

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4798-IN

Loan Agreement

(Third Tamil Nadu Urban Development Project)

between

INDIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 14, 2005

Public Disclosure Authorized



LOAN NUMBER 4798-IN

LOAN AGREEMENT

AGREEMENT, dated September 14, 2005, between INDIA, acting by its President (the Borrower), and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), 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), the Tamil Nadu Urban Development Fund (TNUDF), and the Chennai Metropolitan Development Authority (CMDA), with the Borrower's and Tamil Nadu's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Tamil Nadu, as set forth in this Agreement; 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, the Tamil Nadu Project Agreement of even date herewith between the Bank and Tamil Nadu, the TNUDF Project Agreement of even date herewith between the Bank and TNUDF, and the CMDA Project Agreement of even date herewith between the Bank and CMDA;

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 May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under

the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03(c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "Beneficiary" means a ULB meeting the eligibility criteria set forth in the Operations Manual and to which ULB Tamil Nadu has made or proposes to make a Capital Grant;

(b) "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 Subproject under Part B.1(b) of the Project;

(c) "CMA" means Commissionerate for Municipal Administration;

(d) "CMA Procurement Plan" means CMA's procurement plan, dated April 26, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 2.03 to the Tamil Nadu Project Agreement, to cover the succeeding eighteen (18) month periods (or longer) of Project implementation;

(e) "CMDA" means the Chennai Metropolitan Development Authority;

(f) "CMDA PMU" means the Chennai Metropolitan Development Authority Project Management Unit referred to in paragraph 1 of the Schedule to the CMDA Project Agreement;

(g) "CMDA Procurement Plan" means CMDA's procurement plan, dated April 29, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the

provisions of Section 2.03 to the CMDA Project Agreement, to cover the succeeding eighteen (18) month periods (or longer) of Project implementation;

(h) “CMDA Project Agreement” means the agreement between the Bank and CMDA 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 CMDA Project Agreement;

(i) “CMDA Technical Review Committee” means the Chennai Metropolitan Development Authority Technical Review referred to in paragraph 1 of the Schedule to the CMDA Project Agreement;

(j) “Contribution Agreement” means the agreement dated November 18, 1996, between participating financial institutions and Tamil Nadu on the one hand, and TNUDF on the other, providing for contributions and containing terms and conditions satisfactory to the Bank;

(k) “Debt Monitoring Cell” means the Debt Monitoring Cell established, or to be established within the CMA and referred to in paragraph 2 of the Schedule to the Tamil Nadu Project Agreement;

(l) “DMAWS” means the Department of Municipal Administration and Water Supply, an administrative department of Tamil Nadu;

(m) “Eligible Categories” means categories (1), (2), (3), (4), (5), (6), and (7) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(n) “Eligible Expenditures” means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(o) “ESF” means the Environmental and Social Framework adopted by each of CMA, CMDA, and TNUDF on May 1, 2005, and incorporated into the Operations Manual, for purposes of setting forth the environmental and social framework to address the adverse temporary or permanent environmental and social impacts resulting, or likely to result from, the carrying out of the Project;

(p) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 of the Tamil Nadu Project Agreement, Section 4.02 of the TNUDF Project Agreement, or Section 4.02 of the CMDA Project Agreement;

(q) “Fiscal Year” means the Fiscal Year of each 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;

(r) “GC” means the Government Committee referred to in paragraph 1 of the Schedule to the Tamil Nadu Project Agreement;

(s) “Operations Manual” means the Operations Manual adopted by each of TNUDF and CMDA on May 4, 2005, that sets forth the operational guidelines and procedures, and implementation and institutional arrangements, in respect of Project implementation activities carried out under Part B of the Project and referred to in paragraph 1 of the Schedule to the TNUDF Project Agreement and paragraph 2 of the Schedule to the CMDA Project Agreement;

(t) “RDMA” means the Regional Directorate of Municipal Administration;

(u) “Shareholders’ Agreement” means each of the following: (i) the agreement among participating financial institutions and Tamil Nadu for purposes of administering the TNUIFS; and (ii) the agreement among said institutions and Tamil Nadu for purposes of administering the Trust Company;

(v) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(w) “Subborrower” means an urban local body, statutory board or authority, public undertaking, or private investor meeting the Subborrower eligibility criteria set forth in the Operations Manual and to which TNUDF has made or proposes to make a Subloan;

(x) “Subloan” means a Subloan made or proposed to be made by TNUDF out of the proceeds of the Loan to a Subborrower for financing a Subproject under Part B.1 (a) of the Project;

(y) “Subproject” means a Subproject meeting the eligibility criteria set forth in the Operations Manual and to be carried out by a Subborrower or Beneficiary utilizing, *inter alia*, the proceeds of a Subloan or Capital Grant, respectively;

(z) “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 Subloans;

(aa) “Subsidiary Loan Agreement” means the agreement entered into between Tamil Nadu and TNUDF providing for the Subsidiary Loan, containing terms and conditions satisfactory to the Bank, and includes any amendments, schedules, or annexes thereto;

(bb) “Tamil Nadu” means the State of Tamil Nadu, a State of India, including any successor thereto;

(cc) “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;

(dd) “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 Subloans; 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;

(ee) “Tamil Nadu PPF” means the Tamil Nadu Project Preparation Facility referred to in paragraph 2 of the Schedule to the Tamil Nadu Project Agreement;

(ff) “TNUDF PDAF” means the Tamil Nadu Urban Development Fund Project Development Advisory Facility referred to in paragraph 4 of the Schedule to the TNUDF Project Agreement;

(gg) “TNUDF Procurement Plan” means TNUDF’s procurement plan, dated April 26, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 2.04 to the TNUDF Project Agreement, to cover the succeeding eighteen (18) month periods (or longer) of Project implementation;

(hh) “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;

(ii) “TNUIFS” means the Tamil Nadu Urban Infrastructure Financial Services Ltd., a company incorporated under the Borrower’s Companies Act, 1956, as amended;

(jj) “Transport and Traffic Grant” means a grant made or proposed to be made by Tamil Nadu, through TNUDF, out of the proceeds of the Loan to CMDA for the financing of a Transport and Traffic Project under Part B.2 of the Project;

(kk) “Transport and Traffic Project” means a Transport and Traffic Project meeting the eligibility criteria set forth in the Operations Manual and to be carried out by CMDA utilizing, *inter alia*, the proceeds of a Transport and Traffic Grant;

(ll) “Trust Act” means the Indian Trust Act, 1882, as amended;

(mm) “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;

(nn) “Trust Deed” means the Trust Deed dated November 29, 1996, executed by Tamil Nadu and accepted by the Trustee for purposes, *inter alia*, of creating the TNUDF;

(oo) “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;

(pp) “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

(qq) “ULB” means a municipal corporation, municipality, and such special village panchayats as may be designated as urban by Tamil Nadu from time to time.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Tamil Nadu, TNUDF, and CMDA.

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 three hundred million Dollars (\$300,000,000).

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:

(a) amounts paid (or if the Bank shall so agree to be paid) by TNUDF on account of withdrawals made by a Subborrower under a Subloan under Part B.1(a) of the Project to meet the reasonable cost of goods, works and services required for a Subproject in respect of which withdrawal from the Loan Account is requested;

(b) amounts paid (or if the Bank shall so agree, to be paid) by Tamil Nadu through TNUDF on account of withdrawals made by a Beneficiary under a Capital Grant under Part B.1(b) of the Project to meet the reasonable cost of goods, works and services required for a Subproject in respect of which withdrawal from the Loan Account is requested;

(c) amounts paid (or if the Bank shall so agree to be paid) by Tamil Nadu through TNUDF on account of withdrawals made by CMDA under a Transport and Traffic Grant under Part B.2 of the Project to meet the reasonable cost of goods, works and services required for a Transport and Traffic Project in respect of which withdrawal from the Loan Account is requested; and

(d) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part A of the Project and to be

financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be March 30, 2011, 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 such 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 the first day of such Interest Period (or, in the case of the initial Interest Period, for 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 new 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 in arrears on March 15 and September 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 objective of the Project and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall:

- (i) cause Tamil Nadu to carry out Part A of the Project and to perform in accordance with the provisions of the Tamil Nadu Project Agreement all the obligations of Tamil Nadu therein set forth; and
- (ii) cause TNUDF, through Tamil Nadu, to carry out Part B.1 of the Project and to perform in accordance with the provisions of the TNUDF Project Agreement all the obligations of TNUDF therein set forth;
- (iii) cause CMDA, through Tamil Nadu, to carry out Part B.2 of the Project and to perform in accordance with the provisions of the CMDA Project Agreement all the obligations of CMDA therein set forth; and

- (iv) 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 to perform such obligations, and not take or permit to be taken any action which would prevent or interfere with such performance; all with due diligence and efficiency and in conformity with appropriate administrative, financial, and technical practices and social and environmental standards; and

(b) The Borrower shall make the proceeds of the Loan available to Tamil Nadu in accordance with the Borrower's 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, 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.

Section 3.03. The Bank and the Borrower 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 Part A of the Project pursuant to Section 2.04 of the Tamil Nadu Project Agreement, TNUDF in respect of Part B.1 of the Project pursuant to Section 2.03 of the TNUDF Project Agreement, and CMDA in respect of Part B.2 of the Project pursuant to Section 2.04 of the CMDA Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were Report-based Disbursements or were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate 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 Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made; 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 (6) months after the end of each such Fiscal 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 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 of its obligations under the TNUDF Project Agreement;
- (c) CMDA shall have failed to perform any of its obligations under the CMDA Project Agreement;
- (d) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which: (i) shall make it improbable that Tamil Nadu, TNUDF, or CMDA will be able to perform their respective obligations under the Tamil Nadu Project Agreement, the TNUDF Project Agreement, or CMDA Project Agreement; or (ii) affects materially and adversely the operation or financial condition of TNUDF; and

(e) Tamil Nadu or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of TNUDF or CMDA, or for the suspension of their respective operations.

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), (b), and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) 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 Tamil Nadu Project Agreement has been duly executed and authorized or ratified by Tamil Nadu;

(b) the TNUDF Project Agreement has been duly executed and authorized or ratified by TNUDF;

(c) the CMDA Project Agreement has been duly executed and authorized or ratified by CMDA; and

(d) the Subsidiary Loan Agreement has been duly amended and ratified by each of Tamil Nadu and TNUDF, satisfactory to the Bank.

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, namely, that:

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

(c) the CMDA Project Agreement has been duly ratified by CMDA and is legally binding upon CMDA in accordance with its terms; and

(d) the Subsidiary Loan Agreement has been duly amended and ratified by each of 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

Representative 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 purposes 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
New Delhi, India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175 FINE IN	91-11-2309-2511 91-11-2309-2477 91-11-2309-3133

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	202-477-6391

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/ Madhusudan Prasad
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Michael F. Carter
Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Subloans under Part B.1(a) of the Project	110,000,000	100%
(2) Capital Grants under Part B.1(b) of the Project	46,500,000	100%
(3) Transport and Traffic Grants under Part B.2 of the Project	121,500,000	100%
(4) Project Development Advisory Facility	3,000,000	100%
(5) Consultants' Services and Training	10,950,000	100%
(6) Goods under Part A of the Project	1,500,000	100%
(7) Incremental Operating Costs	5,050,000	100%
(8) Fee	1,500,000	Amount due under Section 2.04 of this Agreement
TOTAL	<u><u>300,000,000</u></u>	

2. For the purposes of this Schedule the term "incremental operating costs" means the incremental costs of operation and maintenance of buildings, equipment and vehicles,

office rental and expenses, hiring of vehicles, salaries of Project staff, and travel and other allowances, incurred by CMA, CMDA, and RDMA for the purposes of carrying out the Project.

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 to exceed the equivalent of \$60,000,000 may be made on account of payments made for expenditures before that date but after June 1, 2004.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$1,000,000 equivalent per contract; (b) works costing less than \$3,000,000 equivalent per contract; (c) services of individual consultants costing less than \$100,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$250,000 equivalent per contract; (e) training; and (f) incremental operating costs; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank, in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may 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) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, 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, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures 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 Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$15,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
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
Report-based Disbursements**

1. 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. Upon receipt of each application 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 reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

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 ULBs; (b) mobilizing resources and securing sustainable funding sources for urban infrastructure investment by TNUDF; and (c) providing incentives for investments in low-income neighborhoods through the use of Capital Grants.

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: Institutional Development

1. Provision of goods, technical assistance, workshops, and staff training to support the implementation and sustainability of urban policy reforms, organizational performance, and urban services delivery including:

(a) managerial capacity enhancement within ULBs and related urban and municipal sector organizations to enable and sustain effective urban policy reforms;

(b) information communication and technology support to streamline workflows within and between ULBs and strengthen ULBs' global information system mapping capacities;

(c) establishment of a Debt Monitoring Cell within the CMA for ULBs;

(d) establishment of a Tamil Nadu Project Preparation Facility within CMA to provide consultancy services to ULBs to prepare and implement infrastructure projects; and

(e) Project management support including the financing of the incremental operating costs of the CMA and RDMA.

PART B: Urban Investment

1. (a) Financing of Subprojects by TNUDF through the provision of Subloans to Subborrowers.

(b) Financing of Subprojects by Tamil Nadu through the provision of Capital Grants to Beneficiaries through TNUDF.

(c) Establishment of the TNUDF Project Development Advisory Facility within TNUDF to provide support for innovative infrastructure project financial structuring.

2. (a) Financing of Traffic and Transport Grants by Tamil Nadu through TNUDF, through the provision of Traffic and Transport Grants to CMDA.

(b) Project management support including the financing of the incremental operating costs of CMDA.

* * *

The Project is expected to be completed by September 30, 2010.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
March 15, 2011	7,775,000
September 15, 2011	7,905,000
March 15, 2012	8,035,000
September 15, 2012	8,170,000
March 15, 2013	8,310,000
September 15, 2013	8,450,000
March 15, 2014	8,590,000
September 15, 2014	8,735,000
March 15, 2015	8,880,000
September 15, 2015	9,030,000
March 15, 2016	9,180,000
September 15, 2016	9,335,000
March 15, 2017	9,495,000
September 15, 2017	9,655,000
March 15, 2018	9,815,000
September 15, 2018	9,980,000
March 15, 2019	10,145,000
September 15, 2019	10,320,000
March 15, 2020	10,490,000
September 15, 2020	10,665,000
March 15, 2021	10,845,000
September 15, 2021	11,030,000
March 15, 2022	11,215,000
September 15, 2022	11,400,000
March 15, 2023	11,595,000
September 15, 2023	11,790,000
March 15, 2024	11,985,000
September 15, 2024	12,190,000
March 15, 2025	12,395,000
September 15, 2025	12,595,000

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

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines) including paragraph 1.16 thereof where applicable, and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding in accordance with the provisions of Section II of the Procurement Guidelines and paragraph 4 of Appendix 1 thereto.

B. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph A of this Section II:

1. Preference for Domestically Manufactured Goods and Domestic Contractors

The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, and Appendix 2 thereof providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

2. Dispute Review Board

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

3. Notification and Advertising

The invitation to pre-qualify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the provisions of paragraphs 2.7 and 2.8 of the Procurement Guidelines.

C. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$1,000,000 equivalent per contract and works estimated to cost less than \$10,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of paragraphs 3.3 and 3.4 of the Procurement Guidelines.

2. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping procedures in accordance with the provisions of paragraph 3.5 of the Procurement Guidelines.

3. Direct Contracting. Satellite imagery equipment, computer software, audio and video cassettes, books, periodicals and other proprietary goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of paragraphs 3.6 and 3.7 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may be comprised entirely of national consultants. Advertisements calling for letters of expression of interest shall be published in UNDB and dgMarket for all consultancy assignments estimated to cost more than \$200,000 equivalent per contract.

B. Other Procedures

1. Quality-based Selection. Services for complex assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection. Services for audits, engineering designs, and capacity strengthening activities for implementing agencies, estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Least-

cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services for assignments estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks, estimated to cost less than \$100,000 equivalent per contract, which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Individual consultants may be selected on a sole-source basis under the circumstances described in paragraph 5.4 of the Consultant Guidelines.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) the first three contracts for works awarded under National Competitive Bidding procedures, except for contracts awarded in respect of the activities carried out in respect of Parts B.1(a) and B.1(b) of the Project; (b) each contract for works estimated to cost the equivalent of \$3,000,000 equivalent or more; (c) each contract for goods estimated to cost the equivalent of \$1,000,000 equivalent or more; (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$250,000 equivalent or more; and (e) each contract for individual consultants estimated to cost the equivalent of \$100,000 equivalent or more. All other contracts shall be subject to Post Review by the Bank.