

CONFORMED COPY

LOAN NUMBER 4606 IN

Project Agreement

(Karnataka State Highways Improvement Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF KARNATAKA

Dated July 26, 2001

LOAN NUMBER 4606 IN

PROJECT AGREEMENT

AGREEMENT, dated July 26, 2001, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF KARNATAKA, acting by its Governor (Karnataka).

WHEREAS by the Loan Agreement of even date herewith between India (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to three hundred sixty million dollars (\$360,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Karnataka agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Karnataka declares its commitment to the objective of the Project and, to this end, shall carry out the Project, through PWD, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, transport, social and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Karnataka shall otherwise agree, Karnataka shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement and the Project Implementation Plan.

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

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

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Karnataka shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Karnataka, a plan designed to ensure the continued achievement of the Project's objective; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Karnataka on said plan.

Section 2.04. (a) Karnataka shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

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

ARTICLE III

Financial Covenants

Section 3.01. (a) Karnataka shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Project of the departments or agencies of Karnataka responsible for carrying out the Project or any part thereof.

(b) Karnataka shall:

- (i) have the records, accounts and financial statements 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 Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such Fiscal Year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal Year as so audited, and (B) an opinion on such financial statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, Karnataka shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 3.01 in order to enable Karnataka, not later than October 1, 2002 or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, Karnataka shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Karnataka thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Karnataka thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. 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 facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for contracts for works under Part A.1 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Dispute Review Board

Each contract for works estimated to cost \$10,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

The following may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Bank: (a) works under Part A.1 of the Project estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$20,000,000 equivalent; (b) works under Part B of the Project estimated to cost less than \$5,500,000 equivalent per contract, up to an aggregate amount not to exceed \$110,000,000 equivalent; and (c) goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Three Quotations/Direct Contracting/Community Participation/Force Account

Works, up to an aggregate amount not to exceed \$14,610,000 equivalent, related to: (a) road overbridges, road underbridges and shifting of utilities under Part A.1 of the Project; (b) black spot improvement under Part D of the Project; (c) infrastructure facilities for carrying out resettlement and rehabilitation of project affected people under Part A.2 of the Project; (d) environmental mitigation and related measures referred to in Schedule 2 to this Agreement; and (e) other minor items as agreed by Karnataka and the Bank and estimated to cost less than \$50,000 equivalent per contract:

(i) may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully;

(ii) may, with the Bank's prior agreement, be procured by direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines, up to an aggregate amount not to exceed \$8,000,000 equivalent when added to the works procured under subparagraphs (iii) and (iv) of this paragraph 3;

(iii) may be procured by community participation in accordance with the provisions of paragraph 3.15 of the Guidelines and procedures

acceptable to the Bank, up to an aggregate amount not to exceed \$8,000,000 equivalent when added to the works procured under subparagraphs (ii) and (iv) of this paragraph 3; or

(iv) may, if they meet the requirements of paragraph 3.8 of the Guidelines and with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines, up to an aggregate amount not to exceed \$8,000,000 equivalent when added to the works procured under subparagraphs (ii) and (iii) of this paragraph 3.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to: (a) each contract for works under Part A.1 of the Project estimated to cost the equivalent of \$5,000,000 or more; (b) each contract for works under Parts A.2 and B of the Project estimated to cost the equivalent of \$3,000,000 or more; and (c) each contract for goods estimated to cost the equivalent of \$200,000 or more.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedure set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for the technical audit of civil works under Part B of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Single Source Selection

Services for: (i) safety audits under Part D of the Project; (ii) information technology training as part of the Institutional Development Action Plan under Part C of the Project; (iii) the development of environmental and social safeguard policies under Part C of the Project; (iv) a road fund study under Part C of the Project; (v) a road classification study under Part C of the Project; (vi) studies and training related to road condition and traffic surveys, road user surveys and the road information management system under Part C of the Project; and (vii) the development of the financial management system for the Project may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through

3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

1. Karnataka shall: (i) maintain the Advisory Committee with composition, powers, functions, capacity and resources satisfactory to the Bank, including without limitation a broad representation of stakeholders consistent with the recommendations under the Institutional Development Action Plan; and (ii) maintain a cell within PWD for the implementation of the Institutional Development Action Plan with at least one professional with expertise in road sector management and commercialization, to lead the process of implementing the Institutional Development Action Plan, including without limitation preparation of documentation, assistance with the procurement and supervision of specific services, coordination with other departments and development of a focus for reform.

2. Karnataka shall maintain the Project Steering Committee with powers, functions, capacity and resources satisfactory to the Bank.

3. Karnataka shall: (i) by November 30 of each year, conduct annual road condition and traffic surveys on state highways with methodology and content satisfactory to the Bank; and (ii) by February 1 of each year, provide a report of such surveys to the Bank.

4. Karnataka shall: (i) within forty-five (45) days after the end of each calendar quarter during the period of Project implementation, provide to the Bank a quarterly report on the implementation progress of the Project, in the format and with the information specified in the Project Implementation Plan; and (ii) continue to conduct annual monitoring of the environmental impact of the implementation of the Project for a period of two years following the Closing Date.

5. Karnataka shall: (i) conduct at least three times during the period of Project implementation a road user survey, with methodology and content satisfactory to the Bank, to assess road users' satisfaction with PWD's performance in maintaining and

operating the road network, to assess opinions regarding current and potential sector targets and to make comparisons with attitudes expressed in previous surveys; and (ii) furnish to the Bank a report of the first such survey by December 31, 2001, a report of the second such survey by October 1, 2003 and a report of the third such survey by October 31, 2006.

6. Karnataka shall conduct, with a format and content satisfactory to the Bank, an annual road sector stakeholder forum, with the first such forum to be held by June 30, 2002, to obtain the assessment by major stakeholders of the progress over the previous year in improving sector performance and implementing reforms, such stakeholders to include without limitation PWD, Traffic Police of Karnataka, the Department of Finance of Karnataka, the Department of Motor Vehicles of Karnataka, trucking and passenger transport associations and corporations, contractors, consultants, Chambers of Commerce and other business interests.

7. Karnataka shall:

(a) (i) maintain the Environmental Management Plan Implementation Unit and the Social Development and Resettlement Cell in PWD, and (ii) maintain the Grievance Redress Committee in each District of Karnataka in which the Project will be carried out, all with composition, powers, functions, capacity and resources satisfactory to the Bank;

(b) without limitation to Section 9.09 of the General Conditions, take such action as may be necessary to acquire land as and when needed for carrying out the Project;

(c) (i) obtain from the relevant governmental authorities all necessary environmental and forestry clearances for all the sections of state roads included in the Project, (ii) submit copies of such clearances to the Bank before contracts for the works for the relevant sections of the roads are awarded, and (iii) comply with all the conditions imposed by the relevant governmental authorities under such clearances;

(d) ensure that all contracts for civil works under Parts A and B of the Project will include environmental mitigation measures satisfactory to the Bank;

(e) submit to the Bank environmental impact assessment reports and environmental management plans, all satisfactory to the Bank, setting forth, inter alia, the assessment of, and the measures to mitigate, adverse environmental impacts of road construction and improvement relating to those sections of state roads included in Parts A.1 and B of the Project for which detailed environmental studies had not been completed or engineering designs had not been finalized as of January 2001, before bids relating to works for such sections of state roads are invited or, if no bidding process is involved, before a contractor for works for such sections of state roads is selected in accordance with the provisions of Schedule 1 to this Agreement;

(f) implement the environmental mitigation, monitoring, institutional strengthening and other measures set forth in the EMP and in the environmental impact assessment reports and environmental management plans referred to in subparagraph (e) of this paragraph in accordance with the objectives, policies, procedures, time schedule and other provisions set forth therein and shall not take any action which would prevent or interfere with such implementation;

(g) submit to the Bank updates to the RAP, satisfactory to the Bank, based on detailed socio-economic surveys of project affected people and consistent with the principles set forth in the RAP, for those sections of state roads included in Part A.1 of the Project for which such surveys had not been completed or engineering designs had not been finalized as of January 2001, before bids relating to works for such sections of state roads are invited or, if no bidding process is involved, before a contractor for works for such sections of state roads is selected in accordance with the provisions of Schedule 1 to this Agreement;

(h) implement the RAP with the updates referred to in subparagraph (g) of this paragraph in accordance with the objectives, policies, procedures, time schedule and other provisions set forth therein and shall not take any action which would prevent or interfere with such implementation;

(i) cause to be prepared by an external agency, with terms of reference satisfactory to the Bank, two impact evaluation reports, with a format and content satisfactory to the Bank, to assess the changes in the living standards of project affected persons, the first such report to be furnished to the Bank by October 1, 2003

and the second such report to be furnished to the Bank within 120 days following the completion of the implementation of the RAP with the updates referred to in subparagraph (h) of this paragraph; and

(j) not use any part of the proceeds of the Loan to undertake civil works on any roads not included in the Project Implementation Plan, unless and until Karnataka has submitted to the Bank documentation satisfactory to the Bank for undertaking civil works for such roads, including without limitation a feasibility study report, an environmental management plan and a resettlement action plan.

8. Karnataka shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by October 1, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Bank, by November 1, 2003, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

