
**CREDIT NUMBER 3987-IN
LOAN NUMBER 4753-IN**

Project Agreement

(Rural Roads Project)

among

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

**STATE OF HIMACHAL PRADESH
STATE OF JHARKHAND
STATE OF RAJASTHAN
STATE OF UTTAR PRADESH**

Dated _____ **, 2004**

CREDIT NUMBER 3987-IN
LOAN NUMBER 4753-IN

PROJECT AGREEMENT

AGREEMENT, dated _____, 2004 among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the STATES OF HIMACHAL PRADESH, JHARKHAND, RAJASTHAN and UTTAR PRADESH (the Participating States).

WHEREAS (A) by a 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 ninety nine million five hundred thousand Dollars (\$99,500,000) on the terms and conditions set forth in the Loan Agreement, and by a Development Credit Agreement of even date herewith between the Borrower and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to two hundred and six million Special Drawing Rights (SDR 206,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Participating States agree to undertake such obligations toward the Bank and the Association as are set forth in the Loan Agreement and Development Credit Agreement, respectively, and in this Agreement;

(B) the Project will be carried out in part by the Participating States with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating States part of the proceeds of the Loan and Credit, as provided in the Loan Agreement and Development Credit Agreement, respectively; and

WHEREAS the Participating States, in consideration of the Bank's entering into the Loan Agreement with the Borrower, and the Association's entering into the Development Credit 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, the Development Credit Agreement, the Preamble to this Agreement, the IBRD General Conditions and the IDA General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) The Participating States declare their commitment to the objective of the Project, and, to this end, shall carry out Parts A, B and C.2 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 Parts A, B and C.2 of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Borrower, the Bank and the Association shall otherwise agree, the Participating States shall carry out Parts A, B and C.2 of the Project, in accordance with the Implementation Program set forth in the Schedule to this Agreement, and the ESMF.

Section 2.02. (a) Except as the Bank and 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 Loan and Credit, respectively, 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 Participating States shall assist in updating the Procurement Plan in accordance with guidelines acceptable to the Bank and the Association, and in ensuring that such update is furnished to the Bank and the Association not later than 12 months after the date of the preceding Procurement Plan, for the Bank's and the Association's approval.

Section 2.03. The Participating States 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 Parts A, B and C.2 of the Project.

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

(a) prepare and furnish to the Bank and the Association, not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose among the Bank, the Association and such Participating States, a plan, of such scope and in such detail as the Bank and the Association shall reasonably request, for the future operation of the Project; and

(b) afford the Bank and the Association a reasonable opportunity to exchange views with such Participating States on said plan.

Section 2.05. (a) The Participating States shall, at the request of the Bank and the Association, exchange views with the Bank and 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 Loan and the Credit.

(b) The Participating States shall promptly inform the Bank and the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan or Credit, or the performance by such Participating States of their respective obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Participating States shall:

- (i) 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 the Association, adequate to reflect their respective operations and financial condition, and to register separately their respective operations, resources and expenditures related to the Project;
- (ii) cause the respective SRRDAs 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 and the Association, adequate to reflect their respective operations and financial condition, and to register separately the operations, resources and expenditures related to Parts A.1, A.2 and C.2 of the Project.

(b) Participating States shall, and shall cause SRRDAs to:

- (i) have the respective financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Bank and the Association), audited, in accordance with consistently applied auditing standards acceptable to the Bank and the Association, by independent auditors acceptable to the Bank and the Association;

- (ii) furnish to the Bank and the Association 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 and the Association), (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 and the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank and the Association; and
- (iii) furnish to the Bank and the Association such other information concerning such records, accounts, and the audit of such financial statements, and concerning said auditors, as the Bank and the Association may from time to time reasonably request.

Section 3.02. (a) Participating States shall cause SRRDAs to prepare and furnish to the Bank and the Association a financial monitoring report, in form and substance satisfactory to the Bank and 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 Loan and 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 Bank and the Association 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 and the Association not later than forty five (45) days after each subsequent semester, and shall cover the period not covered by the previous FMR until the end of 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 and Development Credit Agreement shall become effective.

Section 4.02. This Agreement and all obligations of the Bank, the Association and the Participating States thereunder shall terminate on the dates on which the Loan Agreement and Development Credit Agreement shall terminate in accordance with their respective terms, and the Bank and the Association shall promptly notify the Participating States thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the IBRD General Conditions or IDA 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 and the Association:

International Bank for Reconstruction
and Development/
International Development Association
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 Himachal Pradesh:

Chief Secretary
Government of Himachal Pradesh
Shimla
Himachal Pradesh, India

Facsimile:

0177 262 1907

For Jharkhand:

Chief Secretary
Government of Jharkhand
Ranchi,
Jharkhand, India

Facsimile:

0651 240 3245

For Rajasthan:

Chief Secretary
Government of Rajasthan
Jaipur
Rajasthan, India

Facsimile:

0141 222 7635/7254

For Uttar Pradesh:

Chief Secretary
Government of Uttar Pradesh
Lucknow
Uttar Pradesh, India

Facsimile:

0522 223 9283

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 Participating States may be taken or executed by its Chief Secretary or such other person or persons as such Participating State shall designate in writing, and each Participating State shall furnish to the Bank and 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 BANK FOR RECONSTRUCTION
AND DEVELOPMENT/
INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Country Director, India

STATE OF HIMACHAL PRADESH

By

Authorized Representative

STATE OF JHARKHAND

By

Authorized Representative

STATE OF RAJASTHAN

By

Authorized Representative

STATE OF UTTAR PRADESH

By

Authorized Representative

SCHEDULE

Implementation Program

1. Each Participating State shall establish and/or maintain:
 - (a) a State-level Standing Committee, whose mandate, composition and terms of reference shall be satisfactory to the Bank and the Association, to oversee the implementation of the Project in the respective Participating State and make policy decisions as required; and
 - (b) a State-level Rural Road Development Agency (SRRDA) to receive and administer the proceeds of the Loan and Credit and other funds provided under the Program for the implementation of the Project in the respective Participating State, account for them and produce financial reports.
2. For purposes of Parts A.1 and B of the Project, each Participating State shall vest responsibility for the execution of Subprojects and road maintenance works in the respective PIUs and other field units for the purpose of preparing, procuring and supervising the relevant works and managing rural road maintenance activities.
3. Each Participating State shall:
 - (a) ensure that the SRRDA and PIUs shall be adequately supported by the requisite number of suitably qualified and experienced staff, including:
 - (i) in the case of each SRRDA, a finance team to be headed by a suitably qualified and experienced finance manager, and
 - (ii) in the case of each PIU, an accounts and finance team consisting of a divisional accountant and adequate support staff; and
 - (b) not later than September 30, 2005, install and thereafter maintain in each PIU a computerized financial management system to adequately record the resources, flow of funds and expenditures under the Project.
4. Participating States shall:
 - (a) create and maintain one or more separate budget line items for rural road maintenance that allow for the monitoring of Part B of the Project;
 - (b) not later than February 28 in each year, beginning not later than February 28, 2005, publish, using methodology and according to a format which shall be acceptable to the Bank and the Association, annual reports on the condition of their rural road assets along with annual maintenance plans for the core rural road network in every Participating District; and

(c) proceed thereafter to implement such rural road maintenance plans.

5. Participating States shall ensure that the Project shall be implemented in accordance with the Supplemental Operations Manual, and that no Subproject proposal shall be considered for approval unless it is in full compliance with the Supplemental Operations Manual.

6. Not later than forty five (45) days after the end of each calendar quarter, beginning not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, Participating States shall prepare and submit to the Borrower consolidated quarterly reports on the progress of the Project, according to a format acceptable to the Borrower, the Bank and the Association, and set forth in the Supplemental Operations Manual, including quarterly progress reports on compliance with social and environmental safeguard measures under the Project, giving details of measures taken in furtherance of the ESMF, conditions, if any, which interfere or threaten to interfere with the smooth implementation of the ESMF, and remedial measures taken or required to be taken to address such conditions.