

CONFORMED COPY

CREDIT NUMBER 1822 IN
LOAN NUMBER 2846 IN

Development Credit Agreement

(Madras Water Supply and Sanitation Project)

between

INDIA

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 21, 1987

CREDIT NUMBER 1822 IN
LOAN NUMBER 2846 LN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 21, 1987, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (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 Association to assist in the financing of the Project;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (hereinafter called the Loan Agreement) the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to fifty three million dollars (\$53,000,000) (hereinafter called the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures on the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) by an agreement of even date herewith among the Association, the Bank and the Madras Metropolitan Water Supply and Sewerage Board (hereinafter called MMWSSB),

MMWSSB has agreed to undertake certain obligations in respect of the carrying out of the Project;

(E) by an agreement of even date herewith among the Association, the Bank and the State of Tamil Nadu, acting by its Governor (hereinafter called Tamil Nadu), Tamil Nadu has agreed, inter alia, to assist MMWSSB in the carrying out of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement, in the Project Agreement of even date herewith among the Association, the Bank and MMWSSB, and in the Tamil Nadu Agreement of even date herewith among the Association, the Bank and Tamil Nadu;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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) "Tamil Nadu" means the State of Tamil Nadu, a State of India, acting by its Governor;

(b) "Project Agreement" means the agreement among the Association, the Bank and MMWSSB 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 Project Agreement;

(c) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(d) "Loan" means the loan provided for in the Loan Agreement;

(e) "Tamil Nadu Agreement" means the agreement among the Association, 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 Agreement;

(f) "Act" means the Madras Metropolitan Water Supply and Sewerage Act of June 22, 1978, as amended from time to time;

(g) "MMWSSB" means the Madras Metropolitan Water Supply and Sewerage Board, a statutory organization established under the Act; and

(h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twelve million five hundred thousand Special Drawing Rights (SDR 12,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995 or such later date as the Association shall establish. The Association shall promptly notify the borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one per cent ($1/2$ of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15,

1997, and ending February 15, 2037. Each installment to and including the installment payable on February 15, 2007 shall be one-half of one per cent (1/2 of 1%) of such principal amount, and each installment thereafter shall be one and one-half per cent (1-1/2%) of such principal amount.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

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 the Development Credit Agreement, shall cause Tamil Nadu and MMWSSB to perform in accordance with the provisions of the Tamil Nadu Agreement and the Project Agreement, respectively, all the obligations therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Tamil Nadu and MMWSSB 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 Credit available to Tamil Nadu in accordance with the Borrower's standard arrangements for development assistance to the States of India.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 MMWSSB pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least

one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

- (iii) enable the Association'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 Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure 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 Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) 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 Agreement.

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

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

(d) The Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MMWSSB to perform any of its obligations under the Project Agreement.

(e) Tamil Nadu or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of MMWSSB or for the suspension of its operations.

(f) Tamil Nadu is unable to regulate the exploitation and use of groundwater in the Madras Metropolitan Area by June 30, 1988.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) or (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 Association to the Borrower and Tamil Nadu or MMWSSB, as the case may be; and

(b) the event specified in paragraphs (d), (e) or (f) 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 Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions that all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, except for the effectiveness of this Agreement.

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

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

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

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

Section 6.04. The obligations of the Borrower under Section 4.01 of this Agreement and the provisions of paragraphs (a) and (b) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty-five years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary and 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 purposes of Section 11.03 of the General Conditions.

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

Expenditure Category Financed	Equivalent)	Equivalent)	to be
(1) Equipment and materials:			
(a) procured foreign under inter- national competitive expenditures bidding	5,170,000	19,700,000	100% of expenditures, 100% of local (ex-factory cost)
(b) procured under local competitive bidding	23,000	1,100,000	60%
(2) Turnkey works procured under international competitive bidding	1,400,000	5,300,000	75%
(3) Civil works	5,300,000	20,200,000	60%
(4) Consulting services, technical assistance, and training	400,000	1,500,000	100%
(5) Unallocated	-----	5,200,000	
TOTAL	<u>12,500,000</u> =====	<u>53,000,000</u> =====	

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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 320,000 may be made on account of payments made for expenditures before that date but after December 3, 1986.

SCHEDULE 2

Description of the Project

The objectives of the Project are to expand the water supply and sewerage facilities for the City of

Madras and further strengthen the capacity for: (a) public water policy formulation; (b) implementation capability and financial and operational performance of MMWSSB; and (c) the introduction of a pilot low cost sanitation program in the Madras Metropolitan Area.

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

Part A: Augmentation of Water Supply Sources

The development of 3 new well fields in the Kortaliar basin, construction check dams across the Kortaliar River to retain the seasonal floods and increase ground water recharge, provide a barrier against salt water intrusion and seasonal transfer of flood waters from the Arani River into the Kortaliar River by linking them with a canal.

Part B: Improvements to the Water Supply and Distribution System

The construction of transmission mains, ground level storage and pumping stations to distribute the additional water and strengthen the existing distribution network.

Part C: Improvements to the Sewerage System

The laying of new and replacement sewers, improving of about 10 sewage pumping stations, and provision of collection, transmission and disposal arrangements for sewage in low lying areas and slums.

Part D: Institutional Strengthening

The strengthening of the productivity of MMWSSB in key areas of policy and operational activity through provision of technical assistance, training, civil works, equipment, and an equipment renovation and replacement fund, and special studies.

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The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to SDR 2,500,000 to be withdrawn from the Credit Account or the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this

Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of the Development Credit Agreement or from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement, and Article V of the General Conditions applicable thereto; or
- (ii) the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall be equal to

the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association deposit into the Special Account (or, if the Association shall so request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association or the Bank such outstanding amount for crediting to the Credit Account or the Loan Account, as the case may be.

