

No. 10094

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
INDIA**

Development Credit Agreement—*Third Telecommunications Project* (with annexed General Conditions Applicable to Development Credit Agreements). Signed at Washington on 18 June 1969

Authentic text : English.

Registered by the International Development Association on 11 December 1969.

**ASSOCIATION INTERNATIONALE
DE DÉVELOPPEMENT**

et
INDE

Contrat de crédit de développement — *Troisième projet relatif aux télécommunications* (avec, en annexe, les Conditions générales applicables aux contrats de crédit de développement). Signé à Washington le 18 juin 1969

Texte authentique : anglais.

Enregistré par l'Association internationale de développement le 11 décembre 1969.

DEVELOPMENT CREDIT AGREEMENT¹

AGREEMENT, dated June 18, 1969, between INDIA, acting by its President (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

WHEREAS (A) the Borrower has requested the Association to make a credit to it in an aggregate principal amount equivalent to \$27,500,000 to assist the Borrower in financing the Project described in Schedule 2 to this Agreement;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (hereinafter called the Bank) to provide additional assistance towards financing the Project;

(C) by an agreement of even date herewith between the Borrower and the Bank (hereinafter referred to as the Loan Agreement²), the Bank is agreeing to provide such assistance (hereinafter called the Loan) in an aggregate principal amount equivalent to \$27,500,000; and

(D) the Association has agreed, on the basis of the foregoing, to make a credit to the Borrower upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Development Credit Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 31, 1969,³ with the same force and effect as if they were fully set forth herein, subject, however, to the following modification thereof (said General Conditions

¹ Came into force on 14 July 1969 upon notification by the Association to the Government of India.

² See p. 269 of this volume.

³ See p. 324 of this volume.

Applicable to Development Credit Agreements of the Association, as so modified, being hereinafter called the General Conditions) :

Paragraph 5 of Section 2.01 is amended to read as follows :

“5. The term ‘Borrower’ means India, acting by its President.”

Section 1.02. Wherever used in this Development Credit Agreement, 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) “P&T” means the Posts and Telegraphs Department of the Borrower;
- (b) “Branch” means the Telecommunications Branch of P&T; and
- (c) “Rs” means rupees in the currency of the Borrower.

Article II

THE CREDIT

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions in this Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to twenty-seven million five hundred thousand dollars (\$27,500,000).

Section 2.02. (a) The Association shall open a Credit Account on its books in the name of the Borrower and shall credit to such Account the amount of the Credit.

(b) The amount of the Credit may be withdrawn from the Credit Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Development Credit Agreement and in accordance with the allocation of the proceeds of the Credit set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time pursuant to the provisions of such Schedule or by agreement between the Borrower and the Association.

Section 2.03. The Borrower shall be entitled to withdraw from the Credit Account in respect of the reasonable cost of goods or services required for the Project and to be financed under this Development Credit Agreement :

- (i) such amounts as shall have been paid (or, if the Association shall so agree, shall be required to meet payments to be made) for goods or

services included in Category I of the Allocation of the proceeds of the Credit referred to in Section 2.02 of this Agreement; and

- (ii) the equivalent of the following percentages (or such other percentages as the Association may from time to time determine) of such amounts as shall have been paid (or, if the Association shall so agree, shall be required to meet payments to be made) for goods or services included in the following Categories of the allocation of the proceeds of the Credit referred to in Section 2.02 of this Agreement :

Category II (a) — 20 %

Category II (b) — 13 %

Category II (c) — 55 %

Section 2.04 (a) No withdrawals from the Credit Account shall be made under Category I of the allocation of the proceeds of the Credit referred to in Section 2.02 of this Agreement on account of payments in the currency of the Borrower, or for goods produced in, or services supplied from, the territories of the Borrower.

(b) It is hereby agreed, pursuant to Section 5.01 of the General Conditions, that withdrawals from the Credit Account under Category II of the allocation of the proceeds of the Credit referred to in Section 2.02 of this Agreement may be made on account of payments made prior to the date of this Agreement but on or after April 1, 1969.

Section 2.05. The currency of the United Kingdom of Great Britain and Northern Ireland is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.06. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.07. Service charges shall be payable semi-annually one June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Credit withdrawn from the Credit Account in semi-annual installments payable on each June 15 and December 15, commencing June 15, 1979 and ending December 15, 2018, each installment to and including the installment payable on December 15, 1988 to be one-half of one per cent ($\frac{1}{2}$ of 1 %) of such principal amount, and each installment thereafter to be one and one-half per cent ($1\frac{1}{2}$ %) of such principal amount.

Article III

USE OF PROCEEDS OF THE CREDIT

Section 3.01. The Borrower shall apply the proceeds of the Credit in accordance with the provisions of this Development Credit Agreement to expenditures on the Project, described in Schedule 2 to this Agreement,

Section 3.02. Except as the Association shall otherwise agree, the goods and services to be financed out of the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement.

Section 3.03. Until the completion of the Project, the Borrower shall cause all goods and services financed out of the proceeds of the Credit to be used exclusively in carrying out the Project, except as the Association may otherwise agree.

Article IV

PARTICULAR COVENANTS

Section 4.01. The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 4.02. (a) Upon request from time to time by the Association, the Borrower shall promptly furnish or cause to be furnished to the Association the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Association shall request.

(b) The Borrower shall : (i) maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the Credit, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition with respect to the Project of the agency or agencies of the Borrower responsible for the carrying out of the Project or for the operation of the telecommunications facilities of the Borrower, or any part thereof; (ii) enable the Association's representatives to inspect the Project, such goods, the Branch, the Indian Telephone Industries Limited, the

Hindustan Cables Limited, the Hindustan Teleprinters Limited, any agency or agencies of the Borrower responsible for the carrying out of the Project or the operation of the telecommunications facilities of the Borrower to which the Program referred to in Schedule 2 to this Agreement relates, or any part thereof, and any relevant records and documents; and (iii) furnish or cause to be furnished to the Association all such information as the Association shall reasonably request concerning the expenditure of the proceeds of the Credit, the Project, such goods and services, and the operations and financial condition with respect to the Project of the agency or agencies of the Borrower responsible for the carrying out of the Project or the operation of the telecommunications facilities of the Borrower to which the Program referred to in Schedule 2 to this Agreement relates, or any part thereof.

Section 4.03. (a) The Borrower and the Association shall cooperate fully to assure that the purposes of the Credit will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Credit. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Association shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Credit and the maintenance of the service thereof. The Borrower shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Association to visit any part of the territories of the Borrower for purposes related to the Credit.

Section 4.04. Except as the Association shall otherwise agree, the Borrower undertakes to insure or cause to be insured the imported goods financed out of the proceeds of the Credit against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

Section 4.05 The Borrower shall operate and maintain its telecommunications facilities, and from time to time make all necessary renewals and repairs thereof, all in accordance with sound public utility and engineering practices.

Section 4.06. Except as the Association shall otherwise agree, the Borrower shall cause P&T to continue the financial reorganization of the

Branch in accordance with the provisions of and the time schedule set forth in Schedule 4 to this Agreement.

Section 4.07. Except as the Association shall otherwise agree, the Borrower shall cause P&T to retain, prior to December 31, 1969, consultants, acceptable to and on terms and conditions satisfactory to the Association, to assist P&T in establishing an effective stock control system.

Section 4.08. The Borrower shall have the commercial accounts of the Branch, beginning with those for the fiscal year ending March 31, 1969, audited annually by the Comptroller and Auditor General of the Borrower. The Borrower shall transmit to the Association :

- (i) certified copies of the audited statements (balance sheet and related statement of earnings and expenses) and signed copies of the auditors' reports relating to both the commercial accounts and the appropriation accounts of the Branch promptly after such statements are available; and
- (ii) beginning with the accounts for the fiscal year ending March 31, 1971, provisional commercial accounts (balance sheet and related statement of earnings and expenses) of the Branch not later than four months after the close of the fiscal year to which they relate.

Section 4.09. The Borrower shall consult the Association about any plan for a major reorganization of the Branch sufficiently in advance of the adoption of such plan for the Association to have adequate opportunity to comment thereon.

Section 4.10. The Borrower shall ensure that funds generated by the Branch are applied to the operations of the Postal Branch of P&T or to any use other than the operations of the Branch and the carrying out of the Project only if all funds required for the carrying out of the Project are available to the Branch.

Section 4.11. (a) Except as the Association shall otherwise agree, the Borrower shall establish and maintain tariffs for telecommunications services, and shall take all other action which may be necessary or appropriate, so as to provide revenues sufficient to produce an annual rate of return of not less than 11 % on the value of the net fixed assets in operation of the Branch, computed in accordance with the provisions of Schedule 5 to this Agreement.

(b) Whenever appropriate, and in any case not less frequently than every five years, the Borrower shall review, or cause to be reviewed, the value of the net fixed assets in operation of the Branch to determine whether because of substantial changes in current prices adjustments to such values are required, and shall notify the Association of the result of any such

review. Appropriate adjustments to the value of the net fixed assets in operation of the Branch for purposes of paragraph (a) of this Section shall then be made to the extent agreed between the Borrower and the Association. At the same time, the minimum annual rate of return specified in paragraph (a) of this Section and the minimum average rate of depreciation for purposes of computing costs specified in paragraph 2(a) (ii) of Schedule 5 to this Agreement will also be reviewed by the Borrower and the Association in order to determine whether any adjustments are called for.

Section 4.12. The principal of, and services charges on, the Credit shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Borrower or laws in effect in its territories.

Section 4.13. The Development Credit Agreement shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, delivery or registration thereof.

Article V

REMEDIES OF THE ASSOCIATION

Section 5.01. If any event specified in Section 7.01 of the General Conditions shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Association, at its option, may by notice to the Borrower declare the principal of the Credit then outstanding to be due and payable immediately together with the service charges thereon and upon any such declaration such principal, together with such charges, shall become due and payable immediately, anything in this Development Credit Agreement to the contrary notwithstanding.

Article VI

EFFECTIVE DATE; TERMINATION

Section 6.01. The date of August 1, 1969 is hereby specified for the purposes of Section 10.04 of the General Conditions.

Section 6.02. The obligations of the Borrower under Sections 4.02, 4.05, 4.09 and 4.11 of this Agreement shall terminate on the date on which this Development Credit Agreement shall terminate or on a date 30 years after the date of this Development Credit Agreement, whichever shall be the earlier.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be December 31, 1972 or such other date as shall be agreed between the Borrower and the Association.

Section 7.02. A Secretary to the Government of India in the Ministry of Finance is designated as representative of the Borrower for the purposes of Section 9.03 of the General Conditions.

Section 7.03. The following addresses are specified for the purposes of Section 9.01 of the General Conditions :

For the Borrower :

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

Alternative address for cables :

Ecofairs
New Delhi

For the Association

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Alternative adress for cables :

Indevas
Washington, D.C.

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

India :

By Ali Yavar JUNG
Authorized Representative

International Development Association :

By J. Burke KNAPP
Vice President

SCHEDULE 1

ALLOCATION OF PROCEEDS OF CREDIT AND LOAN

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
I. Goods to be imported by P&T	
(a) Cable and wire	11,300,000
(b) Equipment for long distance systems and training and research equipment	8,300,000
(c) Materials and components for manufacture in the P&T Workshops	3,100,000
II. Goods to be purchased from the Government telecommunications factories	
(a) Telephones, switching and transmission equipment, manufactured by Indian Telephone Industries Limited	11,500,000
(b) Teleprinters, manufactured by Hindustan Teleprinters Limited	800,000
(c) Cable and wire, manufactured by Hindustan Cables Limited	20,000,000
TOTAL	55,000,000

ALLOCATION OF THE PROCEEDS OF THE CREDIT

1. The amount of the Credit shall be withdrawn from the Credit Account as provided under Article II of this Development Credit Agreement and shall be applied to expenditures under Category II and, to the extent that withdrawals and commitments in respect of expenditures under Category I exceed the amount of the Loan, to expenditures under Category I.

ALLOCATION OF THE PROCEEDS OF THE LOAN

2. The amount of the Loan may be withdrawn from the Loan Account as provided under Article II of the Loan Agreement and shall be applied to expenditures under Category I and, to the extent that withdrawals and commitments in respect of expenditures under Category II exceed the amount of the Credit, to expenditures under Category II.

REALLOCATION UPON CHANGE IN COST ESTIMATES

3. If the estimate of the cost of the items included in any of the Subcategories in Categories I and II shall decrease, the amount of the Credit then allocated to, and no longer required for, such Subcategory will be reallocated, at the request of the Borrower, to any of the other Subcategories in Categories I and II, subject, however, to the requirements for contingencies, as determined by the Association, in respect of the cost of the items in the other Subcategories.

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project is the three year segment, April 1, 1969 through March 31, 1972, of P&T's Program for the expansion of the Branch's telecommunications facilities included in the Borrower's Fourth Five-Year Plan (ending March 31, 1974). The Project has a capital expenditure target of approximately Rs 2,700 million and comprises the following main items:

1. Expansion of local telephone exchanges to increase the net capacity by approximately 325,000 lines of automatic equipment and 20,000 lines of manual equipment, together with the necessary cables and subscriber equipment to add approximately 300,000 installations.
2. Expansion of the long distance network by approximately 12,000 interurban speech channels together with the necessary switching and terminating equipment.
3. Expansion of the telex network by approximately 5,000 subscriber installations together with the associated switching and long-distance channels; and expansion and modernization of the public telegraph service.
4. Expansion and modernization of training and research facilities appropriate to the increasing scope and complexity of P&T's operations.

SCHEDULE 3

PROCUREMENT PROCEDURES

1. The goods and services included in Category I of the allocation of the proceeds of the Credit set forth in Schedule I of this Agreement (except for those items in Category I (c) for which international competitive bidding is not appropriate) shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in February 1968.

2. With respect to contracts for procurement of goods and services referred to in paragraph 1 to be procured on the basis of international competitive bidding and estimated to cost in excess of \$100,000 equivalent :

- (a) Invitations to bid, specifications, conditions of contract, all other tender documents and the method and places of advertising will be submitted to the Association for its review and approval prior to the issuance of invitations to bid.
- (b) After bids have been received and analyzed, the analysis of the bids, and the proposals for awards, together with the reasons for such proposals, will be submitted to the Association for its review and approval prior to the Borrower's making any award of contract or issuing any letter of intent.

- (c) If the final contract is to differ substantially from the terms and conditions contained in the respective documents approved by the Association under paragraphs (a) and (b) above, the text of the proposed changes will be submitted to the Association for its review and approval prior to the execution of such contract.
- (d) As soon as a letter of intent has been issued or a contract has been executed, a copy thereof will be sent to the Association.

3. With respect to contracts for procurement of goods and services referred to in paragraph 1 estimated to cost \$100,000 equivalent or less, copies of the invitation to bid, the bid analysis and evaluation, the contract or order and any other documents the Association may request will be sent to the Association promptly after the execution of the respective contract and prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract.

4. The goods and services included in the following Categories of the allocation of the proceeds of the Credit set forth in Schedule I of this Agreement shall be procured from the Indian companies indicated in accordance with the usual procedures of the Branch:

Category II (a)—Indian Telephone Industries Limited

Category II (b)—Hindustan Teleprinters Limited

Category II (c)—Hindustan Cables Limited

Such Indian companies will continue to procure imported goods for the production of the goods included in such Categories on the basis of international competitive bidding wherever appropriate.

SCHEDULE 4

FINANCIAL REORGANIZATION OF THE BRANCH

The financial reorganization of the Branch, referred to in Section 4.06 of this Agreement, shall be carried out in accordance with the following time schedule:

1. The transfer of the accounting function for the Branch from the Comptroller and Auditor General of the Borrower to P&T will be completed by transferring the following accounting units to P&T by not later than the dates indicated:

September 1, 1969

Kerala Circle

Mysore Circle

Madhya Pradesh Circle

Gujerat Circle

Technical & Development Circle

Orissa Circle

Bangalore Telephone District

Ahmedabad Telephone District

Bombay Telephone District

September 1, 1970

West Bengal Circle

Maharashtra Circle

Bihar Circle

Assam Circle

Uttar Pradesh Circle

Calcutta Telephone District

Delhi Telephone District

Poona Telephone District

2. Beginning with the accounts for fiscal year 1968/1969, annual accounts for the Branch shall be prepared and submitted to Parliament (together with a reconciling statement) not only in the form of the appropriation accounts but also in the form of commercial accounts on an accrual basis with a statement of earnings and expenses and a balance sheet. For the purposes of these statements, fixed assets in operation shall be valued in accordance with the provisions of Section 4.11 (b) of this Agreement.

3. Beginning with the forecast for fiscal year 1971/1972, budget forecasts on an accrual basis will be prepared and submitted to Parliament together with the present appropriation forecasts.

4. Beginning not later than April 1, 1971, the clearing of accounts between the Branch and other Government departments will be by direct rendering of bills and settlement.

5. P&T will promptly establish an internal audit system for the Branch. In each of the accounting units transferred to P&T an internal audit group shall be functioning within one year after the transfer of the unit.

SCHEDULE 5

COMPUTATION OF ANNUAL RATE OF RETURN

1. The annual rate of return on the value of the net fixed assets in operation of the Branch, referred to in Section 4.11 of this Agreement, shall be computed by relating the net operating income accruing from the telecommunications services for the year in question to the average of the value of net fixed assets in operation at the beginning and at the end of the year in question.

2. For purposes of this computation:

- (a) "net operating income" shall mean the difference between
- (i) all operating revenues accruing from telecommunications services, excluding that portion of receipts under the "Own Your Telephone" scheme which relates to service to be rendered in future years, and
 - (ii) all operating costs of the telecommunications services, including administrative expenses, adequate maintenance and provision for depreciation on all depreciable assets in operation, computed in accordance with the straightline method at an average rate of not less than $4\frac{1}{2}\%$ per annum of the gross value of such depreciable assets in operation, adjusted in accordance with Section 4.11 (b) of this Agreement, but excluding interest and other charges on debt and on the Borrower's contributions to P&T; and

(b) "value of net fixed assets in operation" shall mean the gross value of such assets, less accumulated depreciation, adjusted in accordance with Section 4.11 (b) of this Agreement.

3. The above computation shall be made on the basis of P&T's commercial accounts for the Branch, except as such accounts are inconsistent with the above provisions.

INTERNATIONAL DEVELOPMENT ASSOCIATION
GENERAL CONDITIONS, DATED 31 JANUARY 1969
GENERAL CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS
[*Not published herein. See p. 244 of this volume.*]
