

CONFORMED COPY

CREDIT NUMBER 2483 IN

Project Agreement

(Karnataka Rural Water Supply and
Environmental Sanitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF KARNATAKA

Dated June 4, 1993

CREDIT NUMBER 2483 IN

PROJECT AGREEMENT

AGREEMENT, dated June 4, 1993, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and STATE OF KARNATAKA acting by its Governor (Karnataka).

WHEREAS 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 sixty- six million three hundred thousand Special Drawing Rights (SDR 66,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Karnataka agree to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS Karnataka, in consideration of the Association's entering into the Development Credit 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 Development Credit Agreement and in 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 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 and engineering 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 Association 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.

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. Karnataka 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 (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. (a) Karnataka 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 other matters relating to the purposes of the Credit.

(b) Karnataka 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 Karnataka of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Karnataka shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of 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 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 nine months after

the end of each such year, 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 and accounts and the audit thereof as the Association shall from time to time reasonably request.

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 Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of Karnataka thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 25 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify Karnataka of this event.

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 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:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

For Karnataka:

Secretary to the Government of Karnataka
Department of Rural Development and Panchayat Raj

M.S. Building
Dr. B.R. Ambedkar Marg
Bangalore 560001, India

Telex:

0845-2239 CSGK-IN

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Karnataka may be taken or executed by a Secretary to the Government of Karnataka or such other person or persons as Karnataka shall designate in writing, and Karnataka shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ H. Vergin
Acting Regional Vice President
South Asia

STATE OF KARNATAKA

By /s/ N. Valluri
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods 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 1992 (the Guidelines). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in bid evaluation.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 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: Prequalification

Bidders for works related to the water supply schemes to be carried out under the Project shall be prequalified as provided in paragraph 2.10 of the Guidelines.

Part D: Other Procurement Procedures

1. Specialized groundwater survey and testing devices for the public health laboratories up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Items or groups of items estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$1,200,000, may be procured under contracts 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 the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers in accordance with procedures acceptable to the Association.

4. Subject to the provisions of paragraph 5 below, civil works may be procured under contracts awarded on the basis of competitive bidding advertised locally, in accordance with procedures satisfactory to the Association.

5. Works relating to: (a) borewell drilling; (b) groundwater recharge measures, (c) leakage repair, (d) latrine construction, and (e) sullage drainage may be carried out by force account.

Part E: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part C hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for civil works and goods estimated to cost the equivalent of \$500,000 and \$200,000 or more, respectively, 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 3 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Section II: Employment of Consultants

1. In order to assist Karnataka in carrying out the Project, Karnataka 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 (the Consultant Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review of approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 2

Implementation Program

1. Karnataka shall ensure that the water supply schemes to be carried out under Part A of the Project shall be designed in accordance with criteria satisfactory to the Association.

2. Karnataka shall: (a) furnish to the Association for review by December 31 each year, commencing December 31, 1993, an annual action program for the following year for investments in rural water supply environmental sanitation, health education, training and technical assistance under the Project and the status of land acquisition required for such investments; and (b) not later than June 30, 1996, carry out a mid-term review of the Project in consultation with the Association.

3. Karnataka shall prepare guidelines satisfactory to the Association based on experience learned from the pilot-schemes being carried out by Karnataka, which shall be used for implementing the community participation activities under the Project.

4. Karnataka shall appoint and maintain necessary qualified staff in adequate numbers to effectively operate the water quality control and surveillance system in not less than ten districts in Karnataka, and shall make adequate provision of funds to meet all recurrent costs of such system.

5. Karnataka shall make arrangements satisfactory to the Association with Mandal Panchayats through the Zilla Parishads to set and collect water and drainage tariffs, upon completion of the water supply schemes and drainage works under the Project, at levels sufficient to cover operations and maintenance costs of said schemes and works.

6. Karnataka shall establish and maintain an Empowered Committee under the chairmanship of the Development Commissioner, Karnataka with membership and terms of reference satisfactory to the Association.

7. Karnataka shall establish: (a) a Project Planning and Monitoring Unit; (b) a Project Cell in its Department of Public Health Engineering; and (c) a Project Cell in each Engineering Division of the Zilla Parishads participating in the Project, and shall appoint and maintain key staff in said Unit and Cells.

8. Karnataka shall issue regulations satisfactory to the Association, setting out procedures for the establishment by the Mandal Panchayats of Village Water and Sanitation Committees in the villages where the Project is to be carried out.

9. Karnataka shall, in a manner satisfactory to the Association, make arrangements: (a) with the Mandal Panchayats desirous of participating in the Project to ensure that the Village Water and Sanitation Committees are duly established in the Villages; (b) with Mandal Panchayats covering such Villages to delegate their responsibility for operation and maintenance of facilities under the Project to said Committees; (c) with such Committees to enable them to undertake responsibility for operation and maintenance of the Project facilities, as well as for the recovery of water and drainage charges from the users; and (d) to ensure that only such Villages participate in the Project which have complied with the foregoing provisions of this paragraph 9.

10. Karnataka shall award, no later than September 30, 1993, contracts to consultants and non-governmental organizations, for promoting community participation in planning of water supply and environmental sanitation works to be carried out in the second phase of the Project.

11. Karnataka shall award consultants contracts for supervision of construction for the second phase of works to be undertaken under the Project, prior to award of contracts for the commencement of said works.

12. For the purposes of Part C (iv) of the Project, Karnataka shall carry out a training program agreed upon between the Association and Karnataka.

