

CONFORMED COPY

LOAN NUMBER 4271 IN

Haryana Project Agreement

(Haryana Power Sector Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

STATE OF HARYANA

Dated January 16, 1998

LOAN NUMBER 4271 IN

HARYANA PROJECT AGREEMENT

AGREEMENT, dated January 16, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF HARYANA, acting by its Governor (Haryana).

WHEREAS (A) by the Loan Agreement of even date herewith between India, acting by its President (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount of sixty million dollars (\$60,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Haryana agree to undertake such obligations toward the Bank as are set forth in this Agreement;

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

(C) by the HSEB Project Agreement of even date herewith between the Bank and Haryana State Electricity Board (HSEB), HSEB has undertaken certain obligations towards the Bank as set forth in the HSEB Project Agreement; and

(D) the Bank has received a letter dated November 12, 1997 from Haryana enclosing a detailed policy statement approved by Haryana designed to restructure, reform and develop the power sector in Haryana (hereinafter the Reform Program or Program) and declaring Haryana's commitment to the execution of such Program.

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of the Project

Section 2.01. (a) Haryana declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall cause HSEB to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 2.02. (a) Haryana shall relend the proceeds of the Loan to HSEB under a Subsidiary Loan Agreement to be entered into between Haryana and HSEB under terms and conditions satisfactory to the Bank, which shall include, that HSEB shall pay interest on the principal amount so relent and withdrawn and outstanding from time to time at a rate of not less than 13% per annum, and repay the principal amount so relent over a period of 18 years including therein a period of grace of 3 years and, that the foreign exchange risk shall be borne by the Borrower.

(b) Haryana shall make available to HSEB without setting off any amounts that may be due to Haryana from HSEB, the proceeds of the Loan immediately as they are withdrawn from the Loan Account and made available to Haryana by the Borrower in respect of expenditures to be financed under the Subsidiary Loan Agreement.

(c) Haryana shall participate with HSEB in preparing and negotiating the plan referred to in Section 2.06 of the HSEB Project Agreement.

(d) Haryana shall provide financial support to HSEB in accordance with the provisions of the Financial Commitment Letter to enable HSEB to achieve the financial and operational targets under the Financial Restructuring Plan.

(e) Haryana shall, in accordance with a time schedule satisfactory to the Bank, establish and make operational a regulatory commission under the provisions of the Act referred to in Section 5.01 (e) of the Loan Agreement.

(f) Haryana shall, by March 31 of each year during the implementation of the Project, inform the Bank of the approved budget of the regulatory commission referred to in paragraph (e) of this Section for the following Fiscal Year.

Section 2.03. Except as the Bank shall otherwise agree, procurement of the consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.04. Without prejudice to any of its obligations under this Agreement, Haryana shall take all such measures as may be necessary or required, in accordance with a time schedule, satisfactory to the Bank, for publishing, making effective and implementing the transfer scheme referred to in Section 5.01 (f) of the Loan Agreement and shall not take or permit to be taken any action which would prevent or interfere

with the publishing, making effective and implementation of such transfer scheme.

Section 2.05. Haryana shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Haryana shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.06. Haryana shall, with the participation of HSEB, by June 30, 1998 submit to the Bank a detailed plan, agreed between HSEB's lenders and suppliers, for the purpose of rescheduling HSEB's overdue payables, current debt from lenders, debt service in default, and debt service falling due in FY 1999 and FY 2000.

Section 2.07. Haryana shall: (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the Program and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 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 and the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the bank, by March 31, 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 implementation of the Program and the completion of the Project, and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 2.08. (a) Haryana shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project and the Program, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

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

ARTICLE III

Financial Covenants

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

(b) Haryana shall:

(i) have the said records and accounts referred to in paragraph (a) of this section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, and accounts as well as the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE IV

Effective Date; Termination
Cancellation and Suspension

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

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

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

ARTICLE V

Miscellaneous Provisions

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

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Haryana:

Chief Secretary to the
Government of Haryana
Chandigarh, India

Fax:

172540317

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

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

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

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Mieko Nishimizu

Regional Vice President
South Asia

STATE OF HARYANA

By /s/ Sudhakar Rao

Authorized Representative

