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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

INDIA - SEVENTH RAILWAY LOAN

AID-DLC/P-295

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AID-DLC/P-295
February 5, 1965

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
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AID-DLC/P-295
February 5, 1965

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: India - Seventh Railway Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $3,800,000 to the Government of India to assist in financing the foreign exchange cost of the purchase and delivery of twenty-one broad gauge diesel electric shunting locomotives with a two-year supply of spare parts.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at its meeting on February 10, 1965.

Rachel C. Rogers
Acting Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
Annexes I-VIII

UNCLASSIFIED
AID-DLC/P-295
February 5, 1965

INDIA - SEVENTH RAILWAY LOAN

SUMMARY AND RECOMMENDATIONS

1. APPLICANT: The Government of India

2. AMOUNT: $3,800,000

3. LOAN TERMS: Term of forty (40) years after the date of first disbursement including a ten year grace period. Interest on outstanding principal of one percent (1%) per annum during grace period and two and one-half percent (2½%) per annum thereafter.

4. TOTAL COST OF ACTIVITY: $3,800,000 foreign exchange.

5. DESCRIPTION OF ACTIVITY: Financing the purchase and delivery of twenty-one broad gauge diesel electric shunting locomotives with a two year supply of spare parts.

6. PURPOSE OF ACTIVITY: Improve the efficiency and increase the capacity of the Indian Railway System by replacing steam locomotives with diesel shunter locomotives in three major marshalling yards in northeastern India.

7. BACKGROUND OF ACTIVITY: A.I.D. and D.L.F. have made six previous loans totaling $181,050,000 to assist in the development of the Indian Railway System. All of these loans are being used effectively.

8. EX-IM BANK INTEREST: At the November 6, 1964 meeting of the Joint Export-Import Bank-A.I.D. Coordinating Committee, the Ex-Im Bank stated that it would be more appropriate if this loan was considered by A.I.D. since A.I.D. has made previous loans to the GOI for locomotive procurement.

9. MISSION VIEWS: The Mission recommends approval of this loan.

10. STATUTORY CRITERIA: All statutory criteria have been met. See Annex IV.

11. ISSUES: None

12. RECOMMENDATION: Authorization of a loan to the Government of India of an amount not to exceed $3,800,000 on the terms and for the purpose stated above, subject to the following terms and conditions:

(a) Repayment in United States dollars.

(b) Term of forty (40) years from date of first disbursement, including a ten (10) year grace period.

(c) Interest of one percent (1%) per annum during grace period, two and one-half percent (2½%) per annum thereafter.

(d) Procurement with the loan funds shall be limited to United States sources.

(e) Other terms and conditions as A.I.D. may deem advisable.

CAPITAL ASSISTANCE COMMITTEE:

Loan Officers	:	PMiccu/HDwelley, NESA/CDF
Engineer	:	TEMacMannis, NESA/ENGR
Counsel	:	NBAngell, NESA/GC
Desk	:	HThomas, NESA/SA

DRAFTING OFFICERS : PMiccu/TEMacMannis:cc

INTRODUCTION

The sources of the statements made in this paper and the manner of citation of each source are as follows:

1. India Coal Transport Study, Volume IV, "Findings, Conclusions and Recommendations", dated June 1, 1964. This study was prepared for the Government of India, and was sponsored by the I.B.R.D. The authors of the report were Surveys & Research Corporation and Coverdale and Colpitts, Consulting Engineers. It will be cited as "C. & C. Study."

2. A.I.D. Long Range Assistance Strategy Paper, Annex 4. "Transport Development in India" (unclassified) dated July 23, 1964. Cited as "LAS".

3. Progress Report on Indian Railways for Quarter Ending 30th June 1964, prepared by the Railway Board, Ministry of Railways, Government of India. Cited as "IRS Progress Report."

4. Application for Broad Gauge Diesel Shunters, prepared by Ministry of Railways. Cited as "GOI Application."

5. Reply to Questions Concerning Proposal for Providing Broad Gauge Diesel Shunting Locomotives for Important Marshalling Yards, prepared by Ministry of Railways in response to questions raised by USAID, New Delhi in letter of September 3, 1964. Cited as "GOI Reply."

6. Airgram TOAID A-714 from USAID, New Delhi, dated November 17, 1964, subject "Indian Loan Application for 21 Shunting Locomotives," (unclassified). Cited as "Mission Comments."

7. Annexes I, II, and III are from the International Development Association "Report and Recommendations on a Proposed Development Credit to the Government of India for the Indian Railways", October 14, 1964.

I. HISTORY AND BACKGROUND OF PROJECT

A. The Indian Railway System, Past and Future Growth

1. India's railway system, with 35,000 route-miles, is the fourth largest in the world. The Indian Railways are owned by the Central Government and are managed by a statutory Railway Board, which is responsible to the Minister of Railways. The Railways are run on a commercial basis, and have consistently operated profitably.

2. In 1951, when India's First Five Year Plan began, the Railways had heavy accumulations of very old rolling stock and much worn track. India's planners were aware of the need for quick and massive expansion of transport capacity to meet the demands of the Indian industrial development program. During each of the first two Five Year Plans and also during the first half of the Third Five Year Plan, approximately twenty-five percent of the total public sector investment went into transport development and two-thirds of the money invested in transport was allocated to the railways. (LAS, p. 4/1)

3. During the twelve year period of 1951-1963, the route mileage of the railway system increased only six percent, but railway freight traffic (in ton/miles) more than doubled. By a combination of line improvements, and modernization and expansion of rolling stock inventories, the Indian railways have more than doubled their freight handling capacity. They are now providing better freight service to their customers than they did in 1951 when traffic was less than half as heavy. Any complacency about the adequacy of railway capacity should be tempered by the realization that shortfalls in industrial production have resulted in considerably lower transport demand than anticipated and by the recollection that during most of the period of 1951 to 1961 there were complaints of inadequate railway capacity, and as recently as 1961-1963, there was a country-wide coal transport crisis. (LAS, p. 4/1)

4. Over the twelve year period of 1951-1963, the average annual increase in tons originating was 5.6 percent and in ton-miles was 7.1 percent. The rate of increase in freight traffic was somewhat higher in the last seven years of the period, averaging 6.4 percent per year in tons originating and 7.8 percent in ton-miles. (C & C Study, p. 5)

5. The increase in freight tonnage originating, especially since 1955/56 has been almost entirely an increase in the tonnage of a limited number of bulk industrial materials and products. In the seven years since 1955/56, coal, iron and other ores, limestone and dolomite, iron and steel products, petroleum products, cement and fertilizer accounted for 85 percent of the total increase of 63 million tons in freight tons originating. Virtually all of the remaining increase was in railway materials themselves. (C & C Study, p. 5)

6. In the first two years of the Third Plan period (1960-1962) the role of bulk industrial commodity traffic was even more pronounced. In this period of limited overall growth of national output sharp increases in railway freight traffic occurred, evidently almost entirely related to the accelerated growth of the heavy industry sector of the economy in that period. (C & C Study, p. 6)

7. As to the future, the aggregate demand for railway freight transport will increase very substantially in the period from 1962/63 to 1970/71. The increases in rail freight traffic projected in the Coverdale and Colpitts Study are very large, although smaller than the increases which have been tentatively forecast by others. These demands will impose a very large task on the Indian Railway System. It is essential, therefore, that the railways be geared to the necessity of handling a much larger volume of traffic than in the past or at present, and that their facilities, their technology, and their practices be developed in such manner that they can do so in the most efficient and least costly manner. (C & C Study, p. 49)

8. The operations of the Indian Railways are efficient and are supervised by competent management. While there are, of course, areas where performance can be improved, improved performances would not take the place of necessary capital expenditures. (C & C Study, p. 68)

B. Previous A.I.D. Financing

9. The Development Loan Fund and A.I.D. have made six previous loans to India for development of the Railways, totaling $181,050,000. These loans are:

First Railway Loan - $30,000,000. D.L.F. Loan No. 2 made in 1958, financed the import of structural steel and other steel products used in the manufacture of rolling stock and construction and strengthening of railroad bridges. This loan has been completely disbursed and repayments of principal and interest have been made on schedule.

Second Railway Loan - $35,000,000. D.L.F. Loan No. 12 was made late in 1958 to finance the import of locomotives, rolling stock, steel products, electric and signalling equipment and machinery and tools for railroad repair shops. This loan is fully disbursed, and repayments of principal and interest are on schedule.

Third Railway Loan - $50,000,000. D.L.F. Loan No. 151 was made in 1960. It is for financing the import of locomotives, rolling stock, centralized traffic equipment and steel products for railway use. At least $40 million of the loan must be expended for purchases from the U.S. The loan is almost fully disbursed and repayments of principal and interest have commenced.

Fourth Railway Loan - $43,000,000. A.I.D. No. 35 was made in 1962 for the purchase of 158 diesel locomotives of which 133 are broad gauge and 25 are meter gauge. This loan is almost entirely disbursed and all the locomotives have been procured.

Fifth Railway Loan - $15,850,000. A.I.D. Loan No. 086 was made in 1963 for the purchase of 54 broad gauge diesel electric locomotives. The award was made to the American Locomotive Company (ALCO) and some of the locomotives are being shipped at this time. All 54 should be delivered by June, 1965.

Sixth Railway Loan - $7,200,000. A.I.D. Loan No. 121 was authorized in June, 1964 and the Loan Agreement has recently been executed. The loan is for 25 broad gauge diesel electric locomotives which are being purchased from ALCO under an option contained in the contract for 54 locomotives financed by the Fifth Railway Loan. Shipment of these units from the United States is expected to be completed by May 31, 1965.

C. Previous I.B.R.D. and I.D.A. Credits

10. The International Bank for Reconstruction and Development has made available, over the past fifteen years, $378 million in six loans to help finance the Railways' rehabilitation and development programs. The International Development Association has made available $129.5 million for the Railways. The first I.D.A. credit, for $67.5 million, was made in March, 1963. The second, for $62 million, was made in October, 1964, to help the Indian Railways finance imports of materials and equipment needed in the Railways' development program during the fifteen month period ending September 30, 1965. In all, the World Bank and I.D.A. have provided loans and credits totaling over $500 million for the Indian Railways -- by far the largest amount that these two institutions have lent for any single enterprise anywhere. (IDA Press Release #64/22)

D. Intermodal Transport Study

11. In June, 1964, A.I.D. authorized loans to Hindustan Motors, Ltd. and Tata Engineering and Locomotive Company for $23 million and $11.8 million, respectively, to assist in financing the expansion of the motor vehicle production facilities of the two firms. In a letter, dated July 7, 1964, notifying the Government of India of the authorization of these loans, A.I.D. informed the Department of Economic Affairs, Ministry of Finance, that this Agency believed that it would be most advisable to make a sectoral study of the overall transportation system in India to examine all problems attendant on its growth. The need for this sectoral study had been discussed in A.I.D. many times, but the review of these loans raised the issue again and it was felt that it was timely to seek more certain information on the present condition and appropriate future development of the Indian transportation sector. A.I.D. advised the GOI that any plans for further expansion of truck production should have the benefit of more authoritative evidence of sufficient demand and of the prospect of more efficient operating conditions. The letter of July 7, 1964 to the GOI mentioned the likelihood that further development of road transport is likely to be hindered by a number of existing conditions, including restrictions on inter-state traffic movements, state and central taxes on the sale and operation of motor vehicles and certain aspects of the rate structure of the Indian Railways.

12. The Government of India recognizes the need for allocation of India's resources among the different elements of the transport sector. In July, 1959, a high level "Committee on Transport Policy and Coordination" was appointed. As one of its three assigned tasks, the committee was to define the role of the various means of transport in the next five to ten years, against the background of the long-term policy. This committee, representing the Ministries of Railways, Transport and Communications, Finance, and the Planning Commission has as yet accomplished little toward determining what the share of motor trucks should be in meeting India's future transport needs. Statistical information on the volume of truck freight traffic is almost non-existent. With no solid information on the volume of traffic which has been handled by trucks and no well considered policy for the future role of motor transport in India, it is not surprising that estimates of the future demand for motor transport have been no more than guesses. (IAS, p. 4/5)

13. The GOI has also appointed a "Joint Technical Group for Transport Planning" to analyze the present capabilities and future needs of all forms of transportation by region, and a "Taxation Procedures Group" to evolve a suitable formula for division of motor tax proceeds. The reports of the studies of all three of these Indian bodies are expected within six months. USAID/New Delhi is continuing its discussions with the GOI to develop the information necessary to establish investment policies and guidelines for the transportation sector.

14. The World Bank, in the spring of 1964, proposed to the GOI that a transport study be undertaken on a regional basis, seeking statistics for comparisons between road and rail transport. Madras State and the Calcutta area were two regions discussed. The GOI responded that they were interested in such regional studies, but that several Indian sponsored studies were then underway and would soon be completed, including a study in Madras. They would prefer an Indian sponsored study, assisted by foreign experts, and this method has certain advantages, such as acceptability of the report and giving experience to the Indian participants. Last summer the GOI established a "task force" headed by Tarlok Singh, a member of the National Development Council and of the Planning Commission, to review transportation problems and this organization has established working groups in different regions of India. The GOI has recently asked the World Bank to finance a study of transport in the Calcutta Region, and this request is being discussed. The World Bank's Economic Mission to India, presently at work, will include in its review an analysis of the need for study of the transport sector, and hopefully, a list of research projects which should be undertaken.

15. A sectoral transportation study for all India is an enormous undertaking and while discussions of such a study are now going on and certain portions are underway, its availability cannot be foreseen in the near future. Considering some obvious transportations needs of India about which we have sufficient knowledge, U.S. aid to the transportation sector should not be postponed until a full scale study is completed. We can anticipate receiving more and more data as several smaller scale studies progress, and we have at hand information which should enable A.I.D. to urge certain changes in GOI policy which should be beneficial in resolving some of India's transportation problems.

16. As an example of the information on hand we have the recently completed Coverdale & Colpitts "India Coal Transport Study." This study goes beyond the problem of coal transport, and discusses the characteristics and limitations of various modes of transport (pp. 69-76). The study reiterates some well-known handicaps of highway

transportation such as the condition of roads and national and state regulations. The C & C Study states at page 71:

> "Another factor hindering the development of highway transportation in India is the mass of regulations applying to the vehicles. This subject has been dealt with in detail by the Committee of Transport Policy and Coordination and the findings need not be repeated here. It can be stated unequivocally that the regulations, fees and limitations imposed on highway transport by the states, and some communities, make the development of highway transport impossible as an effective mode." (Emphasis added.)

17. The A.I.D. "Long-Range Assistance Strategy" lists the principal problems of road and road transport development. (Pp. 4/19-20. These are (a) improvement and extension of the road system, (b) illogical and inconsistent state regulation of motor transport, (c) high taxes on trucking, (d) the need for more viable motor transport operating units, (e) better credit facilities and (f) the need for more vehicles.

18. Other shortcomings in GOI road transport policy are (a) prohibition of travel by trucking firms beyond certain distances, which are too confining, (b) prohibition of importation of truck parts, and (c) return of an unfairly small share (approximately 48%) of transport taxes to road improvement. (Bi-Weekly Economic Review, State Dept., 12/8/64)

19. While continuing to press for broader studies of the transport sector and for changes in hampering policies, A.I.D. should also continue to offer financing to well-conceived projects and procurements for the entire transport sector despite the absence of a complete sectoral study of transportation needs in India. Certain needs are obvious, such as replacement of old equipment on the railroads, improvement of roads, improvement of port facilities and construction of pipe lines. The fact that we do not have complete statistics and studies on all the modes of transportation should not lead us to postpone financing assistance to every mode of transportation.

20. Neither should we be reluctant to finance railroad equipment simply because the Indian Railway System has enjoyed the largest share of investments in transport development since the beginning of the First Five Year Plan. The Indian Railways are well organized, they enjoy a strong position in the Center Government and they have been able to present their case for development more persuasively than other modes of transport, but their effectiveness should not be held against them in judging the railroads' need for investment against the needs of other transport. (LAS, p. 4/31.)

21. The time when India will have a long term surplus of transport capacity, such as the U.S. has had in railway capacity, is not foreseeable. With a greater continuing need for more investment in all transport facilities than the country can afford to make, India can hardly over-invest in railways. India has not over-invested in railway development, nor is there danger that she will do so in the near future. These conclusions are based upon the following considerations:

(a) Railways are more effective than motor trucks in meeting the transport demands that are most essential to basic economic development, i.e., long distance hauling of bulk loads of raw materials, coal, ore, etc.

(b) Planning for Indian railway development appears to be sound and demand for rail transport is increasing.

(c) Indian railway management is competent -- well qualified to make efficient use of development funds.

The U.S. should continue to give high priority to assistance to the Indian Railways, particularly for financing procurement in the U.S. of diesel locomotives and equipment. (LAS, p. 4/31)

II. CAPABILITY OF THE BORROWER

22. The Indian Railway System is now divided into eight zonal operating systems, but all of these systems are under the overall administrative control of the Central Government Railway Board. The Railway Board, in addition to being the general management agency for the entire railway system, serves as the secretariat for the Ministry of Railways. Thus, detailed administration of the Indian Railways is the direct responsibility of a Central Government Ministry. (See paragraph 55.)

23. Indian railway operations have been observed by a team of American railway engineers in an I.C.A. (A.I.D.) sponsored study in 1956-57, by a group of Canadian railway experts making an "Appraisal of the Indian Railways and their Third Five Year Plan" for I.B.R.D. in 1961 and recently by American engineers and economists in the Coverdale and Colpitts "India Coal Transport Study." These studies show that, with few exceptions, Indian railway operations are as efficient as could reasonably be hoped for with the limitations imposed by insufficient and obsolete physical plant. The Canadian mission said:

"The Railway management is well trained and efficient; it gives a great deal of attention to the recruitment of suitable personnel and to their education. It keeps well abreast of technical improvements throughout the world and, subject to the limitation of social policy and Government fiscal and financial policy, it is managing the Railway properties in an able and satisfactory manner. It has developed the Third Five Year Plan to a comprehensive and realistic degree and is fully competent to carry on the objective." (LAS, pp. 4/8, 4/29)

24. The project proposed by this paper is essentially a procurement and is thus simpler to carry out than a construction project. It seems assured that the Government of India, through the Railway Board, is entirely capable of arranging for the procurement of the locomotives and for their proper operation and maintenance.

III. TECHNICAL ANALYSIS

A. Description of the Project

25. The project provides for procurement of 21 Broad Gauge (B.G.) Diesel Electric locomotives for Yard service (humping and switching). These shunting locomotives will be assigned as follows:

9 units to Mughal Sarai Yard - Eastern Railway
6 units to Andal Yard - Eastern Railway
6 units to Bondamunda Yard - Southeastern Railway

See map, Annex V, for exact locations.

26. Improvement of Yard operations is an essential element in the planning for overall improved service on the Indian Railways. Actions planned to effect this improvement are: 1st, rearrange track layouts as necessary and upgrade track maintenance; 2nd, install mechanical humping facilities where justified; 3rd, dieselize yard motive power.

27. These actions are planned to be done selectively where the need is more evident as is reflected not only by the increased number of cars requiring handling through a yard but also by the increased number of cars and gross weight of the average trains. These conditions are most evident in areas handling heavy coal, ore, other minerals and steel plant traffic. Accordingly, the 1st and 2nd actions cited have been completed at the Mughal Sarai UP-Yard and the Andal DOWN Yard; they are underway at the single hump yard at Bondamunda.

The three yards are now ready for "dieselizing" or will be ready by the time the shunters are delivered. Dieselization is the next logical step in the sequence required to obtain the maximum benefits from the other improvements.

28. The benefit of using diesel shunters in yard operations, as compared with steam power, is found in their greater availability for service, capacity for handling more cars per time unit and lower material and labor costs for operation and maintenance.

29. The amount of the loan has been determined as follows:

	Estimated Unit Cost	Cost 21 Units
Locomotives (FAS Price)	$ 140,000	$ 2,940,000
Ocean Freight for Locos.	9,000	189,000
Spare Parts	28,000	588,000
Ocean Freight for Spare Parts	3,000	63,000
Total -	$ 180,000	$ 3,780,000
Rounded to -		$ 3,800,000

30. The project cost is reasonably firm as it is based on prices indicated by the trade. The prices compare favorably with prices quoted recently for somewhat similar locomotives.

B. Project Planning

31. The Research, Design and Standards Organization of the Indian Railways has prepared preliminary designs and specifications for these Diesel Electric shunters. They describe a locomotive with 20 tons axle load, capable of being ballasted to 22½ tons per axle. The higher axle load is desirable since shunting service requires only slow speed but needs good adhesion to the rail. The yard trackage is capable of safely carrying such relatively heavy axle loads. The invitation for bid will be checked by A.I.D. to see that this feature is properly covered. A locomotive rated at 900 to 1100 HP (gross) under standard conditions is to be specified with the selection depending primarily on the type offered by the manufacturers as well as the price.

32. Delivery of the locomotives is planned for Indian Fiscal Year 1966 which ends March 31, 1966. This schedule should permit ample time for manufacturing and shipping.

33. The planned assignment of these locomotives will completely dieselize the UP-Yard at Mughal Sarai, the DOWN Yard at Andal and the entire yard at Bondamunda. The Bondamunda Yard has only one "hump" that handles both UP and DOWN traffic. The planned utilization takes care of the yards on the India Railway system that most urgently need improvement considering the status of other improvements that should precede dieselization in other yards.

34. Facilities for maintenance of these diesel electric locomotives already exist at Mughal Sarai and Bondamumda. Running repairs for the units assigned to Andal can be made at the Andal Steam Loco Shed and major repairs will be made at the Patratu Diesel Loco Shed, located about 140 miles distant. These arrangements are acceptable, at least until further dieselization in the Andal area justifies a Diesel Loco Shed at that location.

C. General Proposal for Acquiring Diesel Electric Locomotives

35. The Indian Third Five Year Plan covering FY 60/61 through FY 65/66 provided for procurement of 1553 B.G. locomotives of all types. This total included 407 Diesel Electric units for Main Line service and 30 D.E. shunters. Of the 407 Main Line Diesels, 324 are being financed by A.I.D. and 83 are being produced in India. To June 30, 1964, 243 Main Line Diesels have been delivered to the Indian Railways. Of the 30 diesel shunters, 7 had been delivered to the railways by June 30, 1964. (IRS Progress Report, Annex B)

36. The Coverdale & Colpitts Study recommended that principal marshalling yards be equipped with diesel shunters for heavy work. In Volume I of their report, completed in 1963, they recommended immediate acquisition of 30 diesel shunters for use in marshalling yards, and in Volume IV, completed in 1964, they recommend the purchase of 100 diesel shunting locomotives during the Fourth Plan period, ending FY 71 (page 102).

D. The Present Project

37. Indian Railways report they obtain about 16 hours service per day from a steam engine in yard service, considering the loss of time for obtaining coal, water, inspections, repairs and changing crews. This is about the same as the experience on U.S. railways when steam engines were in use. Indian Railways contemplate getting 20 hours service per day from the Diesel Electric shunters. Several U.S. railroads indicated they are getting 23 hours or more service per day from their D.E. Locos in yard service; this is possible by bringing fuel and water to the locos at the work sites and changing crews at the work sites because relatively little time is needed for inspection or repairs. Basing requirements on the Indian

Railway experience the number of D.E. Locos needed and the number of steam engines to be replaced for a 24 hour per day operation of the yards is as follows:

		Steam Engines Replaced	D.E. Locos Needed
Mughal Sarai Yard		13	9
Andal Yard		10	6
Bondamunda Yard		9	6
Total	-	32	21

38. The overall replacement ratio is 1.5 steam units to 1.0 diesel electric units, which is reasonable for yard service motive power.

39. Relatively high capacity motive power is required to push a whole train of cars up the grade to the hump but the requirement lessens as the cars are humped. Other yard operations require smaller capacity motive power, and each shunter can be used alone for this work. Accordingly, in order to standardize on procurement of diesel electric shunters, the railways have properly planned for relatively light horse power units that are capable of handling most operations alone and can be used for humping when two units are coupled.

40. Selection of the three yards proposed for dieselization was based on the traffic situation existing or developing at these locations.

41. Mughal Sarai Yard: This yard is located on the Eastern Railway, at its extreme westerly end where it joins the Northern Railway. It is the largest marshalling yard on the Indian Railway System, and the primary center for classifying and assembling trains of goods moving from the industrial and mining areas of eastern India to the consuming areas in northern and western India. Such movements are termed UP traffic and are handled in the UP yard by means of a mechanized hump arrangement.

42. The UP yard presently handles about 2,200 cars per day and in three years will be required to handle about 2,850 cars daily. The latter rate is approximately the same as at the mechanized hump yards on two U.S. railroads that were checked. However, it should be realized that U.S. cars are longer and carry greater loads so the performance is not exactly comparable unless it is acknowledged that operations on foreign railroads are not nearly so efficient as the U.S. lines. One measure used to judge the efficiency of mechanized

humping is the number of cars humped per engine hour and two U.S. lines indicated 20 cars per engine hour as satisfactory; the proposed arrangement at Mughal Sarai will require humping + 15 cars per engine hour now and 20 cars per engine hour in three years. Such heavy traffic demands prompt movement through the yard from the receiving track, over the hump into the classification yard and on to the departure track for coupling, testing and dispatch. The use of diesel electric locomotives is highly desirable if not actually essential to insure the prompt movement of the increasing volume of cars through the yard.

43. The nine diesel shunters assigned to the Mughal Sarai yard will be used as follows:

- 4 locos - Moving cars from receiving track and humping.
- 2 locos - Moving cars from classification yard to departure yard.
- 1 loco - Dress cars in classification yard and transfer cars to other yards.
- 1 loco - Ready reserve.
- 1 loco - Out of service and/or repairs.

44. <u>Andal Yard</u>: This yard is located on the trunk line of the Eastern Railway near the common border of West Bengal and Bihar States. It is in the midst of a coal-steel area and also serves the extensive industrial complex at Durgapur. The so-called DOWN traffic predominates and it is the DOWN yard that has a mechanized hump arrangement and is to be dieselized.

45. The DOWN yard presently is handling about 1,900 cars per day and in three years will be required to handle about 2,400 cars daily. These requirements are not so great as at Mughal Sarai but still are very heavy. The proposed arrangement will require humping of 16 to 19 cars per engine hour and accordingly can be considered a good operation. The six diesel shunters assigned to Andal will be used as follows:

- 3 locos - Moving cars from receiving track and humping.
- 2 locos - Dress cars in classification yard and move to departure yard.
- 1 loco - Ready reserve or out of service.

<u>NOTE</u>: The reserve units assigned to Mughal Sarai will be utilized when necessary to replace the regularly assigned units at Andal when the latter units require periodic overhaul.

46. Bondamunda Yard: This yard is on the trunk line of the South Eastern Railway joining Howrah with Bombay and is located at a point where this rail line crosses the common border of Bihar and Orissa States. It is a junction point for five rail lines which originate much iron ore and limestone for the steel mills and iron ore for export. It is the base yard serving Rourkela steel plant and the important industrial center at Ranchi. At this yard both UP and DOWN traffic are handled by one hump which is presently being mechanized and proposed to be dieselized.

47. The yard presently is handling about 1,100 cars per day and in three years will be required to handle about 1,500 cars daily. This traffic indicates the humping of 10 to 13 cars per engine hour with a 24 hour per day operation. This would be a relatively poor ratio but possibly it could be improved by restricting the operation to a shorter hour day or reducing the number of locomotives assigned to humping service and using the diesel electric units for other yard service. The six diesel shunters proposed for Bondamunda would be used as follows:

3 locos - Moving cars from receiving track and humping.
2 locos - Dress cars in classification yard and move to departure yard.
1 loco - Ready reserve or out of service.

48. At all three yards the steam engines replaced by diesel electric locomotives will be reassigned for service at other locations as the constant increase in traffic requires continuing them in service rather than scrapping them. Steam engines will be available to replace D.E. units temporarily if this is ever necessary.

IV. ECONOMIC ANALYSIS OF THE PROJECT

49. A comparison of the economics of operation of diesel electric shunters with steam locomotives shows a fairly good direct saving in annual costs of operation. As the 21 diesel shunters will do the work of 32 steam locomotives the comparison of the two types of motive power is on the basis of these numbers of the two types of shunters.

50. Estimated Annual Traction Expenses (in Million Rupees)

	32 Steam	21 Diesel Elec.	Savings with D.E. Locos
Locomotive Maint. & Repair	Rs. 1.26	Rs. 0.61	+Rs. 0.65
Lubrication	0.11	0.03	+ 0.08
Fuel	1.34	1.36	- 0.02
Crew	0.43	0.17	+ 0.26
Sub-total - Traction Expense	Rs. 3.14	Rs. 2.17	+Rs. 0.97
Estimated Annual Savings with D.E. Locos.			$ 203,700

NOTE: Other expenses chargeable to the Motive Power Department, except interest and depreciation charges, are reportedly the same for diesel electric or steam motive power. Accordingly, the savings in total operating expense will be the same as indicated for Traction expense. Admittedly, the need to import petroleum fuels and parts for D.E. Locomotives will represent an increased drain on foreign exchange. However, this aspect has been considered by the GOI which has determined that it is more than balanced by the contributions that railroad dieselization will make to India's economy.

51. The estimated unit cost of the diesel electric locomotive delivered in India is $149,000 (Rs. 710,000) exclusive of spare parts which should be chargeable to operating expenses. The comparative unit cost for steam engines is $84,000 (Rs. 400,000). The life of the Diesel Electric unit is considered as 30 years compared with 40 years for the steam units. An interest rate of 5-3/4% is used and amortization is figured on a straight line basis. Accordingly, the interest and amortization charges have been determined as follows:

Est. Annual Interest & Amortization Charges (in Million Rupees)

	32 Steam	21 Diesel Elec.	Savings with D.E. Locos
Investment Costs in Locomotives	Rs. 12.80	Rs. 14.91	-Rs. 2.11
Amortization charges	Rs. 0.32	Rs. 0.50	-Rs. 0.18
Interest @ 5-3/4%	0.37	0.43	- 0.06
Sub-total - Amort. & Interest	Rs. 0.69	Rs. 0.93	-Rs. 0.24
Est. Increased Annual Charges with D.E. Locomotives			$ 50,400

52. The summary of estimated annual costs in the two prior tables shows:

	32 Steam	21 Diesel Elec.	Savings with D.E. Locos.
Total Operating Costs	Rs. 3.14	Rs. 2.17	+Rs. 0.97
Interest & Amortization Charges	0.69	0.93	- 0.24
Total Annual Costs	Rs. 3.83	Rs. 3.10	+Rs. 0.73
NET ANNUAL SAVINGS with D.E. Locomotives			$ 153,300

53. The project is technically sound and the cost is reasonably firm. The concept of the project is primarily to improve yard operations which in turn will benefit overall railway operations rather than to seek an investment which will directly produce a larger financial return. However, the project will directly effect a savings in annual costs and will indirectly produce additional savings. Accordingly, the project is economically justified.

54. Acknowledging that a greater direct economic benefit can be shown for main line dieselization than by the purchase of diesel shunters, there is still sufficient justification for this project. The Indian Railways have made great efforts to improve their marshalling yard operations by remodelling them and by installing mechanical humping equipment. Dieselization of selected yards is justified for the overall good of the service and to obtain maximum benefits from physical improvements already made, both in the yards and on the main line. In expanding and modernizing the railway system to handle more freight traffic, main line and marshalling yard operations are equally important and interdependent. Unless both are improved simultaneously, beyond a certain stage, the full potentials of the system cannot be realized. (Mission Comments, IV.)

V. FINANCIAL ANALYSIS

55. The Railways' accounts are those of a government department and are designed to show the origin and use of public funds. The Government of India provides all the capital and operating funds required by the Railways in accordance with budgets approved by Parliament; therefore, the Government is the Railways' treasurer. IBRD loans, IDA credits and AID loans are made available by the Government to the Railways in the form of interest bearing permanent capital known as Capital-at-Charge and as such become part of the

Government's investment. The financial arrangements between the Government and the Railways are fixed by a Convention approved by Parliament acting on the recommendation of a special parliamentary committee which is constituted at five-year intervals. Under these arrangements the Capital-at-Charge has been drawing 4 percent interest from 1949 through 1960/61, 4.25 percent in 1961/62 and 1962/63, and 4.5 percent from April 1, 1963. All new capital made available on or after April 1, 1964 will pay interest at 5.75 percent.

56. Each of the eight zonal railways is a self-accounting entity, maintaining its records of revenues and expenditures in accordance with a standard classification approved by the Railway Board. Rates and fares are governed by a general Indian Railways Tariff, designed to produce revenues, for the railways as a whole, sufficient to cover operating cost, including depreciation, and interest charges on capital, and to provide a reasonable surplus for further capital investment.

57. Annex I is a Summary Balance Sheet for the Indian Railways as of March 31, 1963. It shows total net assets of Rs. 24 billion ($5,053 million), of which 79% had been financed by Government contributions ("Capital-at-Charge") and 21% by railway earnings. It can be seen from these figures that the Indian Railways is a large enterprise, even by worldwide standards.

58. Annex II, "Indian Railways - Results of Operations", shows an increase in net operating revenue, after depreciation and minor capital works charged to revenues, from Rs. 548 million in 1956/57 to Rs. 1,233 million 1962/63 and an estimate of Rs. 1,328 million in 1963/64. Of these amounts respectively, Rs. 382 million and Rs. 813 million were paid to the Government as dividends on its increasing capital.

59. Annex III, "Restated Revenue and Expense Account", shows the actual and estimated operating ratio and return on investment for each year of the Third Five Year Plan. The prospects for 1965/66, the last year of the Third Plan period, are favorable and realization of the Railways overall contribution to the Plan seems not to be assured. The average return on investment through the period of the Third Plan will amount to 7.0%, as calculated on the basis explained in Annex III.

60. The Indian Railways Statement of Operating Receipts and Expenditures for the period from April 1, 1964 through June 30, 1964 shows net receipts of Rs. 559.1 million as against the budget estimate for this period of Rs. 532.3 million. (IRS Progress Report, Annex F)

VI. REPAYMENT PROSPECT

61. The Government of India has demonstrated its capacity to repay the loan at the proposed interest rate and there is a reasonable prospect of repayment of the loan. Since securing its independence in 1947 the Government of India has proved to be a good credit risk in meeting payments of interest and principal on all of its international obligations. Debt service requirements on loans made by A.I.D. to the Government of India have been met promptly on due dates. The ability of the Government of India to repay this loan depends basically upon the rate of economic development of the country, as well as on the growth of exports and other foreign exchange earnings. This loan will further U.S. policy toward assisting India in its economic development and it will fund a portion of the U.S. commitment to the Indian Consortium, which commitment has been considered at the highest levels of the U.S. government.

VII. IMPACT ON U.S. ECONOMY

62. This project does not involve competition with U.S. enterprises, but rather, assists them. The source and origin of the locomotives and spare parts procured with the loan funds will be the U.S. All funds loaned will be spent in the U.S. The loan will have a beneficial impact on our economy.

VIII. IMPLEMENTATION PLAN

63. As this project is essentially a procurement in the U.S., no special conditions or implementation plan is necessary. Upon authorization of the loan, a loan agreement in substantially the form set forth in Annex IV will be negotiated with the Government of India, and after the loan agreement is executed, an implementation letter in substantially the form set forth in Annex VII will be delivered to the GOI. The Railway Board will submit its Invitation to Tender to A.I.D. for review in Washington before the invitation is issued to U.S. manufacturers. Later a digest of the bids and the borrower's proposed award will be submitted to A.I.D. for approval and finally the contract will be reviewed for approval by A.I.D. The Railways wish to award a contract in time to have the locomotives delivered during FY 66.

IX. ISSUES

64. No important issues have arisen during the intensive review of this project. All persons in the Agency consulted about the necessity for an intermodal study of the transportation sector have agreed that the completion of such a study should not be a condition precedent to the authorization of this loan.

X. CONCLUSIONS AND RECOMMENDATION

65. The purchase of twenty-one diesel electric shunter locomotives is an appropriate step toward greater efficiency of the Indian Railway System. It follows the Railway's plan for improving its marshalling yard operations, and dieselization is the next logical step after the improvement of the yard layouts. This purchase conforms to the Indian Five Year Plans, it follows from the recommendations of the Coal Transport Study, and it demonstrates the Railways' good planning. The loan requested is comparatively small and is an appropriate allocation of the foreign exchange available to the Government of India.

66. The loan of $3.8 million should be authorized.

February 5, 1965

INDIAN RAILWAYS

Summary Balance Sheet as of March 31, 1963

		(Rupees in millions)
Current Assets:		
Inventories 1/	1,277	
Sundry Debtors	850	
Cash, Investments and Savings Bank Account with Government 2/	1,252	
	3,379	
Less: Current Liabilities	1,003	
Net Current Assets		2,376
Fixed Assets at cost 3/	26,902	
Less: Accumulated Depreciation 4/	5,222	
Net Fixed Assets		21,680
Total Net Assets		24,056
Capital-at-Charge		18,968
Equity Equivalent:		
Capital Investment from railway resources:		
Depreciation Reserve Fund 5/	1,190	
Development Fund	1,937	
Revenue (Open Lines Works)	1,050	4,177
Revenue Reserves; unappropriated balances:		
Development Fund	297	
Revenue Reserve Fund	574	
		871
Capital Equipment received free of charge		40
Total Capital and Reserves		24,056

NOTES:

1/ Stores, work in progress, etc., are financed from Capital-at-Charge

2/ Cash, investments and deposits with Government, net after deducting balances of Provident Funds totalling Rs. 2,161 million.

3/ Value of existing fixed assets at original cost, made up as follows:

Fixed Assets as in Balance Sheet	21,908
Add: Excess of replacement cost (like for like) over original cost of assets replaced from Depreciation Reserve Fund, 1936-1963.	4,994
	26,902

4/ Cumulative depreciation contributions, less original cost of assets withdrawn.

5/ Improvement element in cost of replaced assets.

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Notes to Annex I
Principles of Allocation of Capital Expenditure

A. Capital Investment - Net Assets

1. Fixed assets are financed by contributions from the Government in the form of interest bearing permanent capital known as Capital-at-Charge, and by the Railways' internal generation of funds which are credited to various accounts known as Open Line Works - Revenue, Depreciation Reserve Fund and Development Fund.

2. Most assets other than for replacement are financed through the Capital-at-Charge. They must be remunerative, i.e., they must produce additional net revenue either by increasing gross revenue or reducing expenditure, to an extent sufficient to provide a return of not less than 6.75 percent on the capital investment. Capital expenditures that do not meet this test must be financed by the Railways either as Open Line Works charged to revenue or from the Development Fund, which is fed from the Railways' net earnings.

B. Depreciation and Renewal of Fixed Assets

3. Renewals of fixed assets are financed from the Depreciation Reserve Fund, which is charged with the full cost of replacements, including the inflationary elements, and improvements. That portion of the cost which represents the improvement element is capitalized in the Balance Sheet. The total cost of replacement, including improvements, remains, however, as a final charge to the Depreciation Reserve Fund and it is necessary to bear this in mind when assessing the adequacy of the annual contribution to the Fund. Analysis of movements in the Depreciation Reserve Fund since the beginning of the Second Plan period is as follows:

Depreciation Reserve Fund		(Rs. millions)
Balance at April 1, 1956		1,035
Contributions from revenue:		
Railways	3,570	
Chittaranjan Works and Integral Coach Factory	72	3,642
Interest on investments		137
		4,814
Expenditure on replacements of assets in kind	3,790	
Improvement of assets replaced	796	4,586
Balance of Fund at March 31, 1963		228

4. The contributions from revenue during this period, together with interest on the fund balances, have been sufficient to pay for replacements, like for like, at current prices but it has been possible to meet the cost of improvements only by running down the balance of the Fund. To correct the position the annual contribution from railway revenue has been substantially and progressively increased, from Rs. 450 million in 1960/61 to Rs. 830 million in 1964/65. The latest estimate is that at the end of the Third Plan period, March 31, 1966, the balance of the Depreciation Reserve Fund will have increased to Rs. 665 million.

5. The contribution to the Fund in the current financial year has been tested against the estimated present-day replacement values of the main categories of fixed assets and has been found to be an adequate measure of depreciation at present-day costs.

C. Development Fund

6. All surpluses on railway operation, after payment of interest charges on Capital-at-Charge. are appropriated to the Development Fund. The present purposes of the Fund are to pay for capital works (costing more than Rs. 300,000 each) which do not meet the test for financing through Capital-at-Charge; to meet the cost of new users' amenities such as improvements to stations; and to cover labor welfare works costing over Rs. 25,000 each, such as housing and schools.

7. The balance of the Development Fund, which stood at Rs. 297 million at the end of 1962/63, is expected to increase to Rs. 546 million by the end of the Third Plan period.

D. Open Lines Works - Revenue

8. "Open Lines Works - Revenue" is a subhead of operating expense to which any works of a capital nature are charged if their cost is less than the financial limit of the Development Fund.

Note on Valuation of Fixed Assets

The original cost of plant and equipment as shown in Annex I is Rs. 26.9 billion. This figure represents the compensation paid to the previous owners on acquisition of the railways by the Indian Government in 1939, plus subsequent additions and work in progress at cost, less original cost of assets abandoned or replaced. All new assets are included, whether financed through Capital-at-Charge, Development Fund, Depreciation Reserve Fund or Open Line Works (Revenue). Accumulated depreciation of plant and equipment amounts to Rs. 5.2 billion and

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the net value of the assets at March 31, 1963 is shown as Rs. 21.7 billion. This latter figure has been used in arriving at the value of the investment on which the rate of return of 7.5% is calculated in Table 8.

An estimate made by the Railway Board of the present day replacement value new of all depreciable assets of the railways gives the following result:

	Estimated present day replacement cost (Rupees billions)
Track	9.8
Locomotives	5.1
Carriages	3.9
Wagons	6.4
Other depreciating assets	2.5
Total	27.7

This figure is not substantially different from the original cost of plant and machinery as shown in Annex I, viz., Rs. 26.9 billion. A rate of return calculation made on the basis of the net value of depreciable assets at present-day replacement values will not therefore vary greatly from a calculation made on net value of properties at original cost.

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INDIAN RAILWAYS

RESULTS OF OPERATIONS

SECOND PLAN PERIOD AND FIRST TWO YEARS OF THIRD PLAN

WITH ESTIMATES FOR THIRD, FOURTH AND FIFTH YEARS OF THIRD PLAN

(Rs. 000,000)

	1956/57 Actuals	1957/58 Actuals	1958/59 Actuals	1959/60 Actuals	1960/61 Actuals	1961/62 Actuals	1962/63 Actuals	1963/64 Revised Estimate	1964/65 Estimate	1965/66 Estimate
Gross Receipts										
Passengers	1,163.2	1,191.0	1,167.4	1,256.1	1,[illegible].9	1,508.8*	1,691.9*	1,800.3*	1,840.0*	1,900.0*
Other coaching	210.9	242.3	235.9	254.1	272.1	291.0	325.4	348.0	350.0	370.0
Goods	2,039.6	2,296.7	2,408.2	2,605.0	2,861.4	3,069.0	3,495.2	3,916.6	4,320.0	4,735.0
Sundries	62.0	67.8	90.6	108.1	118.6	136.2	155.4	157.2	170.0	190.0
Total Receipts	3,475.7	3,797.8	3,902.1	4,223.3	4,568.0	5,005.0	5,667.9	6,222.2	6,680.0	7,195.0
Working Expenses										
Administration	347.4	321.7	343.0	348.6	375.1	376.0	409.0	448.4	476.2)	
Repairs and Maintenance	860.0	906.2	915.9	941.4	997.5	1,004.5	1,128.4	1,218.1	1,307.9)	
Operating Staff	528.0	538.2	571.4	579.1	634.4	643.9	722.6	767.1	818.0)	
Fuel	272.8	480.4	524.7	579.8	628.0	683.5	757.3	853.9	917.1)	4,458.9
Operation other than staff and fuel	106.5	152.0	159.1	179.0	182.9	181.9	212.7	227.4	244.9)	
Miscellaneous Expenses	166.4	173.7	169.8	183.7	216.8	261.1	274.8	280.2	228.3)	
Labor Welfare	58.3	69.6	79.4	83.6	96.8	102.4	119.0	138.3	154.4)	
Ordinary Working Expenses	2,339.4	2,641.8	2,763.3	2,895.2	3,131.5	3,253.3	3,623.8	3,933.4	4,146.8	4,458.9
Appropriation to Depreciation Reserve Fund	450.0	450.0	450.0	450.0	450.0	650.0	670.0	800.0	830.0	850.0
Appropriation to Pension Fund	-	-	-	-	-	-	-	-	190.0	200.0
Total Working Expenses	2,789.4	3,091.8	3,213.3	3,345.2	3,581.5	3,903.3	4,293.8	4,733.4	5,166.8	5,508.9
Net Traffic Receipts	686.3	706.0	688.8	878.1	986.5	1,101.7	1,374.1	1,488.8	1,513.2	1,686.1
Miscellaneous Transactions - net	18.7	21.4	- 13.1	13.4	- 8.1	6.4	29.9	34.6	40.8	42.0
Open Line Works - Revenue	80.5	104.2	107.6	118.2	115.0	96.1	109.5	125.0	130.0	139.5
Payments to Worked Lines	3.3	2.6	1.1	1.0	0.9	1.8	1.4	1.4	1.4	1.4
Charges to Revenue of Capital Nature	102.5	128.2	95.6	132.6	107.8	104.3	[illegible].8	161.0	172.2	182.9
Net Revenue	583.8	577.8	593.2	745.5	878.7	997.4	1,2[illegible].3	1,327.8	1,341.0	1,503.2
Dividend on Capital at Charge	381.6	444.0	503.9	544.3	558.6	753.5**	812.6**	950.3**	1,032.3**	1,143.7**
Surplus transferred to Development Fund	202.2	133.8	89.3	201.2	320.1	243.9	420.7	377.5	308.7	359.5

* includes element of passenger fare tax.

** including 125.0 in lieu of passenger fare tax and interest of 4½% from 1961/62 to 1962/63 instead of 4% as in previous years, revised to 4½% in 1963/64 plus 5.75% on all new capital made available on or after April 1, 1964.

INDIAN RAILWAYS

Restated Revenue and Expense Account

(Figures in millions of rupees)

	1961-62	1962-63	Third Plan 1963-64 (Approximate)	Third Plan 1964-65 (Estimate)	Third Plan 1965-66 (Estimate)
Operating revenue	5,005	5,668	6,222	6,680	7,195
Operating expenses	3,253	3,624	3,933	4,337 6/	4,659 6/
Balance	1,752	2,064	2,289	2,343	2,536
Depreciation 1	545	599	665	760	800
Net operating revenue	1,207	1,445	1,624	1,603	1,736
Add interest on fund balances	31	37	45	57	74
Add or subtract miscellaneous transactions and payments to worked lines	(8)	(31)	(36)	(42)	(43)
Available for financial charges	1,230	1,451	1,633	1,618	1,767
Interest on Capital-at-Charge 2/	754	813	950	1,032	1,144
Net earnings	476	638	683	586	623
Add back depreciation	545	599	665	740	800
Add back pension provision	-	-	-	150 7/	160 7/
Available for investment	1,021	1,237	1,348	1,476	1,583
Operating ratio 3/	76%	75%	74%	76%	76%
Depreciated value of plant and equipment, less allowance for work in progress, plus allowance for working capital. 4/	16,525	19,342	21,583	24,026	27,183
Return on investment 5/	7.3%	7.5%	7.5%	6.7%	6.4%

1/ On basis of 40 years service life, i.e., 2-½% on plant and equipment (at cost) minus allowance for estimated value of works in progress.

2/ As from 1961/62 includes Rs 125 million per annum in lieu of passenger fare tax.

3/ Working expenses plus depreciation as percent of operating revenue.

4/ Value of plant and equipment as in Table 6: Allowance for work in progress assessed as equivalent to one year's capital expenditure at current level: working capital as equivalent of 3 months' working costs.

5/ Net operating revenue as percent of depreciated value of plant and equipment, etc., as detailed in Note 4/.

6/ Includes contribution to newly-created Pensions Fund, Rs 190 million in 1964/65, Rs 200 million in 1965/66.

7/ Provision for accruing liabilities, i.e., contribution to Pensions Fund less estimated Rs 40 million for pensions in payment.

INDIA - SEVENTH RAILWAY LOAN

CHECK LIST OF STATUTORY CRITERIA

1. FA Sec. 102. Precautions that have been or are being taken to assure loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development. -- The Loan Agreement and implementation procedures will require that loan proceeds be used only for purposes of the loan.

2. FA Sec. 201(b). Manner in which loan will promote country's economic development, emphasizing help for long-range plans and programs designed to develop economic resources and increase productive capacities. -- The loan will promote India's economic development by improving the service offered by the Indian Railways. This loan implements the purposes of India's Five Year Plans. See paragraphs 7, 35, 65.

3. FA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States. -- Financing from other free-world sources on these terms is not available. The Ex-Im Bank indicated on November 6, 1964 that it was not willing to consider this loan.

4. FA Sec. 201(b)(2). Information and conclusion on activity's economic and technical soundness, including the capacity of the recipient country to repay the loan at a reasonable rate of interest. -- The loan paper, Sections III and IV, gives information on and demonstrates the project's economic and technical soundness. Section VI states that this loan is part of the U.S. Consortium commitment. This commitment has taken into account the Borrower's ability to repay the loan, and the Government of India may reasonably be expected to repay the loan pursuant to the terms and at the rate of interest recommended. See Section VI.

FA -- Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1964.

App.-- Foreign Assistance and Related Agencies Appropriation Act, 1965.

5. FA Sec. 201(b)(3). Information and conclusion on existence of reasonable promise activity will contribute to development of economic resources or increase of productive capacities. -- The purchase of the shunters will make the railways' operations more efficient, which in turn should contribute to India's productive capacities. See paragraphs 7, 35, 65.

6. FA Sec. 201(b)(4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives. -- This project is related to other Indian development activities, as it is part of the Five Year Plans, and it will contribute to the long-range planning for more efficient rail transport. See paragraphs 7, 35, 65.

7. FA Sec. 201(b)(5). Country's self-help measures, including institution of Foreign Assistance Act investment guaranty programs. -- India is financing as much of its economic development plans as is consistent with its financial resources and has adopted other appropriate self-help measures. India has instituted an investment guarantee program with the U.S. covering inconvertibility and expropriation.

8. FA Sec. 201(b)(6). Information and conclusion on possible effects on U.S. economy, with special reference to areas of substantial labor surplus. -- As all procurement will be in U.S. (paragraph 62), effect on U.S. economy will be good, although there will be no known effect on areas of substantial labor surplus.

9. FA Sec. 201(b). Information and conclusion on reasonable prospects of repayment. -- India is making a determined effort to develop its economy and become self-supporting. The loan is part of the U.S. consortium commitment which is based upon repayment of loans. There are reasonably good prospects for repayment of the loan. (See Section VI.)

10. FA Sec. 201(d). Information and conclusion on legality (under laws of the country and the U.S.) and reasonableness of lending and relending terms. -- Lending terms will be no lower than the minimum fixed by FA Section 201(d) as amended in 1964. Funds are not exactly reloaned by the GOI to the Railways, but the Railways now pay 5-3/4% interest to the GOI on their "Capital-at-Charge", which is not excessive or unreasonable. (See paragraph 55.)

11. FA Sec. 201(e). Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner. -- The application received is sufficient when considered with other information supplied by borrower and other sources to indicate reasonably that funds will be used in an economically and technically sound manner. See "GOI Application" and "GOI Reply".

12. FA Sec. 201(f). If a project, information and conclusion whether it will promote the economic development of the requesting country, taking into account the country's human and material resource requirements and the relationship between the ultimate objectives of the project and the country's overall economic development. -- Project will implement the Indian Five Year Plans which are considered generally sound means of promoting the economic development of the country. See paragraphs 7, 35, 65.

13. FA Sec. 201(f). If a project, information and conclusion whether it specifically provides for appropriate participation by private enterprise. -- The project will assist the Indian Railway System to provide improved railroad transportation service for a large number of private industrial and commercial enterprises.

14. FA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources. -- None of the loan money is going directly to private enterprise or to intermediate credit institutions or other borrowers for use by private enterprise. All of the funds will be used to finance imports from private sources in the U.S.

15. FA Sec. 601. Information and conclusion whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; (f) strengthen free labor unions. -- (a) The loan will encourage the flow of international trade since all the funds will be spent for items to be imported from the U.S. and the project will facilitate the movement of imports and exports by rail in India. (b) Private initiative and competition should be encouraged by improved rail service. (c) The loan will have no effect on the development and use of cooperatives, credit unions and savings and loan associations.

(d) The loan will have no effect on monopolistic practices, though it should be noted that the railway system is publicly owned. (e) The project will improve technical efficiency of industry, agriculture and commerce by providing better rail transport for the products thereof. (f) The loan will have no effect on strengthening free labor unions.

16. FA Sec. 601(d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U.S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest. -- No engineering or professional services are to be financed by this loan. All procurement will be from U.S. manufacturers.

17. FA Secs. 601, 602. Information and conclusion whether loan will (a) encourage U.S. private trade and investment abroad; (b) encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise), and (c) permit American small business to participate equitably in the furnishing of goods and services financed by it. -- (a) The loan will encourage the export of U.S. products to India. (b) All procurement will be from U.S. private enterprise. (c) American small business may participate in the furnishing of goods and services by contracting with the U.S. locomotive manufacturing companies and the Loan Agreement will provide the usual provision to maximize the opportunity for such participation, but as this project contemplates procurement of locomotives which are made in the U.S. only by large manufacturers there will be little opportunity for direct participation of American small business.

18. FA Sec. 604(a). Compliance with restriction of commodity procurement to U.S. except as otherwise determined by the President and subject to statutory reporting requirements. -- All goods and services financed by the loan will have their source and origin in the U.S. and all procurements will be subject to statutory reporting requirements.

19. FA Sec. 604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U.S. at time of purchase. -- The equipment to be financed will be procured on a fair competitive basis.

20. FA Sec. 604(d). Compliance with requirement that marine insurance be purchased on commodities if the participating country discriminates, and that such insurance be placed in the U.S. -- The Loan Agreement will contain a provision expressly covering this requirement.

21. FA Sec. 611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States. -- Satisfactory plans are made and a reasonably firm estimate of the cost of the assistance has been made. See paragraphs 29, 30, 31.

22. FA Sec. 611(a)(2). Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of the loan. -- No legislative action by India is necessary.

23. FA Sec. 611(b); App. Sec. 101. If water or water related land resource construction project or program, information and conclusion on benefit-cost computation. -- Not applicable.

24. FA Sec. 611(c). Compliance with requirement that contracts for construction be made on competitive basis to maximum extent practicable. -- Not applicable.

25. FA Sec. 619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate. -- Although India is not a newly independent country, this assistance is furnished pursuant to consortium arrangements.

26. FA Sec. 620(a); App. Sec. 107. Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or fails to take appropriate steps by February 14, 1964 to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance. -- India does not furnish assistance to Cuba nor do any Indian ships stop at Cuba and India is otherwise complying with the provisions of the aforementioned statutory requirement.

27. FA Sec. 620(b). If assistance to the government of a country, existence of determination it is not controlled by the international Communist movement. -- India is not controlled by the international Communist movement.

28. FA Sec. 620(c). If assistance to the government of a country, existence of indebtedness to a U.S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty of payment given by such government. -- India is not ineligible under this section.

29. FA Sec. 620(d). If assistance for any productive enterprise which will compete with U.S. enterprise, existence of agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan. -- Not applicable.

30. FA Sec. 620(e). If assistance to the government of a country, extent to which it (including government agencies or subdivisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking appropriate steps to discharge its obligations. -- India has not taken any of the steps or actions described in this section.

31. FA Sec. 620(f); App. Sec. 109. Compliance with prohibitions against assistance to any Communist country. -- India has not been determined to be a Communist country.

32. FA Sec. 620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property. -- Funds will not be used to compensate owners for expropriated or nationalized property.

33. FA Sec. 620(h). Compliance with regulations and procedures adopted to insure against use of assistance in a manner which, contrary to the best interests of the U.S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries. -- The loan agreement will prohibit use of the funds in a manner which promotes or assists the foreign aid projects or activities of the Communist bloc countries.

34. FA Sec. 620(i). Existence of determination that the country is engaging in or preparing for aggressive military efforts. -- In making the U.S. Consortium commitment to India, it was determined that India is not engaging in or preparing for aggressive military efforts.

35. FA Sec. 620(k). If construction of productive enterprise where aggregate value of assistance to be furnished by U.S. will exceed $100 million, identification of statutory authority. -- Not applicable.

36. FA Sec. 620(l). Compliance with prohibition against assistance after 31 December 1965 for the government of a country which fails to institute investment guaranty program. -- India has instituted an investment guaranty program covering inconvertibility and expropriation.

37. FA Secs. 636(h); 612(c). Appropriate steps that have been taken to assure that, to the maximum extent possible, country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services. -- India furnishes all local currency needs of all government projects financed by A.I.D. and U.S. owned rupees are used for all administrative and program costs in lieu of dollars, to the maximum extent possible.

38. App. (Sec. Unnumbered). Use of funds to carry out FA Sec. 205, which pertains to IDA. -- Not applicable.

39. App. Sec. 102. Compliance with requirement that payments in excess of $25,000 for architectural and engineering services on any one project be reported to Congress. -- Not applicable.

40. App. Sec. 104. Compliance with bar against funds to pay pensions, etc., for military personnel. -- Funds will be used for the project, not for paying pensions for military personnel.

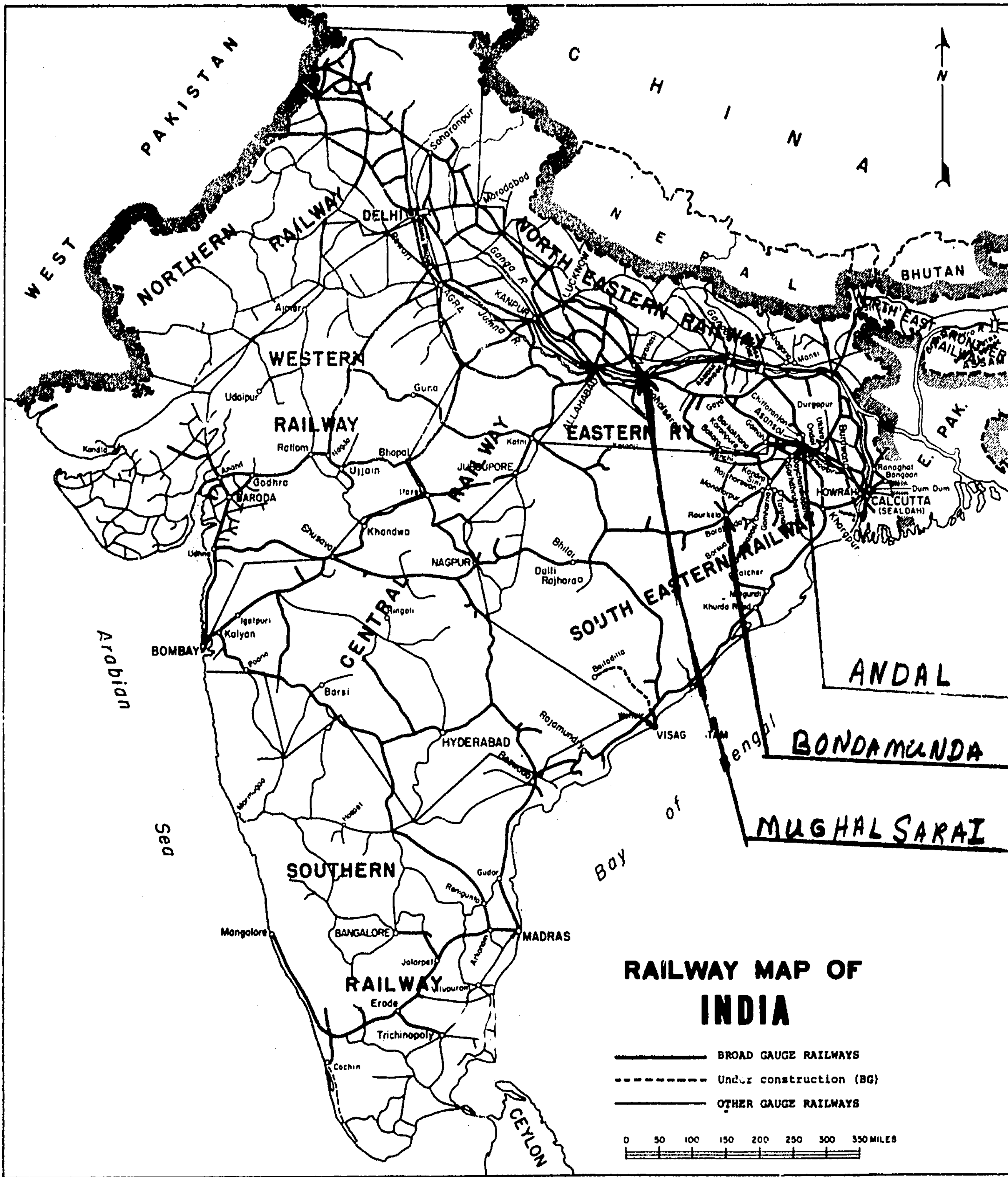
41. App. Sec. 111. Compliance with requirement for security clearance of personnel under contracts for services. -- Not applicable.

42. App. Sec. 112. Compliance with requirement for approval of contractors and contract terms for capital projects. -- The loan agreement will provide for approval of the manufacturer of the locomotives and the terms of the contract.

43. App. Sec. 114. Compliance with bar against use of funds to pay assessments, etc., of U.N. member. -- Not applicable.

44. App. Sec. 117. Compliance with regulations on employment of U.S. and local personnel for funds obligated after 30 April 1964. -- Not applicable.

45. App. Sec. 401. Compliance with bar against use of funds for publicity or propaganda purposes within U.S. not heretofore authorized by Congress. -- Not applicable.


RAILWAY MAP OF
INDIA
BROAD GAUGE RAILWAYS
Under construction (BG)
OTHER GAUGE RAILWAYS
0 50 100 150 200 250 300 350 MILES
WEST PAKISTAN
CHINA
NEPAL
BHUTAN
E. PAK.
CEYLON
Arabian Sea
Bay of Bengal
NORTHERN RAILWAY
WESTERN RAILWAY
CENTRAL RAILWAY
NORTH EASTERN RAILWAY
EASTERN RY
SOUTH EASTERN RAILWAY
SOUTHERN RAILWAY
NORTH EAST FRONTIER RAILWAY
DELHI
AGRA
KANPUR
LUCKNOW
ALLAHABAD
Saharanpur
Moradabad
Ajmer
Udaipur
Guna
Ratlam
Bhopal
Ujjain
JUBBULPORE
Katni
Godhra
BARODA
Kandla
Khandwa
NAGPUR
Bhilai
Dalli Rajhara
Igatpuri
Kalyan
BOMBAY
Poona
Barsi
HYDERABAD
Rajamundry
VISAG
Bailadila
Gaya
Asansol
Durgapur
HOWRAH
CALCUTTA
(SEALDAH)
Kharagpur
Rourkela
Talcher
Khurda Road
Mangalore
BANGALORE
MADRAS
Gudur
Jalarpet
Erode
Trichinopoly
Cochin
ANDAL
BONDAMUNDA
MUGHAL SARAI

UNCLASSIFIED
AID-DLC/P-295
ANNEX VI
Draft Loan Authorization

CAPITAL ASSISTANCE LOAN AUTHORIZATION
Provided from Development Loan Funds

INDIA: SEVENTH RAILWAY LOAN
A.I.D. Loan No. 386-H-
Project No. 386-22-330-265

Pursuant to the authority vested in the Assistant Administrator, Bureau for Near East and South Asia of the Agency for International Development (hereafter called the "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, including Delegation of Authority No. 5, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund to the Government of India of not to exceed Three Million Eight Hundred Thousand Dollars ($3,800,000) to assist in financing the foreign exchange cost of the purchase and delivery of twenty-one broad gauge diesel electric shunting locomotives with a two-year supply of spare parts.

1. Interest and Terms of Repayment:

(a) The Borrower shall repay the loan to A.I.D. in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years from the date of such first disbursement.

(b) The Borrower shall pay interest in United States dollars of one percent (1%) per annum during the grace period referred to in (a) above on all amounts of outstanding principal. From and after the expiration of the grace period referred to in (a) above, the Borrower shall pay interest in United States dollars of two and one-half percent (2½%) per annum on all amounts of outstanding principal under the loan.

2. Other Terms and Conditions:

(a) Equipment, materials and services financed under the loan shall be procured from the United States of America.

(b) This loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Assistant Administrator
Bureau for Near East and South Asia

Date

A.I.D. Loan No. 386-H-___

L O A N   A G R E E M E N T

INDIA: SEVENTH RAILWAY

BETWEEN THE

PRESIDENT OF INDIA

AND THE

UNITED STATES OF AMERICA

DATED:

TABLE OF CONTENTS

LOAN AGREEMENT

AGREEMENT, dated the day of 196 , between the President of India ("Borrower") and the United States of America, acting through the Agency for International Development ("A.I.D.").

ARTICLE I. The Loan

SECTION 1.1. The Loan. A.I.D. hereby agrees to lend Borrower pursuant to the Foreign Assistance Act of 1961, as amended, up to Three Million Eight Hundred Thousand United States dollars ($3,800,000 for the foreign exchange costs of goods and services required for the project as defined in Section 1.2 (the "Loan"). Goods and services financed hereunder are hereinafter referred to as "Eligible Items" and the aggregate amount disbursed hereunder is hereinafter referred to as "Principal". References herein to the "Borrower Country" are to India.

SECTION 1.2. The Project. As used in this Agreement "Project" shall mean the purchase and delivery of twenty-one (21) broad gauge Diesel Electric Shunting Locomotives with a two year supply of spare parts.

ARTICLE II. Terms of Repayment and Interest

SECTION 2.1. Interest. Borrower shall pay interest semi-annually to A.I.D. in United States dollars on the unrepaid Principal, and on any interest due and unpaid, computed on the basis of a 365 day year and at the rates hereinafter stated. The first such payment shall be due and payable six (6) months after the first disbursement hereunder or on such date as A.I.D. may specify. Interest shall accrue from the dates of the respective disbursements at the rate, for the ten (10) years following the date of such first disbursement, of one percent (1%) per annum and thereafter at the rate of two and one-half percent (2½%) per annum. Disbursements shall be deemed to occur on the dates on which payments by A.I.D. are made to Borrower or to its designee or to a banking institution pursuant to a letter of commitment.

SECTION 2.2. Principal. Borrower shall repay the Principal to A.I.D. in United States dollars in semi-annual installments in accordance with the terms of this Agreement and the amortization schedule to be provided the Borrower by A.I.D. after all disbursements have been made. Such amortization schedule shall provide for repayment of the Loan within forty (40) years of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual payments of Principal and interest, the first installment to be payable nine and one half (9 1/2) years after the date on which the first interest payment is due. Such amortization schedule shall be adjusted to reflect any prepayment by Borrower pursuant to Section 2.4.

SECTION 2.3. Application and Place of Payment. All payments shall be applied first to accrued interest and then to Principal. Except as A.I.D. may otherwise specify in writing, payments shall be made to the Controller, Agency for International Development, Washington, D.C. 20523, and shall be deemed to have been made when received by A.I.D. at such address.

SECTION 2.4. Prepayment. Borrower shall have the right to repay all or any part of the Principal, without penalty, on any date on which interest is due. Any prepayment shall be applied first to accrued interest and then to the unrepaid Principal.

ARTICLE III. Conditions Precedent

SECTION 3.1. Conditions Precedent to Initial Financing. Prior to the first disbursement or to the issuance of the first letter of commitment, Borrower shall furnish A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of the Attorney General of India (the "Borrower Country"), or of other counsel satisfactory to A.I.D., that this Agreement has been duly authorized or ratified by and executed on behalf of Borrower and constitutes a valid and legally binding obligation of Borrower in accordance with its terms;

(b) Evidence of the authority of the person or persons who will act as the representative or representatives of Borrower pursuant to Section 6.2, together with a specimen signature of each such person certified as to its authenticity;

(c) Evidence of contractual arrangements satisfactory to A.I.D. for the procurement of the Diesel Electric Locomotives and spare parts; and

(d) Such additional plans or other documents for the Project as A.I.D. may request.

SECTION 3.2. Terminal Date for Fulfillment of all Conditions Precedent. Except as A.I.D. may otherwise agree in writing, if the conditions required by (a) and (b) of Section 3.1 have not been completed within forty-five (45) days from the date of this Agreement, A.I.D. may at any time thereafter terminate this Agreement by giving notice to Borrower.

ARTICLE IV. Disbursements

SECTION 4.1. Requests for Letters of Commitment. To obtain disbursements, Borrower may from time to time request A.I.D. to issue letters of commitment to one or more banks in United States designated by Borrower and satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made, through letters of credit or otherwise, to Borrower or any designee of Borrower, pursuant to such documentation requirements as A.I.D. may prescribe. Banking charges incurred in connection with letters of commitment and disbursements shall be borne by the Borrower and may be financed hereunder.

SECTION 4.2. Other Forms of Disbursement. Disbursements may also be made through such other means as Borrower and A.I.D. amy agree to in writing.

SECTION 4.3. Terminal Date for Requests for Letters of Commitment and for Disbursements. Except as A.I.D. may otherwise agree in writing, no letters of commitment shall be issued in response to requests received after June 30, 1966 and no disbursement shall be made against documentation received after June 30, 1967.

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ARTICLE V. Records; Reports; and Inspections

SECTION 5.1. Books and Records. Borrower shall maintain or cause to be maintained books of account, in accordance with accounting principles generally accepted as sound in the Borrower Country, and records adequate to identify Eligible Items and to disclose the use thereof in the Project. Such books and records shall be maintained and may be audited for such period and in such manner as A.I.D. may require.

SECTION 5.2. Reports. Borrower shall furnish A.I.D. with such information and reports relating to the Project, Eligible Items and the Loan as A.I.D. may reasonably request.

SECTION 5.3. Inspections. The authorized representatives of A.I.D. shall have the right at all reasonable times to inspect the Project, the utilization of all Eligible Items, the books and records referred to in Section 5.1, and any other documents, correspondence, memoranda or records in Borrower's possession or control relating to the Loan or to the Project. Borrower shall cooperate with A.I.D. to facilitate such inspection and shall afford a reasonable opportunity for such representatives of A.I.D. to visit any part of the Borrower Country for any purpose related to the Loan.

ARTICLE VI. Miscellaneous

SECTION 6.1. Eligibility Date. As used in this Agreement "Eligibility Date" shall be the date of this Agreement.

SECTION 6.2. Use of Representatives.

(a) All actions required or permitted to be performed or taken under this Agreement by Borrower or A.I.D. may be performed by their respective duly authorized representatives.

(b) Borrower hereby designates the Joint Secretary to the Government of India, Ministry of Finance (Department of Economic Affairs) as its representative with authority to designate in writing other representatives of Borrower in its dealings with A.I.D. Borrower's representatives designated pursuant to the preceding sentence, unless A.I.D. is given notice otherwise, shall have authority to agree on behalf of Borrower to any modification of this Agreement which does not substantially increase Borrower's obligations hereunder. Until receipt by A.I.D. of written notice of revocation by Borrower of the authority of any of its representatives, A.I.D. may accept the signature of such representatives on any instrument as conclusive evidence that any action effected by such instrument is authorized by Borrower.

SECTION 6.3. Communications. Any communication or document given, made or sent by Borrower or A.I.D. pursuant to this Agreement shall be in writing and shall be deemed to have been duly given, made or sent to the party to which it is addressed when it shall be delivered by hand or by mail, telegram, cable or radiogram to, or otherwise received by, such party at the following address:

To Borrower:

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

Cable Address: ECOFAIRS
New Delhi, India

To A.I.D. (two copies):

Mail Address: Agency for International Development
Department of State
Washington, D.C. 20523

Cable Address: AID
Washington, D.C.

Borrower shall also provide the US AID Mission, New Delhi, India, with a copy of all communications or documents sent to A.I.D. Other addresses may be substituted for the above upon giving of notice as provided herein.

All communications and documents submitted to A.I.D. hereunder shall be in the English language and all technical and engineering specifications therein shall be in terms of United States standards, except as A.I.D. may otherwise agree in writing.

SECTION 6.4. Ocean Shipment. At least fifty per cent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed hereunder which shall be transported on ocean vessels shall be transported on privately owned United States-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for United States-flag commercial vessels. No goods may be financed hereunder which are transported on any ocean vessel (a) which A.I.D., in a notice to Borrower, has designated as ineligible to carry A.I.D.-financed commodities or (b) which has been chartered for the carriage of A.I.D.-financed commodities unless such charter has been approved in advance by A.I.D.

SECTION 6.5. Standard Provisions Annex. There is attached hereto and made a part hereof a Standard Provisions Annex. All terms used therein shall have the same meaning as such terms are given herein.

PRESIDENT OF INDIA

By : ______________________

Title: ______________________

UNITED STATES OF AMERICA

By : ______________________

Title: ______________________

DEPARTMENT OF STATE
Agency for International Development
Washington, D.C. 20523

(Date)

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

Subject: A.I.D. Loan No. 386-H-?
India: Seventh Railway Loan
Implementation Letter No. 1

Dear Sir:

This Implementation Letter sets forth the procedures for utilizing the proceeds of the Seventh Railway Loan and provides information to assist you in implementing the project in conformity with the Loan Agreement.

Nothing in this Letter and its attachments alters the scope of the Loan Agreement or the terms of the specific sections that are referred to or explained in this communication. Instructions and explanations in the Letter and the attachments may be supplemented or modified by subsequent Implementation Letters as required from time to time.

I. Conditions Precedent to Indial Financing

The A.I.D. will issue a first and any additional requested Letters of Commitment to finance this Project after the conditions precedent prescribed in the Loan Agreement and discussed below have been met.

A. Legal Opinion. This opinion is required by Section 3.1(a) of the Loan Agreement. We enclose Attachment A as a guide in preparing the legal opinion which should be reviewed with the Legal Advisor of the US AID Mission, New Delhi, and should be forwarded to him.

B. Representatives. Pursuant to Section 3.1(b) and Section 6.2 of the Loan Agreement, you should submit evidence of the authority of the representatives of the Government of India.

C. Procurement. Pursuant to Section 3.1(c) you should submit to A.I.D. for approval the contract or contracts under which the Diesel Electric Locomotives will be purchased.

II. Terminal Date for Completion of Conditions Precedent

In accordance with Section 3.2 of the Loan Agreement, the conditions A and B stated above should be satisfied within forty-five days from the date of the Loan Agreement.

III. Financing Procedures and Documentation

The A.I.D. anticipates that financing the purchase for which the loan was extended will necessitate the issuance of Letters of Commitment for the foreign exchange costs of acquisition of eligible goods and services.

The procedure for requesting the issuance of Letters of Commitment, actions to be taken by you after they are obtained, and the documentation required by the A.I.D. as a basis for disbursement of loan funds, are described in Attachment B.

IV. Procurement

A. Review of Tender Documents. The Invitation to Tender should be submitted to A.I.D. for review and approval prior to its issuance. Before the award is made, A.I.D. should be furnished with copies of all bids received, a comparative analysis of the bids and a copy of the letter of intent or notice of award which is to be sent to the bidder selected by you.

B. Acceptability of United States Contractors and Contractor Personnel. All United States contracting firms (both principal contractor and sub-contractors) and United States citizens performing services outside the United States and financed from this loan must be acceptable to A.I.D. See VIII hereof and Attachment G.

C. Eligible Sources of Procurement. In accordance with Section 100.1 of the Loan Agreement, all goods and services financed by the funds from this loan (including transportation and marine insurance) shall have both their source and origin in the United States.

Goods are considered to be of United States source and origin when:

1. Such goods are shipped from a United States port, or from a free port or bonded warehouse if shipped from said port or bonded warehouse in the form in which received when shipped there from a United States port;

2. Such goods are mined, grown, or produced through manufacturing, processing, or assembly in the United States;

3. Not more than 10 percent of the lowest price (excluding ocean transportation and marine insurance) at which the supplier makes the goods available for export sale represents the cost (delivered to point of production) of imported components;

4. All imported components of such goods were imported from certain free-world countries (AID Geographic Code 899); and

5. Neither the commodity nor the transaction is one which is prohibited by the Foreign Assets Control Regulations (Communist China).

All goods and services obtained for the project and financed from sources other than A.I.D., except transportation services, shall have their source and origin in India or countries included in Code 899 of the A.I.D. Geographic Code Book. Code 899 as in effect at the date of this Letter includes any country in the world except the following:

> The Union of Soviet Socialist Republics, Albania Bulgaria, Czechoslovakia, East Germany, Estonia, Hungary, Latvia, Lithuania, Rumania, Poland, Vietnam (North), North Korea, China (Mainland), and Communist controlled areas (which include Manchuria, Inner Mongolia, the provinces of Tsinghai and Sikang, Sinkiang, Tibet, the former Kwantung leased territory, the present Port Arthur Naval Base Area, and Liaoning Province), Outer Mongolia, and Cuba.

D. Limitation on Shipping Facilities. No goods may be financed by the loan which are shipped to the Borrower by any transportation medium owned, operated, or under the control of a country (other than India) not included in Code 899 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

E. Special Shipping Limitation. It is important to note that items otherwise eligible for financing under the A.I.D. loan will not be so financed if shipped on vessels named in Attachment C, which will be periodically updated by the A.I.D. as required.

V. Marking

In accordance with the provisions of Section 101.3 of the Loan Agreement, the Borrower shall assure publicity for the loan by the display of appropriate signs and the marking of goods financed under the loan. Instructions to assist you in complying with these requirements are contained in Attachment D.

VI. Reporting

It is requested, in accordance with Section 5.2 of the Loan Agreement, that you furnish the A.I.D. with the following reports:

A. Quarterly Progress Reports. A description of the information to be included in these reports is given in Attachment F. The first report covering the period from inception of the project through ____________________, should be delivered within thirty (30) days of the end of the reporting period to the US AID Mission, New Delhi. Reports covering subsequent quarterly periods are to be so delivered until the project is completed. The report should be delivered in five (5) copies.

B. Quarterly Shipping Reports. With respect to the responsibilities under Section 6.4 of the Loan Agreement concerning ocean shipment of loan-financed goods, you are requested to provide the A.I.D. in Washington with information indicating actual progress in meeting the requirements of that Section. These reports will show for each calendar quarter the actual extent to which the requirements under Section 6.4 are being met. The report should follow the format presented in Attachment F.

This quarterly report should be sent directly by airmail to the Resources Transportation Division, Agency for International Development, Washington, D. C. 20523, within thirty (30) days after the end of the period covered in the report. The first report will cover shipments from inception of the project through ______________.

Each report is to be supplemented by a covering summary statement giving the cumulative actual figures, beginning with the initial report through the month of the latest report, for U.S. and non-U.S. flag vessels by category of vessel, as applicable. If the summary report indicates a lag in complying with Section 6.4, a statement shall be included indicating how the deficit in shipping on U.S. flag vessels is to be made up.

C. Completion Report. The A.I.D. will provide you with further information at the appropriate time concerning the form and content of the required final Completion Report for the Seventh Railway Loan.

VII. Commissions and Fees

Your attention is called to the requirements of Section 102.2 of the Loan Agreement. The Government of India should promptly notify the A.I.D. of any payment that it has made or has agreed to make to any person, firm, corporation, or other entity (except as regular compensation to full time officers and employees) as compensation for bona fide professional, technical, or other comparable services rendered in connection with obtaining the loan. Such notification should indicate to whom such commissions or fees have been or will be paid, the amount thereof, and for what services, and the regular place of business of the person or entity receiving the payment.

A commission paid or to be paid to a bona fide agent of a supplier is eligible for financing under this loan if the agent has made a direct and substantial contribution toward securing the sale of goods and services required for the Project, so long as the regular place of business of the agent and the services performed by the agent are in the United States of America.

VIII. Security Clearances

Section 100.7 of the Loan Agreement concerns Employment of Contract Personnel. United States law requires that all employees working or traveling overseas (and employees working in the United States in positions which have been designated sensitive by A.I.D.) receive a security clearance from A.I.D. before beginning work under any A.I.D. financed contract. Any contractor under this loan employing persons subject to security clearance should obtain instructions for requesting clearances by writing Agency for International Development, Contract Services Division (MR/CSD), Washington, D.C. 20523, giving the information listed in Attachment G. Contracts financed under this loan should include provisions necessary to implement these requirements. For further information, see Attachment G.

IX. Records

The records required to be kept under Section 5.1 of the Loan Agreement which relate to the acquisition of goods and services will be maintained for at least five years after the final disbursement of funds under the loan. Records dealing with the utilization of goods and services and project operations shall be kept until all sums due under the Loan Agreement have been paid.

The A.I.D. will be glad to discuss with your representatives any problems or questions that you may have concerning the implementation of the loan, or this Implementation Letter or the attachments to it.

Sincerely yours,

Rodney B. Wagner
Director
Office of Capital Development and Finance
Bureau for Near East and South Asia

Attachments:

A. Guide for the Assistance of Counsel
B. Disbursement of Loan Funds Letter of Commitment Procedure
C. Restriction Against the Use of Vessels That Have Traded With Cuba
D. Marking Requirements
E. Progress Reporting Requirements
F. Borrowers Shipping Statement
G. Acceptability of Contractors