

CONFORMED COPY

CREDIT NUMBER 3431 IN

Project Agreement

(Kerala Rural Water Supply and Environmental Sanitation Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF KERALA

and

KERALA RURAL WATER SUPPLY AND SANITATION AGENCY

Dated January 4, 2001

CREDIT NUMBER 3431 IN

PROJECT AGREEMENT

AGREEMENT, dated January 4, 2001, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and STATE OF KERALA acting by its Governor (Kerala) and KERALA RURAL WATER SUPPLY AND SANITATION AGENCY (KRWSA).

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 fifty million one hundred thousand Special Drawing Rights (SDR50,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Kerala and KRWSA agree to undertake such obligations toward the Association as are set forth in the Development Credit Agreement and in this Agreement;

WHEREAS Kerala and KRWSA, in consideration of 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 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) Kerala and KRWSA declare their 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 Parts A, B and C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and rural water supply and environmental sanitation practices, 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 of the Project.

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

(c) Kerala shall make available to KRWSA as a grant and in a timely manner: (i) the proceeds of the Credit made available to Kerala by the Borrower; and (ii) additional funds from Kerala's own resources in amounts sufficient to cover the amounts required for carrying out Parts A, B and C of the Project.

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) Kerala and KRWSA 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 of the Project, and the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions, and without limitations thereto, Kerala and KRWSA shall:

(i) prepare and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association, Kerala and KRWSA, a plan satisfactory to the Association for the future operation of Parts A, B and C of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with Kerala and KRWSA on said plan.

Section 2.04. (a) Kerala and KRWSA shall, at the request of the Association exchange views with the Association with regard to the progress of Parts A, B and C of the Project, the performance of their obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) Kerala and KRWSA shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Parts A, B and C of the Project, the accomplishment of the purposes of the Credit, or the performance by Kerala or KRWSA of their obligations under this Agreement.

## ARTICLE III

### Management and Operations of KRWSA

Section 3.01. KRWSA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical and rural water supply and environmental sanitation practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. KRWSA shall at all times operate and maintain its equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative and financial practices.

Section 3.03. KRWSA shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Association, for insurance against such risks and in such amounts as shall be consistent with appropriate practices.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) KRWSA shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect in accordance with sound financial management and accounting practices the operations, resources and expenditures in respect of Parts A, B and C of the Project.

(b) KRWSA shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal Year as so audited, and (B) an opinion on such financial statements, records and accounts of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, and concerning such auditors, as the Association shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, KRWSA shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system in order to enable KRWSA, not later than March 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and application of funds for Parts A, B and C of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for Parts A, B and C of the Project for the six-month period following the period covered by said report; and

(B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in implementation of Parts A, B and C of the Project, both cumulatively and for the period covered by said report; and

(B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under Parts A, B and C of the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, KRWSA shall prepare, in accordance with guidelines and format acceptable to, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. KRWSA shall establish and operate not later than March 31, 2001, and thereafter maintain throughout the Project implementation period, a satisfactory Financial Management System for Parts A, B and C of the Project, including a computerized system, in accordance with the Financial Management Manual agreed with the Association.

Section 4.04. KRWSA shall (a) maintain throughout the Project implementation period a chartered accountant as a Finance Manager to manage the financial aspects of Parts A, B and C of the Project, with experience and qualifications agreed with the Association, and (b) employ not later than March 31, 2001, and thereafter maintain throughout the Project implementation period, an accountant for each of the DPMUs, with experience and qualifications agreed with the Association.

Section 4.05. KRWSA shall maintain throughout the Project implementation period a firm of chartered accountants with terms of reference and qualifications acceptable to the Association, for auditing the records, accounts and financial statements of Parts A, B and C of the Project.

Section 4.06. Kerala and KRWSA shall cause each of the Gram Panchayats, Beneficiary Groups and Support Organizations participating in the Project to (i) open and maintain a separate bank account for the Project funds, and (ii) maintain separate records and books of accounts for the said funds.

Section 4.07. KRWSA shall employ, for each Batch, firms of chartered accountants with terms of reference and qualifications acceptable to the Association for (a) providing training in maintaining adequate financial records and accounts to the Gram Panchayats, Beneficiary Groups and Support Organizations participating in the Project, and (b) auditing the records, accounts and financial statements of the Gram Panchayats, Beneficiary Groups and Support Organizations participating in the Project.

Section 4.08. KRWSA shall release Project funds to the Gram Panchayats, Beneficiary Groups and Support organizations participating in the implementation of the Project in accordance with the procedures and schedule specified in the Financial Management Manual.

#### ARTICLE V

Effective Date; Termination;  
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association, Kerala and KRWSA 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 Kerala and KRWSA of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. 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:	Telex:
INDEVAS	248423 (MCI)
Washington, D.C.	64145 (MCI)

For Kerala:

Secretary to the Government  
Irrigation and Water Supply Department  
Government of Kerala  
Thiruvananthapuram  
Kerala, India

For KRWSA:

Executive Director  
Kerala Rural Water Supply and Sanitation Agency  
PTC Towers, Third Floor  
Thampanoor, Thiruvananthapuram  
Kerala, India

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Kerala may be taken or executed by its Secretary, Irrigation and Water Supply Department, or such other person or persons as Kerala shall designate in writing, and on behalf of KRWSA may be taken or executed by the Executive Director, or such person or persons as KRWSA shall designate in writing, and Kerala and KRWSA shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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/ Edwin Lim

Country Director, India

STATE OF KERALA

By /s/ Elias George

Authorized Representative

KERALA RURAL WATER SUPPLY AND SANITATION  
AGENCY

By /s/ James Varghese

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Procurement Procedures

1. National Competitive Bidding

Works under Part B of the Project, estimated to cost \$50,000 equivalent or more per contract, and costing up to an aggregate amount not to exceed \$5,400,000 may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Association.

2. National Shopping

Equipment, materials and vehicles for Parts A, C and D of the Project, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,875,000 equivalent, 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

(a) Books, periodicals, software and proprietary equipment and spares for Parts A, C and D of the Project, estimated to cost less than \$50,000 equivalent per contract, up to \$100,000 in the aggregate, may be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

(b) Goods estimated to cost less than \$500 equivalent per contract, up to an aggregate amount not exceeding \$25,000 may be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

### 4. Procurement Procedures for Part B of the Project

Works, goods and related services for Part B of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not exceeding \$61,200,000 equivalent, may be procured either: (i) 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; or (ii) through community participation procedures in accordance with paragraph 3.15 of the Guidelines; or (iii) as a last resort, and with prior approval of the Association, through force account in accordance with the provisions of paragraph 3.8 of the Guidelines and procedures satisfactory to the Association.

### Part C: 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 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

(a) With respect to any contract for works estimated to cost more than \$300,000 equivalent, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for works procured under Part B. 1 above, the following procedures shall apply:

(i) prior to the selection of any supplier or contractor, KRWSA shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any such contract, KRWSA shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

(c) KRWSA shall furnish to the Association copies of the first 10 contracts of each Batch procured under Part B. 4 above prior to execution of 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 Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

1. 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, and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

### 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. The short list of consultants for services for technical assistance or training under the Project 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 for technical assistance or training 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

Consultants' or NGOs' services for technical assistance or training which are 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 the equivalent of \$50,000 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 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 for technical assistance or training estimated to cost the equivalent of \$100,000 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 for the employment of consulting firms for technical assistance or training estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, 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 Association for prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) Term of reference for all consultant contracts estimated to cost the equivalent of \$12,000 or more per contract in the case of consulting firms, and the equivalent of \$5,000 or more per contract in the case of individual consultants, shall be furnished to the Association for prior review and approval. The contract shall be awarded only after approval of such terms of reference has been given.

### 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

1. Kerala and KRWSA shall not later than December 31 of each year, starting 2001, prepare annual action and procurement plans for implementation of the activities under Parts A, B and C of the Project, and taking into account the Association's recommendations, finalize, not later than March 31 of each year, such plans.

2. Kerala and KRWSA shall complete not later than March 31, 2001, the establishment and staffing of the DPMUs, including accounts officers, with qualifications and experience satisfactory to the Association.

3. KRWSA shall: (i) select the Support Organizations participating in Part B of the Project in accordance with eligibility criteria and procedures agreed with the Association; and (ii) review the adequacy of such criteria prior to undertaking pre-qualification of Support Organizations for each Batch, and only introduce changes thereto that are acceptable to the Association.

4. KRWSA shall select the Gram Panchayats, who in turn, shall select the Beneficiary Groups participating in Parts A and B of the Project, both in accordance with procedures and eligibility criteria agreed with the Association, including cost sharing arrangements, and only introduce changes thereto that are acceptable to the Association.

5. KRWSA shall enter into an agreement with the Support Organizations, the Gram Panchayats and the Beneficiary Groups participating in the implementation of the Project, satisfactory to the Association, stipulating the roles and responsibilities of each of the parties in the carrying out of Parts A and B of the Project.

6. KRWSA shall carry out an evaluation of implementation of the First Batch Schemes and review with the Association the lessons learnt, and shall thereafter incorporate such lessons in the design and implementation of Subsequent Batches.

7. Kerala and KRWSA shall cause the Gram Panchayats participating in the implementation of Part B of the Project to monitor and ensure that the Beneficiary Groups levy and collect water charges sufficient to recover full recurrent operation and maintenance cost of each Scheme.

8. Kerala and KRWSA shall take measures, satisfactory to the Association, including introduction of incentive schemes to recruit and thereafter retain for at least three years the key Project Staff.

9. To ensure that the tribal population in the Project Gram Panchayats benefit fully from the activities under the Project, Kerala and KRWSA shall implement, in a manner satisfactory to the Association, the tribal development plan agreed with the Association.

10. Kerala and KRWSA shall: (i) ensure that any private land needed for water supply and other construction under the Project shall be provided by the owner of such land in a voluntary manner, and in accordance with a memorandum of understanding, agreed with the Association, between the Beneficiary Group or the Gram Panchayat and the owner of such land; and (ii) not commence such works in locations where such land is needed until such memorandum of understanding has been concluded.

11. Kerala and KRWSA 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 the carrying out of Parts A, B and C of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association not later than June 30, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out Parts A, B and C 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 Parts A, B and C of the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Association by December 31, 2003, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and thereafter, take all measures required to ensure the efficient completion of Parts A, B and C 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.

12. KRWSA shall, under terms of reference agreed with the Association, recruit independent consultants for monitoring quality of construction activities for the first Batch, and prior to the commencement of the construction activities for the Subsequent Batches.

13. Kerala and KRWSA shall: (i) under terms of reference agreed with the Association, recruit not later than December 31, 2001 in accordance with the procedures specified in Part B. 1 of Section II, of Schedule 1 of the Project Agreement a consulting firm for carrying out the state-wide sector policy study under Part C.1 of the Project; (ii) furnish to the Association, not later than June 30, 2003, for the Association's review and comments, the final sector policy study report and strategic plan for its implementation; and (iii) thereafter commence implementation of the agreed strategic plan.

14. Kerala and KRWSA shall under terms of reference agreed with the Association commence not later than December 31, 2001, the development of the Sector Information Management System under Part C. 2 of the Project, and shall implement the System not later than June 30, 2003.

