

CONFORMED COPY

CREDIT NUMBER 3103 IN  
LOAN NUMBER 4360 IN

Project Agreement

(Andhra Pradesh Economic Restructuring Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

STATE OF ANDHRA PRADESH

Dated February 4, 1999

CREDIT NUMBER 3103 IN  
LOAN NUMBER 4360 IN

PROJECT AGREEMENT

AGREEMENT, dated February 4, 1999, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF ANDHRA PRADESH ( Andhra Pradesh).

WHEREAS (A) the Association and the Bank have received a letter dated May 14, 1998 from the State of Andhra Pradesh describing a program of objectives, policies and actions designed to restructure the economy of Andhra Pradesh (hereinafter called the Program), and declaring Andhra Pradesh's commitment to carry out such Program;

(B) 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 one hundred seventy nine million four hundred thousand Special Drawing Rights (SDR 179,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Andhra Pradesh agree to undertake such obligations toward the Association as are set forth in the Development Credit Agreement and in this Agreement;

(C) by the Loan Agreement of even date herewith between the Borrower and the

Bank, the Bank has agreed to make available to the Borrower an amount equal to three hundred one million three hundred thousand dollars (\$301,300,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Andhra Pradesh agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(D) the Project will be carried out by the State of Andhra Pradesh with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Andhra Pradesh the proceeds of the Credit as provided in the Development Credit Agreement, and the proceeds of the Loan, as provided in the Loan Agreement;

WHEREAS Andhra Pradesh, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, and the Bank 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 Development Credit Agreement, the Loan Agreement and in the General Conditions (as so defined in the Development Credit Agreement and the Loan Agreement, respectively) have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of the Project

Section 2.01. (a) Andhra Pradesh 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, and cause its relevant departments to carry out, the Project with due diligence and efficiency and in conformity with appropriate administrative, technical and financial practices, 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, the Bank and Andhra Pradesh shall otherwise agree, Andhra Pradesh shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(c) Until such time that Part A of the Project is designated by the Borrower as a centrally sponsored scheme as referred to in Section 3.01 (c) of the Development Credit Agreement, Andhra Pradesh shall make the proceeds of the Credit allocated from time to time to Part A of the Project available to APPVP as a grant for purposes of carrying out such Part of the Project in accordance with the provisions of an agreement to be entered into between Andhra Pradesh and APPVP satisfactory to the Association and the Bank

Section 2.02. Except as the Association and the Bank 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 and the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Andhra Pradesh 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 Applicable to the Development Credit Agreement, and in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions Applicable to the Loan and Guarantee Agreements for Single Currency Loans (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 and the Project.

(b) For the purposes of Section 9.07 of the General Conditions Applicable to the Development Credit Agreement, and Section 9.08 of the General Conditions

Applicable to the Loan and Guarantee Agreements for Single Currency Loans, and without limitations thereto, Andhra Pradesh shall prepare and furnish to the Association and 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 the Bank and Andhra Pradesh, a plan satisfactory to the Association and the Bank for the future operation of the Project.

Section 2.04. (a) Andhra Pradesh shall, at the request of the Association and the Bank, exchange views with the Association and the Bank with regard to the progress of the Project and the Program, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit and the Loan.

(b) Andhra Pradesh shall promptly inform the Association and the Bank of any condition which interferes or threatens to interfere with the progress of the Project or the Program, the accomplishment of the purposes of the Credit and the Loan, or the performance by Andhra Pradesh of its obligations under this Agreement.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) Andhra Pradesh shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of Andhra Pradesh responsible for carrying out the Project.

(b) Andhra Pradesh shall:

(i) have the records and accounts 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 and the Bank;

(ii) furnish to the Association and the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association and the Bank shall have reasonably requested; and

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

Section 3.02. Andhra Pradesh shall, with the assistance of financial management consultants selected in accordance with the provisions of Section II of Schedule 1 to this Agreement, prepare, not later than June 30, 1999, a computerized system for, inter alia, accounting, auditing and internal financial control practices (including recording of procurement practices) for the Project acceptable to the Association and the Bank, and shall thereafter commence a financial management training program for all the entities participating in the implementation of the Project.

### 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 and the Loan Agreement become effective.

Section 4.02. (a) This Agreement and all obligations of the Association and the Bank and Andhra Pradesh thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement and the Loan Agreement shall terminate in accordance with their terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement or the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association and the Bank shall promptly notify Andhra Pradesh 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 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 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)

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street N.W  
Washington, D.C. 20433  
United States of America

Cable Address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI)  
64145 (MCI)

For Andhra Pradesh:

Chief Secretary  
Government of Andhra Pradesh  
Hyderabad, India

Facsimile:

91-40-233700

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 Andhra Pradesh may be taken or executed by its Chief Secretary or such other person or persons as Andhra Pradesh shall designate in writing, and Andhra Pradesh shall furnish to the Association and 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.

Section 5.04. As long as the Bank has not given notice to the contrary to Andhra Pradesh, and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligation of Andhra Pradesh to consult with, and furnish information, documents, plans, reports, records and statements to the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to Andhra Pradesh shall be satisfied to the extent such obligations are satisfied by the Association; and

(c) all actions taken (including giving of approvals or granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Loan Agreement, and in the name and on behalf of the Association and the Bank.

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  
INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

By /s/ Edwin R. Lim

Country Director  
India

STATE OF ANDHRA PRADESH

By /s/ S. K. Arora

Authorized Representative

#### SCHEDULE 1

#### Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) 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 in September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A, (the Guidelines), and (b) the provisions of the following Parts of this Section I.

2. In paragraph 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: 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 the purchase of 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

(a) Equipment, medicines, materials and supplies estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$24,000,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Except as provided in paragraph 4 of this Part, civil works shall be procured under contracts awarded in accordance with the provisions of paragraph 3.3 and 3.4 of the Guidelines.

2. National Shopping

(a) Equipment, furniture, medicines, books, materials and supplies estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$23,000,000 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.

(b) Vehicles estimated to cost the equivalent of up to \$100,000 per contract, up to an aggregate amount not to exceed \$500,000, and vehicle refurbishing up to an aggregate amount not to exceed \$500,000 may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and of the Guidelines.

(c) Hiring of vehicles estimated to cost less than \$5,000 equivalent per contract up to an aggregate amount not to exceed \$10,000,000 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

Books, equipment, software, medicines and materials estimated to cost up to an aggregate amount not to exceed \$3,000,000, may, with the Association's and the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Civil works estimated to cost the equivalent of \$30,000 or less per contract, up to an aggregate amount not exceeding \$160,100,000 may be carried out either:

(a) under lump sum, fixed price contracts awarded on the basis of quotations obtained from three 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 the Bank, 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

(b) through direct contracting with Water Users' Associations, NGOs, or local participatory groups, in accordance with paragraph 3.7 of the Guidelines and procedures satisfactory to the Association and the Bank; or

(c) through force account, as a last resort in accordance with paragraph 3.8 of the Guidelines and procedures satisfactory to the Association and the Bank.

Part D: Review by the Bank 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 and the Bank for their 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 each contract for goods estimated to cost the equivalent of \$200,000 or more and each contract for 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 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 (a) 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, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

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. Quality-based Selection

Services for software development, training and canal automation under Part E of the Project shall be procured under contracts awarded in accordance with the

provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services for environmental impact and social assessments under Part E of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection

Services for baseline surveys and pilot study on community supported nutrition program under Part C of the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Single Source Selection

Services for training, baseline survey under Part E of the Project, health referral under Part B of the Project and survey and design of roads and bridges under Part D of the Project may, with the Association's and the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines, subject to the requirement that any contract for goods, forming part of such research contract, and estimated to cost more than \$20,000 equivalent, shall be procured in accordance with the provisions of paragraphs 3.5 and 3.6 of the Procurement Guidelines

5. Service Delivery Contractors

Services to be provided by para teachers under Part A of the Project shall be procured in accordance with Procedures acceptable to the Bank.

6. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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 and the Bank 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 and the Bank 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 the Bank, 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 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 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 and the Bank for their prior review and approval. The



contract shall be awarded only after the said approval shall have 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

Section I:

Part A: District Primary Education Component

1. Andhra Pradesh shall carry out, and cause APPVP to carry out, Part A of the Project in accordance with the DPEP Guidelines.

2. Andhra Pradesh shall maintain the SPO, DPOs and SCERT with responsibilities to coordinate and implement Part A of the Project with adequate staff, resources and facilities satisfactory to the Association and the Bank

3. Andhra Pradesh shall no later than six months after the Effective Date establish, and thereafter maintain DIETs and MRCs in Project Districts with functions, powers, staff, resources and facilities satisfactory to the Bank and the Association.

4. Andhra Pradesh shall take all the necessary measures to ensure that at least 95% of the teachers' posts in the Project Districts shall remain filled with teachers beginning with March 31, 2000.

5. Andhra Pradesh shall:

(a) take all the necessary actions including redeployment of teachers (including para-teachers) according to school enrollment data to reduce progressively the pupil to teacher (including para-teachers) ratio in a manner satisfactory to the Association and the Bank, such that the ratio is reduced to a level of 45:1 by the end of the Project implementation period; and

(b) appoint para-teachers in accordance with procedures satisfactory to the Association and the Bank.

6. Andhra Pradesh and APPVP shall:

(a) review and discuss with the Association and the Bank the evaluation of the innovative approaches under Part A.2(e) of the Project before expanding such approaches;

(b) review and discuss with the Association and the Bank by June 30, 2000 proposals for providing opportunities for further education to alternative school students who have completed class 3;

(c) provide semi-annual reports to the Association and the Bank no later than February 28 and August 31 of each year setting out, inter alia, the progress achieved in implementing this Part of the Project;

(d) conduct a learning achievement study by no later than April 30, 2001, and another such study by no later than April 30, 2003, and incorporate the results thereof in the semi-annual report after the completion of each such study; and

(e) carry out observation studies of classroom practice at least three times during the project implementation period and incorporate the results thereof in the semiannual report after the completion of each such study.

7. Andhra Pradesh shall:

(a) without limitation to Section 9.09 of the General Conditions, make

available adequate land that may be required for new construction under Part A of the Project sufficiently in advance of commencing such construction activities in order to ensure timely implementation thereof;

(b) to the extent practicable, and subject to subparagraph (c) of this paragraph, make such land available that is owned by it and is free from encumbrances and encroachments or obtain such land on a voluntary basis in accordance with procedures satisfactory to the Association and the Bank; and

(c) ensure that no involuntary resettlement arises from any use of land, or change of land use for Part A of the Project, except to the extent that the Association and the Bank agree in writing prior to any such proposed land use that arrangements for involuntary resettlement, if any, are satisfactory to the Association and the Bank.

## Section II:

### Part B: Primary Health Component

1. Andhra Pradesh shall adopt, no later than six months after completion of the construction or upgrading of primary health centers under Part B.1 of the Project, and thereafter implement, staffing and technical norms acceptable to the Association and the Bank.

2. Andhra Pradesh shall:

(a) by January 31 of each year during the implementation of the Project provide to the Association and the Bank an annual work plan, acceptable to the Association and the Bank, setting forth the respective activities under Part B of the Project to be carried out during the following Fiscal Year including the budgetary allocations to be made available for such purpose; and

(b) by May 31 of each year review with the Association and the Bank the progress achieved in implementing Part B of the Project under the annual work plan for the previous Fiscal Year and, as the case may be, the interim plan referred to in sub-paragraph (d) below of this paragraph;

(c) implement each annual work plan in a manner satisfactory to the Association and the Bank; and

(d) implement Part B of the Project until the formulation of the first annual work plan in accordance with the interim plan agreed with the Association and the Bank.

3. Andhra Pradesh shall provide adequate budgetary allocations for the annual work plans and the interim plan referred to in paragraph 2 of this Part and make such allocations available on a timely basis sufficient to meet the resource requirements under such plans.

4. Andhra Pradesh shall implement Part B of the Project in tribal areas (as designated by Andhra Pradesh) in accordance with the tribal strategy set out in the Project Implementation Plan for Part B of the Project.

5. Andhra Pradesh shall by May 31, 1999 establish, and thereafter maintain a project management team, including a Project Director and two Joint Directors, a Project Governing Board, a Project Implementation Committee, and a District Health Committee in each District, with powers, functions, organizational structure and resources satisfactory to the Association and the Bank.

6. Andhra Pradesh shall:

(a) without limitation to Section 9.09 of the General Conditions, make available adequate land that may be required for new construction under Part B of the Project sufficiently in advance of commencing such construction activities in order to ensure timely implementation thereof;

(b) to the extent practicable, and subject to subparagraph (c) of this

paragraph, make such land available that is owned by it and is free from encumbrances and encroachments or obtain such land on a voluntary basis in accordance with procedures satisfactory to the Association and the Bank; and

(c) ensure that no involuntary resettlement arises from any use of land, or change of land use for Part B of the Project, except to the extent that the Association and the Bank agree in writing prior to any such proposed land use that arrangements for involuntary resettlement, if any, are satisfactory to the Association and the Bank.

Section III:

Part C: Integrated Child Development Services Project

1. Andhra Pradesh shall carry out Part C of the project in accordance with the Plan for Introduction of Services for ICDS as set out in the Project Implementation Plan for Part C of the Project.

2. Andhra Pradesh shall:

(a) by May 31, 1999 establish, and thereafter maintain, a Project Management Unit for Part C of the Project with functions, powers, organizational structure and resources satisfactory to the Association and the Bank; and

(b) by September 30, 2002, provide to the Association and the Bank a plan satisfactory to the Association and the Bank, for the future operation and sustainability of the functions and activities undertaken under Part C of the Project.

3. Andhra Pradesh shall provide training to all newly recruited field-level functionaries of ICDS within one year of their recruitment.

4. Andhra Pradesh shall carry out an assessment of stakeholders participation in ICDS activities at least once every year through participatory rapid appraisal techniques and implement the results thereof in a timely manner.

5. Andhra Pradesh shall carry out a baseline survey of Part C of the Project and by December 31, 1999 provide a report to the Association and the Bank integrating the results of such survey.

6. Andhra Pradesh shall:

(a) by January 31 of each year during the implementation of Part C of the Project provide to the Association and the Bank an annual work plan, acceptable to the Association and the Bank, setting forth the activities under Part C of the Project to be carried out during the following Fiscal Year;

(b) by May 31 of each year review with the Association and the Bank the progress achieved in implementing Part C of the Project under the annual work plan for the previous Fiscal Year and, as the case may be, the interim plan referred to in subparagraph (d) below;

(c) implement each annual work plan in a manner satisfactory to the Association and the Bank; and

(d) implement Part C of the Project until the formulation of the first annual work plan in accordance with the interim plan agreed to with the Association and the Bank.

7. Andhra Pradesh shall implement Part C of the Project in tribal areas (as designated by Andhra Pradesh) in accordance with the strategy for strengthening ICDS among tribal populations as set out in the Project Implementation Plan for Part C of the Project.

8. Andhra Pradesh shall, in each Fiscal Year provide the full food requirements of ICDS in Andhra Pradesh in accordance with supplementary feeding norms of the Borrower established for ICDS.

9. Andhra Pradesh shall:

(a) without limitation to Section 9.09 of the General Conditions, make available adequate land that may be required for new construction under Part C of the Project sufficiently in advance of commencing such construction activities in order to ensure timely implementation thereof;

(b) to the extent practicable, and subject to subparagraph (c) of this paragraph, make such land available that is owned by it and is free from encumbrances and encroachments or obtain such land on a voluntary basis in accordance with procedures satisfactory to the Association and the Bank; and

(c) ensure that no involuntary resettlement arises from any use of land, or change of land use for Part C of the Project, except to the extent that the Association and the Bank agree in writing prior to any such proposed land use that arrangements for involuntary resettlement, if any, are satisfactory to the Association and the Bank.

Section IV:

Part D: Roads Component

1. Andhra Pradesh shall cause RBD:

(a) by January 31 of each Fiscal Year to carry out a Pavement Management System (PMS) analysis of the selected state highways and major district roads under Part D (1) (a) of the Project to determine optimal maintenance spending requirements for the following Fiscal Year and share the results with the Bank;

(b) to maintain a separate budget head for the maintenance of major district roads; and

(c) submit a report to the Association and the Bank by March 31 each year, on: (i) the proportions of the selected state highways and major district roads under Part D (1) (a) of the Project classified by RBD as being in good, fair and poor condition; (ii) the proposed maintenance funding for the following Fiscal Year; and (iii) progress in strengthening maintenance management.

2. Andhra Pradesh shall not later than May 31, 1999:

(a) adopt a policy framework for rural roads, satisfactory to the Association and the Bank, and thereafter implement it in a timely manner;

(b) establish a Project Implementation Unit at the PRED headquarters and in each of the three districts selected for implementing Part D of the Project with the agreement of the Association and the Bank; and thereafter maintain such Unit with powers, functions, resources and organizational structure satisfactory to the Association and the Bank; and

(c) appoint consultants in accordance with the procedures set out in Schedule 1 to this Agreement for implementing Part D.4 of the Project.

3. Andhra Pradesh shall:

(a) not later than August 31, 1999 appoint consultants in accordance with the procedures set out in Schedule 2 to the Project Agreement for the technical audit of the implementation of the maintenance works under Part D.3 of the Project; and

(b) cause PRED to carry out by December 31 in each year, beginning with December 31, 1999, a joint review with the Association and the Bank of the implementation of the annual maintenance works under Part D.3 of the Project and formulate an annual plan, satisfactory to the Association and the Bank, for the next Fiscal Year.

4. Andhra Pradesh shall by March 31 of each year, provide adequate funding for implementing the annual plan referred to in paragraph 3(b) of Section IV of Schedule 2

of this Agreement for the following Fiscal Year for the optimal maintenance requirement under such Part D.3 of the Project.

5. Andhra Pradesh shall submit a report to the Association and the Bank, by March 31 each year, on: (i) the proportions of the core rural network in the three districts referred to in Part D.3 of the Project classified by PRED as being in good, fair and poor conditions; (ii) the proposed maintenance funding for the following Fiscal Year; and (iii) progress in strengthening maintenance management.

6. Andhra Pradesh shall:

(a) without limitation to Section 9.09 of the General Conditions, make available adequate land that may be required for new construction under Part D of the Project sufficiently in advance of commencing such construction activities in order to ensure timely implementation thereof;

(b) to the extent practicable, and subject to subparagraph (c) of this paragraph, make such land available that is owned by it and is free from encumbrances and encroachments or obtain such land on a voluntary basis in accordance with procedures satisfactory to the Association and the Bank; and

(c) ensure that no involuntary resettlement arises from any use of land, or change of land use for Part D of the Project, except to the extent that the Association and the Bank agree in writing prior to any such proposed land use that arrangements for involuntary resettlement, if any, are satisfactory to the Association and the Bank.

Section V:

Part E: Irrigation Component

1. Andhra Pradesh shall:

(a) cause the WCRC: (i) to function in accordance with the Government Order establishing it; (ii) to hire consultants by not later than June 30, 1999; and (iii) to meet regularly to make annual recommendations to Andhra Pradesh commencing in FY 1999-00 regarding the water rates to be levied, the expenditure requirements for maintenance works and other recommendations in areas within its competence; and

(b) take steps to implement the annual recommendations of WCRC regarding full funding of maintenance works in a manner satisfactory to the Association and the Bank.

2. Andhra Pradesh shall:

(a) provide annually to I&CADD the full funds required for satisfactory maintenance of all irrigation infrastructure within its purview in full operating order; and

(b) make such maintenance budget available to I&CADD from the beginning of each Fiscal Year in order to ensure the appropriate and timely implementation of maintenance activities.

3. Andhra Pradesh shall ensure that commencing in FY 1999/00, maintenance works funds provided by Andhra Pradesh or by I&CADD are allocated to a separate and protected maintenance works account exempt from withdrawals for salaries and wages, with such separate accounts existing at the central and all field offices of I&CADD.

4. Andhra Pradesh shall:

(a) cause I&CADD to submit by January 31 of each year, its annual expenditure plans for maintenance works to Andhra Pradesh, WCRC and the Association and the Bank based on detailed estimates following an agreed reporting, programming and budgeting, and monitoring and evaluation process; and

(b) cause I&CADD and the farmer organizations to carry out satisfactory maintenance activities to standards enabling the sustainability and full operating order of the irrigation and drainage systems, and in accordance with these annual

maintenance plans, schedules and budgets.

5. Andhra Pradesh shall ensure that minimum rehabilitation and systems improvement works undertaken by WUAs under Parts E.1 (a) and E.2 (b) of the Project include capital cost contributions from the WUAs in cash or in kind, equivalent to not less than 15% of the cost of such rehabilitation and system improvement works.

6. Andhra Pradesh shall implement a system for water charge collection on a volumetric basis by WUAs on at least a pilot basis (i.e. covering about 40,000 ha) by March 31, 2001.

7. Andhra Pradesh shall: (a) not later than March 31, 2000 complete a study on the experience and impact of the participatory irrigation management (PIM) program, including participation by women and irrigation management transfer to farmer organizations and review the findings with the Association and the Bank for purposes of adjusting the PIM program as appropriate;

(b) not later than March 31, 2001 complete an institutional study to determine further changes that may be necessary for the management of the irrigation sector and review the findings of the study with the Association and the Bank;

(c) not later than March 31, 2000 complete the studies under Part E.2(a) of the Project and take into account the results of these studies in implementing scheme improvement under Part E.2(b) of the Project and canal automation under Part E.2(c) of the Project; and

(d) not later than September 30, 1999 complete a baseline survey of Part E of the Project.

8. Andhra Pradesh shall: (a) cause I&CADD and AD to submit to Andhra Pradesh by January 31 of each Fiscal Year a report detailing the progress of implementing Part E of the Project and an implementation plan with a funding proposal for the next Fiscal Year satisfactory to the Association and the Bank; (b) include the required funding for the implementation plans in the state's budget proposal for the next Fiscal Year, and provide to I&CADD and AD the funds as approved in the State's budget in a timely manner.

9. Andhra Pradesh shall by June 30, 1999: (a) establish and thereafter maintain a Project Management Unit within I&CADD, a Program Implementation Cell within AD and a Human Resources Development Unit within WALAMTARI for Part E of the Project with functions, powers, staff and resources satisfactory to the Association and the Bank; and (b) establish within its Project Management Unit, and thereafter maintain, a Finance and Accounts Cell headed by a qualified and experienced finance professional to be responsible for project financial management, including management of finance, accounts and monitoring of water charges collected from WUAs.

10. Andhra Pradesh shall:

(a) without limitation to Section 9.09 of the General Conditions, make available adequate land that may be required for new construction under Part E of the Project sufficiently in advance of commencing such construction activities in order to ensure timely implementation thereof;

(b) to the extent practicable, and subject to subparagraph (c) of this paragraph, make such land available that is owned by it and is free from encumbrances and encroachments or obtain such land on a voluntary basis in accordance with procedures satisfactory to the Association and the Bank; and

(c) ensure that no involuntary resettlement arises from any use of land, or change of land use for Part E of the Project, except to the extent that the Association and the Bank agree in writing prior to any such proposed land use that arrangements for involuntary resettlement, if any, are satisfactory to the Association and the Bank.

Section VI:

Part F: Public Enterprises and Cooperative Enterprises Component

1. Andhra Pradesh shall maintain the Cabinet Sub-Committee on State Level Public Enterprises and Cooperative Enterprises, and the Implementation Secretariat with powers, functions, organizational structure and resources satisfactory to the Association and the Bank for the purpose of implementing the First Phase Program for Restructuring Public Enterprises and Cooperatives under Part F.1 of the Project.

2. Andhra Pradesh shall:

(a) carry out the First Phase of the Restructuring Program for Public Enterprises and Cooperative Enterprises in accordance with arrangements, procedures and a timetable satisfactory to the Association and the Bank and complete the implementation thereof by December 31, 2001;

(b) by June 30, 1999 formulate a time-based action plan, satisfactory to the Association and the Bank, setting out the strategy for the privatization of the public enterprises identified for privatization in the First Phase Restructuring Program for Public Enterprises and Cooperatives; and

(c) implement the action plan referred to in sub-paragraph (b) of this paragraph in a manner satisfactory to the Association and the Bank.

3. Andhra Pradesh shall:

(a) maintain and administer the State Renewal Fund in accordance with the Government Order on State Renewal Fund and the Guidelines for State Renewal Fund;

(b) implement the Voluntary Retirement Scheme under Part F.1 of the Project in a manner satisfactory to the Association and the Bank;

(c) take all the necessary actions to ensure that employees receiving benefits under the Voluntary Retirement Scheme or the Industrial Disputes Act are not re-employed in public undertakings or the civil service of Andhra Pradesh;

(d) implement a social safety net program under Part F.1 of the Project in accordance with arrangements and procedures satisfactory to the Association and the Bank; and

(e) implement a program of technical assistance under Part F.3 of the Program to strengthen institutional capacity of Andhra Pradesh in accordance with arrangements and procedures satisfactory to the Association and the Bank.

4. Andhra Pradesh shall by September 30, 2000 formulate the second phase of the program for the restructuring of public enterprises and cooperative enterprises under Part F.2 of the Project satisfactory to the Association and the Bank.

#### Section VII: Fiscal Measures

1. Andhra Pradesh shall take all the necessary measures, satisfactory to the Association and the Bank in order: (a) to reduce fiscal deficit by 0.5 percentage points during the implementation period of the Project from 3.0 percent of Gross State Domestic Product (GSDP) in FY 1997-98 according to the following annual targets: 3.0 percent in FY 1998-99; 3.4 percent in FY 1999-00; 2.9 percent in FY 2000-01; 2.7 percent in FY 2001-02; and 2.5 percent in FY 2002-03.

2. Andhra Pradesh shall take all the necessary measures, satisfactory to the Association and the Bank in order:

(a) to achieve positive revenue balance in FY 2000-01 of 0.4 percent of GSDP and keep it at least at that level thereafter;

(b) to keep the ratio of guarantees provided by it and its GSDP at a level not higher than 9 percent of GSDP beginning with FY 1998-99;

(c) to reduce employment in the state government (excluding primary education) by 1.9 percent each Fiscal Year beginning with FY 1998-99;

(d) to reduce the ratio of salary to GSDP from the estimated 5.3 percent in FY 1997-98 to no higher than 5.0 percent in FY 2002-03;

(e) to increase total combined expenditure in primary education and primary health from the estimated 0.9 percent of GSDP in FY 1997-98 to at least 1.8 percent of GSDP in FY 2002-03 (approximately 0.18 points a year);

(f) to increase expenditure on non-salary O&M from the estimated 1.2 percent of GSDP in FY 1997-98 to at least 2.0 percent of GSDP in FY 2000-01 and thereafter maintain it at least at that level;

(g) to increase expenditure on capital outlays (capital expenditure excluding net loans and advances) from 1.1 percent of GSDP in FY 1997-98 to at least 2.2 percent of GSDP in FY 2000-01 and maintain it at least at that level thereafter;

(h) (i) to improve targeting of the beneficiaries of the rice subsidy by eliminating the bogus (illegal) rice subsidy cards by June 30, 1999; (ii) to improve the design and implementation of the rice subsidy scheme to better target the poor; and (iii) to strengthen the existing food committees at all levels to increase representation of women's groups to a level satisfactory to the Association and the Bank by September 30, 1999 in order to better monitor the rice subsidy scheme from the perspective of beneficiaries; and

(i) to increase the collection rate of irrigation water charges to at least 90 percent of collectible demand made in accordance with the provisions of the Andhra Pradesh Water Tax Act by March 31, 2001 and maintain it at least at that level thereafter.

#### Section VIII: Other Implementation Arrangements for the Project Project Implementation Plan

1. Andhra Pradesh shall carry out and shall cause its relevant departments, services and units to carry out Parts A, B, C, D, E and F of the Project in accordance with the Project Implementation Plan for each such Part. Project Management

2. Andhra Pradesh shall maintain the Central Project Monitoring Unit with functions, powers, organizational structure and resources satisfactory to the Association and the Bank.

3. Andhra Pradesh shall establish, maintain and implement a system, satisfactory to the Association and the Bank, for channeling funds required for the Project to the entities responsible for implementation.

4. Andhra Pradesh shall by May 31, 1999 establish, and thereafter maintain, a Procurement Steering Committee with functions, powers, staff and resources satisfactory to the Association and the Bank for the purpose of reviewing and selecting bids submitted under international competitive bidding procedures and national competitive bidding procedures under Schedule 1 of this Agreement.

5. Andhra Pradesh shall appoint by May 31, 1999 a financial controller with skills, experience and qualifications and terms of reference satisfactory to the Association and the Bank.

#### Fiscal Reform Program

6. Andhra Pradesh shall prepare and submit to the Association and the Bank no later than June 30, 2000 a fiscal reform program, satisfactory to the Association and the Bank, setting out, inter alia, detailed additional actions and measures to be implemented by Andhra Pradesh:

(a) to achieve the objectives of the Program;

(b) to establish a fiscal framework satisfactory to the Association and the Bank;

(c) to restructure the composition of public expenditures in order: (i) to achieve the fiscal targets set out in Section VII of this Schedule; and (ii) to



improve the development impact of public expenditure program; and

(d) to strengthen the continued implementation of the Program and the fiscal measures set out in Section VII of this Schedule.

#### Annual Reviews

7. Andhra Pradesh shall:

(a) by December 31 of each year review with the Association and the Bank the progress made: (i) in carrying out the Project and the Program; (ii) in achieving the fiscal measures set out in Section VII of this Schedule; (iii) in achieving the performance benchmarks and development objectives within the overall framework agreed to be achieved under the Project and the Program, including the indicators referred to in paragraph 8 of this Section; and (iv) in carrying out the fiscal reform program after its formulation pursuant to paragraph 6 of Section VIII of this Schedule;

(b) propose or prepare measures to be taken for the continued implementation of the Project, the Program, the fiscal measures set out in Section VII of this Schedule, and the fiscal reform program formulated pursuant to paragraph 6 of Section VIII of this Schedule in a manner satisfactory to the Association and the Bank and in accordance with the framework and the indicators referred to in sub-paragraph (a) of this paragraph; and

(c) implement the measures agreed under sub-paragraph (b) of this paragraph in a manner satisfactory to the Association and the Bank. Mid-term Review

8. Andhra Pradesh 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 and the Bank, the carrying out of the Project and the Program, including the fiscal measures set out in Section VII of this Schedule, and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association and the Bank, and furnish to the Association and the Bank, not later than June 30, 2000 a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this paragraph on the progress achieved in the carrying out of the Project and the Program, including the fiscal measures set out in Section VII of this Schedule, 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 Program, including the fiscal measures set out in Section VII of this Schedule, and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association and the Bank, by September 30, 2000 or such later date as the Association and the Bank shall request, the reports and agenda referred to in subparagraph (b) of this paragraph, and thereafter, take all measures required to ensure the efficient completion of the Project and the Program, including the fiscal measures set out in Section VII of this Schedule, and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's and the Bank's views on the matter.

