

CONFORMED COPY

LOAN NUMBER 4594 IN

Rajasthan Project Agreement

(Rajasthan Power Sector Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

STATE OF RAJASTHAN

Dated February 27, 2001

LOAN NUMER 4594 IN

RAJASTHAN PROJECT AGREEMENT

AGREEMENT, dated February 27, 2001, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF RAJASTHAN, acting by its Governor (Rajasthan).

WHEREAS (A) by the Loan Agreement of even date herewith between India, acting by its President (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount of one hundred eighty million dollars (\$180,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Rajasthan agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) the proceeds of the loan provided for under the Loan Agreement will be made available by the Borrower to Rajasthan as provided for in the Loan Agreement;

(C) by the Project Agreement of even date herewith among the Bank and Rajasthan Rajya Vidyut Utpadan Nigam Limited (RVUN), Rajasthan Rajya Vidyut Prasaran Nigam Limited (RVPN), Jaipur Vidyut Vitran Nigam Limited (JAIPUR DISCOM), Ajmer Vidyut Vitran Nigam Limited (AJMER DISCOM) and Jodhpur Vidyut Vitran Nigam Limited (JODHPUR DISCOM), RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM have undertaken

certain obligations towards the Bank as set forth in the Project Agreement;

(D) the Bank has received a letter dated September 25, 2000 from Rajasthan enclosing a policy statement designed to restructure, reform and develop the power sector in Rajasthan (hereinafter the Reform Program or Program) and declaring Rajasthan's commitment to the execution of such Program; and

WHEREAS Rajasthan, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Rajasthan declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall, subject to paragraph (b) hereof, carry out Part D.1 of the Project through its relevant departments or agencies and, shall cause RVPN, RVUN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM as the case may be, to carry out the relevant activities under Parts A, B, C, D.2 and E of the Project, and shall cause RVUN to carry out the relevant activities under Part D.2 of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, Rajasthan shall cause RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM to perform in accordance with the provisions of the Project Agreement all the respective obligations therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 2.02. (a) Rajasthan shall further onlend the proceeds of the Loan to each of RVPN, RVUN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM under a Subsidiary Loan Agreement to be entered into between Rajasthan and each of RVPN, RVUN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM under terms and conditions satisfactory to the Bank, which shall include, that RVPN, RVUN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM shall pay interest on the principal amount so lent and withdrawn and outstanding from time to time at a rate of not less than 12% per annum, and repay the principal amount so lent over a period of 20 years including therein a period of grace of 5 years.

(b) Except as the Bank may otherwise agree, Rajasthan shall, in accordance with arrangements and procedures satisfactory to the Bank, make available to RVPN, RVUN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM without setting off any amounts that may be due to Rajasthan from RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM, the proceeds of the Loan within fifteen days of such proceeds being made available to Rajasthan by the Borrower in respect of expenditures to be financed under each Subsidiary Loan Agreement. Rajasthan, shall, within five days of transferring the funds to each of RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM, under their respective Subsidiary Loan Agreements, send to the Bank confirmation of such transfer, indicating both the amount and the date of such transfer.

(c) Rajasthan shall participate with RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM

and JODHPUR DISCOM in the negotiations referred to in Section 2.05 of the Project Agreement.

(d) Rajasthan shall provide financial support, in cash and on a timely basis, to RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM in accordance with arrangements satisfactory to the Bank in order to enable RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM to achieve the financial and operational targets under the Financial Restructuring Plan.

(e) Rajasthan shall take all such steps that may be required for the continued and effective functioning of the Regulatory Commission under the Reform Act.

(f) Rajasthan shall, as long as Rajasthan remains the majority shareholder in RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM, take all such actions as may be necessary or required in order to support each such company, in meeting their obligations set out in Article IV of the Project Agreement.

(g) During the implementation of the Project, Rajasthan shall, within 30 days of the approval of the budget of Rajasthan, inform the Bank of the approved budget of the Regulatory Commission.

Section 2.03. 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 4 to the Loan Agreement.

Section 2.04. Rajasthan shall duly perform all its obligations under each Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Rajasthan shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving any Subsidiary Loan Agreement or any provision thereof.

Section 2.05. Rajasthan shall take all such actions as may be required or necessary including the provision of consents under the Reform Act, in order to enable RVUN, RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM to perform their respective obligations under the Project Agreement.

Section 2.06. Rajasthan shall make budgetary provision for all outstanding electricity dues of its departments, and ensure that these amounts are paid to RVPN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM on a regular and timely basis.

Section 2.07. Rajasthan shall: (a) with the participation of JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM, no later than July 1, 2002, offer at least a majority of its equity in each such Distribution Company for sale to the private sector under terms and conditions satisfactory to the Bank with the objectives of divesting such equity and transferring management control in accordance with a program and timetable for divestment satisfactory to the Bank.

(b) to the extent necessary to meet its obligations under the Financial Restructuring Plan, offer its equity in RVUN, in whole or in part, for sale to the private sector under suitable terms and conditions;

(c) take all such measures as may be necessary or required for efficiently implementing the transactions resulting from such offer;

(d) where no tenders are received in response to such offer or those that are received are not deemed responsive by Rajasthan, revise the terms and conditions of such offer in a manner satisfactory to the Bank and take such other steps which shall, without prejudice to the interests of Rajasthan, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM, be adequate, to making such offer attractive for acceptance by the private sector; and

(e) utilize the proceeds from the divestment of its shareholdings in each of, RVUN, JAIPUR DISCOM, AJMER DISCOM and JODHPUR DISCOM, to the extent necessary, to meet its obligations under the Financial Restructuring Plan.

Section 2.08. (a) Rajasthan shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project and the Program, the

performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) Rajasthan shall promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of the Project and the Program, the accomplishment of the purposes of the Loan, or the performance by Rajasthan of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.09. Rajasthan shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 1, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by February 15, 2003 or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient implementation of the Program and the completion of the Project, and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

ARTICLE III

Financial Covenants

Section 3.01. (a) Rajasthan shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures in respect of the Project.

(b) Rajasthan shall:

(i) have the said records and accounts referred to in paragraph (a) of this section for each fiscal year audited, in accordance with appropriate 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 six months after the end of each such year, 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 said records, and accounts as well as the audit thereof as the Bank shall from time to time reasonably request.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, Rajasthan shall not later than April 1, 2003 or such later date as the Bank shall agree, prepare in accordance with guidelines acceptable to the Bank quarterly Project Management Reports for Part D.1 of the Project each of which for such Part of the Project:

(i) (A) sets forth actual sources and applications of funds both cumulatively and for the period covered by said report, and projected sources and applications of funds for the six-month period following the period covered by said report; and

(B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes progress in Project implementation, both cumulatively and for the period covered by said report; and

(B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Rajasthan shall furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report prepared pursuant to paragraph (a) of this Section for each such calendar quarter beginning not later than the calendar quarter ending on June 30, 2003 or such later date as the Bank shall agree.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Rajasthan thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Rajasthan thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Rajasthan:

Chief Secretary to the Government
of Rajasthan

Jaipur, Rajasthan

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed under this Agreement on behalf of Rajasthan may be taken or executed by its Chief Secretary or by such other person or persons as Rajasthan shall designate in writing, and Rajasthan shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Joelle Chassard

Acting Country Director, India

STATE OF RAJASTHAN

By /s/ C. S. Rajan

Authorized Representative

