

No. 11185

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**INTERNATIONAL DEVELOPMENT ASSOCIATION  
and  
INDIA**

**Development Credit Agreement—*Agricultural Aviation Project*  
(with annexed General Conditions Applicable to Development Credit Agreements and Project Agreement between the Association and the Agricultural Refinance Corporation).  
Signed at Washington on 28 January 1971**

*Authentic text : English.*

*Registered by the International Development Association on 22 June 1971.*

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**ASSOCIATION INTERNATIONALE  
DE DÉVELOPPEMENT  
et  
INDE**

**Contrat de crédit de développement — *Projet relatif à l'aviation agricole* (avec, en annexe, les Conditions générales applicables aux contrats de crédit de développement et le Contrat relatif au Projet entre l'Association et l'Agricultural Refinance Corporation). Signé à Washington le 28 janvier 1971**

*Texte authentique : anglais.*

*Enregistré par l'Association internationale de développement le 22 juin 1971.*

## DEVELOPMENT CREDIT AGREEMENT<sup>1</sup>

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AGREEMENT, dated January 28, 1971, 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 assist in the financing of the foreign exchange cost of the Project described in Schedule 2 to this Agreement by extending the Credit as hereinafter provided;

(B) The Project will in part be carried out by the Agricultural Refinance Corporation (hereinafter called ARC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ARC an amount equivalent to \$3,300,000 out of the proceeds of the Credit as hereinafter provided; and

(C) The Association is willing to make the Credit available upon the terms and conditions set forth hereinafter and in a project agreement of even date herewith<sup>2</sup> between the Association and ARC;

NOW THEREFORE the parties hereto hereby agree as follows :

### *Article 1*

#### GENERAL CONDITIONS; DEFINITIONS

*Section 1.01.* The parties to this Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 31, 1969,<sup>3</sup> with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said General Conditions Applicable to Development Credit Agreements of the Association, as so modified, being hereinafter called the General Conditions) :

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

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

(b) The following paragraph is added to Section 2.01 :

“ The term ‘ Project Agreement ’ has the meaning set forth in the Development Credit Agreement.”

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<sup>1</sup> Came into force on 25 May 1971, upon notification by the Association to the Government of India.

<sup>2</sup> See p. 28 of this volume.

<sup>3</sup> See p. 26 of this volume.

(c) Section 5.01 is deleted.

(d) The words “ the Project Agreement ” are added after the words “ the Development Credit Agreement ” in Section 6.06.

*Section 1.02.* Wherever used in this 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) “ Project Agreement ” means the agreement between the Association and ARC of even date herewith, as the same may be amended from time to time, and such term includes all schedules to the Project Agreement ;

(b) “ Subsidiary Loan Agreement ” means the agreement to be entered into between the Borrower and ARC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement ;

(c) “ DAA ” means the Directorate of Agricultural Aviation of the Borrower established pursuant to resolution No. 20-III/69-PPS, of the Borrower, dated February 13, 1971 ; and

(d) “ Participating Commercial Banks ” means those banks listed in the Second Schedule to the Reserve Bank of India Act, 1935, as it may be amended from time to time, which shall be eligible under the Agricultural Refinance Corporation Act, 1963, to borrow from ARC, and shall agree with ARC to participate in lending operations under Part A of the Project, subject to the conditions set forth or referred to in the Project Agreement.

## *Article II*

### THE CREDIT

*Section 2.01.* The Association agrees to lend to the Borrower, on the terms and conditions in the Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to six million dollars (\$6,000,000).

*Section 2.02.* The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule I to this Agreement, as such Schedule shall be amended from time to time, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed under the Development Credit Agreement ; provided, however, that, except as the Association shall otherwise agree, no withdrawal shall be made on account of expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in, or services supplied from, such territories.

*Section 2.03.* The Closing Date shall be December 31, 1974 or such other date as shall be agreed between the Borrower and the Association.

*Section 2.04.* 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 2.05.* Service charges shall be payable semi-annually on May 15 and November 15 in each year.

*Section 2.06.* The Borrower shall repay the principal amount of the Credit withdrawn from the Credit Account in semi-annual installments payable on each May 15 and November 15 commencing November 15, 1980 and ending May 15, 2020, each installment to and including the installment payable on May 15, 1990 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.

*Section 2.07.* The currency of the United Kingdom of Great Britain and Northern Ireland is hereby specified for the purpose of Section 4.02 of the General Conditions.

### Article III

#### EXECUTION OF THE PROJECT

*Section 3.01.* (a) The Borrower shall cause ARC to carry out Part A of the Project and shall carry out or cause the DAA to carry out Parts B and C of the Project with due diligence and efficiency and in conformity with sound administrative, agricultural and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation or restriction upon any of the obligations of the Borrower set forth in paragraph (a) or (e) of this Section, the Borrower shall take all action including, in particular, to grant all necessary licenses, foreign exchange permits and other approvals required to ensure the prompt importation of (i) the aircraft and ancillary equipment listed in Schedule 4 to this Agreement within the time period specified therein, (ii) such spare parts of such aircraft as shall be reasonably required from time to time to assure the maintenance of an adequate stock throughout the economic life of such aircraft, and (iii) aircraft replacing any such aircraft lost or damaged beyond repair.

(c) The Borrower shall relend \$3,300,000 equivalent out of the proceeds of the Credit to ARC under a subsidiary loan agreement to be entered into between the Borrower and ARC under terms and conditions satisfactory to the Association, which shall include those set forth in Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the

Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

(e) The Borrower shall take and shall cause all its agencies to take all action which shall be necessary on their part to enable ARC to perform all of its obligations under the Project Agreement and the Subsidiary Loan Agreement and shall not take or permit to be taken any action which might interfere with such performance.

*Section 3.02.* In order to assist DAA in carrying out Part B of the Project, the Borrower shall : (i) make available to DAA the equivalent of \$1,000,000 out of the proceeds of the Credit; and (ii) cause DAA to employ two internationally recruited qualified and experienced agricultural pilot instructors acceptable to the Association upon terms and conditions satisfactory to the Association.

*Section 3.03.* (a) Except as the Association shall otherwise agree, the goods and services required for the Project and 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.

(b) The Borrower undertakes to insure, cause to be insured, or make adequate provision for the insurance of, the goods to be 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.

(c) Except as the Association shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Credit to be used exclusively for the Project.

*Section 3.04.* (a) The Borrower shall cause to be furnished to the Association, promptly upon their preparation, the plans and implementation schedules for the Project, and any material modifications or amplifications thereof, in such detail as the Association shall reasonably request.

(b) The Borrower shall cause DAA and ARC to : (i) maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Credit, and to disclose the use thereof in the Project; (ii) provide in ARC's loan agreements that the Association's representatives be at all times entitled to inspect the Project, the goods financed out of the proceeds of the Credit and any relevant records and documents; and (iii) furnish to the Association all such information as the Association shall reasonably request concerning the Project, the expendi-

ture of the proceeds of the Credit and the goods and services financed out of such proceeds.

#### *Article IV*

##### OTHER COVENANTS

*Section 4.01.* (a) The Borrower shall cause DAA to maintain records adequate to reflect in accordance with consistently maintained sound accounting practices the operations and financial conditions of DAA in respect of the Project.

(b) The Borrower shall cause DAA to : (i) have its accounts and financial statements for each fiscal year audited, in accordance with sound auditing principles consistently applied, by the Accountant General; (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said Accountant General, of such scope and in such detail as the Association shall have reasonably requested; and (iii) furnish to the Association such other information concerning the accounts and financial statements of DAA and the audit thereof as the Association shall from time to time reasonably request.

*Section 4.02.* The Borrower shall (i) cause all DAA aircraft to be adequately maintained and repaired throughout their economic life; (ii) promptly replace any DAA aircraft financed out of the proceeds of the Credit which has been lost or damaged beyond repair; and (iii) allocate all necessary foreign exchange and issue all licenses and permits required to enable all other aircraft financed out of the proceeds of the Credit to be fully insured in a currency usable to replace or repair such aircraft; provided that the obligations set forth in sub-paragraph (i) and (ii) shall remain in effect for a period of ten years counted from the Effective Date.

*Section 4.03.* To assist in the carrying out of the Project the Borrower shall cause DAA to establish a training center under the supervision of qualified and experienced personnel acceptable to the Association and to undertake a pilot and engineer training program, including provision of flight instruction abroad, satisfactory to the Association. The Borrower shall promptly provide DAA with all funds required for the center and for such overseas training.

*Section 4.04.* The Borrower shall undertake performance studies on the aerial application of chemicals in its territories and shall for the purpose employ one or more qualified and experienced institutions acceptable to the Association under terms of reference satisfactory to the Association.

*Section 4.05.* The Borrower shall: (i) assist its state governments in drawing up annual aerial plant protection programs; and (ii) use its best efforts to ensure that all costs required for the effective implementation of such programs be met.

*Section 4.06.* The Borrower shall ensure that (i) the level of rates charged for aerial application work undertaken by DAA are not lower than those set by the Borrower for private aerial operators; (ii) said rates are reviewed periodically in consultation with representatives of private aerial operators and adjusted as may be necessary so as to cover *inter alia* actual capital, operating and maintenance costs; and (iii) except for cases where subsidies are required to encourage participation in aerial application programs, farmers pay the full cost of such work.

*Section 4.07.* The Borrower shall cause DAA to fully cooperate with ARC in order to assist in the carrying out of Part A of the Project.

#### *Article V*

##### CONSULTATION, INFORMATION AND INSPECTION

*Section 5.01.* The Borrower and the Association shall cooperate fully to assure that the purposes of the Credit will be accomplished. To that end, the Borrower and the Association shall from time to time, at the request of either party:

- (a) exchange views through their representatives with regard to the performance of their respective obligations under the Development Credit Agreement, the performance by ARC of its obligations under the Subsidiary Loan Agreement, the administration, operations and financial condition of DAA and, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof, and other matters relating to the purposes of the Credit; and
- (b) 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, including its balance of payments, and the external debt of the Borrower, of any of its political subdivisions and of any agency of the Borrower or of any such political subdivision.

*Section 5.02.* (a) The Borrower shall furnish or cause to be furnished to the Association all such information as the Association shall reasonably request concerning the operations and financial condition of DAA and, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit, the maintenance of the service thereof, the performance by the Borrower of its other obligations under the Development Credit Agreement or the performance by ARC of its obligations under the Subsidiary Loan Agreement.

*Section 5.03.* 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.

### *Article VI*

#### TAXES AND RESTRICTIONS

*Section 6.01.* The principal of, and service charges on, the Credit shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories.

*Section 6.02.* The Development Credit Agreement and the Project Agreement shall be free from any taxes on or in connection with the execution, delivery or registration thereof, imposed under the laws of the Borrower or laws in effect in its territories.

*Section 6.03.* The payment of the principal of, and service charges on, the Credit shall be free from all restrictions, regulations, controls and moratoria of any nature imposed under the laws of the Borrower or laws in effect in its territories.

### *Article VII*

#### REMEDIES OF THE ASSOCIATION

*Section 7.01.* If any event specified in Section 7.01 of the General Conditions or in Section 7.02 of this Agreement 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 and service charges shall become due and payable immediately, anything to the contrary in the Development Credit Agreement notwithstanding.

*Section 7.02.* For the purposes of Section 7.01 of the General Conditions, the following additional events are specified :

- (a) A default shall occur in the performance of any obligation on the part of ARC under the Project Agreement or the Subsidiary Loan Agreement and such default shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and ARC.



- (b) ARC shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by ARC or by others whereby any of the property or assets of ARC shall or may be distributed among its creditors.
- (c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of ARC or for the suspension of its operations.
- (d) A default shall occur in the performance of any obligation on the part of any Participating Commercial Bank or ARC under an agreement entered into pursuant to Section 2.02 (ii) of the Project Agreement and such default shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and ARC.

*Section 7.03.* For the purposes of Section 6.02 of the General Conditions, the following additional event is specified :

An extraordinary situation shall have arisen which shall make it improbable that ARC will be able to perform its obligations under the Project Agreement or the Subsidiary Loan Agreement.

### *Article VIII*

#### EFFECTIVE DATE; TERMINATION

*Section 8.01.* The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 10.01 (b) of the General Conditions :

- (a) The execution and delivery of the Project Agreement on behalf of ARC have been duly authorized or ratified by all necessary corporate and governmental action.
- (b) The execution and delivery of the Subsidiary Loan Agreement on behalf of the Borrower and ARC, respectively, have been duly authorized or ratified by all necessary corporate and governmental action.

*Section 8.02.* The following are specified as additional matters, within the meaning of Section 10.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association :

- (a) That the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, ARC, and constitutes a valid and binding obligation of ARC in accordance with its terms.
- (b) That the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and ARC, respectively, and constitutes a valid and binding obligation of the Borrower and ARC in accordance with its terms.
- (c) That DAA shall have appointed a Director and a Deputy Director in charge of training, both acceptable to the Association.

*Section 8.03.* The date April 28, 1971 is hereby specified for the purposes of Section 10.04 of the General Conditions.

*Section 8.04.* The obligations of the Borrower under Articles III, IV and V and the provisions of Section 7.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on a date ten years after the date of this Agreement, whichever shall be the earlier.

### *Article IX*

#### REPRESENTATIVE OF THE BORROWER; ADDRESSES

*Section 9.01.* The Secretary or Joint Secretary to the Government of India in the Ministry of Finance, or a Director in the Ministry of Finance, Department of Economic Affairs, of the Borrower is designated as representative of the Borrower for the purposes of Section 9.03 of the General Conditions.

*Section 9.02.* The following addresses are specified for the purpose of Section 9.01 of the General Conditions :

For the Borrower :

Ministry of Finance  
Department of Economic Affairs  
New Delhi, India

Cable address :

Ecofairs  
New Delhi

For the Association :

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

Cable address :

Indevas  
Washington, D.C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this 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* L. K. JHA

Authorized Representative

International Development Association :

*By* J. BURKE KNAPP

Vice President

## SCHEDULE 1

## WITHDRAWAL OF THE PROCEEDS OF THE CREDIT

1. The table below sets forth the categories of imported items to be financed out of the proceeds of the Credit and the allocation of amounts of the Credit to each category :

<i>Category</i>	<i>Amount of the Credit Allocated (Expressed in Dollar Equivalent)</i>
I. Aircraft . . . . .	3,543,000
II. Ancillary equipment . . . . .	100,000
III. Aircraft replacement and overseas insurance . . . . .	1,063,000
IV. Aircraft spare parts . . . . .	709,000
V. Training . . . . .	65,000
VI. Unallocated . . . . .	520,000
TOTAL	<u>6,000,000</u>

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of :

- (a) expenditures in the currency of the Borrower, or for goods produced in, or services supplied from, the territories of the Borrower;
- (b) expenditures prior to the date of this Agreement; and
- (c) payments for taxes imposed under the laws of the Borrower or laws in effect in its territories on goods or services, or on the importation, manufacture, procurement or supply thereof.

3. Notwithstanding the allocation of an amount of the Credit set forth in the second column of the table in paragraph 1 above :

- (a) if the estimate of the expenditures under any Category shall decrease, the amount of the Credit then allocated to such Category and no longer required therefor will be reallocated by the Association by increasing correspondingly the unallocated amount of the Credit;
- (b) if the estimate of the expenditures under any Category shall increase, a corresponding amount will be allocated by the Association, at the request of the Borrower, to such Category from the unallocated amount of the Credit, subject, however, to the requirements for contingencies, as determined by the Association, in respect of any other expenditures.

## SCHEDULE 2

## DESCRIPTION OF THE PROJECT

The Project, which forms a part of India's plant protection program, consists of the improvement and expansion of aerial plant protection services to Indian farmers. It includes :

- A. Provision of aircraft and ancillary equipment to qualified private aviation operators through a credit program to be administered by ARC for fleet renovation, expansion and operation.
- B. (1) Provision of new aircraft and ancillary equipment to the Directorate of Agricultural Aviation and replacement of such aircraft as may be lost or damaged beyond repair.
- (2) Provision of training facilities and programs for agricultural pilots and aircraft engineers, including retention of services of two internationally recruited agricultural pilot instructors for at least one year.
- (3) Promotion and organization of aerial plant protection in the Borrower's states.
- (4) Evaluation of Project performance.
- C. (1) Provision of aircraft spare parts.
- (2) Provision of adequate insurance for private operators' aircraft financed out of the proceeds of the Credit.

### SCHEDULE 3

#### PROCUREMENT

The following procedures will be followed in the procurement of specialized fixed wing aircraft and helicopters suitable for agricultural aerial spraying and training, ancillary equipment and aircraft spare parts :

1. Purchases will be based on private operators' preferences for makes and models subject to technical approval by DAA, based on standards agreed upon with the Association. These standards will be published by DAA.

2. Purchases will be made only from suppliers which shall have offered DAA reasonable assurances that they shall maintain an adequate spare parts stock\* located and available within the territories of the Borrower and that they will provide satisfactory after-sales services.

3. Before approving suppliers, DAA will afford the Association reasonable opportunity to review DAA's evaluation of suppliers.

4. Purchases by DAA will be the responsibility of a procurement committee to be set up, which will include representatives of the Ministries of Agriculture and Finance and of the Directorate of Civil Aviation and Supplies and Disposal.

\* For the aircraft financed out of the proceeds of the Credit as well as for other aircraft imported into the Borrower's territories for agricultural purposes.

### SCHEDULE 4

#### EQUIPMENT REQUIRED FOR THE PROJECT

	<i>Estimated Number of Units to be Imported during</i>			
	<i>1971</i>	<i>1972</i>	<i>1973</i>	<i>Total</i>
1. <i>Aircraft</i>				
<i>Helicopters. . . . .</i>	8	12	15	35
<i>Fixed wing aircraft . . . . .</i>	11	18	18	47

	Estimated Number of Units to be Imported during			Total
	1971	1972	1973	
<b>II. Ancillary Equipment</b>				
Safety equipment (sets) . . . .	19	30	33	82
Aircraft tools (sets) . . . . .	2	2	3	7
Special agricultural equipment (sets) . . . . .	6	10	11	27

## SCHEDULE 5

### PRINCIPAL TERMS OF SUBSIDIARY LOAN AGREEMENT

The following sets forth the principal terms and conditions under which the proceeds of the Credit or the equivalent thereof shall be lent by India to ARC and by ARC to Participating Commercial Banks (hereinafter PCBs):

1. Lending Terms. India to ARC:

(a) Repayment terms: set to coincide, more or less, with expected collections of loans granted by ARC to PCBs under the Project. To the extent that amounts under the Subsidiary Loan Agreement are not repaid by ARC to PCBs under the Project such amounts shall be repaid by ARC to India over a period not exceeding nine years.

(b) Interest rate: not less than 5½% per annum on outstanding balance.

(c) Exchange risk: for account of India.

2. Lending Terms. ARC to PCBs:

(a) Amount: ARC would refinance loans for aircraft and equipment made by PCBs to private aircraft operators for the purpose of the Project.

(b) Repayment terms: set to coincide, more or less, with expected collections of loans granted by PCBs under the Project.

(c) Interest rate: not less than 7% per annum on outstanding balance.

### INTERNATIONAL DEVELOPMENT ASSOCIATION

### GENERAL CONDITIONS, DATED 31 JANUARY 1969

#### GENERAL CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS

[Not published herein. See United Nations, Treaty Series, vol. 703, p. 244.]

## PROJECT AGREEMENT

AGREEMENT, dated January 28, 1971, between INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association) and AGRICULTURAL REFINANCE CORPORATION (hereinafter called ARC).

WHEREAS by a development credit agreement of even date herewith<sup>1</sup> between India (hereinafter called the Borrower) and the Association (hereinafter referred to as the Development Credit Agreement), the Association has agreed to make available to the Borrower an amount in various currencies equivalent to \$6,000,000, on the terms and conditions set forth in the Development Credit Agreement, but only on condition that ARC agree to undertake such obligations toward the Association as hereinafter set forth;

WHEREAS by a subsidiary loan agreement between the Borrower and ARC, an amount equivalent to \$3,300,000 out of the proceeds of the credit provided for under the Development Credit Agreement will be made available to ARC on terms approved by the Association; and

WHEREAS ARC, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows :

### *Article I*

#### DEFINITIONS

*Section 1.01.* Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Development Credit Agreement and in the General Conditions<sup>2</sup> (as so defined) have the respective meanings therein set forth.

### *Article II*

#### EXECUTION OF THE PROJECT

*Section 2.01.* ARC shall carry out or cause Participating Commercial Banks to carry out Part A of the Project described in Schedule 2 to the Development Credit Agreement with due diligence and efficiency and in conformity with sound administrative, financial and agricultural lending practices and shall for the purpose follow and obtain the agreement of Participating Commercial Banks to follow the operating and appraisal policies and procedures set forth in Schedules 1 and 2 to this Agreement.

*Section 2.02.* ARC shall (i) enter into a Subsidiary Loan Agreement with the Borrower under terms and conditions which shall have been approved by the Association and (ii) except as the Association shall otherwise agree, relend the amount borrowed under the Subsidiary Loan Agreement to Participating Commercial Banks pursuant to agreements containing terms and conditions including, *inter alia*, those set

<sup>1</sup> See p. 4 of this volume.

<sup>2</sup> See p. 26 of this volume.

forth in Schedule 2 to this Agreement, approved by the Association. ARC shall exercise its rights under the Subsidiary Loan Agreement and its agreements with Participating Commercial Banks in such a manner as to protect the interests of the Borrower and the Association, and shall not, except as the Association may otherwise agree, take or concur in any action which would have the effect of amending, abrogating, assigning or waiving any provision of the Subsidiary Loan Agreement or any agreement with a Participating Commercial Bank entered into pursuant to provision (ii) above.

*Section 2.03.* (a) Except as the Association shall otherwise agree, the goods required for Part A of the Project and to be financed out of the proceeds of the Credit relent to ARC by the Borrower shall be procured in accordance with the procedures set forth in Schedule 3 to the Development Credit Agreement.

(b) ARC undertakes to cause to be insured, or cause that adequate provision be made for the insurance of, the imported goods to be financed out of the proceeds of the Credit relent to it by the Borrower 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 to replace or repair such goods.

(c) Except as the Association may otherwise agree, ARC shall cause all goods and services financed out of the proceeds of the Credit relent to it by the Borrower to be used exclusively for the Project.

*Section 2.04.* (a) ARC shall furnish to the Association, promptly upon their preparation, the plans and contract documents for the Project, in such detail as the Association shall reasonably request.

(b) ARC : (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods financed out of the proceeds of the Credit relent to it by the Borrower, and to disclose the use thereof in the Project; (ii) shall enable the Association's representatives to inspect the Project, the goods financed out of such proceeds and any relevant records and documents; and (iii) shall furnish to the Association all such information as the Association shall reasonably request concerning the Project, the expenditure of the proceeds of the Credit so relent to it and the goods financed out of such proceeds.

### *Article III*

#### MANAGEMENT AND OPERATIONS OF ARC

*Section 3.01.* ARC shall appoint a qualified and experienced senior officer to be in charge of its operations in respect of the Project until Part A of the Project is completed.

*Section 3.02.* ARC shall cause to be taken out and maintained with responsible insurers, insurance of the goods financed out of the proceeds of the Credit relent to it by the Borrower against such risks and in such amounts as shall be consistent with

sound practice. For such insurance any indemnity shall be payable in a currency freely usable to repair or replace the insured goods.

#### *Article IV*

##### FINANCIAL COVENANTS

*Section 4.01.* ARC shall maintain records adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition in respect of the Project.

*Section 4.02.* ARC shall : (i) establish separate accounts in respect of all funds disbursed and received on account of the Project; (ii) have such accounts audited annually in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Association; (iii) furnish to the Association as soon as available, but in any case not later than four months after the end of each such year, (A) certified copies of its financial statements for such year and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (iv) furnish to the Association such other information concerning the accounts and financial statements of ARC and the audit thereof as the Association shall from time to time reasonably request.

#### *Article V*

##### CONSULTATION, INFORMATION AND INSPECTION

*Section 5.01.* The Association and ARC shall cooperate fully to assure that the purposes of the Credit will be accomplished. To that end, the Association and ARC shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance of their respective obligations under this Agreement, the administration, operations and financial condition of ARC and other matters relating to the purpose of the Credit.

*Section 5.02.* The Association and ARC shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit, the performance by either of them of its obligations under this Agreement, the performance of ARC and the Borrower under the Subsidiary Loan Agreement, and the performance of Participating Commercial Banks in respect of the Project.

*Section 5.03* ARC shall cause the Association's representatives to be entitled to inspect all properties and equipment financed in whole or in part out of the proceeds of the Subsidiary Loan Agreement and any relevant records and documents.

#### *Article VI*

##### EFFECTIVE DATE; TERMINATION; CANCELLATION AND SUSPENSION

*Section 6.01.* This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.



*Section 6.02.* (a) This agreement and all obligations of the Association and of ARC thereunder shall terminate on the earlier of the following two dates :

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) a date ten years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify ARC of this event and, upon the giving of such notice, this Agreement and all obligations of the parties thereunder shall forthwith terminate.

*Section 6.03.* All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Development Credit Agreement.

### *Article VII*

#### MISCELLANEOUS PROVISIONS

*Section 7.01.* 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 address 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 Association :

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

Cable address :

Indevas  
Washington, D. C.

For ARC :

Managing Director .  
Agricultural Refinance Corporation  
Garment House  
Dr. Annie Besant Road  
Worli, Bombay, 18 WB  
India

Cable address :

Agricultural Refinance Corporation  
Garment House  
Bombay

*Section 7.02.* Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of ARC may be taken or executed by its Managing Director or such other person or persons as ARC shall designate in writing.

*Section 7.03.* ARC shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of the person or persons who will, on behalf of ARC, take any action or execute any documents required or permitted to be taken or executed by ARC pursuant to any of the provisions of this Agreement.

*Section 7.04.* 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 representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Development Association :

By J. BURKE KNAPP  
Vice President

Agricultural Refinance Corporation :

By L. K. JHA  
Authorized Representative

## SCHEDULE I

### OPERATING POLICIES AND PROCEDURES

Private operators will present their loan applications directly to the Participating Commercial Banks (hereinafter PCBs). PCBs will process them according to their normal standards and procedures, and will forward those they are willing to accept to ARC for review and approval, which will be done in consultation with DAA.

PCBs will assume the entire commercial risk involved in loans to private operators. They will require private operators to (a) mortgage the aircraft to be financed by the loan; (b) carry and assign to the PCBs an adequate insurance policy on such aircraft; and (c) maintain appropriate project accounts which will be audited and certified by independent auditors.

PCBs will fix the term of their loans in accordance with the operators' repayment ability. These terms may range up to 9 years, including a grace period, if any, of up to 4 years. Interest rates will be in line with prevailing commercial rates for medium- and long-term loans at the time loans to operators are made and not less than 8.5% per year.

PCBs will supervise their loans and promptly report to ARC any measures they propose against possible defaulters. ARC shall promptly advise DAA of the proposed measures.

ARC will refinance aircraft and equipment loans made by the PCBs under the Project. ARC, assisted by DAA for technical and operational assessments, will apply sound financial, appraisal and supervision standards for loans made by PCBs, and will supervise the administration, disbursement and recovery of the proceeds of the Credit under the lending program to private operators.

## SCHEDULE 2

### ADDITIONAL CONDITIONS TO BE MET BY PARTICIPATING COMMERCIAL BANKS

In addition to the principal terms enumerated under paragraph 2, Schedule 5, of the Development Credit Agreement, the following conditions shall be met in ARC lending to Participating Commercial Banks (hereinafter PCBs).

1. The PCBs will be required to open on their books a separate account through which these funds shall flow. Such accounts shall (i) identify each loan made by the PCB; (ii) identify the goods financed out of such loans; and (iii) reflect in accordance with consistently maintained sound accounting practices the administration of such account and of each such loan.

2. The PCBs will be required to have the accounts referred to in paragraph 1 audited annually by independent auditors acceptable to ARC and to transmit to ARC, promptly after their preparation and not later than three months after the close of the PCBs' financial year to which they relate, certified copies of the financial statements relating to such accounts and a signed copy of the auditors' report.

3. The PCBs will be required to ensure that all procurement of goods financed out of the loans they will make to private aircraft operators and to be refinanced by ARC be made pursuant to the procedures set forth in Schedule 3 to the Development Credit Agreement, and that the proceeds of such loans be used exclusively for the purposes for which they shall have been granted.