

LOAN NUMBER 2166 - IND

GRANT NUMBER 0005 - IND

FINANCING AGREEMENT
(Ordinary Operations and Asian Tsunami Fund Grant)
(Tsunami Emergency Assistance (Sector) Project)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 12 May 2005

FINANCING AGREEMENT
(Ordinary Operations and Asian Tsunami Fund Grant)

FINANCING AGREEMENT dated 12 May 2005 between INDIA (hereinafter called India) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) India has applied to ADB for (i) a loan, and (ii) a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement;

(B) the Project shall be carried out by (i) State of Tamil Nadu (hereinafter called "Tamil Nadu"); and (iii) State of Kerala (hereinafter called "Kerala"); and for this purpose India shall make available to Tamil Nadu, and Kerala the Loan and Grant proceeds respectively, provided for herein upon terms and conditions as set forth in this Financing Agreement, and;

(C) ADB has, on the basis of the foregoing, agreed to make available to India (i) a loan from ADB's ordinary capital resources (hereinafter referred to as the "Loan"), and (ii) a grant from ADB's Asian Tsunami Fund (hereinafter referred to as the "Grant") upon the terms and conditions set forth herein and in the Project Agreements of even date herewith between (i) ADB and Tamil Nadu; and (ii) ADB, and Kerala;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Financing Agreement with the same force and effect as if they were fully set forth herein, (said Ordinary Operations Loan Regulations being hereinafter called the Loan Regulations), subject however, to the following modifications:

(a) the term "Loan Agreement" wherever it appears in the Loan Regulations shall be substituted by the term "Financing Agreement"; and

(b) the term "Borrower" wherever it appears in the Loan Regulations shall be substituted by the term "India" as defined in Section 1.03.

Section 1.02. All provisions of the Asian Tsunami Fund Grant Regulations of ADB, dated 17 February 2005 (hereinafter called the Grant Regulations), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the

same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) the term “Grant Agreement” wherever it appears in the Grant Regulations shall be substituted by the term “Financing Agreement”; and

(b) the term “Recipient” wherever it appears in the Grant Regulations shall be substituted by the term “India” as defined in Section 1.03.

Section 1.03 The definitions set forth in the Loan Regulations and the Grant Regulations, respectively are applicable to this Financing Agreement unless the context requires otherwise. In addition, the following terms have the following meanings.

(a) “ADB Extended Mission” means either or both of the extended mission offices, to be set up by ADB for Tamil Nadu (in Chennai) and for Kerala (in Thiruvananthapuram) respectively, to assist in Project implementation in the respective States;

(b) “Component” means a Loan Component or a Grant Component as the context may require, as also described in Schedule 1 to this Financing Agreement and includes Subcomponent;

(c) “district” means a district in Tamil Nadu or Kerala as defined in Article 243-P of the Constitution of India;

(d) “EA” or the Project executing agency, means for the purposes of and within the meaning of, the Loan Regulations and the Grant Regulations, the Revenue Administration Disaster Management and Mitigation Department in the Government of Tamil Nadu and the Disaster Management Department in the Government of Kerala, responsible for the carrying out of the Project;

(e) “EIA” means the environmental impact assessment to be prepared for a subproject as required, in accordance with the EARPF;

(f) “EARPF” means the environmental assessment and review procedures framework for the Project included in Supplementary Appendix E to the RRP, as also referred to in the SIEE;

(g) “Grant” has the meaning given in Section 2.01(b) of this Financing Agreement;

(h) “Grant Component” means a component to be financed out of the Grant proceeds, as described in Schedule 1 to this Financing Agreement and includes Grant Subcomponent;

(i) “Grant Imprest Account” mean the imprest account described in paragraph 5 of Schedule 3B to this Financing Agreement;

(j) “Grant Subcomponent” means a Subcomponent to be financed out of Grant proceeds, as also described in Schedule 1 to this Financing Agreement;

(k) “IA” means any of the implementing agencies, as the context may require, responsible for implementing the Components and Subprojects in Tamil Nadu and in Kerala respectively, as more fully described in the respective implementation chart for the State, attached as Attachment A to Schedule 6 to this Financing Agreement;

(l) “IEE” means the Initial Environment Examination to be prepared for each Subproject as required, in accordance with the EARPF;

(m) “Loan” has the meaning given in Section 2.01(a) of this Financing Agreement;

(n) “Loan Component” means a component to be financed out of the Loan proceeds, as described in Schedule 1 to this Financing Agreement and includes Loan Subcomponent;

(o) “Loan Imprest Account” mean the imprest account described in paragraph 6 of Schedule 3A to this Financing Agreement;

(p) “Loan Subcomponent” means a Subcomponent to be financed out of Loan proceeds, as also described in Schedule 1 to this Financing Agreement;

(q) “NGO” means a non-governmental organization;

(r) “PMU” means each of the Project management units established by Tamil Nadu and Kerala, for the purposes of the Project and more fully described in the respective implementation chart for each State, attached as Attachment A to Schedule 6 to this Financing Agreement;

(s) “panchayat” means local self-government institution as defined under the related State law of Tamil Nadu and Kerala, respectively;

(t) “Project Agreement(s)” means either or both the agreements, as the context may require, of even date herewith between (i) ADB and Tamil Nadu; and (ii) ADB and Kerala;

(u) “Project facilities” mean the facilities to be provided under the Project;

(v) “RF” means the resettlement framework included in Appendixes 14 and 15 for Kerala and Tamil Nadu, respectively to the RRP;

(w) “RRP” means the report and recommendation of the President on the Project;

(x) “SHG” means a self help community based group so identified by Tamil Nadu and Kerala as eligible for bank financing;

(y) “SIEE” means the summary initial environmental examination for the Project as included in Appendix 16 to the RRP;

(z) "Scheduled Tribes" mean tribes or tribal communities or parts of groups within tribes or tribal communities notified as such for Tamil Nadu and Kerala, by India, under Article 342 of the Constitution of India;

(aa) "State" for the purposes of this Financing Agreement means either Tamil Nadu or Kerala as the context may require;

(bb) "Subcomponent" means a Loan Subcomponent or a Grant Subcomponent as the context may require, as also described in Schedule 1 to this Financing Agreement;

(cc) "Subproject" means any subproject that is found eligible for financing in accordance with the provisions of Schedule 6 of this Financing Agreement from the Loan proceeds or the Grant proceeds as applicable;

(dd) "Tsunami" means the tsunami that hit India on 26 December 2004; and

(ee) "village" means a village notified by the Governor of a State under Article 243(g) of the Constitution of India.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to India on terms and conditions set forth in this Financing Agreement

(a) an amount equivalent to one hundred million US Dollars (\$100,000,000), from ADB's ordinary capital resources, as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Financing Agreement;

(b) an amount equivalent to one hundred million US Dollars (\$100,000,000) from the ADB's Asian Tsunami Fund (the Grant); and

(c) The Loan shall have a term of 32 years, including a grace period of 8 years, as provided in Schedule 2 to this Financing Agreement.

Section 2.02. India shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations.

Section 2.03. (a) India shall pay a commitment charge at the rate of three-fourths of one percent (0.75%) per annum. Such charge shall accrue on amounts of the Loan (less amounts withdrawn from time to time), during successive periods commencing sixty (60) days after the date of this Financing Agreement, as follows:

during the first twelve-month period, on \$15,000,000;
 during the second twelve-month period, on \$45,000,000;
 during the third twelve-month period, on \$85,000,000; and

thereafter, on the full amount of the Loan.

(b) If any amount of the Loan is cancelled, the amount of each portion of the Loan stated in paragraph (a) of this Section shall be reduced in the same proportion as the cancellation bears to the full amount of the Loan before such cancellation.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 July and 15 January in each year.

Section 2.05. India shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Financing Agreement.

Section 2.06. (a) India may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. (a) India shall make available or cause to be made available, the proceeds of the Loan and the Grant as required together with other funds required for the Project to Tamil Nadu and Kerala for carrying out the Project.

(b) India shall make available (i) to Tamil Nadu, part of the Loan in an amount equivalent up to \$67,550,000, and part of the Grant in an amount equivalent to \$76,200,000, and, (ii) to Kerala, part of the Loan in an amount equivalent up to \$32,450,000, and part of the Grant in an amount equivalent to \$23,800,000, respectively, for carrying out the Project, upon terms and conditions satisfactory to ADB, in accordance with allocation of Loan and Grant proceeds under Schedule 3A and Schedule 3B respectively, to this Financing Agreement.

(c) India shall cause Tamil Nadu and Kerala to apply the proceeds of the Loan and the Grant respectively to the financing of the eligible expenditures under the Project in accordance with the provisions of this Financing Agreement and the related Project Agreement.

Section 3.02. The goods and services to be financed out of the proceeds of the Loan and the Grant respectively, and the allocation of amounts of the Loan and the Grant respectively, among related Components of such goods and services shall be in accordance with the provisions of Schedule 3A and Schedule 3B respectively, to this Financing Agreement, as such Schedules may be amended from time to time by agreement between India and ADB.

Section 3.03. Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan and the Grant respectively, shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to this Financing Agreement. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between India and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, India shall cause all goods and services financed out of the proceeds of the Loan and the Grant respectively, to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from (i) the Loan Account for the purposes of Section 9.02 of the Loan Regulations, and (ii) the Grant Account for the purposes of Section 8.02 of the Grant Regulations, shall be 31 October 2008, respectively, or such other date as may from time to time be agreed between India and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) India shall cause Tamil Nadu, and Kerala to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, social, and coastal management practices.

(b) In the carrying out of the Project and operation of the Project facilities, India shall perform, or cause to be performed by Tamil Nadu and Kerala, all obligations set forth in this Financing Agreement.

Section 4.02. India shall make available to Tamil Nadu, and Kerala, promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the Loan and the Grant respectively, for the carrying out of the Project.

Section 4.03. India shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project

facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. India shall take all action which shall be necessary on its part to enable Tamil Nadu and Kerala to perform their respective obligations under the Project Agreements and this Financing Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. India shall exercise its rights under the financing arrangements with Tamil Nadu and Kerala in such a manner as to protect the interests of the India and ADB and to accomplish the purposes of the Loan and the Grant, respectively.

ARTICLE V

Effectiveness

Section 5.01. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 10.03 of the Loan Regulations, and Section 9.03 of the Grant Regulations, respectively.

ARTICLE VI

Miscellaneous

Section 6.01. Any of the Secretary, Additional Secretary, Joint Secretary, Director, or Deputy Secretary in the Department of Economic Affairs of the Ministry of Finance of India is designated as representative of India for the purposes of Section 12.02 of the Loan Regulations and Section 11.02 of the Grant Regulations, respectively.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations and Section 11.01 of the Grant Regulations, respectively:

For India

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

Facsimile Number:

(91-11) 2309-2477
(91-11) 2309-2511.

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-2337.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

INDIA

By /s/ RANJIT BANNERJI
Joint Secretary
Department of Economic Affairs
(Authorized Representative)

ASIAN DEVELOPMENT BANK

By /s/ ALBAB AKANDA
Officer-in-Charge
India Resident Mission

SCHEDULE 1

Description of the Project

1. The main objective of the Project is to support in the efforts of Tamil Nadu and Kerala to accelerate economic growth and poverty alleviation in the Tsunami affected areas of the two States by assisting in the restoration of livelihoods, especially of the poor, and complementary rehabilitation and reconstruction of damaged public infrastructure.

2. The Project includes following Components:

A. Livelihoods (Grant Financed)

(i) Restoration of livelihoods of affected poor and low income households organized into SHGs and other similar groups recognized by Tamil Nadu and Kerala as affected directly or indirectly, by Tsunami, through support by way of capacity building, establishment, and enterprise training; (ii) formation of new SHGs both male and female for affected households not yet organized in community based groups for restoring livelihoods through micro enterprise training, and establishment support; (iii) replacement of productive assets (i.e. excluding housing) of Tsunami affected households; (iv) skills up-gradation; (v) risk mitigation through group, life and asset insurance as applicable, of affected households receiving assistance under this Component; (vi) reconstruction of Tsunami affected community-based infrastructure; and (vii) technical support for implementation, monitoring, and impact assessment of this Component.

B. Transportation

B.1 Subcomponent - Roads and Bridges (Loan Financed)

(i) Rehabilitation of Tsunami-damaged State roads, except village and municipal roads in the affected districts of Tamil Nadu, and Kerala; (ii) rehabilitation of damaged drainage structures such as minor bridges, culverts and side drains; (iii) rehabilitation of bridges in affected areas in Cuddalore and Kanyakumari districts of Tamil Nadu; and (iv) creation of bridge connections for un-bridged crossings, and to replace temporary crossing arrangements or river crossing ferries from a disaster prevention perspective.

B.2 Subcomponent – Ports and Harbors (Loan Financed)

(i) Priority dredging for ports, harbor basins and approach channels; (ii) rehabilitation of breakwaters for ports and fishing harbors; (iii) rehabilitation of fishing harbor facilities like compound walls; (iv) rehabilitation of damaged roads and ports facilities like electrification systems, wharfs and piers; and (v) procurement of equipment for a destroyed dredger, environmental facilities and navigational aids.

C. Rural and Municipal Infrastructure

C.1 Subcomponent – Water Supply and Sanitation (Grant Financed)

(i) Restoration and upgrading of damaged water supply systems; (ii) upgrading of affected water supply systems into multi-village systems with more reliable source development; (iii) rehabilitation/upgrading of sanitary complex and solid waste management facilities; (iv) sanitation and environmental awareness campaign; and (v) institutional support for damage assessment surveys, aquifer and hydrology study, disaster resistant design, construction quality control, and community participation.

C.2 Subcomponent – Other Rural and Municipal Infrastructure

(i) Rural and Municipal Infrastructure (Loan Financed)

Rehabilitation/upgrading of municipal infrastructure in terms of (i) municipal roads; (ii) municipal drainage canals; (iii) municipal public buildings such as small-scale common fish landing, processing, and marketing facilities, and community centers; and (iv) municipal and rural damaged electricity line network and distribution transformers.

(ii) Rural Infrastructure (Loan Financed)

Rehabilitation/upgrading of rural infrastructure in terms of (i) village roads; (ii) drainage canals; and (iii) public buildings such as panchayat offices.

D. Capacity Building and Implementation Assistance (Grant Financed)

This Component shall comprise (i) consulting services for implementation of the Project as further detailed in Schedule 5 to this Financing Agreement, and (ii) incremental administration costs.

3. The Project is expected to be completed by 30 April 2008.

SCHEDULE 2**Amortization Schedule****(Tsunami Emergency Assistance Project)**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by India on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Period</u>	<u>Date payment Due</u>		<u>Installment Share</u> (expressed as a Percentage)
1	15 July	2013	0.53
2	15 January	2014	0.56
3	15 July	2014	0.59
4	15 January	2015	0.62
5	15 July	2015	0.65
6	15 January	2016	0.68
7	15 July	2016	0.71
8	15 January	2017	0.75
9	15 July	2017	0.79
10	15 January	2018	0.83
11	15 July	2018	0.87
12	15 January	2019	0.91
13	15 July	2019	0.96
14	15 January	2020	1.00
15	15 July	2020	1.05
16	15 January	2021	1.11
17	15 July	2021	1.16
18	15 January	2022	1.22
19	15 July	2022	1.28
20	15 January	2023	1.34
21	15 July	2023	1.41
22	15 January	2024	1.48

Schedule 2

<u>Period</u>	<u>Date payment Due</u>		<u>Installment Share</u> (expressed as a Percentage)
23	15 July	2024	1.56
24	15 January	2025	1.63
25	15 July	2025	1.72
26	15 January	2026	1.80
27	15 July	2026	1.89
28	15 January	2027	1.99
29	15 July	2027	2.08
30	15 January	2028	2.19
31	15 July	2028	2.30
32	15 January	2029	2.41
33	15 July	2029	2.53
34	15 January	2030	2.66
35	15 July	2030	2.79
36	15 January	2031	2.93
37	15 July	2031	3.08
38	15 January	2032	3.23
39	15 July	2032	3.40
40	15 January	2033	3.57
41	15 July	2033	3.74
42	15 January	2034	3.93
43	15 July	2034	4.13
44	15 January	2035	4.33
45	15 July	2035	4.55
46	15 January	2036	4.78
47	15 July	2036	5.02
48	15 January	2037	<u>5.26</u>
			<u>100.00%</u>

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by India on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, India shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

Schedule 2

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3A**Allocation and Withdrawal of Loan Proceeds**General

1. (a) Except as ADB may otherwise agree, the requirements and procedures as set forth in ADB's "Loan Disbursement Handbook" dated January 2001, and ADB's "Interim Guidelines for Disbursement Operations, LIBOR-Based Loan Products" dated July 2002, both as amended from time to time, shall apply to all goods and services to be financed out of the proceeds of the Loan.

(b) The Table in the Attachment to this Schedule sets forth the allocation of the amounts of the Loan among the different Loan Components.

Local Taxes and Expenditures

2. No withdrawals from the Loan Account shall be made in respect of any local taxes.

3. (a) Loan proceeds up to an aggregate amount of \$54,870,000 may be withdrawn from the Loan Account, in foreign currency for the purposes of financing local expenditure.

(b) Except as provided in this paragraph or as ADB may otherwise agree, no withdrawals from the Loan Account shall be made in respect of any local expenditure on the Project.

4. Notwithstanding paragraph 3 of this Schedule, any contract awarded to a local supplier after effective international competitive bidding or international shopping pursuant to the relevant provisions of Schedule 4 to this Financing Agreement shall be financed out of the proceeds of the Loan on the following basis:

- (a) where the goods procured from a local supplier are manufactured locally, 100 percent of the ex-factory price of the goods supplied (exclusive of any taxes); and
- (b) where the goods procured from a local supplier have been entirely imported, 100 percent of the foreign-currency component of the contract price.

Reallocation

5. Notwithstanding the allocation of Loan proceeds set forth in the Table and subject to paragraph 4 of this Schedule, and subject to the allocation of the Loan proceeds to be available to Tamil Nadu and Kerala under Section 3.01(b) of this Financing Agreement,

Schedule 3A

(a) if the amount of the Loan allocated to any Loan Component or Loan Subcomponent appears to be insufficient to finance all agreed expenditures for that Loan Component or Loan Subcomponent, ADB may, by notice to India, reallocate to such Loan Component or Loan Subcomponent, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Loan Component or Loan Subcomponent but, in the opinion of ADB, are not needed to meet other expenditures; and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditure in order that further withdrawals under such Loan Component or Loan Subcomponent may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Loan Component or Loan Subcomponent appears to exceed all agreed expenditures for that Loan Component or Loan Subcomponent, ADB may, by notice to India, reallocate such excess amount to any other Loan Component or Loan Subcomponent.

Loan Imprest Account and Disbursement Procedures

6. (a) Except as ADB may otherwise agree, India shall establish, immediately after the Effective Date, a Loan Imprest Account at the Reserve Bank of India for the Loan. The Loan Imprest Account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, and ADB's "Interim Guidelines for Disbursement Operations, LIBOR-Based Loan Products" dated July 2002, both as amended from time to time, and detailed arrangements agreed upon between India and ADB. The initial amount to be deposited into the Loan Imprest Account shall not exceed \$5,000,000 that is 5% of the Loan amount. Thereafter, the total imprest at any time in the Imprest Account shall not exceed the estimated expenditures for next 3 months or 5% of the Loan amount whichever is lower.

(b) Procedures under ADB's "Loan Disbursement Handbook" dated January 2001, and ADB's "Interim Guidelines for Disbursement Operations, LIBOR-Based Loan Products" dated July 2002, both as amended from time to time, and detailed arrangements agreed upon between India and ADB, including the statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures, and as applicable to liquidate advances provided into the Loan Imprest Account. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$100,000.

(c) Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, and ADB's "Interim Guidelines for Disbursement Operations, LIBOR-Based Loan Products" dated July 2002, both as amended from time to time.

Schedule 3A

(d) India shall maintain separate accounts for the Loan Imprest Account. If ADB shall have determined at any time that any payment out of the Loan Account or Loan Imprest Account was made for any expenditure or in any amount not eligible for financing under this Financing Agreement (including any local currency taxes or duties), India shall, promptly upon notice from ADB, deposit or cause to be deposited into the Loan Imprest Account (or if ADB so requests, refund to ADB) such payment or portion thereof not so eligible. The Loan Imprest Account shall not be replenished by ADB until India has made such deposit or refund.

Retroactive Financing

7. Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, and after 26 December 2004, not exceeding an amount of up to 20% of the Loan which is an amount equivalent up to \$20,000,000, provided however that the expenditures have followed the requirements of ADB, including but not limited to those specified in paragraph 6 of Schedule 6, and certified by the respective EA and such certification is acceptable to ADB.

**TABLE ON ALLOCATION OF LOAN COMPONENTS/LOAN SUBCOMPONENTS
(\$ million)**

	Loan Component/Loan Subcomponent	Tamil Nadu	Kerala	Total	Percentage of Financing* (%)
	B. Transportation				
1.	B.1 Roads and Bridges	9.10	15.70	24.80	100
2.	B.2 Ports and Harbors	17.70	8.20	25.90	100
	C. Rural and Municipal Infrastructure				
3.	C.2.(i) Rural and Municipal Infrastructure	8.00	0.00	8.00	100
4.	C.2.(ii) Rural Infrastructure	32.75	8.55	41.30	100
	Total	67.55	32.45	100.00	

*Exclusive of taxes and duties.

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**General

1. (a) Except as ADB may otherwise agree, the requirements and procedures as set forth in ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, shall apply to all goods and services to be financed out of the proceeds of the Grant.

(b) The Table in the Attachment to this Schedule sets forth the allocation of the amounts of the Grant among the different Grant Components.

Local Taxes and Expenditures

2. No withdrawals from the Grant Account shall be made in respect of any local taxes.

3. Notwithstanding paragraph 2 of this Schedule, any contract awarded to a local supplier after effective international competitive bidding or international shopping pursuant to the relevant provisions of Schedule 4 to this Financing Agreement shall be financed out of the proceeds of the Grant on the following basis:

- (a) where the goods procured from a local supplier are manufactured locally, 100 percent of the ex-factory price of the goods supplied (exclusive of any taxes); and
- (b) where the goods procured from a local supplier have been entirely imported, 100 percent of the foreign-currency component of the contract price.

Reallocation

4. Notwithstanding the allocation of Grant proceeds set forth in the Table and subject to paragraph 3 of this Schedule, and subject to the allocation of the Grant proceeds to be available to Tamil Nadu and Kerala under Section 3.01(b) of this Financing Agreement,

(a) if the amount of the Grant allocated to any Grant Component or Grant Subcomponent appears to be insufficient to finance all agreed expenditures for that Grant Component or Grant Subcomponent, ADB may, by notice to India, reallocate to such Grant Component or Grant Subcomponent, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Grant Component or Grant Subcomponent but, in the opinion of ADB, are not needed to meet other expenditures; and

(ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditure in order that further withdrawals under such Grant Component or Grant Subcomponent may continue until all expenditures thereunder shall have been made; and

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(b) if the amount of the Grant then allocated to any Grant Component or Grant Subcomponent appears to exceed all agreed expenditures for that Grant Component or Grant Subcomponent, ADB may, by notice to India, reallocate such excess amount to any other Grant Component or Grant Subcomponent.

Grant Imprest Account, and Disbursement Procedures

5. (a) Except as ADB may otherwise agree, India shall establish, immediately after the Effective Date, a Grant Imprest Account at the Reserve Bank of India for the Grant. The Grant Imprest Account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between India and ADB. The initial amount to be deposited into the Grant Imprest Account shall not exceed \$5,000,000 that is 5% of the Grant. Thereafter, the total imprest at any time in the Grant Imprest Account shall not exceed the estimated expenditures for next 3 months or 5% of the Grant amount whichever is lower.

(b) Procedures under ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between India and ADB, including the statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures, and as applicable to liquidate advances provided into the Grant Imprest Account. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$100,000.

(c) Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Grant shall be in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time.

(d) India shall maintain separate accounts for the Grant Imprest Account. If ADB shall have determined at any time that any payment out of the Grant Account or Grant Imprest Account was made for any expenditure or in any amount not eligible for financing under this Financing Agreement (including any local currency taxes or duties), India shall, promptly upon notice from ADB, deposit or cause to be deposited into the Grant Imprest Account (or if ADB so requests, refund to ADB) such payment or portion thereof not so eligible. The Grant Imprest Account shall not be replenished by ADB until India has made such deposit or refund.

Retroactive Financing

6. Withdrawals from the Grant Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, and after 26 December 2004, not exceeding an amount of up to 20% of the Grant which is an amount equivalent up to \$20,000,000, provided however that the expenditures have followed the requirements of ADB, including but not limited to those specified in paragraph 6 of schedule 6, and certified by the respective EA and such certification is acceptable to ADB.

Grant Availability

7. Notwithstanding any other provision of this Financing Agreement, no withdrawals in excess of \$50 million shall be made from the Grant Account unless ADB has, as determined by its President, sufficient sources to finance the Grant.

**TABLE ON ALLOCATION OF GRANT COMPONENTS/GRANT SUBCOMPONENTS
(\$ million)**

Grant Component/Grant Subcomponent	Tamil Nadu	Kerala	Total	Percentage of Financing* (%)
A: Livelihood				
1. Restoration of Livelihoods	49.99	8.85	58.84	100
C: Rural and Municipal Infrastructure				
2. C.1 Water Supply and Sanitation	23.00	13.00	36.00	100
D: Capacity Building and Implementation Assistance				
3. Design and Construction Supervision and technical support consultancy	2.21	1.20	3.41	100
4. Incremental Administration	1.00	0.75	1.75	100
Total	76.20	23.80	100.00	

*Exclusive of taxes and duties.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of goods and services to be financed out of the proceeds of the Loan and the Grant, respectively. In this Schedule and the Attachment hereto, the term "goods" includes equipment and materials; the term "services" does not include consulting services.
2. Procurement of goods and services shall be subject to the provisions of the "Guidelines for Procurement under Asian Development Bank Loans" dated November 2004 (hereinafter called the Guidelines for Procurement), as amended from time to time, which have been furnished to India, Tamil Nadu and Kerala.
3. Procurement of goods and services shall be made without any restriction against, or preference for, any particular supplier or contractor or any particular class of suppliers or contractors, except as otherwise provided in this Schedule.

International Competitive Bidding and International Shopping

4. (a) Each civil works contract estimated to cost the equivalent of more than \$10,000,000 and each supply contract for equipment or materials estimated to cost the equivalent of more than \$1,000,000 shall be awarded on the basis of international competitive bidding as described in Chapter II of the Guidelines for Procurement.

(b) For contracts to be awarded on the basis of international competitive bidding, there shall be submitted to ADB, as soon as possible, and in any event not later than 90 days before the issuance of either the first prequalification invitation or the first invitation to bid for the Project, a General Procurement Notice (which ADB shall arrange to publish separately) in such form and detail and containing such information as ADB shall reasonably request. ADB shall be provided the necessary information to update such General Procurement Notice annually as long as any goods and works remain to be procured on the basis of international competitive bidding.

(c) For contracts to be awarded on the basis of international competitive bidding, procurement actions shall be subject to review by ADB in accordance with the procedures set forth in Chapter IV of the Guidelines for Procurement. Each draft prequalification invitation and each draft invitation to bid, to be submitted to ADB for approval under such procedures, shall reach ADB at least 21 days before it is issued and shall contain such information as ADB shall reasonably request to enable ADB to arrange for the separate publication of such invitation.

5. (a) Each supply contract for equipment or materials estimated to cost the equivalent of \$1,000,000 or less (other than minor items) shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement.

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(b) Notwithstanding anything contained in the provisions of paragraph 3.03(b) of the Guidelines for Procurement, award of contract shall be subject to prior ADB approval in accordance with the provisions of paragraph 8 of this Schedule.

6. In comparing bids under international competitive bidding, a margin of preference may be provided, at the option of India and in accordance with the provisions of the Attachment to this Schedule, for

- (a) goods manufactured in the territory of India, provided that the bidder offering such goods shall have established to the satisfaction of India and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods; and
- (a) civil works to be carried out by eligible domestic contractors, as defined by ADB.

Local procurement

7. (a) Each civil works contract estimated to cost \$10,000,000 or less may be awarded on the basis of local competitive bidding among qualified contractors in accordance with the standard procurement procedures of Tamil Nadu or Kerala as the case may be, and acceptable to ADB. Local registration procedures will be acceptable for qualification purposes. The bidding periods shall be 21-30 days or 15 days for small and simple civil works contracts estimated to cost the equivalent of \$500,000 or less. Subject to paragraph 8 of this Schedule, the selection and engagement of contractors shall be subject to the approval of ADB. As soon as the bids received have been evaluated, the proposal for award of contract shall be submitted to ADB for approval. For this purpose, ADB shall be furnished with three copies of (i) an account of the public opening of bids; (ii) a summary and evaluation of the bids; (iii) the proposal for award; and (iv) a draft contract or a draft letter of acceptance. Promptly after each contract is awarded, ADB shall be furnished with three copies of the contract as executed.

(b) Tamil Nadu and Kerala shall ensure that for ADB-financed procurement under their respective local procurement procedures the bid documents do not (i) disclose budget packages and (ii) seek bid invitations on a percentage basis. Provided however, for contracts already awarded or tendered that have already included these requirements, eligibility for ADB financing of these contracts shall be subject to review and approval by ADB.

8. (a) For all contract packages in Tamil Nadu and Kerala estimated to cost the equivalent of \$1,000,000 or more, the IAs for Tamil Nadu and Kerala respectively shall submit the procurement documents and bid evaluation for ADB review and approval prior to award of contract. For contract packages in Tamil Nadu and Kerala estimated to cost the equivalent of less than \$1,000,000, subject to the procurement documents and bid evaluation for the first two contract packages for each IA, being found to be satisfactory by ADB, for subsequent contract packages the IA shall proceed with procurement procedures and contract award without prior ADB review and approval. In such cases the following post-facto approval procedures shall apply: (i) the IA shall retain a record of all procurement documentation, including copies of the signed contract and the bid evaluation report, to be available for inspection; (ii) at the time of each contract award the IA shall provide ADB with a

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certificated summary sheet reporting on the main aspects of the bid evaluation and contract award; (iii) ex-post audit of the procurement processes and contract awards shall be carried out annually as part of the Project performance audit; and (iv) if any contract award is found to be unacceptable, ADB may refuse to finance the contract.

(b) Accordingly irrespective of estimated cost of the contract package, re-bidding or extensions to bid validity under any contract shall be subject to ADB's prior approval.

Direct Procurement

9. Equipment estimated to cost, the equivalent of less than \$100,000 may be procured directly from the manufacturers of the original equipment or their agents in accordance with procedures acceptable to ADB. After award, three copies of each contract for such items shall be furnished to ADB.

Community Participation

10. Small works contracts estimated to cost the equivalent of \$20,000 or less, under Component A and Subcomponent C.2(ii) may be awarded to community group organizations in accordance with practices and procedures acceptable to ADB.

Advance Procurement Action

11. Notwithstanding approval by ADB of advance procurement action, all procurement relating thereto shall be carried out in accordance with the provisions of this Financing Agreement.

Intellectual Property

12. (a) India shall ensure or cause to be ensured that all ADB-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) India shall ensure or cause to be ensured that all ADB-financed contracts for the procurement of goods and services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

Preference for Domestically Manufactured Goods

1. In the procurement of goods through international competitive bidding, goods manufactured in the territory of India may be granted a margin of preference in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of India and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following three categories:

Category I -- bids offering goods manufactured in the territory of India which meet the minimum domestic value added requirement;

Category II -- bids offering other goods manufactured in the territory of India; and

Category III -- bids offering imported goods.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I or Category II is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category III, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category III by adding either
- (i) the amount of customs duties and other import taxes which a nonexempt importer would have to pay for the importation of the goods offered in such Category III bid; or
 - (ii) 15 percent of the CIF bid price of such goods if the customs duties and import taxes referred to above exceed 15 percent of the CIF bid price.

If, after such further comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category III shall be selected for the award.

2. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference, including the minimum domestic value added.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Domestic Preference for Turnkey Contracts and
Supply-and-Installation Contracts

3. In single-responsibility turnkey (including design-build) contracts and supply-and-installation contracts for large and complex packages, procured through international competitive bidding and in which discrete items of goods are grouped into one contract package and where the CIF cost of goods to be used for or in the permanent works under such contracts is estimated, prior to bidding, to equal or exceed 60 percent of the total cost of such works, a margin of preference shall be applied to the domestically manufactured goods in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of India and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) The margin of preference shall not be applied to the whole package but only to the domestically manufactured goods within the package.
- (b) Goods offered from outside the territory of India shall be quoted CIF and goods offered domestically shall be offered ex-factory or ex-works (free of sales and similar taxes).
- (c) All other cost components, such as design as well as works installation and supervision, shall be quoted separately.
- (d) In the comparison of bids (which should not be classified into Categories I, II or III as with the domestic preference for goods), only the CIF price in each bid of the goods offered from outside the territory of India shall be increased by the applicable duty and other taxes payable by a nonexempt importer or by 15 percent, whichever is less.
- (e) If duties vary from item to item within a package, the appropriate tariff for each item shall apply.
- (f) No margin of preference shall be applied to any associated services or works included in the package.
- (g) Bidders will not be permitted or required to modify the mix of domestic and foreign goods after bid opening.

4. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Preference for Domestic Contractors

5. In the selection of civil-works contractors, single-responsibility turnkey (including design-build) contractors or supply-and-installation contractors where the CIF cost of goods to be used for or in the permanent works under such contracts is less than 60 percent of the total cost of such works, eligible domestic contractors, as defined below, through international competitive bidding may be granted a margin of preference in accordance with the following provisions.

(a) For application of domestic preference, all responsive bids shall first be classified into the following two categories:

Category I -- bids offered by domestic contractors and joint ventures eligible for the preference in accordance with the applicable criteria as set forth in paragraph 6 below; and

Category II -- bids offered by other contractors.

(b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves.

(c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I is found to be the lowest, it shall be selected for the award of contract.

(d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category II, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category II by adding an amount equal to seven-and-one-half percent of the bid price. If, after such comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category II shall be selected.

6. (a) To be eligible for the preference set forth in paragraph 5 above, domestic contractors must meet the following criteria:

(i) firms are registered in the territory of India;

(ii) firms have majority ownership by nationals of India; and

- (iii) firms will not subcontract more than 50 percent of the total value of their work to foreign contractors.

(b) A joint venture between a domestic contractor and its foreign partner shall be eligible for the preference only if it meets the following criteria:

- (i) the domestic partner(s) is individually eligible for the preference according to the criteria stated above;
- (ii) the domestic partner(s) would not qualify for the contract works on technical or financial grounds without the foreign participation; and
- (iii) the domestic partner(s) will, under the arrangements proposed, carry out at least 50 percent of the contract works measured in terms of value.

(c) Contractors applying for the preference shall be required to provide, as part of the data for qualification, necessary information, including details of ownership, for determining whether, according to the applicable criteria, a particular firm or group of firms qualifies for the preference.

7. The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of firms for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above. Bidders applying for the preference shall provide such additional information in support of such eligibility as may be requested by India and ADB.

SCHEDULE 5

Consultants

1. The services of domestic consultants shall be utilized to assist in the carrying out of the Project, as required, particularly with regard to:

- (a) detailed assessment and verification of Tsunami affected damages under each Component;
- (b) prioritization of Subprojects;
- (c) preparation of Subproject appraisal reports in accordance with requirements of India and ADB and agreed selection criteria;
- (d) incorporation of disaster resistance, into the rapid planning, design, and implementation of the works;
- (e) supervision and monitoring of works to ensure quality control and transparency among contractors and communities carrying out smaller works; and
- (f) oversight of works in each Component and provision of detailed accounting, auditing, and reporting to the PIUs, and PMUs.

The terms of reference of the consultants shall be as determined by agreement between ADB, and Tamil Nadu, and Kerala respectively.

2. The selection, engagement and services of the consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers" dated January 2005 (hereinafter called the Guidelines on the Use of Consultants), as amended from time to time, which have been furnished to India, Tamil Nadu and Kerala, and other arrangements satisfactory to ADB for the engagement of domestic consultants.

3. The consultants to be selected and engaged as a firm by Tamil Nadu or Kerala as the case may be, using the quality-and-cost-based selection (QCBS) method, shall be selected and engaged in accordance with the following procedures.

(a) Invitation for technical and financial proposals. The invitation to submit technical and financial proposals (hereinafter called the Request for Proposals or RFP) and all related documents shall be approved by ADB before they are issued. For this purpose, three copies of the draft RFP, the names of consultants to be short-listed, the proposed criteria for evaluation of both proposals, a draft consultancy contract, and other related documents shall be submitted to ADB. A period of at least 35 days shall be allowed for submission of both proposals. A copy of the final RFP as issued, together with all related documents, shall be furnished to ADB for information promptly after issuance. The validity period for the technical and financial proposals as provided in the RFP shall usually not exceed three months from the date specified for submission of the technical and financial proposals. The approval of ADB shall be obtained for any request to extend such validity period. Except as ADB may otherwise agree, the validity period, including any extensions, shall not exceed a maximum total period of six months. If the contract is not signed within the validity period in accordance with the Guidelines on the Use of Consultants, the selection shall be invalid and the selection and engagement process as provided in this paragraph shall be followed again.

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(b) Evaluation and scoring of technical proposals. Immediately after the technical proposals have been evaluated and scored, approval of ADB shall be obtained to the evaluation and scoring of the technical proposals. For this purpose, ADB shall be furnished with three copies of the technical proposals.

(c) Public opening of financial proposals. The financial proposals of the firms whose technical proposals meet the minimum qualifying technical score shall be opened publicly after adequate notice is given to such firms or their representatives to attend the opening of the financial proposals.

(d) Evaluation and scoring of financial proposals and ranking of technical and financial proposals. After the financial proposals have been evaluated and scored, the ranking of the technical and financial proposals shall be made. Before negotiations are started with the first-ranked consultants, approval of ADB shall be obtained to the evaluation and scoring of the financial proposals and the ranking of the technical and financial proposals. For this purpose, ADB shall be provided with three copies of (i) the evaluation and scoring of the financial proposals and (ii) the ranking of the technical and financial proposals.

(e) Execution of contract. After the conclusion of negotiations but before the signing of the contract, ADB shall be furnished with the contract as negotiated for approval. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

4. Individual consultants shall be selected and engaged by Tamil Nadu or Kerala, as the case may be, in accordance with the following procedures.

(a) A list of the candidates together with their qualifications and a draft contract shall be furnished to ADB for approval before the selection of consultants.

(b) Promptly after the contract is signed, ADB shall be furnished with the evaluation of the candidates and a brief justification for the selection, together with three copies of the signed contract.

(c) If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

5. India shall ensure or cause to be ensured that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

SCHEDULE 6

Execution of Project and Operation of Project Facilities; Financial Matters

Project Execution

1. (a) Tamil Nadu and Kerala shall be responsible for overall execution of the Project in their States through their respective EA. The EAs shall also be responsible for coordinating assistance provided by multilateral and bilateral development institutions, private sector, NGOs and other aid and donor agencies.

(b) Without limiting the generality of Section 2.02 of the respective Project Agreement, Tamil Nadu and Kerala shall ensure that their respective EA is adequately staffed by competent and qualified personnel for the effective implementation of the Project, as also the requisite funds required for implementation of resettlement, environment and other specific actions as the case may be for purposes of paragraph 7 of this Schedule.

State Level Steering Committees and Empowered Committees

2 Within not more than one month of the Effective Date, Tamil Nadu and Kerala shall:

(a) establish, and thereafter maintain throughout the period of Project implementation, a State Level Steering Committee, in a form and with functions, staffing and resources satisfactory to ADB, which shall be responsible, inter alia, for providing overall guidance to the related State EA; and

(b) establish, and thereafter maintain throughout the period of Project implementation, an Empowered Committee (hereinafter referred to as the "Empowered Committee") for the related State, with the respective State Chief Secretary as its Chairperson, in a form and with functions, staffing and resources satisfactory to ADB, which shall be responsible, inter alia, for according all approvals and sanctions for carrying out of the Project in the related State.

Project Implementation

3. Within not more than one month of Effective Date, Tamil Nadu and Kerala shall establish a PMU within the respective EA. Each PMU shall be responsible for (i) providing day to day assistance and guidance to the IAs, (ii) review of Subprojects proposals from the IAs for approval by the Empowered Committee for the respective State, and/ADB as the case may be, (iii) disbursement and accounting of funds against review of financial reports provided by the IAs, (iv) consolidation and submission of progress reports to the respective Empowered Committee of the State, and (v) quality control and transparency requirements to be followed by the IAs in undertaking reconstruction and restoration activities.

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4. The line departments and authorities as identified in Attachment A to this Schedule shall be the IAs for the Components in Tamil Nadu and Kerala respectively. Tamil Nadu and Kerala shall ensure that within not more than one month of the Effective Date each IA shall establish internal implementation arrangements (including PIUs) as reflected in Attachment A to this Schedule. Each IA shall be responsible for (i) detailed assessments, surveys and planning of reconstruction including public consultation and input from recipient local entities and beneficiaries, (ii) preparing and presenting Subproject proposals to the respective EA, (iii) prioritizing works, preparing detailed designs, specifications, schedule of quantity, contracts and related bid documents, (iv) day to day implementation, supervision and quality control of reconstruction activities, approving payments to contractors, and (v) maintaining progress reports, records and accounts for Subprojects. The IAs shall be supported in their activities by consultants in the respective PMU for Tamil Nadu and Kerala, as required.

5. Tamil Nadu and Kerala respectively shall take specific measures to ensure expedited internal approval process for Subproject selection and approval, contract tendering and signing, approval of progress claims, and provision of counterpart funds. For each IA the applicable approvals by the respective EA or concerned line department, shall be given preferably within ten working days, including requests for additional clarifications or information.

6. (a) Tamil Nadu and Kerala respectively shall ensure that all Subprojects follow the processing and selection criteria and implementation arrangements as reflected in Attachment B to this Schedule, and that all Subprojects are properly monitored as agreed with ADB. Any Subproject that does not follow the requirements as reflected in Attachment B to this Schedule shall not be eligible for ADB financing under the Project.

(b) Commencement of the first two Subprojects to be carried out by each IA shall be subject to prior review and approval by ADB. Subsequent Subprojects estimated to cost more than \$500,000 but less than \$3,000,000 equivalent shall be sent to the respective PMU and ADB for information only while Subprojects with estimated costs exceeding \$3,000,000 equivalent shall require prior review and approval by ADB. Subprojects estimated to cost \$500,000 equivalent or less shall be subject to approval by the respective PMU and random audit and checks by ADB to ensure compliance with the requirements of Subproject selection criteria and implementation arrangement. Any Subproject that is found not to have followed the requirements of this Financing Agreement during such audit and check by ADB, shall not be eligible for ADB financing.

Resettlement, Environment and Indigenous Peoples

7. Tamil Nadu and Kerala shall ensure that

(a) the Project, including Subprojects shall be implemented in full compliance with applicable laws of India and the respective State, and ADB's *Environment Policy, 2002*. As applicable, Subprojects shall be prepared in accordance with the requirements of the EARPF, including any revisions required on account of detailed designs. Subprojects that do not satisfy the selection criteria under the EARPF shall not be included under the Project, and for those that require an IEE, the IEE and related Environment Management and Monitoring Plan shall be prepared for design and implementation. All applicable clearances

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of India or the respective State, including that of the related Coastal Regulation Zone requirements, shall be obtained for the Subproject prior to award of any contracts for implementation of the Subproject;

(b) land acquisition and resettlement under the Project shall be (i) minimized and limited to public lands to the extent possible, and (ii) carried out in accordance with applicable laws of India and the respective State, and ADB's *Policy on Involuntary Resettlement*, 1995. Any Subproject involving land acquisition and involuntary resettlement under the ADB policy shall require preparation and implementation of a resettlement plan in accordance with the RF. Such resettlement plan (including any revisions thereto on account of detailed designs) shall be subject to approval of ADB prior to award of civil works contract under the Subproject; and

(c) if impacts on indigenous peoples (eg: Scheduled Tribes) are identified under a Subproject, such impacts shall be addressed in accordance with ADB's *Indigenous Peoples Policy*, 1998 through Specific Actions outlined in the RF and such Specific Actions shall require approval of ADB's, prior to award of civil works contract under the Subproject.

Participation

8. Tamil Nadu and Kerala shall ensure that

(a) the respective EA and the IA seek participation of NGOs and government organizations and community, particularly women, in the selection, design, implementation and monitoring of rehabilitation and reconstruction of infrastructure and other activities under Components A and C.2.(ii); and

(b) community based dispute resolution mechanisms are established to address disputes, if any, under the Project, including between people in the Tsunami affected areas. The NGOs and communities shall also maintain proper records and information about their activities and use of funds under the Project, and shall be subject to audit by the respective EA for the State.

Component A (Livelihoods)

9. Tamil Nadu and Kerala shall

(a) ensure that installments of assistance (including cash) provided to SHGs and individual beneficiaries under Component A shall be against suitable identification, records, verifications, and certifications;

(b) facilitate SHGs and individual beneficiaries' due identification and requests for livelihood assistance, through public awareness programs and community participation, undertaken by community based organizations and NGOs as feasible; and

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(c) ensure that of the SHG's and beneficiaries assisted under the Project overall comprise 50% women and 3% disabled. Processing procedures of assistance under Component A may also draw from ongoing poverty reduction programs (especially the Swarnajayanthi Gram Swarozgar Yojana) in India, Tamil Nadu or Kerala as applicable.

Project Performance and Benefit Monitoring

10. Tamil Nadu and Kerala through their respective EA shall (i) establish, maintain and implement a Project performance monitoring system (PPMS) for their respective State as agreed with ADB, and (ii) undertake periodic reviews to evaluate the scope, progress, implementation arrangements, achievement of the Project objectives and benefits, and benefit monitoring in accordance with the PPMS.

Imprest and Counterpart Funds

11. India shall, upon receipt of advances from ADB into the Loan Imprest Account and Grant Imprest Account, respectively, ensure timely payment of such advances to Tamil Nadu and Kerala, respectively, as and when requested.

Quality Control

12. Tamil Nadu and Kerala shall (i) ensure that the rehabilitation and reconstruction of affected infrastructure under the Project includes strengthened seismic, high wind (cyclone), storm surges, earthquake, Tsunami and flood resistance provisions as feasible, and road safety audits to be undertaken for roads rehabilitated or reconstructed under Component B.1; and except as provided otherwise for Component C.2 (i) and C.2 (ii), (ii) monitor and ensure quality control of materials used in rehabilitation and reconstruction under the Project, and ensure that rehabilitation and reconstruction is carried out by contractors and builders as approved by Tamil Nadu and Kerala respectively, for technical competence.

Project Facilities

13. (a) Tamil Nadu and Kerala shall ensure that all public facilities rehabilitated and reconstructed under the Project are operated and maintained by the respective EA or other authorized agency. For this purpose Tamil Nadu and Kerala respectively shall make available, on a timely basis, the necessary funds for operation and maintenance of the public Project facilities upon completion of works under a Subproject.

(b) Without limiting the generality of Section 2.05 of the respective Project Agreement, Tamil Nadu and Kerala shall initiate administrative approvals to ensure compulsory comprehensive insurance of reconstructed public infrastructure property, and shall encourage similar insurance for private property as feasible, that includes adequate coverage for natural calamities such as earthquake, Tsunami, cyclones and flood.

Reporting and Monitoring of Accounts

14. Without limiting the generality of Section 2.06 of the respective Project Agreement, Tamil Nadu and Kerala shall ensure that their respective EA shall establish a reporting system for quarterly progress reports on performance monitoring, issues resolution, and action plans that shall include monitoring reports on environment, resettlement, and related issues in accordance with the RF and EARPF respectively. The action plans shall (i) incorporate quantitative and time bound implementation targets and budget requirements, (ii) be approved by the respective IA, PMU, and EA, and shall serve as management feedback to update and improve procedures and provide the basis for quarterly reports to ADB.

15. Without limiting the generality of Section 2.08(c) of the respective Project Agreement, Tamil Nadu and Kerala shall ensure that the Project completion reports to be provided to ADB shall include detailed evaluation of Project design, costs, contractor and consultant's performance, social and economic impact, and other details as may be requested by ADB.

16. Without limiting the generality of Sections 2.06 and 2.09 of the respective Project Agreement, Tamil Nadu and Kerala shall ensure that

(a) the respective PMU shall maintain proper and separate accounting and audit procedures to ensure efficient and economic use of the Loan and the Grant proceeds, respectively. Each respective PMU shall ensure that accounts and financial statements in relation to the Components and Subprojects thereof shall be maintained separately for the Loan and the Grant proceeds respectively, and certified by independent auditors acceptable to ADB;

(b) the respective PMU shall further consolidate and provide such accounts and financial statements to ADB;

(c) the independent auditor referred to in clause (a) of this paragraph shall assess the operations of the Project's financial management systems in each State, including review of internal control mechanisms, and prompt identification of problems, timely corrective actions and systematic recommendations for enhanced accountability and transparency.

17. Without limiting the generality of Section 2.09 of the respective Project Agreement, India, Tamil Nadu and Kerala shall allow independent auditors acceptable to ADB to undertake performance audits on a random basis and post completion audits.

18. Without limiting the generality of Section 2.10 of the respective Project Agreement, India, Tamil Nadu, and Kerala shall allow ADB's representatives to carry out spot or random checks on flow of funds through the Loan Imprest Account, and Grant Imprest Account.

ADB Extended Mission

19. (a) The provisions of the *Agreement between the Government of India and the Asian Development Bank regarding the Resident Office of the Asian Development Bank*, dated 18 November 1992 shall apply to the ADB Extended Mission offices that shall be operative for the duration of Project implementation.

Schedule 6

(b) India, Tamil Nadu and Kerala shall as required, extend full cooperation to the respective ADB Extended Mission offices, in their activities, particularly in monitoring and random and spot checks on the procurement, accounts of the Project and Subprojects and inspection of Project facilities for quality control.

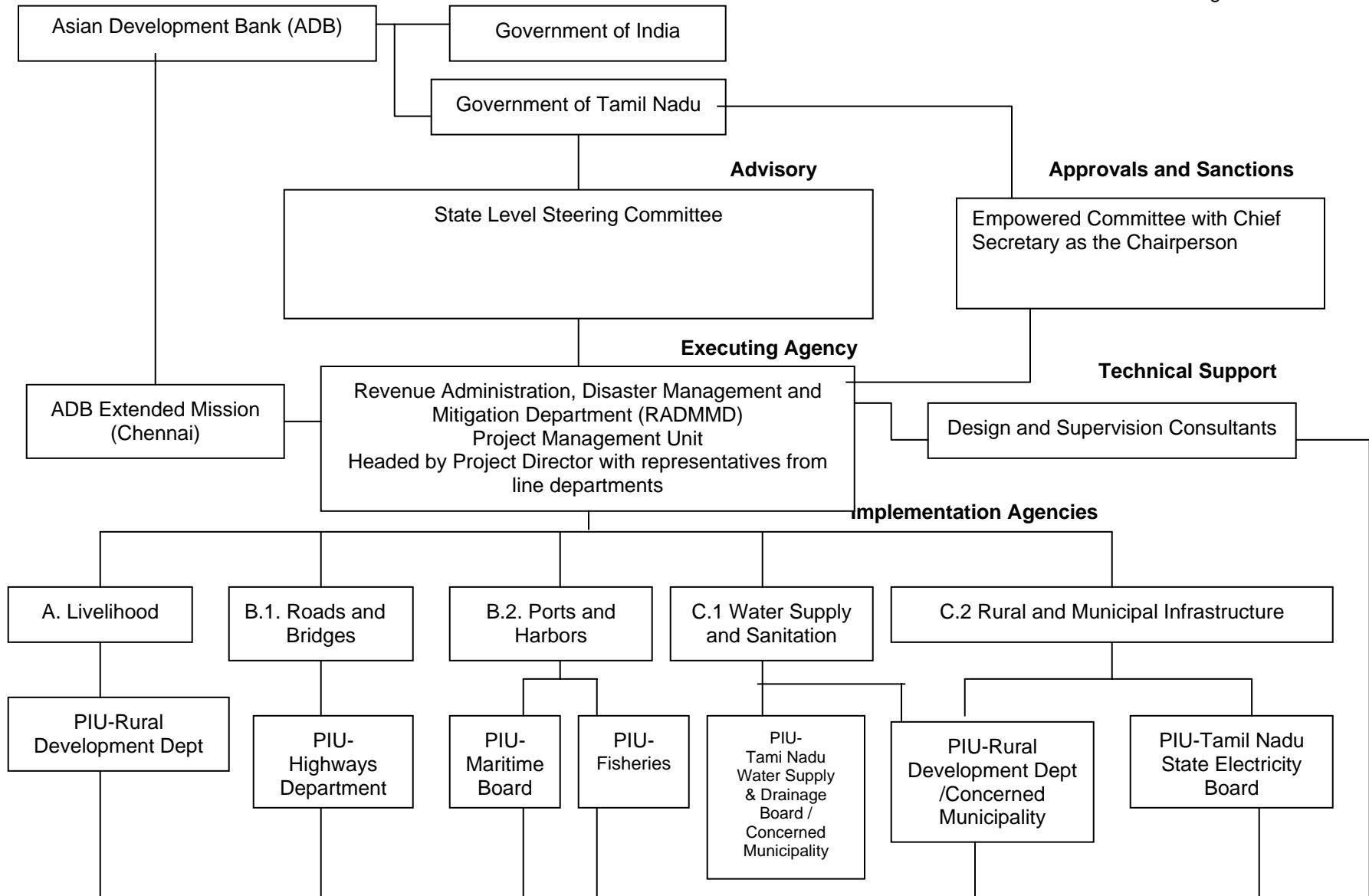
Progress Reviews

20. ADB Extended Mission offices will as required, support the PMUs for Tamil Nadu and Kerala respectively in monitoring physical progress of the Project and compliance with ADB requirements such as procurement, quality control, accounting, beneficiary participation, and NGO consultation. A mid-term review of the Project shall be conducted in September 2006 to identify weaknesses, if any, in implementation arrangements and changes needed to achieve the Project objectives.

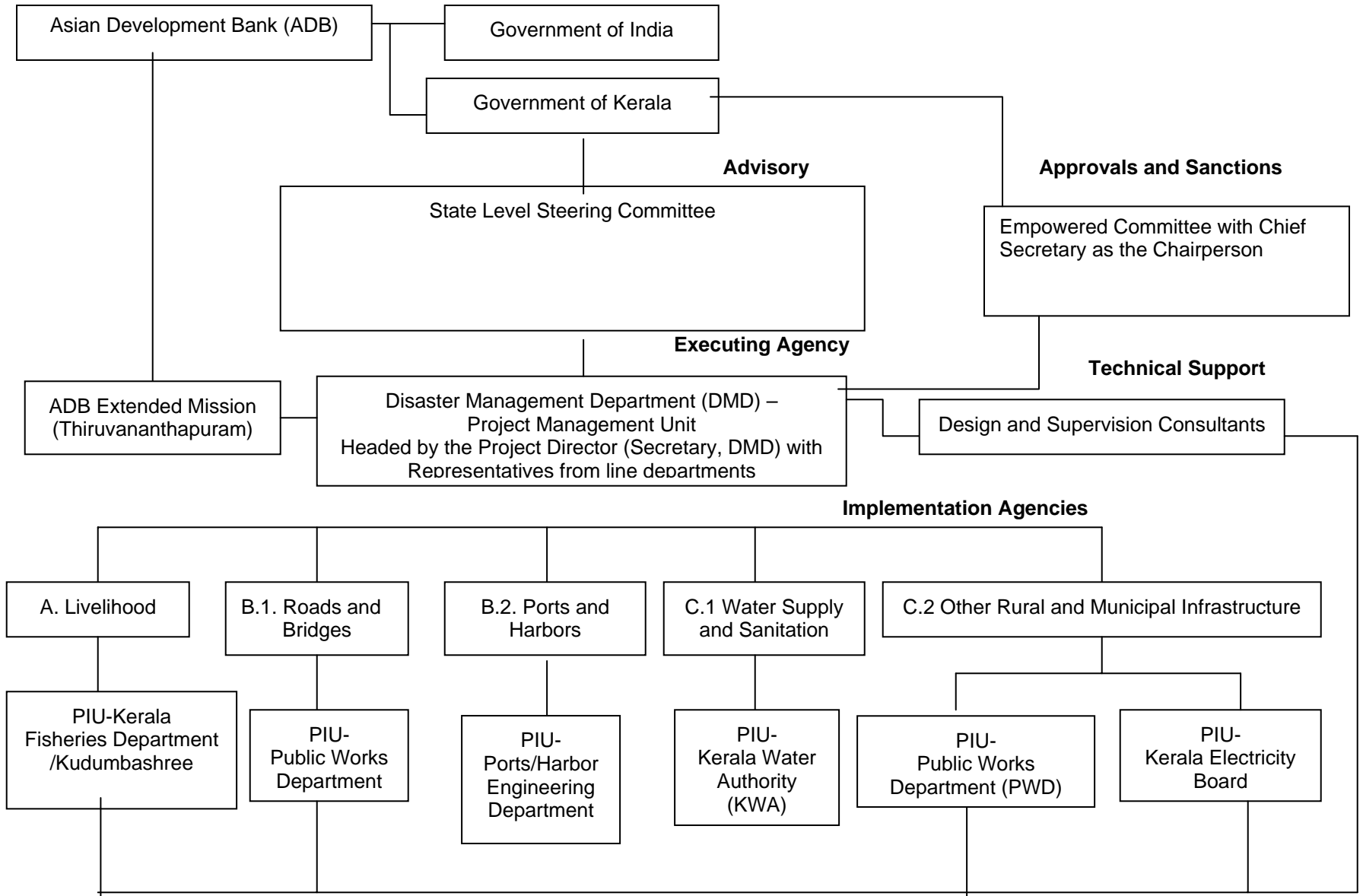
IMPLEMENTATION CHARTS

Tamil Nadu

Attachment A
Page 1



KERALA



SUBPROJECT SELECTION AND APPROVAL

A. Eligibility Criteria for Subprojects

1. The Subproject shall be for rehabilitation of Tsunami damaged infrastructure in the transport, rural/municipal infrastructure, and water supply and sanitation sectors in Tamil Nadu or Kerala as the case may be. The eligibility criteria listed below shall represent the threshold general selection criteria for a Subproject to be satisfied prior to application of sector specific criteria.

- (i) The Subproject shall rehabilitate or restore damaged infrastructure and facilities caused by the Tsunami, based on the damage and needs assessment, and assessment carried out by the Project consultants;
- (ii) The Subproject shall be technically feasible, cost-effective, incorporate multi-hazard resistant design standards of the India or equivalent authorities, and represent a least-cost alternative;
- (iii) The Subproject shall incorporate beneficiary consultation and input in the selection process where applicable;
- (iv) The Subproject shall be completed within the Project implementation period;
- (v) The funding of the Subproject shall not overlap with funding from other agencies, though such agencies may co-finance specified support including monitoring, capacity building and identified poverty alleviation;
- (vi) All necessary approvals of India and respective State shall be obtained for the Subproject before submission by the PMU to ADB for approval;
- (vii) Subprojects shall be prioritized on the basis of their social and economic impact;
- (viii) The Subproject shall be (a) in compliance with applicable India/State laws and ADB's *Environment Policy* (2002); and (b) prepared in accordance with the requirements of the EARPF. Subprojects that do not satisfy the EARPF shall not be included under the Project. For Subprojects that require an IEE, (1) the IEE shall be included in the Subproject proposal; (2) the related Environment Management and Monitoring Plan (EMP) shall have been prepared for design and implementation; and (3) State and India's environment clearance including all necessary clearances as applicable for respective State shall have been obtained prior to award of the Subproject contract. In cases of subprojects that require an EIA, the EIA shall be prepared according to procedures specified in the EARPF and approved by the State Governments and ADB prior to approval of subproject;
- (ix) If the Subproject involves any land acquisition or involuntary resettlement, resettlement plans shall have been prepared in accordance with the applicable India/State laws and ADB's *Policy on Involuntary Resettlement* (1995) and the RF. Such resettlement plan shall have been approved by ADB (including any revisions on account of detailed design) prior to the award of the Subproject contract; and
- (x) In the event of identification of any impacts on indigenous peoples (eg: Scheduled Tribes) under any Subproject, such impacts shall be addressed in accordance with the specific actions as set forth in the RF and such specific actions shall have been approved by ADB prior to the award of civil works contract under the Subproject.

B. Sector Specific Sub-Project Selection Criteria Roads and Bridges

2. The Subprojects under Subcomponent B.1 shall also meet the following applicable criteria: (i) a Tsunami-damaged State road at a distance not more than 5km from the Tsunami affected coast line; (ii) a Tsunami-damaged State road not more than 5km along the river or backwater from the coast; (iii) un-bridged crossings on State roads constituting potential evacuation routes which will considerably reduce the time required for evacuation or provide rescue and relief in case of from future Tsunami, storms and cyclones; and (iv) construction activities on the Subproject will commence only after complying with all the statutory environmental requirements as applicable and taking account of road safety requirements which can be duly audited.

Ports and Harbors

3. The Subprojects shall also meet the following criteria: (i) provide emergency or short-term reestablishment of port and fisheries operation; (ii) contribute significantly to mitigation of disasters and pollution; and, (iii) contribute significantly to enhancing safety in maritime transport and fishing.

Water Supply, Rural and Municipal Infrastructure

4. The specific criteria shall include (i) consultation with affected communities including vulnerable groups through local government institutions for water supply and sanitation; (ii) confirmation on the aquifer and river water availability and sustainability for schemes seeking new sources; (iii) contribution to improving environmental conditions; and (iv) confirmation of operation and management sustainability through preparation of operation and management plans with clear stipulation of responsibilities and resource requirements of the concerned parties with their confirmed affordability.

C. Procedures

5. All Subprojects shall be prepared and processed in accordance with the procedures set out below:

- (i) The IAs shall select a Subproject from the list agreed with ADB during the loan inception mission for the Project, or propose other Subprojects which qualify the eligibility criteria, and shall prepare a project concept paper, which describes the main elements of the proposed Subprojects and main justification, and fill out (a) an involuntary resettlement checklist; and (b) an environmental screening checklist.
- (ii) The above reports shall be submitted to the PMU, who shall review the reports. If PMU finds that the proposed Subproject is eligible in light of the eligibility criteria and the reports are in order, PMU shall send those reports to ADB for further review, to obtain necessary guidance with regard to the extent of relevant analysis, assessment, plan, etc.

- (iii) ADB will review the Subproject concept reports submitted by the PMU. If ADB finds that a proposed Subproject is not likely to satisfy the eligibility criteria and/or that the agreed procedures, ADB will advise the PMU either (a) to modify the Subproject proposal in a manner that will make it eligible for approval or (b) that the Subproject must be rejected. If a Subproject is rejected, the PMU may propose a replacement Subproject. If the proposed Subproject satisfies the eligibility criteria and procedures, based on the resettlement checklist, ADB will advise on the requirements of preparation and application of the resettlement plan.
- (iv) Following approval of a Subproject concept by PMU and ADB, the relevant IA will conduct feasibility study and preliminary design or other similar design works and, based on those works, develop a resettlement plan (if required) and undertake an IEE including an environmental management plan (EMP).
- (v) The IA will disclose the resettlement plan (if required) and IEE to the affected persons and incorporate the results of the consultation.
- (vi) The report of the feasibility study and preliminary design/other design work, including the resettlement plan (if required) and IEE, shall be submitted by the IA to the PMU for its appraisal. PMU will appraise the reports in light of the relevant frameworks. Based on the review, PMU will prepare a summary appraisal report for each of the Subprojects. If PMU finds that one or more proposed Subprojects are technically, environmentally and socially viable and all reports are in order, PMU will send those reports, with attachments including the resettlement plan (if required) and IEE, to ADB for further review and approval.
- (vii) ADB will review the summary appraisal reports, together with required attachments. If ADB finds that the proposed Subproject satisfies the eligibility criteria and procedures, ADB will approve the Subproject. If ADB finds that the proposed Subproject does not satisfy the eligibility criteria and procedures, or does not comply with sector specific criteria, and ADB's safeguard policies (resettlement, environment or indigenous peoples), ADB may advise PMU on remedial actions to be taken for the proposed Subproject in order for it to comply or reject the Subproject.

Summary Procedures for Selection and Approval of Subprojects

Activities	Required Action	Responsibility
1. Initial list of Subprojects	Prepare initial list of Subprojects with brief description of activities to be implemented in each Subproject, with rough cost estimates, submit the proposal to PMU through the technical section.	IA(s), with assistance from consultants as required.
2. Compilation and initial review of Subprojects	Compile and review as appropriate based on the selection criteria, the Subproject proposals submitted by the IAs.	PMU with assistance from consultants.
3. Selection and approval of Subprojects	Based on agreed selection criteria and the priority of the State, select and approve the Subproject proposals.	Empowered Committee for the respective State
4. Survey and detailed design	Conduct survey and prepare detailed design. Hold consultations with different beneficiary groups and civil societies to determine local needs and priorities. Consider the social impacts of the Subprojects, including the environment and resettlement effects. Apply the requirements set forth in the IEE and the RF.	IA with assistance from consultant, with inputs from communities and civil societies.
5. Detailed cost estimates and bidding documents.	Based on the detailed design, prepare detailed cost estimates, bidding documents, and technical specification.	IA and PMU with assistance of consultant.
6. Prepare detailed Subproject proposal for submission to ADB	Submit the approved Subproject proposal to ADB, with relevant environmental and resettlement plans, for review and approval.	PMU
7. Final Subproject approval	Review and approve the Subproject proposals	Respective PMU of the State/ADB as applicable