

CONFORMED COPY

CREDIT NUMBER 2952-IN
LOAN NUMBER 4166-IN

Project Agreement

(Third Andhra Pradesh Irrigation Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

STATE OF ANDHRA PRADESH

Dated June 3, 1997

CREDIT NUMBER 2952-IN
LOAN NUMBER 4166-IN

PROJECT AGREEMENT

AGREEMENT, dated June 3, 1997, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF ANDHRA PRADESH (Andhra Pradesh).

WHEREAS (A) by the Development Credit Agreement of even date herewith between India (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred eight million one hundred thousand Drawing Rights (SDR 108,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Andhra Pradesh agree 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 equal to one hundred seventy five million dollars (\$175,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Andhra Pradesh agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(C) the Project will be carried out by the State of Andhra Pradesh with the

Borrower's assistance and, as part of such assistance, the Borrower will make available to Andhra Pradesh the proceeds of the Credit as provided in the Development Credit Agreement and the proceeds of the Loan as provided in the Loan Agreement.

WHEREAS Andhra Pradesh, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, and the Bank 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 Development Credit Agreement, the Loan 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. (a) Andhra Pradesh 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 through ICADD with due diligence and efficiency and in conformity with appropriate administrative, financial and irrigation 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, the Bank and Andhra Pradesh shall otherwise agree, Andhra Pradesh 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 and 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 Credit and the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Andhra Pradesh 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 and Guarantee Agreements for Single Currency Loans (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 and the Project.

(b) For the purposes of Section 9.07 of the General Conditions Applicable to the Development Credit Agreement, and Section 9.08 of the General Conditions Applicable to the Loan and Guarantee Agreements for Single Currency Loans, and without limitations thereto, Andhra Pradesh shall prepare and furnish to the Association and 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 Association and the Bank and Andhra Pradesh, a plan satisfactory to the Association and the Bank for the future operation of the Project.

Section 2.04. (a) Andhra Pradesh shall, at the request of the Association and the Bank, exchange views with the Association and 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 Credit and the Loan.

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

ARTICLE III

Financial Covenants

Section 3.01. (a) Andhra Pradesh shall maintain 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 Andhra Pradesh responsible for carrying out the Project.

(b) Andhra Pradesh shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and the escrow account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association and the Bank;

(ii) furnish to the Association and the Bank as soon as available, but in any case not later than six 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 and the Bank shall have reasonably requested; and

(iii) furnish to the Association and the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association and the Bank 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 and the Loan Agreement become effective.

Section 4.02. (a) This Agreement and all obligations of the Association and the Bank and Andhra Pradesh hereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement and the Loan Agreement shall terminate in accordance with their terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement or the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association and the Bank shall promptly notify Andhra Pradesh 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 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:

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

For Andhra Pradesh:

Chief Secretary
Government of Andhra Pradesh
Hyderabad, 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 Andhra Pradesh may be taken or executed by its Chief Secretary or such other person or persons as Andhra Pradesh shall designate in writing, and Andhra Pradesh shall furnish to the Association and 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.

Section 5.04. As long as the Bank has not given notice to the contrary to Andhra Pradesh, and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligation of Andhra Pradesh to consult with, and 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 Andhra Pradesh shall be satisfied to the extent such obligations are satisfied by the Association; and

(c) all actions taken (including giving of approvals or 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 the Association and the Bank.

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
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Robert S. Drysdale

Acting Regional Vice President
South Asia

STATE OF ANDHRA PRADESH

By /s/ Sudhakar Rao

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995, and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(i) Except as provided under paragraphs 2 and 3 below, works may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(ii) Except as provided under paragraph 2 below, equipment and

materials estimated to cost \$250,000 equivalent or less per contract, and \$3,310,000 equivalent or less in the aggregate may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Equipment and materials estimated to cost \$25,000 equivalent or less per contract, and \$1,020,000 equivalent or less in the aggregate, and vehicles estimated to cost the equivalent of \$800,000, in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works:

Works estimated to cost \$20,000 equivalent or less per contract, and \$25,380,000 equivalent or less in the aggregate may be procured either (i) under lump sum, fixed priced contracts awarded on the basis of quotations obtained from three 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 Association and 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, or (ii) through direct contracting with WUAs in accordance with the provisions of paragraph 3.7 of the Guidelines, and with the Association and the Bank prior agreement, or (iii) with prior approval of the Association and the Bank through force account in accordance with the provisions of paragraph 3.8 of the Guidelines and procedures satisfactory to the Association and the Bank.

4. Direct Contracting/Force Account

Afforestation works under Part E (i), (ii), (iii) and (v) of the Project which meet the requirements of paragraphs 3.7 or 3.8 of the Guidelines, may be carried out, with the prior approval of the Association and the Bank, through direct contracting or force account in accordance with procedures satisfactory to the Association and the Bank.

5. Direct Contracting

Equipment and materials under Part D of the Project, estimated to cost \$4,030,000 equivalent or less in the aggregate may be procured through direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines.

6. Vehicles Hire

Contracts for hiring of vehicles estimated to cost \$2,100,000 equivalent or less in the aggregate, shall be awarded on the basis of quotations obtained from three qualified domestic suppliers in response to a written invitation. The award shall be made to the supplier who offers the lowest price quotation for the required vehicles, and who has the resources to complete the contract successfully.

Part D: Review by the Association 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 Association and the Bank for their 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 Association, and the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to (i) each contract for works estimated to cost the equivalent of \$300,000 or more; and (ii) each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

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 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality-and-Cost-based Selection

1. 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 and 3.18 thereof applicable to quality and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under the Project, estimated to cost less than \$100,000 per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

NGO's and other agencies' services which are estimated to cost less than \$100,000 equivalent per contract, may, with the prior agreement of the Association and the Bank, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. 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 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 Association and 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 \$200,000 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 estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) 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 said approval shall have been given.

3. Post Review

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

SCHEDULE 2

Implementation Program

1. Andhra Pradesh shall ensure that all micro irrigation network designs for each water course command in SRBC under Part A (iv) of the Project shall be completed at least 15 months prior to completion of the irrigation works contract, and that these designs shall be reviewed and accepted by the beneficiary farmers prior to initiation of the works.

2. Andhra Pradesh shall ensure that prior to the award of any contract for rehabilitation of the irrigation networks in SRSP under Part B (ii) of the Project, ICADD shall consult with the beneficiary farmers on the modifications of the tertiary network designs with respect to relocation of irrigation outlets to farm water courses or farm block watercourses, and shall take into account the views of the farmers on such modifications.

3. Andhra Pradesh shall, by October 1, and April 1 of every year, starting October 1, 1997, furnish to the Association and the Bank for their review and comments (i) plans for the extent of the land to be acquired for the roads to be constructed during the following construction season under Parts A (v) and B (vii) of the Project, and (ii) the detailed designs, cost estimates and bid documents for such roads.

4. Andhra Pradesh shall (i) establish a Project escrow account for depositing 50% of the payments received by Andhra Pradesh from the Association and the Bank for expenditures incurred prior to the date of the Development Credit and Loan Agreements, and (ii) ensure that such amounts are used as counterpart funds for financing Project activities prior to the Closing Date of the Project.

5. Andhra Pradesh shall establish, within PPMU, not later than October 1, 1997, a Program Budget and Accounts Unit headed by an accountant, and staffed by personnel with experience satisfactory to the Association and the Bank.

6. Andhra Pradesh shall, not later than October 1, 1997, (i) take the necessary measures to reconstitute the Board for SRSP Command Area Development Authority (CADA), and (ii) complete the restructuring appointments for CADA, agreed with the Association and the Bank, including appointment of assistant agricultural officers with agricultural engineering training.

7. Andhra Pradesh shall (i) not later than October 1, 1997, establish a Water Charges Review Committee (WCRC) with staffing and responsibilities agreed with the Association and the Bank, (ii) engage consultants to prepare a report on water charges assessment, collection and revenue sharing for consideration by WCRC, and for submission to the Association and the Bank for information not later than December 31, 1998.

8. Andhra Pradesh shall for SRSP (i) arrange for separate village irrigation revenue records to be kept by the Revenue Department for canal irrigated areas, based

on distribution network maps supplied by ICADD, (ii) require ICADD to keep records of the volume and duration of water supply made available to each tertiary area and the WUA under the Project, (iii) require that ICADD canal flow records and Revenue Village canal scheme irrigation records be systematically analyzed and reconciled each year for monitoring of WUA's efficacy in field water distribution, bulk water supply service, and water charge assessment and collection efficiency, and (iv) cause ICADD to furnish to the WCRC, the Association and the Bank, not later than December 31 of each year, starting 1998, the results of the analysis under (iii) above for information.

9. Andhra Pradesh shall post not later than October 1, 1997 (i) the additional staff to SRBC and SRSP construction circles and quality control divisions, (ii) the staff required for implementation of the resettlement and rehabilitation under Part D of the Project, in the numbers and expertise agreed with the Association and the Bank, (iii) agricultural graduate village extension officers, and agricultural officers, in sufficient numbers for ICADD, and (iv) a director for WALAMTARI field training programs.

10. Andhra Pradesh shall (i) carry out the resettlement and rehabilitation program under Part D of the Project in accordance with a plan agreed with the Association and the Bank, (ii) engage, not later than March 1, 1998, a suitably qualified NGO to monitor implementation of the resettlement and rehabilitation under the Project, and (iii) furnish to the Association and the Bank the annual monitoring reports of such NGO.

11. Andhra Pradesh shall select the NGOs participating in the implementation of the Project in accordance with criteria agreed with the Association and the Bank.

12. Andhra Pradesh shall implement a system satisfactory to the Association and the Bank for channeling the funds required for the Project to the Project entities.

13. Andhra Pradesh shall complete, not later than December 31, 1998, and furnish to the Association and the Bank for their review, a baseline survey for establishing the database for the Project irrigation development performance.

14. Andhra Pradesh 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 Association and the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association and the Bank, and furnish to the Association and the Bank, not later than October 31, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 objectives thereof during the period following such date; and

(c) review with the Association and the Bank, by April 30, 2000, or such later date as the Association and the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association and the Bank views on the matter.

15. Andhra Pradesh shall (i) prepare and furnish to the Association and the Bank, for their review and comments, not later than January 15 of each year, starting 1998, a draft Annual Review, Action Plan and Budget Report for the Project for the forthcoming fiscal year, and (ii) not later than April 15 of each year, starting 1998, after taking account of the comments of the Association and the Bank, implement the agreed Action Plan for such annual review, in accordance with the agreed budget.



