

CONFORMED COPY

LOAN NUMBER 4478 IN

Loan Agreement

(Second Tamil Nadu Urban Development Project)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 14, 1999

LOAN NUMBER 4478 IN

LOAN AGREEMENT

AGREEMENT, dated July 14, 1999, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

(A) The Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by the State of Tamil Nadu (Tamil Nadu) and the Tamil Nadu Urban Development Fund (TNUDF) with the Borrower's and Tamil Nadu's assistance; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement, in the Tamil Nadu Project Agreement of even date herewith between the Bank and Tamil Nadu, and the TNUDF Project Agreement of even date herewith between the Bank and TNUDF.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, (as amended through December 2, 1997), (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Activities" means technical assistance activities to be financed by a Grant for the preparation and implementation of Sub-projects;
- (b) "Beneficiary" means ULBs meeting the eligibility criteria set forth in paragraph (1) of Schedule 2 to the Tamil Nadu Project Agreement and to which Tamil Nadu has made or proposes to make a Capital Grant;
- (c) "Capital Grant" means a grant made or proposed to be made by Tamil Nadu out of the proceeds of the Loan to a Beneficiary for financing a Scheme under Part B.1 of the Project;
- (d) "Capital Grant Government Order" means the Government Order to be issued by Tamil Nadu for purposes of setting out the arrangements for the provision of Capital Grants;
- (e) "Contribution" means the Contribution by each Participating Financial Institution and Tamil Nadu to the TNUDF to be utilized, inter alia, for making Sub-loans and "Contributions" means all such Contributions collectively;
- (f) "Contribution Agreement" means the agreement dated November 18, 1996, between each Participating Financial Institution and Tamil Nadu on the one hand and TNUDF on the other, providing for Contributions and containing terms and conditions satisfactory to the Bank;
- (g) "DMAWS" means the Department of Municipal Administration and Water Supply of Tamil Nadu;
- (h) "Eligible Categories" means categories (1), (2), (3), (4), (5) and (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;
- (i) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;
- (j) "Environmental and Social Report" means the Report prepared by TNUDF for purposes of mitigating the adverse environmental and social impacts resulting from the implementation of the Project;
- (k) "Fiscal Year" and "FY" mean the Fiscal Year of the Borrower, Tamil Nadu and TNUDF beginning on April 1 of a calendar year and ending on March 31 of the following calendar year;
- (l) "Grant" means a Grant made or proposed to be made by Tamil Nadu to a Recipient for carrying out an Activity in accordance with the Grant Fund Management Contract and the eligibility criteria and procedures set forth in the Grant Fund Guidelines;
- (m) "Grant Fund" means the Fund established by the Grant Fund Government Order for purposes of providing Grants to Recipients under Part C.1 of the Project in accordance with the eligibility criteria and procedures set forth in the Grant Fund Guidelines;
- (n) "Grant Fund Government Order" means the Government Order No. Ms. 82 dated March 23, 1999, issued by Tamil Nadu for purposes of establishing the Grant Fund;
- (o) "Grant Fund Guidelines" means the Guidelines dated March 23, 1999 by

Tamil Nadu for purposes of operating the Grant Fund ;

(p) "Grant Fund Management Contract" means the Contract dated April 24, 1999, entered into between Tamil Nadu and the TNUIFS for purposes of enabling the TNUIFS to manage the Grant Fund and make Grants on behalf of Tamil Nadu;

(q) "HDFC" means the Housing Development Finance Corporation Limited, or any successor thereto;

(r) "ICICI" means ICICI Limited, or any successor thereto;

(s) "IL&FS" means the Infrastructure Leasing and Financial Services Limited, or any successor thereto;

(t) "Indian Rupee" and "Rs" mean the currency of the Borrower;

(u) "Lending Policies and Procedures" means the Lending Policies and Procedures of TNUDF as approved by the Trustee and attached as an Annex of the Trust Fund Management Contract for purposes of making Sub-loans and as amended to the date of this agreement;

(v) "Memorandum and Articles" means each of the Memorandum and Articles of the Trust Company and the TNUIFS as amended to the date of this Agreement;

(w) "Participating Financial Institutions" means ICICI, HDFC, IL&FS and other Financial Institutions acceptable to the Bank, collectively and "Participating Financial Institution" means any of such Institutions individually;

(x) "PMU" means the Project Management Unit established by Tamil Nadu for purposes of assisting in the implementation of Parts B and C of the Project;

(y) "Project Management Report" means each report prepared in accordance with Section 3.02 of the Tamil Nadu Project Agreement and Section 4.04 of the TNUDF Project Agreement;

(z) "Recipient" means ULBs and Statutory Bodies established under the relevant laws of Tamil Nadu to which Tamil Nadu has made or proposes to make a Grant;

(aa) "Scheme" means a sanitation scheme meeting the eligibility criteria set forth in paragraph 1 of Schedule 2 to the Tamil Nadu Project Agreement and to be carried out by a Beneficiary utilizing the proceeds of a Capital Grant;

(bb) "Shareholders' Agreement" means each of the following: (i) the agreement among the Participating Financial Institutions and Tamil Nadu for purposes of administering the TNUIFS; and (ii) the agreement among the Participating Financial Institutions and Tamil Nadu for purposes of administering the Trust Company;

(cc) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(dd) "Sub-borrower" means urban local body, statutory board or authority, public undertaking or private investor meeting the eligibility criteria set forth in the Lending Policies and Procedures and in paragraph 2 of the Schedule to the TNUDF Project Agreement and to which TNUDF has made or proposes to make a Sub-loan;

(ee) "Subloan" means a loan made or proposed to be made by TNUDF out of the proceeds of the Loan to a Sub-borrower for a Sub-project;

(ff) "Sub-project" means a Sub-project meeting the eligibility criteria set forth in the Lending Policies and Procedures and in paragraph 2 of the Schedule to the TNUDF Project Agreement and to be carried out by a Sub-borrower utilizing , inter alia, the proceeds of a Sub-loan;

(gg) "Subsidiary Loan" means the Subsidiary Loan made by Tamil Nadu to the TNUDF out of the proceeds of the Loan made available to Tamil Nadu by the Borrower for financing Sub-loans;

(hh) "Subsidiary Loan Agreement" means the agreement to be entered into between Tamil Nadu and TNUDF providing for the Subsidiary Loan and containing terms and conditions satisfactory to the Bank;

(ii) "Tamil Nadu" means the State of Tamil Nadu, a State of India, and includes any successor thereto;

(jj) "Tamil Nadu Project Agreement" means the agreement between the Bank and Tamil Nadu of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Tamil Nadu Project Agreement;

(kk) "TNUDF" means the Tamil Nadu Urban Development Fund created by the Trust Deed for purposes, inter alia, of receiving loans, Contributions and other assets and utilizing the proceeds thereof to provide Sub-loans; and unless the context otherwise requires whenever the term "TNUDF" is used, it shall be deemed to be a reference to TNUDF acting through the Trustee and, where appropriate, TNUIFS in accordance with the Trust Fund Management Contract;

(ll) "TNUDF Project Agreement" means the agreement between the Bank and TNUDF of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the TNUDF Project Agreement;

(mm) "TNUIFS" means the Tamil Nadu Urban Infrastructure Financial Services Ltd., a company incorporated under the Borrower's Companies Act, 1956, as amended;

(nn) "Trust Act" means the Indian Trust Act, 1882, as amended;

(oo) "Trust Company" or "TNUITC" means the Tamil Nadu Urban Infrastructure Trustee Company Limited incorporated under the Borrower's Companies Act, 1956, as amended, for the purpose of acting as Trustee of TNUDF;

(pp) "Trust Deed" means the Trust Deed dated November 29, 1996, executed by Tamil Nadu and accepted by the Trustee (as hereinafter defined) for purposes, inter alia, of creating the TNUDF;

(qq) "Trustee" means the Trust Company accepting the Trust Deed with powers, inter alia, of receiving contributions, loans and other assets on behalf of the TNUDF in order to provide subloans through the TNUIFS as the office of any of such Trustee may be vacated and filled in accordance with the Trust Act and the Trust Deed;

(rr) "Trust Fund Management Contract" means the Trust Fund Management Contract dated January 9, 1997 between the Trustee and TNUIFS for purposes of enabling TNUIFS to develop, manage and operate the portfolio of TNUDF; and

(ss) "ULB" means Urban Local Body constituted under the relevant laws of Tamil Nadu.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred five million dollars (\$105,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or if the Bank shall so agree to be paid) by TNUDF on account of withdrawals made by a Subborrower under a Sub-loan under Part A of the Project to meet the reasonable cost of goods and services required for a Sub-project in respect of which withdrawal from the Loan Account is requested; (ii) amounts paid (or if the Bank shall so agree, to be paid) by Tamil Nadu on account of withdrawals made by a Beneficiary under a Capital Grant under Part B.1 of the Project to meet the reasonable cost of goods and services required for a Scheme in respect of which withdrawal from the Loan Account is requested; and (iii) amounts paid (or if the Bank shall so agree to be paid) by Tamil Nadu on account of withdrawals made by a Recipient under a Grant under Part C.1 of the

Project to meet the reasonable cost of goods and services required for an activity in respect of which withdrawal from the Loan Account is requested; and (iv) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B.2, C.2, C.3, C.4 and C.5 of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be November 30, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value on the first day of such Interest Period (or, in the case of initial Interest Period, for the value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Tamil Nadu to carry out Parts B and C of the Project and TNUDF to carry out Part A of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, sanitation and technical practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Tamil Nadu and TNUDF to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Tamil Nadu in accordance with the Borrower's standard arrangements for developmental assistance to the States of India.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, and 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 this Agreement.

Section 3.03. The Borrower and the Bank hereby agree that 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, respectively) shall be carried out by Tamil Nadu in respect of Parts B and C of the Project pursuant to Section 2.04 of the Tamil Nadu Project Agreement, and by TNUDF in respect of Part A of the Project pursuant to Section 2.04 of the TNUDF Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditures, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as

the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or the statement of expenditures submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) Tamil Nadu shall have failed to perform any of its obligations under the Tamil Nadu Project Agreement.

(b) TNUDF shall have failed to perform any its obligations under the TNUDF Project Agreement.

(c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Tamil Nadu or TNUDF will be able to perform their respective obligations under the Tamil Nadu Project Agreement or the TNUDF Project Agreement.

(d) Any provision of the Trust Deed, the Contribution Agreement, the Trust Fund Management Contract, the Grant Fund Management Contract, the Lending Policies and Procedures, the Grant Fund Guidelines, the Memorandum and Articles of Association, the Government Order or the Grant Fund Government Order shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operation or financial condition of TNUDF or the Grant Fund, as the case may be, or the ability of Tamil Nadu or TNUDF to carry out the Project or to perform their respective obligations under the Tamil Nadu Project Agreement or the TNUDF Project Agreement.

(e) Tamil Nadu or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of TNUDF or the Grant Fund or for the suspension of operations of any of them.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified: (a) the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and (b) the events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of Tamil Nadu and TNUDF;

(b) Tamil Nadu has developed a financial management system and a financial management manual, satisfactory to the Bank, for the PMU; and

(c) TNUDF has introduced and implemented in a manner satisfactory to the Bank a new Oracle-based financial information system.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that Tamil Nadu Project Agreement has been duly authorized or ratified by Tamil Nadu and is legally binding upon Tamil Nadu in accordance with its terms;

(b) the TNUDF Project Agreement has been duly authorized or ratified by TNUDF and is legally binding upon TNUDF in accordance with its terms; and

(c) that the Subsidiary Loan Agreement has been duly authorized or ratified by Tamil Nadu and TNUDF and is legally binding upon Tamil Nadu and TNUDF in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purpose of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance, North Block
New Delhi 110001, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-31-66175 FINE IN
953-31-61430 FINE IN

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)

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.

INDIA

By /s/ V. Govindarajan

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Edwin R. Lim

Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Part A: General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans under Part A of the Project	80,000,000	100%
(2) Capital Grants under Part B.1 of the Project	4,500,000	100%
(3) Grants under Part C.1 of the Project	5,000,000	100%
(4) Consultants' services and training under Parts B.2, C.2, C.3 and C.4 of the Project	8,250,000	100%
(5) Goods under expen- Parts C.2, C.3, local and C.4 of the Project	3,000,000	100% of foreign ditures; 100% of expenditures (ex- factory cost) and 80% of local expenditures procured
(6) Incremental operating 31, cost through	1,000,000	80% through March 2001; 60% from April 1, 2001 March 31, 2003 and 50% thereafter
(7) Fee	1,050,000	Amount due under Section 2.04 of this Agreement
(8) Unallocated	2,200,000	

TOTAL 105,000,000
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "incremental operating cost" means:

(i) salaries of additional staff employed in PMU for the purposes of Parts B and C of the Project;

(ii) costs of operation and maintenance of vehicles, equipment, office supplies and offices incurred by PMU for the Project; and

(iii) field supervision costs of the PMU staff incurred for the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed the equivalent of \$10,500,000 may be made on account of payments made for expenditures before that date but after June 1, 1998;

(b) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to the TNUDF Project Agreement;

(c) in respect of a Capital Grant unless the Capital Grant has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 2 to the Tamil Nadu Project Agreement; and

(d) in respect of a Grant unless the Grant has been made in accordance with the procedures and on the terms and conditions set forth in the Grant Fund Guidelines and in Schedule 2 to the Tamil Nadu Project Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures for:

(a) goods (other than vehicles) and works under contracts below \$500,000 equivalent and vehicles under contract below \$100,000 equivalent respectively, under such terms and conditions as the Bank shall specify by notice to the Borrower; and

(b) services under contract not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the end of the fourth calendar quarter following the quarter in which the Effectiveness Date falls or such earlier date as may be agreed between the Bank and the Borrower, withdrawals shall be made in accordance with the provisions of

Annex A to this Schedule 1; and

(b) after the date determined pursuant to Part B.2 (a) of this Schedule, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1. 3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 3.02 of the Tamil Nadu Project Agreement or Section 4.04 of the TNUDF Project Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex the term "Authorized Allocation" means an amount of \$10,400,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount of

\$7,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$15,600,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each applications for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each applications for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of:

(a) the amount so requested; and

(b) the amount which the Bank has determined, based on the Project Management Report accompanying said applications, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$15,600,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve urban infrastructure services in Tamil Nadu in a sustainable manner through: (a) strengthening the managerial, financial and technical capabilities of urban local bodies; and (b) mobilizing resources and securing sustainable funding sources for urban infrastructure investment.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Sub-loans

The financing of Sub-projects through provisions of Sub-loans to Sub-borrowers.

Part B: Integrated Sanitation Program

1. The financing of Schemes through provision of Capital Grants to Beneficiaries.
2. Assisting PMU and ULBs in the preparation and implementation of Schemes through the provision of consultants' services.

Part C: Institutional Development

1. The financing of Activities through the provision of Grants to Recipients.
2. Strengthening the managerial, financial, technical and procurement capacity of ULBs, including the preparation and implementation of their City Corporate Plan, carrying out studies to promote the sustainability of institutional reforms, preparation of operational manuals, through the provision of equipment, materials, training and technical assistance.
3. Strengthening the institutional capacity of DMAWS and PMU through the provision of staff training, equipment and materials.
4. Strengthening the capacity of TNUDF and selected ULBs to raise funds from the domestic capital market through, inter alia, provision of financial advisory services.
5. Establishment and operation of the Project Management Unit.

* * * * *

The Project is expected to be completed by May 31, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
February 15, 2005	2,290,000
August 15, 2005	2,355,000
February 15, 2006	2,420,000
August 15, 2006	2,490,000
February 15, 2007	2,555,000
August 15, 2007	2,625,000
February 15, 2008	2,700,000
August 15, 2008	2,775,000
February 15, 2009	2,850,000
August 15, 2009	2,930,000
February 15, 2010	3,010,000
August 15, 2010	3,095,000
February 15, 2011	3,180,000
August 15, 2011	3,270,000
February 15, 2012	3,360,000
August 15, 2012	3,450,000

February 15, 2013	3,545,000
August 15, 2013	3,645,000
February 15, 2014	3,745,000
August 15, 2014	3,850,000
February 15, 2015	3,955,000
August 15, 2015	4,065,000
February 15, 2016	4,175,000
August 15, 2016	4,295,000
February 15, 2017	4,410,000
August 15, 2017	4,535,000
February 15, 2018	4,660,000
August 15, 2018	4,785,000
February 15, 2019	4,920,000
August 15, 2019	5,060,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(b) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Civil works estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$99,000,000 equivalent, may be procured under

contracts awarded in accordance with National Competitive Bidding procedures satisfactory to the Bank.

2. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Computer software, satellite imagery, video-cassettes, books, periodicals, etc., which must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature and costing \$3,000,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines, provided, however, that the Bank's prior agreement shall not be required for contracts costing less than the equivalent of \$100,000.

4. BOO/BOT/BOOT Procurement

Sub-projects to be implemented under BOO/BOT/BOOT arrangement may be constructed and operated under a contract awarded to an entrepreneur on the basis of international competitive bidding procedures in accordance with the provisions of Section II of the Guidelines, subject to the provisions of paragraph 3.13 (a) thereof. The goods/works/services required for the construction of said Sub-projects shall then be procured in accordance with the applicable procedures of said entrepreneur.

5. Community Participation

Goods and works required for Part B of the Project may be procured in accordance with procedures acceptable to the Bank.

6. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to all ICB contracts and contracts for vehicles estimated to cost the equivalent of \$100,000 or more and other contracts for goods and works estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the

procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for technical assistance under Parts C.1, C.2, C.3, C.4 and C.5 of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits, engineering design, procurement and inspection inquiry under Parts C.1, C.2, C.3, C.4, and C.5 of the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Single Source Selection

Services for training under Parts C.2 and C.3 of the Project which are estimated to cost less than \$100,000 equivalent per contract, may with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Service Delivery Contractors

Services to be provided by consultants for design/estimate preparation under Parts C.1, C.2 C.3 and C.4 of the Project individually estimated to cost less than \$10,000 equivalent up to an aggregate amount not to exceed \$200,000 equivalent may be procured in accordance with procedures acceptable to the Bank.

4. Individual Consultants

Services for technical assistance under Parts C.1, C.2, C.3, C.4 and C.5 of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for technical assistance under Parts C.1, C.2, C.3, C.4 and C.5 estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for technical assistance under Parts C.1, C.2, C.3, C.4 and C.5 estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

