

CONFORMED COPY

LOAN NUMBER 4798-IN

Project Agreement

(Third 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 September 14, 2005



LOAN NUMBER 4798-IN

PROJECT AGREEMENT

AGREEMENT, dated September 14, 2005, 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 (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of three hundred million Dollars (\$300,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that TNUDF agrees 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 CMDA Project Agreement of even date herewith between the Bank and the Chennai Metropolitan Development Authority, the Chennai Metropolitan Development Authority has undertaken certain obligations towards the Bank as set forth in the CMDA Project Agreement;

(D) by the Subsidiary Loan Agreement 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 Agreement; and

(E) 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: (1) on-lent by Tamil Nadu through the Tamil Nadu Urban Development Fund (TNUDF) to Subborrowers; (2) ongranted by Tamil Nadu through TNUDF to Beneficiaries; and (3) ongranted by Tamil Nadu through TNUDF to CMDA; 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, the Preamble to this Agreement and 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 B.1 of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and technical practices, and social and environmental standards, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part B.1 of the Project.

Section 2.02. (a)(i) 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.

- (ii) TNUDF shall exercise its rights in relation to each Subproject in such manner as to:
 - (A) protect the interests of the Bank, Tamil Nadu, TNUDF;
 - (B) comply with its obligations under this Agreement; and
 - (C) achieve the purposes of the Project.
- (b) (i) TNUDF undertakes that, unless the Bank shall otherwise agree, TNUDF shall ongrant to CMDA the proceeds of the Loan so ongranted from Tamil Nadu for the purpose of financing Transport and Traffic Grants, consistent with the objectives of the Project, and in accordance with the procedures, and on the terms and conditions set forth or referred to, in the Operations Manual, satisfactory to the Bank.

(ii) TNUDF shall exercise its rights in relation to each Transport and Traffic Project in such manner as to:

(A) protect the interests of the Bank, Tamil Nadu, TNUDF, and CMDA;

(B) comply with its obligations under this Agreement;

and

(C) achieve the purposes of the Project.

Section 2.03. (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, respectively) in respect of Part B.1 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 B.1 of the Project; and

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

Section 2.04. (a) Except as the Bank shall otherwise agree, procurement of the goods, works, and 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 as said provisions may be further elaborated in the CMA Procurement Plan, the TNUDF Procurement Plan, or the CMDA Procurement Plan, as the case may be.

(b) TNUDF shall update the TNUDF Procurement Plan and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

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 amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.06. (a) TNUDF shall, at the request of the Bank, exchange views with the Bank with regard to 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 of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of 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 and social and environmental standards, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) TNUDF shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part B.1 of the Project.

- (b) TNUDF shall:
- (A) have its financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (B) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (1) certified copies of the financial statements referred to in paragraph (i) of this Section, for such year (or such other period agreed to by the Bank), as so audited, and (2) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (C) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements,

and concerning said auditors, as the Bank may from time to time reasonably request.

Section 4.02. (a) TNUDF shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

Section 4.03. (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 2005, 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 (12) 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; and
- (ix) the term “equity” means the sum of contributions, retained earnings and reserves of TNUDF not allocated to cover specific liabilities.

Section 4.04. (a) TNUDF shall, by September 30, 2009, or such later date as shall be acceptable to the Bank, mobilize an aggregate of at least \$40,000,000 for the Subproject financing operations carried out by TNUDF under Part B.1(a) of the Project, through:

- (i) the receipt of proceeds from public bond issues or private placements of bonds carried out by TNUDF;
- (ii) Subproject co-financing arrangements between TNUDF and private sector financial institutions;
- (iii) TNUDF-arranged re-financings of Subloans; or
- (iv) the sale of TNUDF Subloan financings to private financial institutions, all in a manner and substance satisfactory to the Bank.

(b) In calculating the resource mobilization amount of at least \$40,000,000 as set forth in subparagraph (a) of this Section 4.04, any portion of the proceeds of the Loan made available to TNUDF for financing Subprojects shall not be taken into account.

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 of 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, telex or facsimile 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 address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:

Telex:

Facsimile:

6391 INTBAFRAD 248423 (MCI) or (202) 477-
Washington, D.C. 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

Facsimile:

044-28153106

Section 6.02. Any action required or permitted to be taken, and any document 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 such other person or persons as TNUDF 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/ Michael F. Carter

Country Director, India

TAMIL NADU URBAN INFRASTRUCTURE TRUST
COMPANY LIMITED (Acting As Trustee for Tamil
Nadu Urban Development Fund)

By /s/ Shashi Shekhar

Authorized Representative

SCHEDULE

Implementation Program

1. TNUDF shall:
 - (a) maintain the appointment of:
 - (i) a Chief Executive Officer;
 - (ii) a senior executive officer, responsible for all financial reporting requirements carried out by TNUDF under Part B of the Project, including accounting, funds flow, audits, and the preparation and furnishing of FMRs;
 - (iii) a qualified Social Safeguards Manager or firm to oversee the implementation of the social requirements set forth in the ESF relating to the carrying out of Subprojects and Transport and Traffic Projects; and
 - (iv) a qualified Environmental Safeguards Manager or firm to oversee the implementation of the environmental requirements set forth in the ESF relating to the carrying out of Subprojects and Transport and Traffic Projects; all of whom are provided with suitably qualified and experienced staff in adequate numbers and adequate resources, acceptable to the Bank; and
 - (b) maintain the Operations Manual that includes, inter alia: (i) Project implementation arrangements; (ii) the procurement procedures set forth in Schedule 4 to the Loan Agreement and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures, including, the day-to-day financial management measures and procedures to be undertaken by TNUDF and CMDA in the carrying out of Parts B.1 and B.2, respectively, of the Project; (iv) the Project performance indicators, consistent with the objectives of the Project; (v) procedures for monitoring and reporting on the progress of the implementation of the Project; (vi) the ESF; and (vii) eligibility criteria, funds flow arrangements, procurement arrangements, and monitoring and evaluation procedures and requirements for the carrying out of Subprojects and Transport and Traffic Projects; and

thereafter carry out the Project in accordance with the provisions of said Manual, in a manner and substance satisfactory to the Bank, and shall not amend, revise, delete, suspend, abrogate, or waive said Manual, or any part or parts thereof, without the prior approval of the Bank.

2. Prior to the carrying out of any works under a Subproject, TNUDF shall:
 - (a) obtain the prior review and approval of the Bank of the:
 - (i) environmental assessment and environmental management plan for a Subproject in the event that the Subproject is rated E1, as such rating is defined in the ESF; and
 - (ii) resettlement action plan for a Subproject in the event that the Subproject is rated S1/S2, as such rating is defined in the ESF; and
 - (b) thereafter ensure that said Subproject is carried out in accordance with the relevant environmental assessment, environmental management plan, or resettlement action plan, as the case may be, satisfactory to the Bank.
3. TNUDF shall:
 - (a) by December 31, 2005, prepare and furnish to the Bank for its review and comment, a strategic vision statement that includes a business risk and management strategy and five-year business plan, under terms of reference acceptable to the Bank;
 - (b) by March 31, 2006, prepare an action plan satisfactory to the Bank, for the implementation of the recommendations of said statement, taking into account the comments of the Bank; and
 - (c) thereafter immediately carry out the actions and measures set forth in said statement, in form and substance satisfactory to the Bank.
4. TNUDF shall maintain the TNUDF PDAF, satisfactory to the Bank, for the purpose of providing support for the preparation of complex and innovative infrastructure projects, new projects and technologies to reduce the costs of infrastructure services, or for other such purposes that support sector sustainability.
5. 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 July 1, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this paragraph 5, 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 September 1, 2007, or such other date as the Bank shall request, the report referred to in paragraph (b) of this paragraph 5, 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.