

CONFORMED COPY

CREDIT NUMBER 1859 IN  
LOAN NUMBER 2893 IN

(Second National Dairy Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

NATIONAL DAIRY DEVELOPMENT BOARD

Dated January 13, 1988

CREDIT NUMBER 1859 IN  
LOAN NUMBER 2893 IN

PROJECT AGREEMENT

AGREEMENT, dated January 13, 1988, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), and the NATIONAL DAIRY DEVELOPMENT BOARD (NDDB).

WHEREAS (A) by the Development Credit Agreement of even date herewith between India, acting by its President (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred twenty one million two hundred thousand Special Drawing Rights (SDR 121,200,000), on the terms and conditions set forth in the Development Credit Agreement, provided that NDDB agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by the Loan Agreement of even date herewith between the Borrower and the Bank, the Bank has agreed to make available to

the Borrower an amount in various currencies equivalent to two hundred million dollars (\$200,000,000), on the terms and conditions set forth in the Loan Agreement, provided that NDDB agrees to undertake such obligations toward the Bank as are set forth in this Agreement;

(C) by a subsidiary loan agreement to be entered into between the Borrower and NDDB, a part of the proceeds of the Credit and the Loan provided for under the Development Credit Agreement and Loan Agreement, respectively, will be made available to NDDB on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS NDDB, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, and the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. Wherever used in this Agreement, unless the context otherwise requires:

(a) reference to the Association shall also be deemed as reference to the Bank, and reference to the Credit or the Credit Account shall also be deemed as reference to the Loan or Loan Account, respectively (except in Section 6.03 hereof); and

(b) the several terms defined in the Development Credit Agreement, in the Loan Agreement, the Preamble to this Agreement and in the General Conditions (as so defined in the Development Credit Agreement and the Loan Agreement respectively) have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of the Project

Section 2.01. NDDB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and dairy development practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. NDDB shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions applicable to the Development Credit Agreement and in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions applicable to the Loan Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.04. NDDB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, NDDB shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) NDDB shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) NDDB shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by NDDB of its obligations under this Agreement and the Subsidiary Loan Agreement.

Section 2.06. If NDDB establishes or acquires any subsidiary entity, NDDB shall cause such subsidiary to observe and perform the obligations of NDDB under this Agreement to the extent to which such obligations shall or may be made applicable thereto, as though such obligations were binding upon such subsidiary.

Section 2.07. (a) NDDB shall take necessary steps to ensure that, DCSSs, MPUs and State Federations are organized in accordance with, and carry out their functions under charters and by-laws which are consistent with, the principles set out in Schedule 2 to this Agreement.

(b) All state plans and sub-project appraisals approved by NDDB shall comply with, or demonstrate significant progress (completed actions as well as specific short and medium term targets) in adopting the features set out in Schedule 2 to this Agreement.

Section 2.08. (a) Subject to Section 2.07(b) of this Agreement, NDDB shall carry out an appraisal of every sub-project to be financed under the Project in accordance with procedures and guidelines satisfactory to the Association and shall ensure that all sub-projects in respect of which sub-loans are made by NDDB shall satisfy criteria acceptable to the Association including the following:

- (i) a financial rate of return of at least twelve percent (12%);
- (ii) an investment cash flow supportable by the institution's existing and projected financial position;
- (iii) appropriate technical, managerial, financial and marketing arrangements;
- (iv) appropriate institutional arrangements for complying with the provisions of Section 2.07 (b) of this Agreement; and
- (v) appropriate arrangements for the insurance of facilities owned by the institution.

(b) NDDB shall require each institution receiving a sub-loan to appropriate annually from its net operating income an amount necessary to maintain its equity in real terms before determining surpluses available for dividend distribution and producer price bonuses.

Section 2.09. NDDB shall submit reports of its appraisals of such sub-projects as may be requested by the Association from time to time, for review by the Association.

Section 2.10. NDDB shall take all necessary action to cause DCSSs, MPUs and State Federations supported under the Project, to (i) have their accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Association; (ii) furnish to NDDB as soon as available, and except

as NDDB shall otherwise agree, not later than six months after the end of each such year: (A) certified copies of the financial statements of the said MPUs and State Federations (including a summary statement of the findings relative to the DCSs' audits by said auditors, for such year as so audited), and (B) the report of such audit of the financial statements of the MPUs and State Federations by said auditors, of such scope and in such detail as NDDB shall have reasonably requested; and (iii) furnish to the Association such information concerning the accounts and financial statements of all MPUs and State Federations and the audit thereof as the Association shall from time to time reasonably request.

Section 2.11. NDDB shall monitor the progress of each approved sub-project against specific physical, financial and institutional development targets acceptable to the Association.

Section 2.12. Without limitation to the provisions of Section 9.06 of the General Conditions applicable to the Development Credit Agreement and Section 9.07 of the General Conditions applicable to the Loan Agreement, NDDB shall submit to the Association, within 90 days after the end of each semester, semi-annual progress reports, in a format and with contents satisfactory to the Association, summarizing, inter alia, project performance, physical achievements, disbursements by categories and types of expenses and institutional development achievements and objectives at the level of State Federations and MPUs.

Section 2.13. (a) NDDB shall make appropriate arrangements with each State Federation and take necessary steps to ensure that (i) each State Federation prepares and adopts a state cooperative dairy development plan (state plan) satisfactory to NDDB; and (ii) each State Federation prepares and adopts annual updates of such state plans, satisfactory to NDDB, no later than by the end of the preceding calendar year.

(b) Copies of the state plans and annual updates referred to in Section 2.13 (a) above, as approved by NDDB, shall be retained by NDDB for such review by the Association as the Association may request from time to time.

(c) The state plans and annual updates thereof referred to in Section 2.13 (a) and (b) above shall be in a form and with content satisfactory to the Association and shall include physical and institutional development targets for the forthcoming year, as well as a review of the physical and institutional development achievements of the previous year compared with the targets previously established between the State Federations and NDDB for that year.

### ARTICLE III

#### Management and Operations of NDDB

Section 3.01. NDDB shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, and dairy development practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. NDDB shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and dairy development practices.

Section 3.03. NDDB shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. NDDB shall review with the Association, at least once each year, the annual work program and annual budget of

NDDB, in respect of the Project.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) NDDB shall maintain procedures, records and accounts adequate to monitor and record the progress of the Project (and of each sub-project including its cost and the benefits derived from it) and to reflect in accordance with sound accounting practices its operations and financial condition in respect of the Project.

(b) NDDB shall:

- (i) have its records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. NDDB shall maintain accounts and records for, and carry out financial management (including funding and incurring of financial obligations) of, its activities under Operation Flood separate from all its other activities including, in particular, non-dairy related activities.

Section 4.03. NDDB shall take steps satisfactory to the Association towards the progressive reduction of subsidies granted by NDDB under Operation Flood.

Section 4.04. NDDB shall continue its ongoing review of India's dairy commodity aid and trade arrangements.

Section 4.05. NDDB shall ensure that: (i) by December 31, 1991 the sale prices of domestically produced reconstitution milk products shall have been progressively adjusted to a level adequate to cover the average production costs of such commodities; and (ii) the sale prices of dairy commodities imported under commodity aid arrangements for Operation Flood III shall be maintained at the same levels as the sale prices of comparable domestically produced commodities.

Section 4.06. NDDB shall take necessary steps to ensure that each of its loans to MPUs and State Federations is adequately secured in accordance with arrangements satisfactory to the Association.

Section 4.07. NDDB shall ensure that it maintains adequate internal control procedures and departmental responsibilities including adequate separation of the responsibilities for planning and promoting from those for the approval of investments.

#### ARTICLE V

Effective Date; Termination;  
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect

on the date upon which both the Development Credit Agreement and the Loan Agreement become effective.

Section 5.02. (a) This Agreement and all obligations of the Association and NDDB respectively thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement and the Loan Agreement shall have terminated in accordance with their respective terms; or
- (ii) the date 15 years after the date of this Agreement.

(b) If the Development Credit Agreement or the Loan Agreement or both of said Agreements terminate in accordance with their respective terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify NDDB of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions applicable to the Development Credit Agreement or the Loan Agreement.

## ARTICLE VI

### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INDEVAS  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For the Bank:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For National Dairy Development Board:

National Dairy Development Board  
Anand - 388001  
Gujarat State  
India

Cable address:

Telex:

DAIRYBOARD  
Anand

172 207

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of NDDB may be taken or executed by its Chairman or such other person or persons as the Chairman shall designate in writing, and NDDB shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. As long as the Bank has not given notice to the contrary to NDDB and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of NDDB to consult with, and to furnish information, documents, plans, reports, records and statements to, the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to NDDB shall be satisfied to the extent such obligations are fulfilled by the Association; and

(c) all actions taken (including the giving of approvals or the granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Loan Agreement, and in the name and on behalf of both the Association and the Bank.

Section 6.04. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu  
Regional Vice President  
Asia

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu  
Regional Vice President  
Asia

NATIONAL DAIRY DEVELOPMENT BOARD

By /s/ N. Misra

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Subject to the concurrence of the Association, the design, construction, equipping and commissioning of balancing dairy plants may be procured on a turnkey basis.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in India may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works contracts (except civil works included in turnkey contracts for the construction of dairies to be procured through international competitive bidding pursuant to Part A.2 hereof) may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Contracts for equipment and materials estimated to cost less than the equivalent of \$200,000 each, but more than the equivalent of \$25,000 each, up to an aggregate amount not to exceed the equivalent of \$155,000,000, may be awarded on the basis of competitive bidding, advertised locally in accordance with procedures satisfactory to the Association.

3. Items or groups of items estimated to cost less than the equivalent of \$25,000 per contract, up to an aggregate amount not to exceed the equivalent of \$15,000,000 may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost the equivalent of \$5,000,000 or more, and for equipment estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the



preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Development Credit Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

#### Section II: Employment of Consultants

In order to assist NDDB in carrying out the Project, NDDB shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

#### SCHEDULE 2

##### Key Features of the Operation Flood Dairy Cooperative Model

- (a) The boards of directors of DCSs, MPUs and Federations are duly elected by the members from their member constituents;
  - (b) the cooperatives operate under by-laws ensuring the democratic process with regular meetings of the boards, regular and independent auditing, accountability of the boards to the members, and annual general body meetings at which audited accounts are reviewed, future plans discussed and elections held;
  - (c) MPUs and State Federations employ professional managers answerable to their boards;
  - (d) facilities are owned and managed by the cooperatives (generally vested at the MPU level unless, in exceptional cases, the central purpose of the asset justifies management and ownership at the State Federation level); and
  - (e) the cooperatives enjoy autonomy in pricing, marketing, appointment of key personnel and the employment of labor.
- 