

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4749 - IN

Project Agreement

(Hydrology Project Phase II)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF ANDHRA PRADESH
STATE OF CHHATTISGARH
STATE OF GOA
STATE OF GUJARAT
STATE OF HIMACHAL PRADESH
STATE OF KARNATAKA
STATE OF KERALA
STATE OF MADHYA PRADESH
STATE OF MAHARASHTRA
STATE OF ORISSA
STATE OF PONDICHERRY
STATE OF PUNJAB
STATE OF TAMIL NADU

Dated January 19, 2006

LOAN NUMBER 4749 – IN

PROJECT AGREEMENT

AGREEMENT, dated January 19, 2006 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the States of Andhra Pradesh, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Pondicherry, Punjab and Tamil Nadu (the Project States).

WHEREAS (A) 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 of one hundred and four million nine hundred and eighty thousand Dollars (\$104,980,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project States agree to undertake such obligations toward the Bank as are set forth in the Loan Agreement, and in this Agreement;

(B) parts of Parts A and B, and Part C, of the Project will be carried out by the Project States with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Project States part of the proceeds of the Loan as provided in the Loan Agreement; and

WHEREAS the Project States, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have 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 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) The Project States declare their commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out parts of Parts A and B, and Part C, of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and engineering practices, and with due regard to social and environmental considerations, and shall

provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Bank and Project States shall otherwise agree, the Project States shall carry out parts of Parts A and B, and Part C, of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. (a) 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 3 to the Loan Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Project States shall assist in updating the Procurement Plan in accordance with guidelines acceptable to the Bank, and in ensuring that such update is furnished to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 2.03. The Project States 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 relevant parts of Parts A and B, and Part C, of the Project.

Section 2.04. Without limitation upon the provisions of Article IX of the General Conditions, the Project States shall:

(a) prepare and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Bank and such Project State, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the relevant parts of Parts A and B, and Part C, of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with such Project State on said plan.

Section 2.05. (a) The Project States shall, at the request of the Bank, exchange views with the Bank 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 Loan.

(b) The Project States 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 such Project States of their respective obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) The Project States shall cause State-Level Agencies to maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect their respective operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) The Project States shall cause State-Level Agencies:
- (i) have their respective financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such Fiscal Year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such Fiscal Year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records, accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 3.02. (a) The Project States shall cause State-Level Agencies to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty five (45) days after the end of the first Semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first Semester; thereafter, each FMR shall be furnished to the Bank not later than forty five (45) days after each subsequent Semester, and shall cover such Semester.

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. (a) This Agreement and all obligations of the Bank and the Project States thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Loan Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty (20) years after the date of this Agreement.

(b) If the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Bank shall promptly notify the Project States 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 Bank:

International Bank for Reconstruction
and Development
1818 H Street, NW
Washington, DC 20433
United States of America

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

For Andhra Pradesh:

Chief Secretary
Government of Andhra Pradesh
Hyderabad
Andhra Pradesh, India

For Chhattisgarh:

Chief Secretary
Government of Chhattisgarh:
Raipur
Chhattisgarh, India

For Goa:

Chief Secretary
Government of Goa:
Panaji
Goa, India

For Gujarat:

Chief Secretary
Government of Gujarat
Gandhinagar,
Gujarat, India

For Himachal Pradesh:

Chief Secretary
Government of Himachal Pradesh
Shimla
Himachal Pradesh, India

For Karnataka:

Chief Secretary
Government of Karnataka
Bangalore
Karnataka, India

For Kerala:

Chief Secretary
Government of Kerala
Thiruvananthapuram,
Kerala, India

For Madhya Pradesh:

Chief Secretary
Government of Madhya Pradesh
Bhopal,
Madhya Pradesh, India

For Maharashtra:

Chief Secretary
Government of Maharashtra
Mumbai
Maharashtra, India

For Orissa:

Chief Secretary
Government of Orissa
Bhubaneswar,

Orissa, India

For Pondicherry:

Chief Secretary
Government of Pondicherry
Pondicherry
India

For Punjab:

Chief Secretary
Government of Punjab
Chandigarh
Punjab, India

For Tamil Nadu:

Chief Secretary
Government of Tamil Nadu
Chennai
Tamil Nadu, India

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 any of the Project States may be taken or executed by its Chief Secretary or such other person or persons as such State shall designate in writing, and each Project State shall furnish to the Bank 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 New Delhi, India, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

STATE OF ANDHRA PRADESH

By */s/ Abhay Tripathi*
Authorized Representative

STATE OF CHHATTISGARH

By */s/ S.V. Prabhat*
Authorized Representative

STATE OF GOA

By */s/ Sandeep Nadkarni*
Authorized Representative

STATE OF GUJARAT

By /s/ R.L. Meena
Authorized Representative

STATE OF HIMACHAL PRADESH

By /s/ Renu Sahni Dhar
Authorized Representative

STATE OF KARNATAKA

By /s/ Amita Prasad
Authorized Representative

STATE OF KERALA

By /s/ P. Michael Vetha Sirumany
Authorized Representative

STATE OF MADHYA PRADESH

By /s/ Rajan Katoch
Authorized Representative

STATE OF MAHARASHTRA

By /s/ Chitkala Zutshi
Authorized Representative

STATE OF ORISSA

By /s/ S.K. Sehrawat
Authorized Representative

STATE OF PONDICHERRY

By /s/ Ravideep Singh Chahar
Authorized Representative

STATE OF PUNJAB

By /s/ Amitabha Pandey
Authorized Representative

STATE OF TAMIL NADU

By /s/ Jasbir Singh Bajaj
Authorized Representative

SCHEDULE

Implementation Program

1. Each Project State shall establish and/or maintain:
 - (a) a State Level Steering Committee (SLSC), whose mandate, terms of reference and composition shall be mutually acceptable to the Bank and the Project State, to review and monitor the physical and financial progress of the Project, and provide strategic guidance and policy direction, at the state level;
 - (b) a State HIS Coordination Committee (SHISCC), whose mandate, terms of reference and composition shall be mutually acceptable to the Bank and the Project State, to coordinate management of the Project and review progress at the state level, and facilitate coordination among participating SLAs and Central Agencies; and
 - (c) a dedicated full-time secretariat attached to the relevant SHISCC (SLA-SEC), whose mandate, terms of reference and composition shall be mutually acceptable to the Bank and the Project State, to be responsible for facilitating the day-to-day coordination and monitoring of the Project, and liaison with Central Agencies, at the state level.
2. Each Project State shall ensure that:
 - (a) the SLA-SEC shall be headed by a Project Coordinator, who shall be assisted by a training coordinator and procurement officer, and other suitably qualified and experienced technical, administrative and financial staff in adequate numbers; and
 - (b) the positions of Project Coordinator and other higher level staff of SLA-SEC shall be kept filled by persons having suitable qualifications and experience.
3. The Project States shall:
 - (a) not later than December 31 in each year, beginning not later than December 31, 2006, furnish to the Bank for its review and comments a proposed annual work program and budget for the next following Fiscal Year, giving details of its proposed work program activities, cost estimates and budget proposals for the Project for the forthcoming Fiscal Year; and
 - (b) proceed thereafter to implement the annual work program and budget, taking into account such comments as may have been made thereon by the Bank.
4. The Project States shall implement the Project in accordance with the Project Implementation Plan and, except as the Bank shall otherwise agree, the Project States shall not amend or waive any provision thereof if, in the opinion of the Bank, such

amendment or waiver may materially and adversely affect the implementation of the Project.

5. Not later than forty five (45) days after the end of each semester, beginning not later than forty five (45) days after the end of the first semester after the Effective Date, the Project States shall submit to the Bank consolidated semi-annual reports on the progress of the Project, according to a format acceptable to the Bank and set forth in the Project Implementation Plan.

6. (a) The Project States shall, in conjunction with the Borrower and the Bank, undertake, not later than October 31 of each year, commencing not later than October 31, 2006, a joint annual review, and, not later than December 31, 2007, and December 31, 2009, respectively, two midterm reviews of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower and Project States of their respective obligations under this Agreement and the Loan Agreement, having regard to the monitoring indicators agreed upon among the Borrower, the Bank and Project States.

(b) Not later than one month prior to each review, the Project States shall furnish to the Bank, for its review and comments, a report, in such detail as the Bank shall reasonably request, on the progress and status of the Project, and giving details, in particular, of items to be discussed at such review.

(c) Following each review, the Project States undertake to act promptly and diligently in order to take, or assist the Borrower in taking, any corrective action deemed necessary to remedy any shortfall noted in the implementation of the Project, or to implement, or assist the Borrower in implementing, such other measures as may have been agreed upon among the parties in furtherance of the objectives of the Project.

7. The Project States shall take necessary action to provide, on a regular basis and in a timely manner, all the funds needed to cover the operation and maintenance costs arising out of or as a result of the Project.