

CONFORMED COPY

LOAN NUMBER 4478 IN

Tamil Nadu Project Agreement

(Second Tamil Nadu Urban Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

STATE OF TAMIL NADU

Dated July 14, 1999

LOAN NUMBER 4478 IN

TAMIL NADU PROJECT AGREEMENT

AGREEMENT, dated July 14, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF TAMIL NADU, acting by its Governor (TAMIL NADU).

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 Tamil Nadu agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) the proceeds of the loan provided for under the Loan Agreement will be made available by the Borrower to Tamil Nadu as provided for in the Loan Agreement and a portion thereof will be onlent by Tamil Nadu to Tamil Nadu Urban Development Fund (TNUDF) as provided for in this Agreement;

(C) by the TNUDF Project Agreement of even date herewith between the Bank and TNUDF, TNUDF has undertaken certain obligations towards the Bank as set forth in the TNUDF Project Agreement.

WHEREAS Tamil Nadu, 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. (a) Tamil Nadu 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 Parts B and C 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 the Project.

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, Tamil Nadu shall cause TNUDF to perform in accordance with the provisions of the TNUDF Project Agreement all the obligations therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TNUDF to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Tamil Nadu shall otherwise agree, Tamil Nadu shall carry out Parts B and C of the Project, or cause such Parts to be carried out, in accordance with the implementation program set forth in Schedule 1 to this Agreement.

Section 2.02. (a) Tamil Nadu shall, out of the proceeds of the Loan made available to it by the Borrower, relend a portion thereof to TNUDF under a Subsidiary Loan Agreement to be entered into between Tamil Nadu and TNUDF under terms and conditions satisfactory to the Bank, which shall include, that the Subsidiary Loan shall be denominated in Rupees, and that TNUDF shall pay interest on the principal amount so relent and withdrawn and outstanding from time to time at a rate of not less than the weighted average yield on the Borrower's 10-year bond of previous year plus 100 basis points, to be determined at the beginning of each Fiscal Year, and repay the principal amount so re-lent over a period of 20 years including therein a period of grace of 5 years and, that the foreign exchange risk shall be borne by the Borrower.

(b) Tamil Nadu shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Tamil Nadu 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 2.03. 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 the Loan Agreement.

Section 2.04. (a) Tamil Nadu 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 Parts B and C of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Tamil Nadu 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 Tamil Nadu, a plan for the future operation of Parts B and C of the Project; and

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

Section 2.05. (a) Tamil Nadu undertakes that, unless the Bank shall otherwise agree, Capital Grants and Grants shall be made in accordance with procedures and on the terms and conditions set forth or referred to in Schedule 2 to this Agreement.

(b) Tamil Nadu shall exercise its rights in relation to each Scheme or Activity in such manner as to:

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

Section 2.06. Tamil Nadu 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) Tamil Nadu 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) Tamil Nadu 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 Tamil Nadu of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Tamil Nadu shall maintain or cause to be maintained 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 Parts B and C of the Project.

(b) Tamil Nadu shall:

(i) have the said records and accounts referred to in paragraph (a) of this section 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; and

(iii) furnish to the Bank such other information concerning said

records, and accounts as well as the audit thereof as the Bank shall from time to time reasonably request.

Section 3.02. Tamil Nadu 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 Parts B and C 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 and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Tamil Nadu thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Tamil Nadu thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. 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:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

For Tamil Nadu:

Chief Secretary to the
Government of Tamil Nadu
Fort St. George
Chennai 600009, India

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of Tamil Nadu may be taken or executed by its Chief Secretary or by such other person or persons as Tamil Nadu shall designate in writing, and Tamil Nadu shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. 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, India

STATE OF TAMIL NADU

By /s/ S. Malathi

Authorized Representative

SCHEDULE 1

Implementation Program

1. Tamil Nadu shall no later than August 31, 1999 establish arrangements, satisfactory to the Bank, for implementing Part B.1 of the Project and issue a relevant Government Order for such purpose covering, inter alia, the matters set out in paragraph 1 of Schedule 2 to this Agreement.

2. Tamil Nadu shall no later than August 31, 1999 recruit a suitable institution to work jointly as a Partner Organization (referred to in paragraph 1 (c) of Schedule 2 to this Agreement) with PMU for the implementation of Part B.1 of the Project.

3. Tamil Nadu shall no later than August 31, 1999 develop operating guidelines, procedures and relevant documentation satisfactory to the Bank, for the implementation of Part B.1 of the Project.

4. Tamil Nadu shall, not later than August 31, 1999, appoint a coordinator of Schemes to be located in the PMU. Such coordinator shall be selected by Tamil Nadu in

consultation with the Partner Organization referred to in paragraph 1 (c) of Schedule 2 to this Agreement.

5. Tamil Nadu shall maintain the PMU with functions, powers, staff, resources and facilities satisfactory to the Bank. ~SCHEDULE 2

Capital Grants Under Part B.1 of the Project And Grants Under Part C.1 of the Project Eligibility Criteria for Capital Grants

1. Except as the Bank shall otherwise agree, Tamil Nadu shall ensure that Schemes and Beneficiaries meet the following eligibility criteria for receiving Capital Grants:

(a) The Beneficiaries shall agree to carry out Schemes for the benefit of communities below the poverty line, determined in accordance with methodology satisfactory to the Bank, living in corporations, municipalities and town panchayats.

(b) The Scheme shall support one or more of the following activities:

- (i) public sanitation facilities - inclusive of water supply, electricity, waste disposal and baths;
- (ii) sullage collection and disposal in either soakpits or sewers;
- (iii) garbage collection and placement in communal bins; and
- (iv) other sanitation facilities approved by the Bank.

(c) The Schemes for the provision of public sanitation facilities shall be based on the following principles:

- (i) the need for improved sanitation is demand-driven;
- (ii) the community participates actively in the preparation, design, construction, and operation and maintenance of the Schemes;
- (iii) urban local bodies commit to provide downstream services; and
- (iv) urban local bodies and communities form partnerships to design and implement schemes, with urban local bodies having institutional support from NGOs or other organization (Partner Organization). The Partner Organization will be selected by the PMU on the strength of the community organization, engineering, technical, project management and financing skills of such organization.

(d) Beneficiaries shall contribute at least half of the cost of a Scheme.

Eligibility Criteria for Grants

2. Except as the Bank shall otherwise agree, Tamil Nadu shall ensure that Activities and Recipients meet the eligibility criteria set forth in the Grant Fund Guidelines and that Grants are made in accordance with the Provisions of the Grant Fund Guidelines and the Grant Fund Management Contract.

Procedures for Approving Capital Grants and Grants

3. No expenditures or services required for a Scheme or an Activity to be supported by a Capital Grant or a Grant, respectively, shall be eligible for financing out of the proceeds of the Loan unless the Capital Grant or Grant is made in accordance with procedures and arrangements satisfactory to the Bank.

4. Capital Grants and Grants shall be made on terms whereby Tamil Nadu shall obtain, by Letter of Agreement with the Beneficiary or Recipient as the case may be, rights adequate to protect the interests of the Bank and Tamil Nadu, including to the extent that it shall be appropriate the right to:

(a) withhold from Tamil Nadu's scheduled subsidy transfer to a Beneficiary an amount equivalent to the amount of the Capital Grant provided to that Beneficiary for a Scheme where it fails to provide adequate downstream services to support communities in respect of that Scheme;

(b) require the Beneficiary or Recipient to carry out the Scheme or Activity with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and to maintain adequate records;

(c) require the Beneficiary or the Recipient 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;

(d) require that: (i) any goods or services to be financed out of the proceeds of the Loan shall be obtained at a reasonable price, account being taken also of other relevant factors such as their quality and the competence of the parties rendering them; and (ii) such goods and services to be used exclusively in the carrying out of the proposal or program;

(e) obtain all such information as the Bank or Tamil Nadu shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary or Recipient and to the benefits to be derived from the Scheme or Activity;

(f) inspect by itself or jointly with representatives of the Bank if the Bank shall so request, the goods, works, plants and construction included in the Scheme or Activity, the operation thereof, and any relevant records and documents; and

(g) suspend or terminate the right of the Beneficiary or Recipient to the use of the proceeds of the Capital Grant or Grant upon:

(i) failure by the Beneficiary or Recipient to perform its obligations under its respective contract with Tamil Nadu, 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) upon notice by the Beneficiary or Recipient that it intends to terminate its contract with Tamil Nadu, or upon the actual termination of any such contract, whichever occurs first.

