

CONFORMED COPY

LOAN NUMBER 4571 IN

Loan Agreement

(Second Renewable Energy Project)

between

INDIAN RENEWABLE ENERGY DEVELOPMENT AGENCY LIMITED

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 11, 2000

LOAN NUMBER 4571 IN

LOAN AGREEMENT

AGREEMENT, dated August 11, 2000 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and INDIAN RENEWABLE ENERGY DEVELOPMENT AGENCY 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 Parts A and B 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;

(C) the Guarantor and the Borrower have requested the International Development Association (the Association) to provide additional financing towards the financing of Parts A.1 and B of the

Project and by an agreement of even date herewith between the Guarantor and the Association (the Development Credit Agreement), the Association has agreed to provide such assistance in an aggregate principal amount equivalent to thirty seven million two hundred thousand Special Drawing Rights (SDR 37,200,000) (the Credit) on the terms and conditions set forth in the Development Credit Agreement;

(D) by an agreement of even date herewith between the Bank acting as implementing agency of the Global Environment Facility (GEF) and the Borrower (the GEF Grant Agreement), the Bank has agreed to make a grant (the GEF Grant) to the Borrower (as such the Recipient) in an amount equivalent to three million eight hundred thousand Special Drawing Rights (SDR 3,800,000) to assist in financing Part C of the Project on the terms and conditions set forth in the GEF Grant Agreement.

(E) by an agreement of even date herewith between the Association and the Borrower (the Project Agreement), the Borrower has agreed to carry out Parts A.1 and B of the Project as set out in the Development Credit 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 (as amended through October 6, 1999) (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Eligible Category" means the category set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(b) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement.

(c) "Environment Analysis Guidelines" means the Guidelines as approved by the Borrower on May 6, 1998 setting forth, inter alia, the policies and procedures for carrying out environmental assessment and preparation of environment mitigation plans;

(d) "Energy Efficiency Services" means services provided by an ESCO to an energy consumer under Part B of the Project for an Investment Project;

(e) "Engineering Services" means supervision services, and erection, testing and commissioning services provided under Parts A and B of the Project for an Investment Project;

(f) "ESCOs" means Energy Service Companies approved by the Borrower in accordance with eligibility criteria satisfactory to the Bank and "ESCO" means each such company;

(g) "Fiscal Year" means the Fiscal Year of the Borrower beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;

(h) "Investment Enterprise" means an enterprise, including an ESCO, which intends to carry out an Investment Project under Part A or Part B of the Project and to which the Borrower proposes to make a Subloan;

(i) "Investment Project" means a specific scheme, including Energy Efficiency Services and Engineering Services, to be carried out under Part A or Part B of the Project by an Investment Enterprise utilizing the proceeds of a Subloan;

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

(k) "Policy Statement" means the operational policy statement dated December 24, 1992 of the Borrower, as amended to the date of this Agreement, and as further revised pursuant to Section 6.01(c) of the Development Credit Agreement;

(l) "Project Management Report" means each report prepared in accordance with Section 4.07 of this Agreement;

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

(o) "Social Impact Assessment Framework" means the Framework as approved by the Borrower on May 6, 1998 setting forth, inter alia, the policies and procedures for carrying out social impact assessments and where applicable, preparation of resettlement and rehabilitation plans and other developmental plans for people adversely affected as a result of the implementation of the Project, carrying out consultations, processing and redressing grievances and monitoring related impacts;

(p) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(q) "Subloan" means a loan made or proposed to be made by the Borrower from the proceeds of the Loan to an Investment Enterprise for an Investment Project under Part A or Part B of the Project.

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 eighty million dollars (\$80,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for 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 Subloan to meet the reasonable cost of goods, works and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested.

Section 2.03. The Closing Date shall be March 31, 2006 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 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 Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Guarantor or 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 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 and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with its Memorandum and Articles of Association and Policy Statement.

(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 Parts A and B of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Subloans will be made in accordance with the procedures and on the terms and conditions set forth as referred to in Schedule 6 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, 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 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. The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to monitor and record the progress of the Project and of each Investment Project (including its costs and 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 and to register separately the operations, resources and expenditures related to the Project and each Investment Project.

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 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 six 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 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 Project Management Reports or statements of expenditures, 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. 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 4.04. (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 revolving fund shall be greater than 5 to 1.

(b) For 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 of the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.

(iii) The term "revolving fund" means the aggregate of equity and grants.

(iv) 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.

(v) The term "grants" means the sum of the total non-reimbursable funds made available to the Borrower, other than equity and program subsidies.

(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 absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.05. (a) Except as the Bank shall otherwise agree, the Borrower shall ensure that for each Fiscal Year their cash flow available for debt service shall be at least 1.3 times their debt service requirements.

(b) For the purposes of this Section:

(i) The term "cash flow available for debt service" for any year means the sum of net cash revenue of the Borrower, cash loan collections (repayments only), and interest and other charges on debt for that year;

(ii) The term "net cash revenue" for any year means the sum of the net profit after tax, depreciation and other non-cash operating charges, and accrued interest differential for that Fiscal Year;

(iii) The term "accrued interest differential" for any Fiscal Year means the difference between the accrued interest income outstanding at the beginning of the year and the accrued interest outstanding at the end of the year;

(iv) The term "debt service requirements" means the sum of the aggregate amount of interest and other charges and principal repayment liabilities on debt;

(v) 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;

(vi) Debt shall be deemed to be incurred: (A) under a credit 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 of the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding; and

(vii) 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 4.06. The Borrower shall take all such measures as may be necessary or required, satisfactory to the Bank in order to meet the financial performance targets set out in the Policy Statement, and shall not take any action that may prevent or interfere with the achievement of such targets.

Section 4.07. The Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter, a Project Management Report for such period, which:

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

(ii) 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;

(b) (i) describes physical progress in Project implementation both cumulatively and for the period covered by said report; and

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

(c) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the

end of the period covered by said report.

ARTICLE V

Remedies of the Bank

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

(a) The Borrower shall have failed to perform any of its obligations under the Project Agreement or the GEF Grant Agreement;

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

(c) The Policy Statement as revised pursuant to Section 6.01 (c) of the Development Credit Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial conditions of the Borrower or its ability to carry out the Project;

(d) The Memorandum and Articles of the Association 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;

(e) The agreement referred to in Section 6.01 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 shall have failed to enforce or implement any provision of such agreement;

(f) (i) the right of the Borrower or Guarantor to withdraw the proceeds of the GEF Grant or the Credit made to the Borrower or Guarantor, as the case may be, for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part by the Bank or the Association, as the case may be, pursuant to the terms thereof, or

(ii) the Credit shall have become due and payable prior to the agreed maturity thereof.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) Any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) Any event specified in paragraphs (d),
(e) or (f) of Section 5.01 of this Agreement shall
occur.

ARTICLE VI

Effective Date; Termination

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

(a) That the Borrower shall have entered into
a guarantee fee 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; and

(b) All conditions precedent to the
effectiveness of the Development Credit Agreement and
the GEF Grant Agreement have been fulfilled other than
those related to the effectiveness of this Agreement.

Section 6.02. The date ninety (90) days after
the date of this Agreement is hereby specified for the
purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Managing Director 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:

Indian Renewable Energy Development
Agency Limited
Core 4-A, East Court, 1st Floor, India
Habitat Centre Complex
Lodi Road, New Delhi 110003, India

Cable address:

ALTERNATE -ND-3
New Delhi

For the Bank:

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

	Cable address:	Telex:
(MCI) or	INTBAFRAD	248423
(MCI)	Washington, D.C.	64145

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.

INDIAN RENEWABLE ENERGY
DEVELOPMENT AGENCY LIMITED

By /s/ V. Bakthavatsalam
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ Edwin R. Lim
Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Part A: General

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

% of	Amount of the Loan Allocated
Expenditures	(Expressed in
Category	Dollar Equivalent)
to be Financed	

Subloans for 100% of amounts Investment Projects disbursed by IREDA under Parts A and B under Subloans of the Project	80,000,000
TOTAL	80,000,000

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$8,000,000 may be made on account of payments made for expenditures before that date but after July 1, 1999; and (b) a Subloan unless the Subloan has been made for the relevant Investment Project in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to 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 for a private sector Investment Enterprise under contracts costing the equivalent of \$5,000,000 or less; (ii) goods for a public sector Investment Enterprise under contracts costing the equivalent of \$200,000 or less; (iii) works under contracts costing the equivalent of \$5,000,000 or less; (iv) Energy Efficiency Services under contracts costing the equivalent of \$1,000,000 or less; (v) consultant services under contracts costing less than \$100,000 equivalent for employment of consulting firms; and (vi) consultant services under contracts costing less than \$50,000 for employment of individual consultants, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

Part B: Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.07 of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.07 of this Agreement accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this

Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.07 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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:

(A) the records and accounts for the Special Account; or

(B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports or statements of expenditures.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that

any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account when Withdrawals are not made on the Basis of Project Management Reports

1. The term "Authorized Allocation" means an amount equal to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$2,500,000, the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the amount of \$14,800,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals, as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions 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 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.

Annex B to SCHEDULE 1

Operation of Special Account when Withdrawals are made on the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each applications for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of:

(a) the amount so requested; and

(b) the amount which the Bank has determined, based on the Project Management Report accompanying said applications, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$16,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) increase power supply through investments in small hydro schemes; (ii) mobilize private sector investment in renewable energy; and (iii) promote energy efficiency and demand-side management investments. 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: Small Hydro Schemes

1. The carrying out of a total of about 30 MW of small scale hydro Investment Projects of up to 3 MW each including: (i) canal-based and dam toe schemes; (ii) run-of-river schemes; (iii) rehabilitation or upgrading of old plants; (iv) schemes using tail ends of cooling water systems of thermal power plants; and (v) stand alone micro-hydro schemes of up to 100 KW each.

2. The carrying out of a total of about 170 MWs of small scale hydro Investment Projects of up to 25 MW each including: (i) canal-based and dam toe schemes; (ii) run-of-river schemes; (iii) rehabilitation or upgrading of old plants; (iv) schemes using tail ends of cooling water systems of thermal power plants; and (v) stand alone micro-hydro schemes of up to 100 KW each.

Part B: Energy Efficiency and Demand-Side Management Investments

The carrying out of Investment Projects for: (i) purchase and installation of energy efficiency devices and systems; (ii) production of energy efficient equipment; (iii) design, development and implementation of integrated energy management services operated by ESCOs on a performance guarantee basis; and (iv) other utility-sponsored demand-side management programs.

Part C: Technical Assistance and Training

(a) Strengthening the Borrower's capacity to appraise and supervise energy efficiency Investment Projects through the provision of consultancy services and training.

(b) Improving the marketing of the energy efficiency and demand-side management investments under Part B of the project through the provision of consultancy services to prepare business development modules, model bid documents and informative packages.

(c) Promoting private sector participation in end-use efficiency including thorough development of appropriate policy incentives through the provision of consultancy services to various state energy development entities, and training for public and private sector on energy conservation and demand-side management.

* * * * *

The Project is expected to be completed by September 30, 2005.

SCHEDULE 3

Amortization Schedule

Payment of Principal
Date Payment Due

(

Expressed in Dollars)*

December 15, 2005
1,690,000
June 15, 2006
1,740,000
December 15, 2006
1,795,000
June 15, 2007
1,845,000
December 15, 2007
1,900,000
June 15, 2008
1,955,000
December 15, 2008
2,015,000
June 15, 2009
2,075,000
December 15, 2009
2,135,000
June 15, 2010
2,200,000
December 15, 2010
2,265,000
June 15, 2011
2,330,000
December 15, 2011
2,400,000
June 15, 2012
2,470,000
December 15, 2012
2,545,000
June 15, 2013
2,620,000
December 15, 2013
2,700,000
June 15, 2014
2,780,000
December 15, 2014
2,860,000
June 15, 2015
2,945,000
December 15, 2015
3,035,000
June 15, 2016
3,125,000
December 15, 2016
3,215,000
June 15, 2017
3,310,000
December 15, 2017
3,410,000
June 15, 2018
3,510,000
December 15, 2018
3,615,000
June 15, 2019
3,720,000
December 15, 2019
3,830,000
June 15, 2020
3,965,000

* 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, revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods, works and Energy Efficiency Services 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 provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods and domestic contractors

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

Part C: Other Procurement Procedures

1. Limited International Bidding

Energy Efficiency Services estimated to cost the equivalent of \$1,000,000 or less per contract, which the Bank agrees can only be purchased from a limited number of suppliers, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Civil works estimated to cost the equivalent of \$10,000,000 or less per contract and goods for a public sector Investment Enterprise estimated to cost the equivalent of \$200,000 or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International/National Shopping

(a) Goods for a private sector Investment Enterprise estimated to cost the equivalent of \$5,000,000 or less per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions

of paragraphs 3.5 and 3.6 of the Guidelines.

(b) Specialized equipment (office equipment, monitoring and testing equipment, computer hardware and software, and instruments for monitoring and testing estimated to cost the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent from the proceeds of the Credit and the Loan 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.

4. Commercial Practice

(a) Goods for a private sector Investment Enterprise estimated to cost the equivalent of \$50,000 or less per contract up to an aggregate amount not to exceed the equivalent of \$30,000,000 from the proceeds of the Credit and the Loan may be procured on the basis of established commercial practice acceptable to the Bank.

(b) Civil works for a private sector Investment Enterprise estimated to cost the equivalent of \$5,000,000 or less per contract may be procured on the basis of established commercial practice acceptable to the Bank.

(c) Energy Efficiency Services estimated to cost the equivalent of \$50,000 or less per contract up to an aggregate amount not to exceed the equivalent of \$5,000,000 from the proceeds of the Credit and the Loan may be procured on the basis of established commercial practice acceptable to the Bank.

5. Force Account

Works for a public sector Investment Enterprise which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$50,000 equivalent or less per contract up to an aggregate amount not to exceed \$2,000,000 equivalent may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

6. Definitions

For purposes of this Schedule:

(a) The term "public sector Investment Enterprise" means an enterprise registered under the relevant laws of the Guarantor in which at least 51 percent of the shares are owned by the Guarantor and/or any of its constituent States or Union Territories and/or their public sector enterprise(s); and

(b) The term "private sector Investment Enterprise" means an enterprise registered under the relevant laws of the Guarantor which is majority-owned by the private sector.

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 for: (i) works estimated to cost more than the equivalent of \$5,000,000; (ii) Energy Efficiency Services estimated to cost more than the equivalent of \$1,000,000; (iii) goods for a private sector Investment Enterprise estimated to cost more than the equivalent of \$5,000,000; and (iv) goods for a public sector Investment Enterprise estimated to cost more than the equivalent of \$200,000, 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

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Parts A and B of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services under Parts A and B of the Project which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall: (i) at all times implement the Project in accordance with its Policy Statement; (ii) promptly inform the Bank of any changes made, or proposed to be made, by its Board to the Policy

Statement; and (iii) consult with the Bank prior to introducing any material changes to the Policy Statement.

2. The Borrower shall engage, in accordance with terms of reference, satisfactory to the Bank, the services of external auditors to perform a comprehensive financial audit and review of the portfolio risk based on international accounting standards and international auditing guidelines, and shall complete such audit and review no later than November 30, 2000.

3. The Borrower shall: (a) no later than March 31, 2001 provide to the Bank a time-based action plan for the future development of IREDA, satisfactory to the Bank, taking into account the recommendations of the financial audit and portfolio review referred to in paragraph 2 above in respect of those matters which are within the jurisdiction of IREDA; (b) refer those recommendations to the Guarantor which are within the jurisdiction of the Guarantor; and (c) thereafter implement such action plan in accordance with the provisions of such plan.

4. Each Investment Project estimated to cost the equivalent of \$5,000,000 or more, and the first two Investment Projects under Part B of the Project (other than those carried out by ESCOs) and the first Investment Project to be carried out by an ESCO irrespective of value, shall be submitted to the Bank for prior approval.

5. Each Investment Project shall comply with the environmental, resettlement and social standards set forth in the Environmental Analysis Guidelines and Social Impact Assessment Framework. To that end, the Borrower shall require each Investment Enterprise applying for a Subloan 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 where applicable, an environmental mitigation plan, a resettlement and rehabilitation plan and an indigenous peoples development plan for adversely affected and/or displaced populations, for such Investment Project.

6. The Borrower shall provide to the Bank:

(a) by December 31 of each year, financial statements as well as cash flow estimates showing the estimates for the current year and projections for the next five years, comparing the Borrower's projected performance with the parameters set forth in the Policy Statement; and

(b) by March 31 of each year the Borrower shall inform the Bank of its approved budgetary allocation for the following Fiscal Year.

7. 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 forty-five 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.

8. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the 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 and the Guarantor, by October 31, 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 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 participation of the Guarantor and the Bank, by December 31, 2002, or such later date as the Bank shall agree, 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's views on the matter.

SCHEDULE 6

Procedures for, and Terms and Conditions of Subloans

1. Except as the Bank may otherwise agree, the terms and conditions of each Subloan shall be as set out in the Policy Statement.

2. No expenditures for goods, works or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Subloan 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 Subloan; or

(b) the Subloan for such Investment Project shall have been a free-limit Subloan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Subloan. For the purposes of this Agreement, a free-limit Subloan shall be a Subloan in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$5,000,000 equivalent, except for the first two

Subloans for Investment projects under Part B of the Project (other than those carried out by ESCOs) and the first Subloan for an Investment Project to be carried out by an ESCO irrespective of value.

3. (a) When presenting a Subloan (other than a free-limit Subloan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in a satisfactory form, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Subloan; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; (iii) evidence of compliance with the Policy Statement, the Environment Analysis Guidelines and the Social Impact Assessment Framework set out in paragraph 5 of Schedule 5 to this Agreement; and (iv) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Subloan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Subloan; (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor; (iii) evidence of compliance with the Policy Statement, the Environment Analysis Guidelines and the Social Impact Assessment Framework set out in paragraph 5 of Schedule 5 to this Agreement; and (iv) such other information as the Bank shall reasonably request.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before March 31, 2004 for Part A of the Project and March 31, 2005 for Part B of the Project.

4. Subloans shall be made on terms whereby the Borrower shall 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, in the case of any Subloan, the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) without limitation to the generality of the provisions of the preceding paragraph (a), require the Investment Enterprise to carry out and operate the Investment Project with due regard to applicable social impact, ecological, environmental and pollution control standards and in accordance with the provisions of the environmental mitigation plan, resettlement and rehabilitation plan, and indigenous peoples development plan referred to in paragraph 5 of Schedule 5 to this Agreement;

(c) require that: (i) the goods, works and

services to be financed out of the proceeds of the Subloan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Investment Project;

(d) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods, 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 Subloan to the place of use or installation;

(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 Subloan upon failure by such Investment Enterprise to perform its obligations under its contract with the Borrower.

