreement;

(d) The Operating Framework as revised pursuant to Section 6.01 (a) of this Agreement shall have been suspended, abrogated, repealed, waived or amended in any material respect without the prior approval of the Bank; and

(e) The Guarantor or RBI or any other authority having jurisdiction shall: (i) have taken any action for the dissolution or disestablishment of the Borrower; or (ii) for the suspension of its operation, or any portion thereof that materially and adversely affects its financial condition or its ability to carry out the Project or to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the events specified in paragraphs (a), (b), (c) and (d) of Section 5.01 shall occur.

ARTICLE VI

Effective Date; Termination; Representatives of the Borrower

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

(a) The Borrower shall have revised its Operating Framework in order to: (i) set definite investment exposure limits in respect of its activities; (ii) limit its credit exposure to commercial infrastructure projects to no more than one third of its total credit exposure calculated in accordance with methodology satisfactory to the Bank; (iii) limit its aggregate investments in entities in which its share of the paid-in capital is more than 33 1/3% to not more than 30% of its net worth; and (iv) treat as equity all expenditures incurred by the Borrower in respect of Investment Projects prior to the financial closure of such Projects.

(b) The Security Documents shall have been executed and any necessary registrations and filings thereof shall have been made in a manner satisfactory to the Bank and without any cost to it, including execution of an agreement among the existing creditors of the Borrower for the administration and management of the pari passu security interest over the assets of the Borrower created in favor of all such creditors pursuant to the Security Documents.

(c) The Borrower shall have entered into an agreement with the Guarantor, satisfactory to the Bank, for: (i) indemnifying the Guarantor in the event that it is called upon to pay the principal of, and interest and other charges on, the Loan or any portion thereof pursuant to the provisions of the Guarantee Agreement; and (ii) paying to the Guarantor on the principal amount of the Loan withdrawn and outstanding from time to time a guarantee fee satisfactory to the Bank, provided, however, that such fee shall not be less than 1.2% per annum.

Section 6.02. The following is specified as an additional matter 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, namely, that the Security Documents have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and are legally binding upon the Borrower in accordance with their terms and are adequate for the purpose for which they have been executed.

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.

Section 6.04. The Company Secretary of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.05. The following addresses are specified for the

purposes of Section 11.01 of the General Conditions:

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:

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

For the Borrower:

Infrastructure Leasing and Financial Services Limited
Mahindra Towers, 4th Floor
Dr. G.M. Bhosale Marg
Worli, Bombay 400018
India

Telex:

011-74474

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Heinz Vergin
Acting Regional Vice President
South Asia

INFRASTRUCTURE LEASING AND FINANCIAL
SERVICES LIMITED

By /s/ N. Valluri
Authorized Representative

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) Sub-loans	185,000,000	100% of amounts disbursed by the Borrower under Sub-loans

(2) Consultants' services 15,000,000 100%
and training

TOTAL 200,000,000
=====

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of a Sub-loan unless:

- (i) the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement; and
- (ii) the financing agreements for the Investment Project to be partially supported by the Sub-loan, together with all other contractual agreements referred to in paragraph 4 of Schedule 6 to this Agreement have been executed.

(b) in respect of payments made for expenditures prior to the date of this Agreement.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods and works under contracts not exceeding the equivalent of \$500,000, under such terms and conditions as the Bank shall specify by notice to the Borrower; and (ii) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to promote the participation of the private sector in infrastructure development; (ii) to foster efficiency in the delivery and use of selected infrastructure services; and (iii) to assist in the institutional development of the Borrower as will facilitate the financing of such infrastructure.

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

Part A: Investment Projects

The financing of specific Investment Projects through Sub-loans to Investment Enterprises within the infrastructure sector.

Part B: Institutional Building

Provision of technical assistance and training to the Borrower for: (i) preparing Investment Projects referred to in Part A hereof; and (ii) carrying out studies to assist in structuring appropriate arrangements for implementing commercial infrastructure projects, including review of the applicable legal and regulatory framework.

* * *

The Project is expected to be completed by March 31, 2001.

SCHEDULE 3

Amortization Schedule

Payment of Principal

Date Payment Due	(Expressed in Dollars)
November 15, 2001	4,250,000
May 15, 2002	4,375,000
November 15, 2002	4,500,000
May 15, 2003	4,635,000
November 15, 2003	4,770,000
May 15, 2004	4,910,000
November 15, 2004	5,055,000
May 15, 2005	5,200,000
November 15, 2005	5,355,000
May 15, 2006	5,510,000
November 15, 2006	5,675,000
May 15, 2007	5,840,000
November 15, 2007	6,010,000
May 15, 2008	6,190,000
November 15, 2008	6,370,000
May 15, 2009	6,555,000
November 15, 2009	6,750,000
May 15, 2010	6,945,000
November 15, 2010	7,150,000
May 15, 2011	7,360,000
November 15, 2011	7,575,000
May 15, 2012	7,800,000
November 15, 2012	8,030,000
May 15, 2013	8,265,000
November 15, 2013	8,505,000
May 15, 2014	8,755,000
November 15, 2014	9,015,000
May 15, 2015	9,275,000
November 15, 2015	9,550,000
May 15, 2016	9,825,000

SCHEDULE 4

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 3 (b) of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraph (a) of said paragraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be canceled."

SCHEDULE 5

Procedures for and Terms and Conditions of Sub-loans

Terms and Conditions

1. Except as the Bank shall otherwise agree, the terms and conditions of each Sub-loan shall be:

- (a) Currency: Sub-loans may be denominated in US Dollars or Rupees.

- (b) Interest: Interest shall be payable on the principal amount of the Sub-loan withdrawn and outstanding from time to time as follows:
 - (i) For US Dollar denominated Sub-loans, the Borrower shall charge a variable market-determined rate.
 - (ii) For Rupee denominated Sub-loans, the Borrower shall charge a market-determined rate.
- (c) Amount: The amount of a Sub-loan for an Investment Project shall not exceed 25% of the total cost of the Investment Project.
- (d) Amortization: The maximum amortization period for a Sub-loan shall be 20 years with a grace period not exceeding 5 years.
- (e) Foreign Exchange Risk:
 - (i) The Foreign exchange risk on US Dollar denominated Sub-loans shall be borne by the Investment Enterprise.
 - (ii) The foreign exchange risk on Rupee denominated Sub-loans shall be borne by the Borrower.

Procedures for Approving Sub-loans for Investment Projects

2. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Sub-loan.

3. (a) When presenting a Sub-loan to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project carried out in accordance with the provisions of paragraph 2 of Schedule 6 of this Agreement, including a description of the financing arrangements for the Investment Project and the expenditures proposed to be financed out of the proceeds of the Loan; (ii) evidence that the Investment Project and the Investment Enterprise sponsoring such Project meet the eligibility criteria set forth in paragraph 1 of Schedule 6 to this Agreement; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; (iv) the proposed contractual arrangements among the several participants to the Investment Project as set forth in paragraph 4 of Schedule 6 to this Agreement; and (v) such other information as the Bank shall reasonably request.

(b) Applications and requests made pursuant to the provisions of sub-paragraph (a) of this paragraph shall be presented to the Bank on or before December 31, 1998.

4. Sub-loans shall be made on terms whereby the Borrower shall:

- (A) require the Investment Enterprise to enter into contractual arrangements, satisfactory to the Bank, with the several participants to an Investment Project as set forth in paragraph 4 of Schedule 6 to this Agreement; and
- (B) obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including, the right to:
 - (a) require the Investment Enterprise to carry out and operate the Investment Project: (i) with due

diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records; and (ii) without limitation upon the foregoing, in accordance with the provisions of Schedule 6 to this Agreement;

- (b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 7 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;
- (c) condition withdrawals under a Sub-loan based upon the Investment Enterprise meeting construction targets in respect of the Investment Project;
- (d) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;
- (e) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;
- (f) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and
- (g) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon:
 - (i) failure by such Investment Enterprise to perform its obligations under its contract with the Borrower, or upon notice by the Bank to the Borrower that it intends to exercise any of its remedies under Sections 6.02 and 7.01 of the General Conditions or Article V of this Agreement; or
 - (ii) upon notice by the Investment Enterprise or any other party to the contractual arrangements referred to in paragraph 4 of Schedule 6 to this Agreement that it intends to terminate any such contract, or upon the actual termination of any such contract, whichever occurs first.

SCHEDULE 6

Implementation Program

Eligibility Criteria for Investment Projects and Investment Enterprises

1. Except as the Bank may otherwise agree, the Borrower shall ensure that an Investment Project and an Investment Enterprise that sponsors

such a Project and in respect of which a Sub-loan application is made to the Bank pursuant to the provisions of paragraph 3 (a) of Schedule 5 to this Agreement meet the following eligibility criteria:

(a) the Investment Project supports, inter alia, one or more of the following priority sectors: (i) integrated urban infrastructure sector; (ii) transport sector; and (iii) water supply and sanitation sector;

(b) the total cost of the Investment Project is at least \$10 million and does not exceed \$200 million;

(c) the construction period of the Investment Project does not exceed five years, provided, however, that for an Investment Project costing less than US\$60 million the construction period shall not exceed three years;

(d) the Investment Enterprise: (i) contributes at least 25% of the total cost of the Investment Project through equity investment out of which the contribution of the promoter of such Enterprise shall be at least 25% of such equity investment; and (ii) does not finance more than 75% of the total cost of the Investment Project through debt;

(e) the Borrower is satisfied that the Investment Enterprise sponsoring the Investment Project shall be able to arrange financing for the Investment Project without the Guarantor's guarantee;

(f) the Investment Project is technically, economically and financially viable;

(g) the Borrower is satisfied that the Investment Enterprise shall be able to maintain a debt service coverage ratio of not less than 1.25 based on an annual cash-flow, surplus cash as may be invested and committed credit lines available with the Investment Enterprise, and a suitable provision in respect thereof is included in the contractual agreement between the Borrower and the Investment Enterprise referred to in paragraph 4 hereof;

(h) the appropriate governmental authorities of the Guarantor have authorized the establishment of the Investment Enterprise and have provided all required clearances/approvals including environmental clearances for implementing the Project and documented in the project evaluation report;

(i) the Investment Project has a real financial rate of return of at least 14%;

(j) the Investment Project has an economic rate of return of at least 12%; and

(k) for purposes of this paragraph:

- (i) the term "real financial rate of return" means the discount rate which equalizes the present value of the cost stream associated with the Investment Project to the present value of the Investment Project's benefit stream. The cost stream includes all costs incurred to construct, operate and maintain the Project facilities over the Project's useful life; the benefits are the gross revenues derived from the Project facilities or outputs. Such costs and benefits shall be expressed in real (net of any general inflation) prices calculated in accordance with methodology satisfactory to the Bank; and
- (ii) the term "economic rate of return" means the discount rate which equalizes the present value of the cost stream associated with the Investment Project to the present value of the Investment Project's benefit stream, with costs and benefits measured in accordance with methodology satisfactory to the Bank.

Appraisal, Approval and Supervision of Investment Projects

2. (a) The Borrower shall continue to use its Operating Framework for the appraisal, approval and supervision of Investment Projects, subject to such modifications thereof as shall be required to be made pursuant to Section 6.01 (a) of this Agreement.

(b) With respect to each Investment Project, the Borrower shall, in accordance with the Operating Framework:

- (i) prepare a detailed project evaluation report of the Investment Project covering matters including: (aa) suitability of site; (bb) availability of inputs; (cc) appropriateness of, and proven experience with, the technology offered; (dd) project design; (ee) arrangements for detailed engineering; (ff) cost estimates; (gg) construction and procurement arrangements; (hh) arrangements for operation and maintenance; (ii) arrangements for compliance with environmental, resettlement and social standards as set forth in paragraph 3 hereof; (jj) financial viability of the Investment Project; (kk) adequacy of the proposed financing; (ll) the contractual arrangements for the Investment Project among the several participants; (mm) the corporate and capital structure of the Investment Enterprise; and (nn) the eligibility criteria for Investment Projects and Investment Enterprises;
- (ii) furnish to the Bank for its review and approval, pursuant to paragraph 3 (a) of Schedule 5 to this Agreement, such project evaluation report on the Investment Project.

Environmental, Resettlement and Social Standards for Investment Projects

3. Each Investment Project shall comply with the environmental, resettlement and social standards set forth in the Environmental and Social Report. To that end, the Borrower shall:

(a) require each Investment Enterprise applying for a Sub-loan to furnish evidence satisfactory to the Borrower and the Bank, showing that the Investment Project in respect of which the application has been made has been prepared in accordance with such standards, such evidence to include an environmental impact assessment and an environmental mitigation plan, and where applicable, a resettlement and rehabilitation plan and an indigenous peoples development plan for adversely affected and/or displaced populations, for such Investment Project; and

(b) in respect of each Investment Project, include in the contractual arrangements referred to in paragraph 4 hereof suitable provisions obligating the Investment Enterprise sponsoring such Investment Project to ensure compliance with such standards.

Contractual Framework for Implementing Investment Projects

4. In order to clearly lay down the mutual rights and obligations of the several participants to an Investment Project, the Borrower shall, with respect to each Investment Project, require the Investment Enterprise to enter into agreements, each in form and substance satisfactory to the Bank, with the appropriate governmental authority, Borrower, lenders/creditors, construction contractor, suppliers, purchasers, operator, shareholders, escrow account holders, and other parties that may participate in the Investment Project and include, inter alia, provisions in such agreements in respect of the matters set forth in paragraph 4 (B) of Schedule 5 to this Agreement and paragraphs 1 (g) and 3 hereof.

Reports

5. The Borrower shall within 30 days after any meeting of its Board

provide to the Bank the agenda of such meeting, including all documents that were forwarded and considered at such meeting.

6. Without any limitation or restriction upon the provisions of Sections 9.01 and 9.07 of the General Conditions, the Borrower shall furnish or cause to be furnished to the Bank, within thirty days of the end of each quarter, a report, in form and substance satisfactory to the Bank, on the progress of the Project and each Investment Project during such quarter.

Review

7. The Borrower shall by April 30 of each year during the implementation of the Project, beginning with April 30, 1997, review with the Bank the progress of the Project and the operations, financial performance and budget of the Borrower under terms of reference satisfactory to the Bank, and promptly thereafter, implement the recommendations resulting from such review.

8. The Borrower shall, with the participation of the Guarantor and the Bank, carry out by April 30, 1998, or such later date as the Bank may agree, a mid-term review of the Project under terms of reference satisfactory to the Bank, and promptly thereafter, implement the recommendations resulting from such review.

SCHEDULE 7

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

- (a) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor and works to be carried out by domestic contractors.

- (b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Investment Project Procurement

1. Except as otherwise provided in paragraph 2 hereof, an Investment Project shall be constructed under a contract awarded to an Investment Enterprise selected on the basis of bidding procedures in accordance with the provisions of Section II of the Guidelines, subject to the provisions of paragraph 3.13 (a) thereof. The goods and works required for the construction of such Investment Project shall then be procured in accordance with the applicable procedures of such Investment

Enterprise.

2. In those cases where an Investment Enterprise has not been selected in accordance with the procedures set forth in paragraph 1 hereof, goods and works required for an Investment Project to be constructed by such Investment Enterprise shall be procured under contracts awarded on the basis of bidding procedures set forth in Part B hereof, subject to the provisions of paragraph 3.13 (b) of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 8

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category 1 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, works and services required for Investment Projects and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement;

(c) the term "Authorized Allocation" means an amount equivalent to \$25,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule;

(d) the term "Swap Agreement" means an agreement which the Borrower may enter into using the proceeds of the Loan deposited into the Special Account for the spot purchase of Rupees using Dollars with simultaneous forward sale or vice versa in order to protect itself against risk of loss on account of possible depreciation of the Rupee against the Dollar during the term of the Loan; and

(e) the term "Swap Counterparty" means a party with which the Borrower enters into a Swap Agreement.

2. (a) Amounts deposited into the Special Account pursuant to paragraphs 3 (a) and 3 (b) of this Schedule shall be withdrawn exclusively for exchanging such amounts into Rupees pursuant to Swap Agreements and depositing such Rupee amounts into the Swap Account. The Borrower shall furnish to the Bank copies of such Swap Agreements promptly after their execution including information relating to the Rupee amounts obtained therefrom.

(b) Payments out of the Swap Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

(c) Each payment (including a payment under a letter of credit) for an eligible expenditure in foreign currency in an amount equal to or less than the equivalent of \$5,000,000 and all payment in Rupees shall be made exclusively out of the Swap Account, provided, however, that there are sufficient funds in the Swap Account. The Bank may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

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

- (a) (i) For withdrawal of the Authorized Allocation, the Borrower shall furnish to the Bank a request for deposit into the Special Account the amount of the Authorized Allocation. Prior to such request, the Borrower shall confirm to the Bank that it has negotiated a Swap Agreement with a proposed Swap Counterparty for exchanging such amount into Rupees. On the basis of 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.
- (ii) Within a period of seven working days after the Bank shall have deposited into the Special Account such amount as the Borrower shall have requested pursuant to paragraphs 3 (a) (i) or (b) (ii) of this Schedule, the Borrower shall withdraw such amount in its entirety for implementing the Swap Agreement and deposit the equivalent Rupee amount obtained under such Swap Agreement into the Swap Account.
- (iii) If within the period referred to in paragraph 3 (a) (ii) of this Schedule the amount deposited in the Special Account shall not have been withdrawn and deposited into the Swap Account in accordance with such paragraph, the Borrower shall, promptly upon notice from the Bank, refund to the Bank all

such amounts on deposit in the Special Account.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank, upon the utilization of at least 80% of the amount in the Swap Account for eligible expenditures, requests for deposits into the Special Account. Prior to each such request, the Borrower shall confirm to the Bank that it has negotiated a Swap Agreement with a proposed Swap Counterparty for exchanging the requested amount into Rupees.
- (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 Swap Account for eligible expenditures.

All such deposits shall be: (A) withdrawn by the Bank from the Loan Account under the eligible Category, and in the equivalent amounts, as shall have been justified by said documents and other evidence; and (B) subject to the provisions of clauses (ii) and (iii) of paragraph 3 (a) of this Schedule.

4. For each payment made by the Borrower out of the Swap 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 Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.02 (a) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account or the Swap Account; or

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category 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 Swap 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 Swap 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 Swap 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 Swap 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 or the Swap Account.

- (d) (i) Refunds to the Bank made pursuant to paragraphs 3 (a) (iii), and 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.
- (ii) Such refunds of the Rupee amounts in the Swap Account shall be made initially to the Special Account in Dollars calculated in accordance with paragraph 6 (d) (iv) of this Schedule. The amounts refunded to the Special Account shall be immediately refunded to the Bank.
- (iii) Such refunds shall be made notwithstanding the Swap Agreements entered into by the Borrower in respect of such amounts.
- (iv) The exchange rate used for converting such refunds from the Rupee amounts in the Swap Account to Dollars shall be the rate at which the respective Rupee amounts were converted from the Dollar amounts in the Special Account pursuant to the relevant Swap Agreements. If any question arises on the applicable exchange rate to be used in respect of any amount to be refunded, the rate shall be as determined by the Bank.
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