

CONFORMED

COPY

LOAN NUMBER 4796-IN

Project Agreement

(Maharashtra Water Sector Improvement Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE OF MAHARASHTRA

Dated August 19, 2005



LOAN NUMBER 4697-IN

PROJECT AGREEMENT

AGREEMENT dated August 19, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF MAHARASHTRA (Maharashtra).

WHEREAS (A) by the Loan Agreement of even date herewith between India (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of three hundred and twenty five million dollars (\$325,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Maharashtra agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

(B) Maharashtra, 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 in the Loan Agreement) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Maharashtra declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and water sector practices, and shall provide 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 Maharashtra shall otherwise agree, Maharashtra shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement

Section 2.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) Maharashtra shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update 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. (a) Maharashtra 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.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Maharashtra 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 Maharashtra, a plan for the future operation of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Maharashtra on said plan.

Section 2.04. (a) Maharashtra 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) Maharashtra 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 Maharashtra of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Maharashtra shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, and in accordance with all the provisions of the Financial Management Manual, adequate to reflect the operations, resources and expenditures related to the Project.

(b) Maharashtra shall:

- (i) have the financial statements referred to in paragraph (a) of this Section 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 respective 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.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Report-based Disbursements or statements of expenditure, Maharashtra shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Loan Account was made;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports or statements of expenditure are included in any audit Maharashtra may undertake pursuant to paragraph (b) of this Section.

Section 3.02. (a) Maharashtra shall prepare and furnish to the Bank separate financial monitoring reports, (each such 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 the 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 Financial Monitoring Report shall be furnished to the Bank no later than forty five (45) days after the end of the first calendar quarter 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 calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE IV

Effective Date; Termination;

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 Maharashtra thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Maharashtra 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, 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. Deliveries made by facsimile transmission shall also be confirmed by mail. 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 Maharashtra:

Chief Secretary to the Government of Maharashtra,
Mumbai,
Maharashtra, India

Facsimile:

91-22-2202 8594

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 Maharashtra, or by Maharashtra on behalf of the Borrower under the Loan Agreement, may be taken or executed by Chief Secretary or such other person or persons as Chief Secretary shall designate in writing, and Maharashtra 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 Carter

Country Director, India

STATE OF MAHARASHTRA

By /s/ S. V. Sodal

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II: Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$1,000,000 equivalent per contract, and works may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Vehicles, computers and peripherals estimated to cost less than \$200,000 equivalent per contract and to be procured under contracts awarded on the basis of rate contracts fixed by the Directorate General of Supplies and Disposals (DGS&D), and all other goods estimated to cost less than \$30,000 equivalent per contract; and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.
4. Force Account. Works which the Bank agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.
5. Community Participation. Works which the Bank agrees meet the requirements for Community Participation may be procured in accordance with the provisions of said procurement method.

Section III: Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.
2. Selection Based on Consultants' Qualifications. Services for assignments that meet the requirements set forth in paragraph 3.7 of the Consultant Guidelines may, with the Bank's agreement, be procured in accordance with the provisions of paragraphs 3.7 and 3.8 of the Consultant Guidelines.
3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.
4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis subject to prior approval of the Bank.

Section IV: Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 2

Implementation Program

Project Management and Implementation

1. (a) For the purposes of overall supervision and implementation of the Project, Maharashtra shall make fully operational, by no later than December 31, 2005, the Project Preparation and Management Unit (PPMU) and thereafter maintain the PPMU within the Water Resources Department with multidisciplinary staff in adequate number and with duties and responsibilities, qualifications and experience acceptable to the Bank all as specified in the Project Implementation Plan.

(b) Maharashtra shall establish by no later than December 31, 2005, and thereafter maintain, a state-level Project Steering Committee to provide inter-departmental co-ordination and direction. The Steering Committee shall be chaired by the Chief Secretary and comprise the Secretaries of the departments of finance, planning, water resources, agriculture, water supply and sanitation, industries and other concerned departments.

(c) Maharashtra shall implement the Project in accordance with the Project Implementation Plan and, except as the Bank shall otherwise agree, Maharashtra shall not amend or waive any provision thereof.

(d) Maharashtra shall ensure that rehabilitation and modernization work of canal systems in: (i) all the minor schemes; and (ii) at minor and tertiary level in medium and major schemes will be carried out through CMC.

(e) Maharashtra shall prepare, by no later than December 31 2005, an Operational Manual, satisfactory to the Bank, for the operations and financial management of Water User Association and shall ensure that WUAs carry out Part B of the Project in accordance with the provisions of the Operational Manual.

2. Maharashtra shall:

(a) in accordance with the provisions of the Maharashtra Water Resources Regulatory Authority Act 2005, establish by no later than December 31, 2005 and make operational by September 30, 2006, the Maharashtra Water Resources Regulatory Authority;

(b) take all steps necessary to reorganize the Maharashtra Krishna Valley Development Corporation into a river basin agency to be known as "Maharashtra Krishna Valley Water Resources Corporation" by September 30, 2007, to enable it to function as a river basin agency in accordance with, *inter alia*, the provisions of the Maharashtra Water Resources Regulatory Authority Act 2005; and

(c) restructure the Water Resources Department by September 30, 2007 in accordance with the objectives set out in Maharashtra's State Water Policy.

3. Maharashtra, through its Water Resources Department, and in respect of the irrigation schemes covered under the Project, shall support, foster and oversee the formation: (a) by no later than June 30, 2006, of Water User's Associations at all minor levels; and (b) in six pilot schemes, (i) no later than June 30, 2007, Distributory Level Associations; Canal Level Associations; and (ii) by no later than December 31, 2007 the Project Level Associations; and (c) by no later than June 30, 2008 in all other schemes Distributory Level Association, Canal Level Association and Project Level Association, all in accordance with the provisions of the Maharashtra Management of Irrigation Systems by Farmers Act 2005.

Irrigation Water supply and charges

4. Maharashtra shall:

(a) by December 31, 2006, implement bulk supply and volumetric charging of irrigation water to Water User's Associations in accordance with their entitlement in six selected pilot schemes; and

(b) by March 31, 2007, rationalize water charges, including irrigation charges, to meet, in each year, the full operation and maintenance costs of irrigation schemes.

Funds and Allocations

5. Maharashtra shall:

(a) commencing May 15, 2007, make adequate budgetary allocation, on a yearly basis for each Fiscal Year, to meet the operation and maintenance costs of irrigation schemes under the Project; and

(b) by no later than May 15, in each year for each Fiscal Year of Project implementation, ensure the provision of annual counterpart funds requirement and make necessary provisions in the State budget for Project implementation .

Safeguards

6. (a) Maharashtra shall:

(i) carry out Part B of the Project in accordance with the Social and Environmental Management Framework, and shall prepare and implement cultural property plans, resettlement action plans and tribal development plans, as the case may be, whenever necessary or desirable in accordance with the Social and

Environmental Management Framework and in a manner satisfactory to the Bank;

- (ii) ensure that the environmental and social screening criteria are at all times consistently and satisfactorily applied; and
- (iii) ensure that the environmental and social screening criteria are updated regularly throughout the implementation of the Project.

(b) Without prejudice to the generality of paragraph (a) of this paragraph 6, Maharashtra in carrying out Part B of the Project, shall ensure:

- (i) that any unavoidable displacement of population or major land acquisition that may arise during Project implementation shall be carried out in accordance with a Resettlement Action Plan which shall be prepared in accordance with the agreed Resettlement and Rehabilitation Entitlement Framework, and ensure that any Project Affected Persons are appropriately compensated as stipulated in the Resettlement and Rehabilitation Entitlement Framework and agreed with the Bank;
- (ii) that, whenever necessary or appropriate, a cultural property plan is prepared and carried out in accordance with the Cultural Property Strategy to ensure the preservation and respect of cultural property during the implementation of civil works under Part B of the Project; and
- (iii) that, whenever necessary or appropriate, a tribal development plan is prepared in consultation with the local communities and in accordance with the Tribal Development Strategy, to ensure that the indigenous population benefit from the activities financed under the Project.

7. In cases of voluntary acquisition of land for the purposes of carrying out Part B of the Project, Maharashtra shall:

(a) ensure that any private land needed for an irrigation scheme or other works under Part B of the Project shall be provided by the owner of the land in a voluntary manner, and in accordance with a memorandum of understanding in form agreed with the Bank, between the WUA, a representative of Maharashtra and the owner of such land; and

(b) not commence any physical works under the Project in the area where such land is required until a memorandum of understanding in accordance with sub-paragraph (a) of this paragraph has been concluded.

8. For the purposes of Part B of the Project, Maharashtra shall ensure that:
- (a) three dam safety review panels are constituted with terms of reference satisfactory to the Bank by no later than December 31, 2005;
 - (b) dam safety works shall not commence on any existing dams and appurtenant structures except after (i) a safety assessment, conducted by the dam safety organization of Maharashtra shall have been carried out; and (ii) a review/clearance of the dam safety works to be implemented in any specific scheme has been carried out by the independent dam safety review panel established in accordance with paragraph (a) above; and
 - (c) that all works on dams are prepared and carried out in accordance with the Dam Safety Plan.

Monitoring and Reporting

9. Maharashtra 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 objectives thereof;
 - (b) prepare two reports, under terms of reference satisfactory to the Bank, and furnish both reports to the Bank, the first on or about October 31, 2007, and the second on or about October 31, 2009, each of which will:
 - (i) integrate the results of the monitoring and evaluation activities describe the progress achieved in the carrying out of the Project during the period preceding the date of said reports; and
 - (ii) set 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 dates; and
 - (c) review with the Bank, by December 31, 2007, and then again by December 31, 2009, or such later dates as the Bank shall request, the reports 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 reports and the Bank's views on the matter.