

**CONFORMED COPY**

**LOAN NUMBER 4653-IN**

# **Project Agreement**

**(Kerala State Transport Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**STATE OF KERALA**

**Dated May 6, 2002**

**LOAN NUMBER 4653-IN**

## **PROJECT AGREEMENT**

AGREEMENT, dated May 6, 2002, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF KERALA, acting by its Governor (Kerala).

WHEREAS by the Loan Agreement of even date herewith between India (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to two hundred and fifty five million dollars (\$255,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Kerala agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Kerala, in consideration of the Bank's 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 Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined in the Loan Agreement) have the respective meanings therein set forth.

## **ARTICLE II**

### **Execution of the Project**

Section 2.01. (a) Kerala declares its commitment to the objectives of the Project and, to this end, shall carry out the Project, through the Public Works Department, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, transport, rehabilitation and resettlement, and environmental and social 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 Bank and Kerala shall otherwise agree, Kerala shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement, the Project Implementation Plan, the Environmental Management Plans, the Environmental and Social Management Plan, the Resettlement Action Plan, the Environment and Social Assessment Management Plan, and the Finance Manual.

(c) Kerala shall make available, in a timely manner, to the Public Works Department sufficient funds, in necessary and appropriate amounts, to ensure effective implementation of the Project. Such funds shall include proceeds of the Loan made available to Kerala by the Borrower and any additional funds from Kerala's own resources required for carrying out the Project, and such funds shall be made available in accordance with the procedures specified in the Finance Manual.

Section 2.02. Except as the Bank shall otherwise agree, procurement of goods, works and consultants' services, required for the Project and to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Kerala shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and

services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

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

- (i) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date, or such later date as may be agreed for this purpose between the Bank and Kerala, a plan designed to ensure the continued achievement of the Project's objectives; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Kerala on such plan.

Section 2.04. (a) Kerala shall, at the request of the Bank, exchange views with the Bank on the progress of the Project, the performance of Kerala's obligations under this Agreement and other matters relating to the purposes of the Loan.

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

## ARTICLE III

### Financial Covenants

Section 3.01. (a) Kerala shall establish and, thereafter, maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Project of the departments or agencies of Kerala responsible for carrying out the Project or any part thereof.

(b) Kerala 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 Bank;

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

(iii) furnish to the Bank such other information, as the Bank may reasonably request from time to time, concerning such records, accounts and financial statements, and the audit thereof, and the auditors who performed the audit.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, Kerala shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of Section 3.01 in order to enable Kerala, not later than March 31, 2003, or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for 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 Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, 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 the Project and expenditures under contracts financed out of the proceeds of the Loan, 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, Kerala shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

#### **ARTICLE IV**

##### **Effective Date; Termination; Cancellation and Suspension**

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Kerala thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Kerala thereof.

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 facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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) or  
64145 (MCI)

Facsimile:

1-202-477-6391

For Kerala:

Principal Secretary to the Government of Kerala  
Public Works Department  
Government of Kerala  
Secretariat  
Thiruvananthapuram 695001  
Kerala, India

Facsimile:

91-471-327285

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edwin Lim

Country Director, India

STATE OF KERALA

By /s/ Babu Jacob

Authorized Representative

**SCHEDULE 1**

**Procurement**

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits”, published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for contracts for works under Parts A.1 and A.2 and Part B.1 of the Project shall

be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

(c) Dispute Review Board

Each contract for works estimated to cost \$10,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.



(d) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

The following may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Bank: (a) works under Part B.1 of the Project estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$56,400,000 equivalent; and (b) goods, including computer hardware and software, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,150,000 equivalent.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$450,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Three Quotations/Direct Contracting/Force Account - Works

Works, estimated to cost less than \$50,000 equivalent per contract and up to an aggregate amount not to exceed \$8,290,000 equivalent, related to: (a) shifting of utilities under Part A.1 of the Project; (b) improvement of accident black spots under Part C.2 of the Project; and (c) environmental mitigation and related measures under the Project, may be procured according to the following procedures.

- (i) Lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least 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 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.
- (ii) With the Bank's prior agreement, under direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines, up to an aggregate amount not to exceed \$1,000,000 equivalent.
- (iii) If the proposed contracts meet the requirements of paragraph 3.8 of the Guidelines, they may be carried out, with the Bank's prior agreement, by force account in accordance with the provisions of

said paragraph of the Guidelines, up to an aggregate amount not to exceed \$1,000,000 equivalent.

to an aggregate amount not to

4. Direct Contracting - Goods

Remote sensing maps required for Part D-1 of the Project, up to an aggregate amount of not more than \$200,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines from the National Remote Sensing Agency.

5. Commercial Practices

Works and goods required for implementation of Part A.3 of the Project, estimated to cost less than \$5000 equivalent per contract up to an aggregate amount not to exceed \$15,400,000 equivalent, shall be procured in accordance with commercial practices, acceptable to 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 Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to: (i) each contract for civil works under Parts A.1 and A.2 of the Project; (ii) each contract for civil works under Part B of the Project, estimated to cost \$2,000,000 equivalent or more, procured under Part C.1 of this Schedule; and (iii) each contract for goods estimated to cost more than \$200,000 equivalent.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedure set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the provisions of the following Parts of this Section II.

## Part B: Quality- and Cost-based Selection

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 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

## Part C: Other Procedures for the Selection of Consultants

### 1. Selection Under a Fixed Budget

Services for supervising construction of civil works under Part B.1 of the Project, estimated to cost \$1,620,000 equivalent in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

### 2. Single Source Selection/Individual Consultants

Services for studies relating to the condition of road networks and traffic under Parts C.1 and C.3 of the Project, estimated to cost \$600,000 equivalent in the aggregate, may, with the Bank's prior agreement, be procured through a contract awarded either: (i) through single source selection in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines or (ii) to an individual consultant in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3. Individual Consultants

Services related to: (i) performance-based maintenance works for state highways under Part B.1 of the Project, estimated to cost \$100,000 equivalent in the aggregate; (ii) monitoring and evaluation under Part B.2 of the Project, estimated to cost \$100,000 equivalent in the aggregate; and (iii) the audit of procurement relating to the Resettlement Action Plan under Part C.5 of Section I of this Schedule 1, estimated to cost \$100,000 equivalent, all of which 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 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 Bank for its 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 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 equivalent 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 individual consultants estimated to cost the equivalent of \$50,000 equivalent or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its 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**

#### General

1. Kerala shall ensure that no proceeds of the Loan shall be used to finance the carrying out of civil works under Parts A and B of Schedule 2 to the Loan Agreement of the Project in connection with roads or canals not included in the Project Implementation Plan, unless and until Kerala has submitted to the Bank documentation satisfactory to the Bank for undertaking civil works for such roads and canals, including without limitation and as may be appropriate and necessary, a feasibility study report, relevant environmental management and social plans and a resettlement action plan.

#### Project Implementation Arrangements

2. Kerala shall maintain the Empowered Committee, the Project Steering Committee and the Tender Evaluation Committee during the period of Project implementation, each with composition, powers, functions and resources satisfactory to the Bank.

3. Kerala shall maintain, until completion of the Project, the Project Management Team, with such necessary persons as agreed with the Bank.

4. Kerala shall take all such measures as may be necessary or advisable in order for the Project Management Team to manage the activities to be carried out under the Project, including civil works, construction and maintenance.

5. Kerala shall: (i) maintain, until completion of the Project, a financial controller and a finance manager for the Project, each of whom shall have qualifications and experience satisfactory to the Bank, and (ii) maintain until completion of the Project, an accounts supervisor for each division of the Public Works Department participating in the Project with such experience and qualifications as agreed with the Bank.

6. Kerala shall maintain throughout the period of Project implementation: (i) an Environment and Social Management Cell within the Public Works Department, which shall be operated in coordination and in consultation with the Irrigation Department, to oversee implementation of the Environmental Management Plans, the Environmental and Social Management Plan, the Resettlement Action Plan and the Environment and Social Assessment Management Plan, (ii) a District-Level Grievance Redress Committee and a District-Level Resettlement Committee in each district of Kerala in which the Project is to be carried out, and each of such entities shall have a composition and such powers, functions and resources as agreed with the Bank.

7. Kerala shall establish and operate by not later than August 31, 2002 and maintain throughout the Project implementation period, a computerized Financial Management System for the Project satisfactory to the Bank.

8. Kerala shall cause the Project Management Team to: (a) maintain throughout the period of Project implementation a separate bank account for Project funds in a commercial bank; and (b) maintain throughout the period of Project implementation separate records and books of

accounts for such funds.

#### Institutional Strengthening and Reform of the Public Works Department

9. Kerala shall complete a comprehensive review of the Public Works Department manuals and codes, and give effect to such revisions, as may be necessary and appropriate, to these documents by no later than December 31, 2004.

10. Kerala shall, in consultation with the Bank, complete an assessment of the existing organizational structure of the Public Works Department and shall use its best efforts to give effect to any revisions to such structure by no later than December 31, 2004, and Kerala shall furnish to the Bank quarterly reports on March 31, June 30, September 30 and December 31 of each year following the Effective Date until December 31, 2004, or such later date agreed with the Bank, indicating the progress being made in relation to such assessment of, and any such revisions to, the organizational structure of the Public Works Department.

11. Without prejudice to its obligations under paragraph 7 of this Schedule 2, Kerala shall establish, operate, and, thereafter, shall maintain a computerized Financial Management System for the entire Public Works Department organization by not later than December 31, 2004.

#### Surveys and Data Collection

12. Following the Effective Date of the Project, Kerala shall: (i) by no later than December 31 of each year, or such later date agreed with the Bank, until completion of the Project, conduct annual road condition and traffic surveys on state highways with methodology and content as agreed with the Bank; and (ii) by March 31 of the following year, or by such later date agreed with the Bank, provide a report of such surveys to the Bank.

13. Kerala shall, by no later than December 31, 2004, establish a modern road information and maintenance management system that will result in better data collection of road inventory, investment priorities and project management.

14. Kerala shall: (i) conduct at least three times during the period of Project implementation a road user survey, with methodology and content as agreed with the Bank, to assess road users' satisfaction with the Public Works Department's performance in maintaining and operating the road network, to assess opinions regarding current and potential sector targets and to make comparisons with attitudes expressed in previous surveys; and (ii) furnish to the Bank a report of the first such survey by no later than three months following the Effective Date, a report of the second such survey by December 31, 2004 and a report of the third such survey by June 30, 2007.

#### Environment and Social Management

15. Kerala shall implement, in a satisfactory manner, the environmental mitigation, monitoring, institutional strengthening and other measures set forth in the Environmental Management Plans, the Environmental and Social Management Plan, and the Environment and Social Assessment Management Plan in accordance with the objectives, policies, procedures, time schedule and other provisions set forth therein and shall not take any action which would prevent or interfere with such implementation.

16. Without limiting the generality of the foregoing paragraph 15 of this Schedule 2, Kerala shall:

(a) refrain from commencing, or taking any action relating to Part A.2 of the Project prior to furnishing to the Bank a plan, satisfactory to the Bank, to mitigate the adverse environmental and social impact arising out of or relating to implementation of Part A.2 of the Project;

(b) maintain procedures, acceptable to the Bank, that are adequate to enable Kerala to monitor and evaluate, on an on-going basis during the period of Project implementation and for two years following the Closing Date, the implementation of the Environmental Management Plans, the Environmental and Social Management Plan, and the Environment and Social Assessment Management Plan and the achievement of the objectives thereof;

(c) furnish to the Bank quarterly reports on March 31, June 30, September 30 and December 31 of each year during the period of Project implementation and for a period of two years following the Closing Date, each such report to incorporate the results of the monitoring and evaluation activities, together with any revisions proposed to be introduced to the Environmental Management Plans, the Environmental and Social Management Plan, and the Environment and Social Assessment Management Plan to achieve their objectives;

(d) in relation to those sections of state roads included in Part A.1 of the Project for which detailed environmental studies have not been completed or finalized as of December 2001: (i) refrain from inviting bids for road construction and improvement relating to such sections of state roads, or (ii) if no bidding process is involved, refrain from selecting a contractor for works on such sections of state roads in accordance with the provisions of Schedule 1 to this Agreement, unless Kerala has submitted to the Bank environmental assessment reports, environmental management plans and environment and social assessment management plans, all of which shall be satisfactory to the Bank ; and

(e) ensure that: (i) all necessary environmental and forestry clearances for all sections of state roads and canals included in the Project are obtained from relevant government authorities; (ii) copies of such clearances are submitted to the Bank before contracts for works for the relevant sections of the roads and canals are awarded; and (iii) all conditions imposed by the relevant governmental authorities under such clearances are complied with.

#### Resettlement Action Plan

17. Kerala shall implement the resettlement and rehabilitation of the persons affected by the Project in accordance with the provisions set forth in the Resettlement Action Plan and with the objectives, policies, procedures and time schedule set forth therein and shall not take any action that would prevent or interfere with such implementation in a manner satisfactory to the Bank.

18. Without limiting the generality of the foregoing paragraph 17 of this Schedule 2, Kerala shall:

(a) furnish to the Bank any revisions proposed to be introduced to the Resettlement Action Plan in order to achieve its objectives and, thereafter, introduce such revisions to the Resettlement Action Plan as shall have been agreed with the Bank;

(b) in relation to those sections of state roads included in Parts A.1, B.1 and C.2 of the Project which have not been covered by the Resettlement Action Plan: (i) refrain from inviting bids for road construction and improvement relating to such sections of state roads; or (ii) if no bidding process is involved, refrain from selecting a contractor for works on such sections of state roads in accordance with the provisions of Schedule 1 to this Agreement, unless Kerala has submitted to the Bank updates or amendments to the Resettlement Action Plan, which shall be satisfactory to the Bank, setting forth, details regarding resettlement of persons affected by the Project in such sections of state roads;

(c) maintain procedures, acceptable to the Bank, that are adequate to enable Kerala to monitor and evaluate, on an on-going basis, the implementation of the Resettlement Action Plan and the achievement of the objectives thereof;

(d) furnish to the Bank during the period of Project implementation until completion of the Project monthly reports prepared by Project Management Team, on the results of such activities during the period preceding the date of said report;

(e) furnish to the Bank during the period of Project Implementation until completion of the Project, quarterly reports prepared by an independent monitoring entity acceptable to the Bank, on the implementation and results of the resettlement activities for the corresponding monthly periods referred to under sub-paragraph (d) above; and

(f) take appropriate action to ensure that separate bank accounts are opened with commercial banks for making necessary payments in connection with implementation of the Resettlement Action Plan.

#### Allocation of Resources to Road Sector

19. (a) Subject to state budgetary planning and approval processes, Kerala shall, commencing FY 2002-03 through the period of Project implementation, take appropriate and necessary action to ensure that sufficient allocations are made for annual maintenance expenditures for the state road sector during each Fiscal Year.

(b) For each Fiscal Year commencing FY 2003-2004, until completion of the Project, Kerala shall transmit to the Bank a copy of its approved annual capital and maintenance allocations for the road sector for such Fiscal Year within thirty days following approval of the state budget.

#### Internal Audit

20. Without prejudice to Section 3.01 of this Agreement, Kerala shall maintain a firm of chartered accountants until the Closing Date, with terms of reference and qualifications acceptable to the Bank, for internal audit purposes, to assess and review, among other things, internal control mechanisms and procurement procedures relating to the implementation of the Project.

21. In consultation with the Bank, Kerala shall take appropriate measures to implement any recommendations made pursuant to such assessment and review.



Review

22. Kerala 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 Bank, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by December 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out 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 the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Bank, by February 27, 2005, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

