

CONFORMED COPY

CREDIT NUMBER 3907 - IN

Project Agreement

(Uttaranchal Decentralized Watershed Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF UTTARANCHAL

Dated July 30, 2004

CREDIT NUMBER 3907 - IN

PROJECT AGREEMENT

AGREEMENT, dated July 30, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), and STATE OF UTTARANCHAL acting by its Governor (Uttaranchal).

WHEREAS 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 forty seven million four hundred thousand Special Drawing Rights (SDR 47,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Uttaranchal agree to undertake such obligations toward the Association as are set forth in the Development Credit Agreement and in this Agreement;

WHEREAS Uttaranchal, 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 the General Conditions (as so defined in the Development Credit Agreement) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Uttaranchal declares its commitment to the objective of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project through WMD with due diligence and efficiency and in conformity with appropriate administrative, financial and technical 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 the Project.

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

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. (a) Uttaranchal 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.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Uttaranchal 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 Association and Uttaranchal, a plan designed to ensure the continued achievement of the Project's objective; and
- (ii) afford the Association a reasonable opportunity to exchange views with Uttaranchal on said plan.

Section 2.04. (a) Uttaranchal 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) Uttaranchal 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 Uttaranchal of their obligations under this Agreement.

Section 2.05. Uttaranchal shall make available to Beneficiaries in a timely manner and on a grant basis the proceeds of the Credit made available to Uttaranchal by the Borrower for the purposes of the Project, as well as additional funds as required from Uttaranchal's own resources to cover Uttaranchal's share of the cost of the Project.

ARTICLE III

Financial Covenants

Section 3.01. (a) Uttaranchal shall cause WMD to maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project of the departments or agencies of Uttaranchal responsible for carrying out the Project or any part thereof.

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

Section 3.02. (a) Without limitation upon Uttaranchal's reporting obligations set out in paragraph 8 of Schedule 2 to this Agreement, Uttaranchal shall cause WMD to prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, 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 Credit, 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 Association not later than 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 FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

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 Uttaranchal 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 twenty (20) 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 Uttaranchal 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 fax 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 (MCI)
64145 (MCI)

Facsimile:

(202) 522-1709

For Uttaranchal:

Chief Secretary
Government of Uttaranchal
Dehradun
Uttaranchal, India

Facsimile:

91-135-2712500

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 Uttaranchal may be taken or executed by its Chief Secretary or such other person or persons as Uttaranchal shall designate in writing, and Uttaranchal 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 New Delhi, India, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael S. Carter

Country Director, India

STATE OF UTTARANCHAL

By /s/ B. Pandey

Authorized Representative

SCHEDULE 1

Procurement

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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

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

Goods estimated to cost less than \$200,000 equivalent per contract, and works, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract 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. Direct Contracting

Goods which are proprietary in nature and estimated to cost less than \$5,000 equivalent per contract may all be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from 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 Association, 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.

5. Community Participation in Procurement

Goods and works required for Subprojects shall be procured in accordance with procedures acceptable to the Association, and specified in the Operations Manual.

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 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to any contract for goods estimated to cost the equivalent of \$200,000 or more, and works estimated to cost the equivalent of \$300,000 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 paragraphs 1 and 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 and revised in September 1997, January 1999 and May 2002 (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 2.13 through 2.18 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:

(a) The short lists of non-governmental organizations (NGOs) for services under Parts A and B of the Project, irrespective of estimated contract values, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

(b) Except as provided in subparagraph (a) of this paragraph, short lists of consultants for services estimated to cost less than \$200,000 equivalent 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. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services estimated to cost less than \$100,000 equivalent per contract, may, with the Association'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 and estimated to cost less than \$25,000 equivalent, 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 Association 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 Association for their 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 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 2, 3 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 \$25,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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

Institutional Provisions

1. Uttaranchal shall:

(a) establish a state-level steering committee, whose mandate, terms of reference and composition shall be acceptable to the Association, to provide overall guidance and policy support in the implementation of the Project, and facilitate inter-agency coordination; and

(b) designate WMD to be responsible for overall implementation of the Project, and a Chief Project Director to be responsible for the day-to-day management of the Project, including management of procurement and disbursement activities, consolidation of annual work programs and budgets, preparation and production of annual progress reports and financial statements, and monitoring and evaluation of the Project.

2. Uttaranchal shall ensure that:

(a) the Chief Project Director shall be assisted by a Deputy Chief Project Director, a Project Director for each of the two administrative regions of Uttaranchal, a Social Coordinator, an Environmental Coordinator and a Finance Officer, and other suitably qualified and experienced technical and administrative staff in adequate numbers;

(b) in each of the districts and blocks included in the Project Area, a Deputy Project Director and multi-disciplinary teams shall be appointed to be responsible, respectively, for appraisal of GPWDPs and facilitation of Project implementation in their respective districts and blocks; and

(c) the positions of Chief Project Director, Deputy Chief Project Director, Project Director, Deputy Project Director, Social and Environmental Coordinators, and Finance Officer shall as far as reasonably practicable be kept filled at all times by suitably qualified and experienced persons.

3. Uttaranchal shall, not later than December 31, 2004, appoint and thereafter maintain throughout the implementation period of the Project, internal auditors having qualifications and experience acceptable to the Association, to be responsible under terms and conditions acceptable to the Association for internal audits under the Project.

4. Uttaranchal shall, not later than March 31, 2006, establish and thereafter maintain throughout the implementation period of the Project, a computerized financial management system, acceptable to the Association, for the purposes of the Project.

Terms and Conditions governing Subprojects

5. Further to the provisions of Section 2.05 of this Agreement, Uttaranchal shall apply the amount allocated to category (1) of the table in Part A.1 of Schedule 1 to the Development Credit Agreement to finance Subprojects on terms and conditions acceptable to the Association, including but not limited to the following:

(a) the amount so allocated shall be used exclusively to finance Subprojects in accordance with the criteria and procedures specified in the Operations Manual;

(b) the amount allocated for each Subproject shall be determined according to a pre-determined cost-sharing formula, which shall be acceptable to the Association, and specified in the Operations Manual; provided, however, that no part of the proceeds of the Credit shall be used to finance taxes or duties levied on or in respect of Eligible Expenditures relating to the Subproject or any part thereof;

(c) goods, works and services required for purposes of a Subproject shall be procured in accordance with procedures referred to in Schedule 1 to this Agreement and set forth in the Operations Manual;

(d) for purposes of each Subproject, Uttaranchal shall sign an agreement (hereinafter referred to as Financing Agreement) with the Beneficiary on terms and conditions acceptable to the Association and in the form of the model set forth in the Operations Manual, setting forth the respective obligations of the parties thereunder, including:

- (i) details of agreed disbursement schedules and procurement procedures;
- (ii) a list of goods, works and services to be financed;
- (iii) the amount of the Beneficiary's contribution, whether in cash or in kind, to the cost of the Subproject; and
- (iv) an undertaking on the part of the Beneficiary to execute the Subproject with due diligence and, upon its completion, to provide for its operation and maintenance.

Work Programs, Midterm Review and Reports

6. Uttaranchal shall:

(a) not later than January 31 in each year, beginning on January 31, 2005, furnish to the Association 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 and budget estimates for the Project for the forthcoming Fiscal Year;

(b) proceed thereafter to implement the annual work program and budget, taking into account such comments as may have been made thereon by the Association.

7. Uttaranchal shall implement the Project in accordance with the Operations Manual and, except as the Association shall otherwise agree, Uttaranchal shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

8. Not later than 45 days after the end of each calendar quarter, beginning not later than 45 days after the end of the first calendar quarter after the Effective Date, Uttaranchal shall cause WMD to submit to the Association consolidated quarterly reports on the progress of the Project, according to a format acceptable to the Association and set forth in the Operations Manual.

9. Uttaranchal shall:

(a) not later than December 31, 2005, carry out a base-line survey of the Project and promptly thereafter furnish to the Association the results and recommendations of such base-line survey;

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

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association not later than March 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (b) of this Section, on the progress achieved in carrying out 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

(d) review with the Association by June 30, 2006, or such later date as the Association shall request, the reports referred to in paragraph (c) of this Section, 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 reports and the Association's views on the matter.

Environmental and Social Safeguards Management

10. Without limitation upon the provisions of paragraph 8 of this Schedule, Uttaranchal shall submit to the Association quarterly progress reports on compliance with social and environmental safeguard measures under the Project, giving details of measures

taken in furtherance of the ESMF, IPMP and TTS, conditions, if any, which interfere or threaten to interfere with the smooth implementation of the ESMF, IPMP and TTS, and remedial measures taken or required to be taken to address such conditions.

11. Uttaranchal shall ensure that:

(a) the Project shall be implemented, as far as reasonably practicable, using exclusively land free from squatters, encroachments or other encumbrances, and without recourse to compulsory acquisition of land, forcible eviction or involuntary resettlement of persons; and

(b) where unavoidable, land acquisition shall be kept to the strict minimum, and shall be undertaken in accordance with guidelines and procedures acceptable to the Association.