

CONFORMED COPY

LOAN NUMBER 4114 IN

Loan Agreement

(States' Road Infrastructure Development Technical Assistance Project)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated January 15, 1997

LOAN NUMBER 4114 IN

LOAN AGREEMENT

AGREEMENT, dated January 15, 1997, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; 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 modification of Section 6.03 set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, 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."

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

(a) "DEA" means the Department of Economic Affairs within the Borrower's Ministry of Finance;

(b) "Participating State" means any State or Union Territory of the Borrower which has entered into a Participation Agreement with the Borrower pursuant to Section 3.02 of this Agreement;

(c) "Participation Agreement" means the agreement entered into between the Borrower and any Participating State, satisfactory to the Bank, for purposes of enabling such Participating State to participate in the carrying out of the Project and defining the rights and obligations of the Borrower and each such Participating State, all in accordance with the terms and conditions described or referred to in Section 3.02 of this Agreement;

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

(e) "Fiscal Year" means the Borrower's fiscal year, starting April 1 and ending March 31 of each year.

## 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 fifty-one million five hundred thousand dollars (\$51,500,000).

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 expenditures made (or, if the Bank shall so

agree, to be made) in respect of the reasonable cost of goods and services required for 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 the Reserve Bank of India on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower 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 interbank 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 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 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 June 15 and December 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

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 or cause the Project to be carried out with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project or cause the Project to be carried out in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall enter into a Participation Agreement with each Participating State for the purposes of enabling such Participating State to participate in the carrying out of the Project under terms and conditions which shall have been approved by the Bank, which shall include, inter alia, those set forth or referred to in Schedule 6 to this Agreement.

(b) The Borrower shall exercise its rights under each Participation Agreement in such manner as to protect the interests of the Borrower and the Bank, comply with its obligations under this Agreement, and accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Participation Agreement or any provision thereof.

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 4 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 Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

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

### ARTICLE IV

#### Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special

Account 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 and the audit thereof as the Bank shall from time to time reasonably request.

(c) 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, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, or cause to be retained, 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 (b) 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.

#### 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) Any Participation Agreement shall have been amended, suspended, abrogated, repealed or waived without the prior approval of the Bank.

(b) Any Participating State shall have failed to perform any of the obligations under its Participation Agreement.

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

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

#### ARTICLE VI

##### Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of

the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretary to the Government of India  
Department of Economic Affairs  
Ministry of Finance  
New Delhi, India

Cable address:

ECOFAIRS  
New Delhi

Telex:

953-31-66175 FINE IN  
953-31-61430 FINE IN

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)  
64145 (MCI)

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

INDIA

By /s/ Sudhakar Rao

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Robert Drysdale

Acting Regional Vice President  
South Asia

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) Civil works	3,800,000	90%
(2) Equipment	1,000,000	100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services and training	46,700,000	100%
TOTAL	51,500,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

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

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made in respect of Category 3 set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after July 1, 1996; and

(b) in respect of expenditures made by any Participating State, unless and until the Bank has notified the Borrower that the Participation Agreement in respect of such Participating State is acceptable to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts costing less than the equivalent of:

(a) \$50,000 for goods;

(b) \$200,000 for civil works;

(c) \$100,000 for the services of consulting firms; and

(d) \$50,000 for the services of individual consultants, all 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 to assist the Participating States in the preparation of high priority road investments and to promote the carrying out of policy reforms by the Participating States in the provision, financing and maintenance of road infrastructure.

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

Part A: Project Preparation and Implementation Support

1. Carrying out techno-economic feasibility studies, design and engineering, environmental and social impact studies, preparation of procurement documents for proposed road infrastructure investments in Participating States.
2. Improving the project engineering, management and implementation capacities and resources of the roads authorities and the sector in the Participating States.
3. Conducting workshops and carrying out training, pilot studies, demonstration projects and/or programs through, inter alia, the provision of consultants' services and facilities.

Part B: Policy Support and Institutional Development

Development and implementation of key road sector reform measures aimed at institutional strengthening and capacity-building in the Participating States through, inter alia, training, study visits and provision of consultants' services.

Part C: Project Management

Strengthening DEA with the management of its essential resources for the implementation of the Project, through, inter alia, the provision of consultants' services and equipment.

\* \* \*

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
June 15, 2002	1,080,000
December 15, 2002	1,115,000
June 15, 2003	1,150,000
December 15, 2003	1,185,000
June 15, 2004	1,220,000
December 15, 2004	1,255,000
June 15, 2005	1,295,000
December 15, 2005	1,330,000
June 15, 2006	1,370,000
December 15, 2006	1,410,000
June 15, 2007	1,455,000
December 15, 2007	1,500,000
June 15, 2008	1,545,000
December 15, 2008	1,590,000
June 15, 2009	1,635,000
December 15, 2009	1,685,000
June 15, 2010	1,735,000
December 15, 2010	1,790,000
June 15, 2011	1,845,000
December 15, 2011	1,900,000
June 15, 2012	1,955,000
December 15, 2012	2,015,000



June 15, 2013	2,075,000
December 15, 2013	2,135,000
June 15, 2014	2,200,000
December 15, 2014	2,265,000
June 15, 2015	2,335,000
December 15, 2015	2,405,000
June 15, 2016	2,475,000
December 15, 2016	2,550,000

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\* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

#### SCHEDULE 4

##### Procurement and Consultants' Services

##### Section I. Procurement of Good 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 and revised in January and August 1996 (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) Prequalification

Bidders for civil works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

##### (b) 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 Borrower and works to be carried out by domestic contractors.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

Civil works estimated to cost less than \$70,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent per Participating State, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

##### 2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent per Participating State, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 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, in respect of each Participating State, 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 for goods estimated to cost the equivalent of \$50,000 or more, and each contract for civil works estimated to cost the equivalent of \$200,000 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 5

### Implementation Program

1. The Borrower shall appoint, in accordance with the provisions of Section II of Schedule 4 to this Agreement, by April 30, 1997 and thereafter employ consultants to provide assistance to DEA in the coordination of the Project and in the review of its implementation in accordance with supervision plans acceptable to the Bank.

2. The Borrower shall, by December 15, 1998 and every December 15 thereafter:

(a) carry out annual reviews of the allocation of funds under the Project among the Participating States; and

(b) make adjustments of the funds for each succeeding year of the Project taking into account disbursement performance and the

documented needs of each Participating State, as determined by the Borrower.

3. The Borrower 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 achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 1998, 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 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 achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 1999, 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 completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

#### SCHEDULE 6

##### Participation Agreement (Procedures, Terms and Conditions, and Implementation Arrangements)

1. The Borrower shall make the proceeds of the Loan available to the Participating States in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

2. Prior to entering into a Participation Agreement with the Borrower, a Participating State shall have delivered to the Borrower a letter: (i) indicating that it will take decisions, satisfactory to the Borrower, on policy-based reforms in key institutional and financing aspects of its road sector; and (ii) advising the Borrower of such State's acceptance of a project identification and preparation framework (PIPF), acceptable to the Borrower and the Bank, as the model framework for any Technical Assistance supported project preparations, such PIPF outlining the agreed strategic areas, the approach to project identification and essential techno-economic, environmental, social, institutional and procurement preparations. Upon entering into a Participation Agreement, the provisions of said letter and PIPF shall be included therein and become an integral part thereof.

3. Each Participation Agreement shall include provisions whereby:

(a) Each Participating State shall undertake to establish, maintain and operate an Empowered/Steering Committee for the direction and monitoring of all aspects of reform implementation and project preparation activities carried out under the Project.

(b) Each Participating State shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out its part of the Project with due diligence and efficiency and shall provide, promptly as needed, the funds, facilities, services and other resources required for its part of the Project.

(c) Each Participating State shall undertake that, unless the Borrower and 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.

(d) Each Participating State shall undertake to carry out the

obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions in respect of such State's Participation Agreement.

(e) Each Participating State shall undertake to, at the request of the Borrower, exchange views with the Borrower and the Bank, with regard to the progress of its part of the Project, the performance of its obligations under the respective Participation Agreement, and other matters related to the purposes of the loan.

(f) Each Participating State shall undertake to promptly inform the Borrower and the Bank of any condition which interferes or threatens to interfere with the progress of its part of the Project, the accomplishment of the purposes of the Loan, or the performance by such Participating State of its obligations under the Participation Agreement.

(g) Each Participating State shall undertake to: (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its part of the Project of the departments or agencies of such State responsible for carrying out the Project or any part thereof; and (ii) have its records and accounts referred to in paragraph (a) above for each fiscal year audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Borrower; and furnish to the Borrower, as soon as available, but in any case not later than six months after the end of each such fiscal year, the report of such audit by said auditors of such scope and in such detail as the Borrower shall reasonably request, including such other information concerning said records, accounts and the audit thereof as the Borrower shall from time to time reasonably request.

#### SCHEDULE 7

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 3 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 and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

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

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

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount to or less than the equivalent of \$1,000,000 shall be made exclusively out of the Special 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 has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower,

withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(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 Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special 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 4.01 (b) (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;

(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; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories 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 Special 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 Special 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 Special 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 Special 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.

(d) Refunds to the Bank made pursuant to paragraphs 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.

