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CREDIT NUMBER 4232-IN

Project Agreement

(Uttaranchal Rural Water Supply and Sanitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF UTTARANCHAL

Dated October 16, 2006

CREDIT NUMBER 4232-IN

PROJECT AGREEMENT

AGREEMENT dated October 16, 2006, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and STATE OF UTTARANCHAL (“Project Implementing Entity”), (“Project Agreement”) in connection with the Financing Agreement of same date between INDIA (“Recipient”) and the Association (the “Financing Agreement”). The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms in the Project Agreement have the meaning ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project and the Program. To this end, the Project Implementing Entity shall:
 - (a) carry out Parts A and C of the Project through the DDW, PMU, SWSM, UJN and UJS, and Part B of the Project through the PMU, SWSM, DPMUs, the DWSMs, UJN, and UJS in accordance with the provisions of Article IV of the General Conditions;
 - (b) shall provide promptly as needed the funds, facilities, services and other resources required for the Project; and
 - (c) shall cause each of DDW, SWSM, PMU, the DPMUs, the DWSMs, UJN, and UJS to provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – TERMINATION

- 3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE IV – REPRESENTATIVE; ADDRESSES

- 4.01. The Project Implementing Entity's Representative is the Chief Secretary of the Government of Uttaranchal.
- 4.02. The Association's Address is:

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

- 4.03. The Project Implementing Entity's Address:

For Uttaranchal:

Chief Secretary
Government of Uttaranchal
Dehradun
Uttaranchal, India

Facsimile: 91-135-2712500

AGREED at New Delhi, India, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Rachid Benmessaoud
Acting Regional Vice President
South Asia

STATE OF UTTARANCHAL

By

/s/ S.S. Sandhu
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

1. The Project Implementing Entity shall, satisfactory to the Association, throughout Project implementation, take all necessary steps to ensure that the MTP is implemented consistent with the Project objective, and to that end, shall implement the Project through RWSS sector reform principles and measures that are consistent with GO 738 and the timeframe set forth in the Operations Manual whereby:

- (a) at the state level:
 - (i) the SWSM is: (A) chaired by the Chief Minister; and (B) supported by a cell established under the DDW, which shall serve as the Secretariat of the SWSM and be responsible for overseeing the progress of the RWSS sector reform activities carried out by each of the DPMUs, UJN, UJS, and the PMU;
 - (ii) the DDW serves as the nodal agency for the RWSS sector, and coordinates MTP activities with the sector stakeholders;
 - (iii) the PMU is assisted by DPMUs at the district level, and coordinates the implementation of single-village investment schemes and small and simple multi-village investment schemes; and
 - (iv) the UJN and UJS, through their respective district-level agencies, carry out their respective sector mandates in respect of SWAp Basket activities.
- (b) at the district level:
 - (i) the DWSMs: (A) in Chamoli, Dehradun, Haridwar, Pauri Garhwal, Almora, Bageshwar, Nainital, Pithoragarh and Uttarkashi are maintained throughout Project implementation; (B) Tehri Garhwal, Champawat, Rudra Prayag and Udam Singh Nagar are established by September 30, 2006, and thereafter maintained; (C) responsible for, *inter alia*, reporting to the SWSM, providing guidance to the relevant DWSC; and (D) staffed with secretariat support provided through the relevant DPMU; and
 - (ii) the DPMUs: (A) in Chamoli, Dehradun, Haridwar, Pauri Garhwal, Almora, Bageshwar, Nainital, Pithoragarh and

Uttarkashi are maintained throughout Project implementation; (B) Tehri Garhwal, Champawat, Rudra Prayag and Udam Singh Nagar are established by September 30, 2006, and thereafter maintained; and (C) staffed by qualified personnel for the purpose of providing technical guidance and assistance to the relevant SLCs and UWSSCs.

(c) at the block and GP levels:

(i) the GPs facilitate the formation of UWSSCs; and

(ii) the UWSSCs and SLCs are established for each relevant investment scheme implemented, or to be implemented, as the case may be, under Part B of the Project.

2. The Project Implementing Entity shall take all necessary steps to:

(a) implement the Project in accordance with GO 738, the Operations Manual, the Procurement Manual, and the Financial Management Manual;

(b) maintain the Operations Manual, the Procurement Manual, and Financial Management Manual; and

(c) ensure that all state-, district- and community- level entities carry out their respective Project implementation responsibilities and all investment schemes carried out under Part B of the Project are prepared and implemented consistent with GO 738 and the provisions set forth in the Operations Manual, the Procurement Manual, and Financial Management Manual.

3. The Project Implementing Entity shall take all necessary steps to ensure that:

(a) the provisions of the Operations Manual, the Procurement Manual, and the Financial Management Manual are not revised, amended, or abrogated without the prior approval of the Association; and

(b) no action is taken which shall prevent or interfere with the implementation of the Operations Manual, the Procurement Manual or the Financial Management Manual.

Section II. Other Covenants

1. The Project Implementing Entity shall take all necessary steps to ensure that the number of RWSS sector investment schemes that are prepared and implemented outside of the SWAp Basket is reduced during the period of Project

implementation in such amount as shall be necessary to meet the corresponding Project performance indicator, but in no event shall the amount of ongoing investment schemes exceed CR550.

2. The Project Implementing Entity shall carry out, and shall cause to be carried out the institutional mergers of: (a) the PMU with the SWSM; and (b) the DPMUs with the relevant DWSMs, by the end of the Project period.
3. The Project Implementing Entity shall, by December 31, 2006, take all necessary steps to ensure that, satisfactory to the Association:
 - (a) the funds flow for all Project-financed multi-village investment schemes carried out under Part B of the Project; and costing up to Rs 20 lakhs, flow through the relevant DWSM; and
 - (b) the Project monitoring and evaluation system is established, fully operational, and thereafter maintained.
4. The Project Implementing Entity shall, by September 30, 2007, take all necessary steps to ensure that, satisfactory to the Association:
 - (a) seventy-five percent of Batch 1 investment schemes have entered the implementation cycle of activities in accordance with the provisions set forth in the Operations Manual; and
 - (b) all of the Batch 2 investment schemes have been identified by the Project Implementing Entity in accordance with the provisions set forth in the Operations Manual.
5. The Project Implementing Entity shall, by March 31, 2009, take all necessary steps to ensure that, satisfactory to the Association:
 - (a) the staff of the UJN and UJS engaged in rural water supply schemes report to the relevant PRI; and
 - (b) an assessment is carried out on the progress of the funds flow for all Project-financed multi-village investment schemes carried out under Part B of the Project and such assessment sets forth appropriate recommendations on the progress of the flow of funds through the relevant DWSM up to an amount of Rs 50 lakhs.

Section III. Environmental and Social Safeguards Management

1. Prior to the carrying out of any works under an investment scheme under Part B of the Project, the Project Implementing Entity shall ensure that the relevant environmental assessment and environmental management plan, and all other

necessary mitigation measures, acceptable to the Association, are prepared and finalized in accordance with the EMF; and thereafter ensure that said investment scheme is carried out in accordance with the relevant environmental assessment and environmental management plan, satisfactory to the Association.

2. The Project Implementing Entity 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.

Section IV. Project Monitoring, Reporting, Evaluation

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08(b) of the General Conditions and on the basis of indicators agreed with the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later than eight (8) weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.
2. The Project Implementing Entity shall provide to the Recipient not later than September 30, 2012, for incorporation in the report referred to in Section 4.08(c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.
3. The Project Implementing Entity shall take all necessary steps to ensure that:
 - (a) not later than January 31 in each year, beginning on January 31, 2007, it furnishes, or causes to be furnished 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; and
 - (b) it implements said annual work program and budget in a timely and efficient manner, taking into account such comments as may have been made thereon by the Association.
4. Not later than sixty (60) days after the end of each calendar quarter, beginning not later than sixty (60) days after the end of the first calendar quarter after the

Effective Date, the Project Implementing Entity shall submit, or cause to be submitted, to the Association consolidated quarterly reports on the progress of the Project, according to a format acceptable to the Association, as set forth in the Operations Manual.

Section V. Financial Management, Financial Reports; Audits

1. The Project Implementing Entity shall, acceptable to the Association:
 - (a) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project; and
 - (b) cause each of the UJN, UJS, PMU, DWSMs, DPMUs, and GPs to maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect its operations and financial condition, including its operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall:
 - (a) have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The SWSM shall provide to the Association the consolidated financial statements for each period and a consolidated report of the Project audit not later than six (6) months after the end of the period; and
 - (b) cause each of the UJN, UJS, PMU, DWSMs, DPMUs, and GPs to have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the audited entity. The consolidated financial statements for each period and a consolidated report of the Project audit shall be furnished to the Association not later than six (6) months after the end of the period.

Section VI. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.