

CONFORMED COPY

LOAN NUMBER 4478 IN

TNUDF Project Agreement

(Second Tamil Nadu Urban Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

TAMIL NADU URBAN INFRASTRUCTURE TRUSTEE COMPANY LIMITED
ACTING AS TRUSTEE FOR TAMIL NADU URBAN DEVELOPMENT FUND

Dated July 14, 1999

LOAN NUMBER 4478 IN

TNUDF PROJECT AGREEMENT

AGREEMENT, dated July 14, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TAMIL NADU URBAN INFRASTRUCTURE TRUSTEE COMPANY LIMITED acting as trustee for Tamil Nadu Urban Development Fund (TNUDF).

WHEREAS (A) by the Loan Agreement of even date herewith between India, acting by its President (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount of one hundred five million dollars (\$105,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that TNUDF agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by the Tamil Nadu Project Agreement of even date herewith between the Bank and the State of Tamil Nadu (Tamil Nadu), Tamil Nadu has undertaken certain obligations towards the Bank as set forth in the Tamil Nadu Project Agreement;

(C) by the Subsidiary Loan Agreement to be entered into between Tamil Nadu and TNUDF, a portion of the proceeds of the loan provided for under the Loan Agreement and made available to Tamil Nadu will be relented to TNUDF on the terms and conditions set forth in said Subsidiary Loan Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of the Project

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

Section 2.02. (a) TNUDF undertakes that, unless the Bank shall otherwise agree, Subloans shall be made in accordance with procedures and on the terms and conditions set forth or referred to in the Schedule to this Agreement.

(b) TNUDF shall exercise its rights in relation to each Subproject in such manner as to:

- (i) protect the interests of the Bank, Tamil Nadu and TNUDF;
- (ii) comply with its obligations under this Agreement; and
- (iii) achieve the purposes of the Project.

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

Section 2.04. (a) TNUDF shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Part A of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, TNUDF shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and TNUDF, a plan for the future operation of Part A of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with TNUDF on the said plan.

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

Section 2.06. TNUDF shall: (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2001, a report integrating the results of the

monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2001, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 2.07. (a) TNUDF shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

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

ARTICLE III

Management and Operations of TNUDF

Section 3.01. TNUDF shall carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE IV

Financial Covenants

Section 4.01. (a) TNUDF shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures in respect of Part A of the Project.

(b) TNUDF shall:

(i) have the said records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

Section 4.02. (a) Except as the Bank shall otherwise agree TNUDF shall not:

(i) incur any debt, unless a reasonable forecast of the revenues and expenditures of TNUDF shows that the estimated net revenues of TNUDF for each Fiscal Year beginning with 1999/2000 shall be at least 1.2 times the estimated debt service requirements of TNUDF in such year on all debt of TNUDF, including the debt to be incurred; and

(ii) incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 4 to 1.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of TNUDF maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations and net non-operating income; and (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments and lease payments, if any) of, and interest and other charges on debt.

(vi) The term "reasonable forecast" means a forecast prepared by TNUDF not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and TNUDF, may accept as reasonable and as to which the Bank has notified TNUDF of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of TNUDF.

(vii) Whenever for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing official rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

(viii) The term "interest and other charges on debt" means and includes all interest accrued on debt, excluding interest charges which are incurred in financing capital expenditures during construction, if such charges are capitalized, and any other charges payable on debt.

(ix) The term "equity" means the sum of contributions, retained earnings and reserves of TNUDF not allocated to cover specific liabilities.

Section 4.03. TNUDF shall:

(a) by March 31, 2000, draw down Contribution of not less than the aggregate of Rs. 38.6 crores from the Participating Financial Institutions in addition to Contributions made as of the date of this Agreement in accordance with the provisions of the Contribution Agreement; and

(b) by such date that the aggregate of withdrawals from the proceeds of the Loan under Category 1 set out in Schedule 1 to the Loan Agreement shall have reached:

(i) \$40,000,000, mobilize an aggregate of at least \$25,000,000 for its Subproject financing operations whether by issuing financing instruments underwritten or guaranteed by the Participating Financial Institutions or supported by other risk participation mechanisms acceptable to the Bank, through cofinancing arrangements with Participating Financial Institutions or through receipt of additional Contributions, without taking into account the Contribution drawn down pursuant to paragraph (a) of this Section and any portion of the proceeds of the Loan made available to TNUDF for financing Subprojects, provided, however, that in the case of cofinancing, the amount included in the executed cofinancing agreements shall be taken into account for calculating the amount of resource mobilization achieved; and

(ii) \$60,000,000, mobilize an aggregate of at least \$50,000,000 for its Subproject financing operations whether by issuing financing instruments, underwritten or guaranteed by the Participating Financial Institutions or supported by other risk participation mechanisms acceptable to the Bank, through cofinancing arrangements with Participating Financial Institutions or through receipt of additional Contributions, without taking into account the Contribution drawn down pursuant to paragraph (a) of this Section and any portion of the proceeds of the Loan made available to TNUDF for financing Subprojects, provided, however, that at least \$25,000,000 of such mobilization shall be through cofinancing from Participating Financial Institutions and/or additional Contributions, and, in the case of cofinancing, the Participating Financial Institutions shall have disbursed at least 50% of the committed amounts.

(c) For the purpose of paragraph (b) of this Section, the exchange rate to be used for calculating the amount of resource mobilization during each Fiscal Year shall be the spot exchange rate quote by the Reserve Bank of India ("RBI") as it appears on RBIB page or any other page that may be designated by RBI for this purpose at around 12 noon or any other time that may be decided by RBI on the first working date of each Fiscal Year. RBIB page means the screen page designated "RBIB" (or the equivalent successor to such page) published or reported by Reuters monitor screen.

Section 4.04. TNUDF shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank, not later than 45 days after the end of each calendar quarter, a Project Management Report for such period in respect of Part A of the Project that:

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

(ii) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

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

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

(c) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

ARTICLE V

Effective Date; Termination
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of TNUDF thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify TNUDF thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For TNUDF:

TNITS C/O
Tamil Nadu Urban Infrastructure Financial Services Limited
Vairam Complex, 1st Floor, 112, Theyagaraya Road,
T. Nagar, Chennai - 600 017
India

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of TNUDF may be taken or executed by its Chairman of the Trust Companies or by such other person or persons as the Trust Companies shall designate in writing, and the Trust Companies shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Edwin R. Lim

Country Director

TAMIL NADU URBAN INFRASTRUCTURE TRUST
COMPANY LIMITED ACTING AS TRUSTEE FOR
TAMIL NADU URBAN DEVELOPMENT FUND

By /s/ K. Rajivan

Authorized Representative

SCHEDULE

Procedures for and Terms and Conditions of Subloans

Lending Terms

1. Except as the Bank shall otherwise agree, the lending terms of each Subloan shall be as follows:

(a) Currency: Subloans shall be denominated in Rupees.

(b) Interest: Interest shall be payable on the principal amount of the Subloan withdrawn and outstanding from time to time at a rate equivalent to the TNUDF's borrowing rate plus a spread to be determined in accordance with the Lending Policies and Procedures provided, however, that the Subloan for a Subborrower from the private sector shall be at a market determined rate.

(c) Amortization: The maximum amortization period for a Subloan shall be 20 years and may include a grace period not exceeding 5 years. The precise maturity and grace period for a Subloan shall be determined considering each Subproject's cost recovery period and risk features.

Eligibility Criteria for Subprojects and Subborrowers

2. Except as the Bank shall otherwise agree, a Subproject and a Subborrower that sponsors such a Subproject and in respect of which a Subloan application or request is made to the Bank pursuant to the provisions of paragraph 6 of this Schedule meet the following eligibility criteria:

(a) The Subproject supports water supply, sanitation, solid waste management, roads, bridges, transportation, sites and services, area development, and other remunerative and non-remunerative urban infrastructure contributing to the improvement of the living standard of the urban populations, excluding power and telecommunications.

(b) The Subloan does not exceed 90% of the cost of the Subproject carried out by a municipality, urban local body or statutory board or authority that qualify as a Subborrower and does not exceed 75% of the cost of the Subproject carried out by other Subborrowers.

(c) The Subproject is technically, economically and/or financially viable. ~

(d) The appropriate governmental authorities of the Borrower and Tamil Nadu have provided all required clearances/approvals including environmental clearances for implementing the Subproject and these are documented in the project evaluation reports.

(e) The economic rate of return for Subprojects meeting criteria set forth in the Lending Policies and Procedures is at least 12%.

(f) The financial viability is confirmed in accordance with the provision set forth in the Lending Policies and Procedures.

(g) Eligible Subborrowers shall be Urban Local Bodies (ULBs), Statutory Boards or Authorities (SBs/SAs) and private sector entities. In the case of ULBs and

SBs, the following norms as defined and calculated in accordance with methodology set out in the Lending Policies and Procedures shall be required in order for them to be eligible to receive Subloans:

- (i) the ratio of total expenditures to total revenue shall be less than 1;
- (ii) payment of interest, principal and other charges on debt shall be less than 30% of total revenue, but where this criteria is not met and the financial ratio of return exceeds 14%, TNUDF shall require acceptable credit enhancing mechanisms to be in place;
- (iii) they have adequate capacity to implement, supervise and maintain Subprojects, an agreed and adequate accounting and financial management system or time-bound action plan to establish such capacity and system; and
- (iv) they have adequate procurement and contract management system or an agreed time-bound action plan to establish such system.

In the case of private sector entities:

- (i) they must have a ratio of debt to equity of less than 1.5;
- (ii) their net fixed assets must be at least 1.5 times their total debt;
- (iii) their gross profit must be at least 1.5 times their interest payment; and
- (iv) they must have adequate capacity to implement, supervise and maintain the Subproject and adequate accounting and financial management system or an agreed time-bound action plan to establish such capacity or system. Appraisal, Approval and Supervision of Subprojects

3. (a) TNUDF shall use the Lending Policies and Procedures for the appraisal, approval and supervision of Subprojects.

(b) With respect to each Subproject, TNUDF shall, in accordance with the Lending Policies and Procedures:

- (i) prepare a detailed project evaluation report of the Subproject covering matters including: (aa) suitability of site; (bb) availability of inputs; (cc) appropriateness of, and proven experience with, the technology offered; (dd) project design; (ee) arrangements for detailed engineering; (ff) cost estimates; (gg) construction and procurement arrangements; (hh) arrangements for operation and maintenance; (ii) arrangements for compliance with environmental, resettlement and social standards as set forth in paragraph 4 of this Schedule; (jj) financial viability of the Subproject; (kk) adequacy of the proposed financing; (ll) the corporate and capital structure of the Subborrower; and (mm) the eligibility criteria for Subprojects and Subborrowers; and
- (ii) furnish to the Bank for its review and approval, pursuant to paragraph 6 (a) of this Schedule, such project evaluation report on the Subproject.

Environmental, Resettlement and Social Standards for Subprojects

4. Each Subproject shall comply with the environmental, resettlement and social standards set forth in the Environmental and Social Report. To that end, TNUDF shall:

- (a) Require each Subborrower applying for a Subloan to furnish evidence satisfactory to TNUDF showing that the Subproject, in respect of which the application has been made, has been prepared in accordance with such standards, such evidence to

include an environmental impact assessment and an environmental mitigation plan, and where applicable, a resettlement and rehabilitation plan and an indigenous peoples development plan for adversely affected and/or displaced populations, for such Subproject.

(b) In respect of each Subproject, include in the contractual arrangements referred to in paragraph 7 of this Schedule suitable provisions obligating the Subborrower sponsoring such Subproject to ensure compliance with such standards.

~Procedures for Approving Subloans for Subprojects

5. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Subloan for such Subproject shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 6 (a) of this Schedule in respect of such Subloan; or

(b) the Subloan for the Subproject does not exceed the equivalent of \$5 million or the total cost of the Subproject does not exceed the equivalent of \$20 million, for which the Bank has authorized withdrawals from the Loan Account, except that the first three Subloans irrespective of value shall be submitted to the Bank for prior review, and such expenditures shall have been made not earlier than sixty days prior to the date on which the Bank shall have received the request and information required under paragraph 6 (b) of this Schedule.

6. (a) When presenting a Subloan to the Bank for approval, TNUDF shall furnish to the Bank an application, in form satisfactory to the Bank, together with:

(i) a description of the Subborrower and an appraisal of the Subproject carried out in accordance with the provisions of paragraph 3 of this Schedule, including a description of the financing arrangements for the Subproject and the expenditures proposed to be financed out of the proceeds of the Subloan;

(ii) evidence that the Subproject and the Subborrower sponsoring such Subproject meet the eligibility criteria set forth in paragraph 2 of this Schedule;

(iii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan;

(iv) the proposed contractual arrangement with the Subborrower; and

(v) such other information as the Bank shall reasonably request.

(b) Each request by TNUDF for authorization to make withdrawals from the Loan Account in respect of a Subloan not exceeding the equivalent of \$5 million or in respect of a Sub-loan for a Sub-project costing less than the equivalent of \$20 million shall contain:

(i) a summary description of the Subborrower and the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and

(ii) the terms and conditions of the Subloan, including the schedule of amortization therefor.

(c) Notwithstanding any other provisions of this Schedule, each Sub-loan for a Subproject which is classified as Environment Impact category E1 and each Subloans for Subprojects which is classified as Social Impact Category S1 under the Environmental and Social Report, shall be submitted to the Bank for approval.

(d) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) and of this paragraph 6 shall be presented to the Bank on or before April 30, 2004.

7. Subloans shall be made on terms whereby TNUDF shall obtain by written contract with the Subborrowers or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) Require the Subborrower to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records.

(b) Require that:

(i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement; and

(ii) such goods and services shall be used exclusively in the carrying out of the Subproject.

(c) Require the Subborrower to ensure compliance with the environmental, resettlement and social standards referred to in paragraph 4 of this Schedule.

(d) Require the Subborrower to prepare and provide periodic reports setting forth the actual sources and application of funds, maintain adequate records and accounts, and provide periodic audit reports.

(e) Inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents.

(f) Require that:

(i) the Subborrower shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and

(ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Subborrower to replace or repair such goods.

(g) Obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Subborrower and to the benefits to be derived from the Subproject.

(h) Suspend or terminate the right of the Subborrower to the use of the proceeds of the Loan upon:

(i) failure by such Subborrower to perform its obligations under its contract with TNUDF, or upon notice by the Bank to the Borrower that it intends to exercise any of its remedies under Sections 6.02 and 7.01 of the General Conditions and Article V of the Loan Agreement; or

(ii) notice by the Subborrower that it intends to terminate its contract with TNUDF, or upon the actual termination of any such contract, whichever occurs first.

