

CONFORMED COPY

CREDIT NUMBER 2930 IN

Development Credit Agreement

(Environmental Management Capacity Building
Technical Assistance Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 14, 1997

CREDIT NUMBER 2930 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 14, 1997, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

(B) the Project will be carried out by the Borrower and the State of Gujarat (the Project State) with the assistance of the Borrower and, as part of such assistance, the Borrower will make available to the Project State a part of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and Gujarat;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) the last sentence of Section 3.02 is deleted;

(b) The second sentence of Section 5.01 is modified to read:

"except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Association or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."; and (c) Section 6.03 is modified to read: "Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "CPCB" means the Borrower's Central Pollution Control Board;

(b) "DOD" means the Borrower's Department of Ocean Development;

(c) "EMP" means any environment management plan developed for a project as required by the Borrower's environmental laws and regulations;

(d) "Environment Action Program" or "EAP" means the Environment Action Program-India, dated December, 1993, issued by MOEF;

(e) "GDFE" means Gujarat's Department of Forests and Environment;

(f) "Gujarat" means the Borrower's State of Gujarat, including

any successor thereto;

(g) "MOEF" means the Borrower's Ministry of Environment and Forests;

(h) "NGO" means non-governmental organization;

(i) "Project Agreement" means the agreement of even date herewith between the Association and Gujarat, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(j) "Project State" means Gujarat;

(k) "SPCB" means a Pollution Control Board of a State;

(l) "State" means a state of the Borrower; and

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirty four million seven hundred thousand Special Drawing Rights (SDR 34,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 1 and November 1 commencing May 1, 2007 and ending November 1, 2031. Each installment to and including the installment payable on November 1, 2016 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, or cause the Project to be carried out, with due diligence and efficiency and in conformity with appropriate environmental, management, administrative, financial and economic practices, and shall provide, 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project, or cause the Project to be carried out, in accordance with the Implementation

Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall pass on proceeds of the Credit to Gujarat for carrying out Parts A(4), B(2), C(3) and F of the Project in accordance with standard arrangements for provision of development funds to the States of India.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnished to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained 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 the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (a) The Project State shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project State will perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and the Project State.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by the Project State respectively and is legally binding upon it in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. The provisions of Section 5.02 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

The Secretary to the Government of India
Ministry of Finance

(5) Equipment	2,400,000	40%
(6) Unallocated	3,100,000	
	<hr/>	
TOTAL	34,700,000	=====

2. For the purposes of this Schedule, "contractual staff services" means staff engaged on a full time basis by the Borrower or Gujarat, or their agencies, under the Project to serve in any Project Implementation Cell.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 350,000 may be made in respect of Categories 1, 2, 3 and 4 on account of payments made for expenditures before that date but after January 1, 1996.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for:

- (a) goods under contracts not exceeding \$200,000 equivalent;
- (b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants respectively; and
- (c) training and fellowships.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in implementing its Environment Action Program by strengthening environmental management capacity in selected areas at the national, state and local levels, as well as at the community level.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Strengthening Environmental Policy Planning:

Strengthening the capacity of MOEF to undertake environmental policy and planning by:

(1) Environmental Research: Strengthening MOEF's Environmental Research Program (ERP) by:

- (a) reviewing ERP's current priorities and procedures and formulating a revised ERP;
- (b) provision of training to selected members of the scientific research community in environmental research methodology under the revised ERP; and
- (c) provision of required equipment to MOEF to facilitate internet access to environmental research data.

(2) Environmental Information: Strengthening the Environmental Information System (ENVIS) established by MOEF so as to establish ENVIS as an on-line and geographically decentralized information system by:

- (a) expanding the ENVIS data system by establishing about nine additional centers;

(b) upgrading existing ENVIS centers to collect and analyze environment-related data and provide to governmental and other public users on-line access to such data;

(c) provision of training to ENVIS users as well as providers of information in government, academia, business and community-based non-governmental organizations; and

(d) carrying out analyses of data standardization, coding and management to enhance compatibility of technology and data across ENVIS centers; and undertaking studies to prepare proposals for data-driven environmental support systems.

(3) Environmental Economics: Strengthening teaching and research in the area of environmental economics by:

(a) establishing an Environmental Economics, Indicators and Project Planning Cell in MOEF;

(b) development of a model environmental economics curriculum, along with related teaching materials and case studies, for diploma and degree programs in environmental economics;

(c) development and implementation of a training program in environmental economics for selected faculty of selected Indian universities, including fellowships to attend limited duration (about a year or less) environmental economics courses in selected international centers;

(d) development and implementation of a training program in environmental economics for non-economists intended for government staff, including at the national, state and local levels, as well as state pollution control board employees, personnel of business, industry, the media, banking, non-governmental organizations and other community-based organizations;

(e) establishment of a minimum collection of environment-related books and journals, based on appropriate professional standards, at selected universities and other centers of research and learning; and

(f) carrying out a program of applied research in environmental economics through universities offering diploma and degree courses in environmental economics and areas related thereto;

(4) Environmental Indicators and Indices: Development by MOEF and Gujarat of model indicators and indices, expressed in physical and monetary terms and appropriate for use with respect to the objectives of the EAP and environmental problems in India, that would provide a continuing measure of environmental quality, enable the assessment of the cost of mitigation measures and the monitoring of environmental trends.

(5) Environmental Standards: Review by MOEF and CPCB of the adequacy of existing regulatory standards of the Borrowers and States, and the need for new standards, with respect to air quality, water quality, hazardous wastes and materials, hospital wastes, production of ozone depleting substances, use of pesticides and industrial emissions.

Part B: Strengthening Environmental Administration:

Strengthening the administration of existing environmental regulations at the national, state and local level, including monitoring of and compliance with such regulations.

(1) Strengthening Regional MOEF offices:

Strengthening Regional MOEF offices including with respect to their role relative to SPCBs and their role in monitoring implementation of environmental impact assessments and EMPs.

(2) Strengthening Project Management and Implementation

(a) Establishment and maintenance of Project Implementation Cells in MOEF, DOD and GDFE to assist in the coordination of Project implementation; and

(b) Provision to MOEF in Project implementation of expert assistance by specialized institutions within India, particularly with respect to Parts A(3), D and E(1) of the Project.

Part C: Strengthening Decentralization of Environmental Management:

Provision of assistance to local communities and non-governmental organizations to support decentralization of environmental management by:

(1) Strengthening the National Environmental Awareness Campaign

Strengthening the Borrower's National Environmental Awareness Campaign (NEAC) by carrying out studies on the effectiveness of NEAC; developing a plan for improved implementation of the NEAC and for the development of NEAC into a national campaign; and preparation of proposals for decentralization of NEAC to the State level including piloting alternative strategies in two States; and strengthening the production of material for training and public outreach and awareness related to environmental regulation and management;

(2) Strengthening the Paryavaran Vahini

Strengthening the Borrower's Paryavaran Vahini (PV) (environmental brigade) including by a review of the existing PV program the training of PV members and staff, and the expansion of the PV to an additional 300 districts.

(3) Establishment of a Non-Governmental Organization Environmental Action Fund

Establishment of an NGO Environmental Action Fund (NEAF) to support programs in Gujarat, carried out by selected NGOs and community-based organizations, to anticipate, avoid or mitigate adverse environmental impacts centering around specific environmental problems, including of an emergency nature, emanating from chemical industries, mining, waste disposal and protection of ecologically fragile areas; as well as to support the participatory process in the development and implementation of Gujarat's State Environment Action Plan (SEAP).

Part D: Strengthening Implementation of Environmental Law:

(1) Strengthening Legal Infrastructure for Environmental Law:

(a) Provision of training in environmental law (including international aspects) for legal staff of MOEF, CPCBs, SPCBs, selected industrial managers and staff of selected non-governmental organizations;

(b) strengthening legal capacity of MOEF, CPCBs and SPCBs by skills acquisition and upgradation in priority areas based on continuing needs assessment;

(c) establishment of a computerized environmental law network to provide current information on environmental law at the national, state and district levels; and

(d) strengthening environmental law research and legal education in environmental law by: (i) the establishment of a center of excellence in environmental law at a law school in India; (ii) development of teaching materials; (iii) training of environmental faculty of selected Indian law schools; (iv) assessment of the scope and coverage of environmental laws; (v) carrying out selective empirical research into traditional/customary environmental law; and (vi) establishing an environmental law journal to be published by a

selected law school in India.

(2) Strengthening Community-Based Implementation of Environmental Law

(a) Development of specific strategies (including through piloting) for: (i) decentralization and devolution of environmental law administration; (ii) public hearings related to key environmental decisions; (iii) community-based monitoring of compliance with environmental laws; and (iv) establishing pre-litigatory remedies for persons/ communities adversely affected by environmental impacts; and

(b) development of the capacity of selected NGOs in environmental law, including the piloting of the above strategies.

Part E: Strengthening Monitoring and Compliance in Specific High-Priority Environmental Problem Areas

(1) Strengthening Administration and Development, of Environmental Regulations Governing the Mining Sector:

(a) (i) Review of existing environmental and leasing policies, regulations and standards governing the mining sector; (ii) review of the roles and responsibilities of national, State and local level agencies with responsibilities for the implementation of such policies; regulations and standards; and (iii) the development and implementation of proposals for strengthening the implementation of such policies, regulations and standards;

(b) Strengthening of (i) national and State level governmental institutions (Regional offices of MOEF, CPCB, SPCBs and Indian Bureau of Mines) responsible for establishing policies, regulations and standards governing the mining sector to enhance their capacity to monitor compliance with EMPs in the mining sectors; and (ii) selected centers engaged in mining policy analysis as well as research agencies and units within mining companies working on environmental issues in the mining sector, to develop their expertise in planning, design and implementation of environmentally benign mining designs, function as resource groups to support the Borrower and States; and to carry out selected specific research and studies regarding environmental issues relevant to the mining sector;

(c) Implementation of best practice demonstration projects for specific environmental mitigation measures for the mining sector; and

(d) Provision of training in environmental protection in the mining sector to key staff of MOEF, CPCB, SPCBs, Indian Bureau of Mines and other entities in the mining sector.

(2) Strengthening Capacity for Industry Siting

Assisting the CPCB to implement a five year program to map rapidly industrializing districts across India, State-wide mapping of ecologically sensitive areas and proposed sites for new industrial estates in coordination with States and SPCBs, the development of national and selected State-level guidelines for industrial siting and land use planning.

(3) Strengthening Ambient Air Pollution Monitoring:

Provision of assistance to upgrade India's air pollution monitoring system by:

(a) Upgrading the scope and capacity of the current air pollution monitoring system to: (i) expand its geographic coverage; and (ii) increase the number of criteria pollutants being monitored; and

(b) Provision of training to CPCB and SPCB staff in monitoring techniques, data management, analysis, and reporting of results.

(4) Strengthening Coastal and Marine Area Management:

Development of an appropriate coastal zone and marine area environmental management regime including by:

(a) Development of a Geographical Information System (GIS)-based Critical Habitats Information System (CHIS) for selected coastal marine areas of India including Lakshadweep and Andaman and Nicobar islands;

(b) (i) development of capacity for the development of Integrated Coastal Marine Area Management Plans (ICMAMPs) by provision of required training as well as necessary expert assistance to coastal States and coastal Union Territories; (ii) development of model ICMAMPs for selected areas; and (iii) establishment of required training facilities for strengthening coastal and marine area management;

(c) conducting waste assimilation capacity and waste load allocation studies including ecological modeling for selected estuaries facing water quality problems due to urban and industrial development, including the development of appropriate recommendations as well as guidelines regarding wastewater load allocation studies; and

(d) (i) development of environmental impact assessment guidelines, where such guidelines are not in place, for marine and coastal area development activities under projects requiring MOEF clearance pursuant to MOEF's Notification dated January 27, 1994 entitled 'Environmental Impact Assessment of Development Projects'; (ii) establishment of a resource center as an Internet Web Site with a compilation of data to facilitate implementation of marine environmental impact assessment; (iii) carrying out of required training programs pertaining to marine and coastal area development activities; (iv) development of appropriate recommendations to MOEF for strengthening environmental impact assessment of marine and coastal area development; and (v) development of guidelines for accrediting environmental consultants and institutions with respect to environmental aspects of marine and coastal area development.

Part F: Strengthening Environmental Capacity in Gujarat:

(1) Institutional Strengthening: Strengthening of Gujarat's Department of Environment and Forests and the Gujarat Ecology Commission to enhance their capacity for data collection, analysis, policy formulation and implementation and monitoring compliance with environmental laws and regulations.

(2) Development of a State Environment Action Program for Gujarat: Development of a State Environment Action Program (SEAP) for Gujarat through a participatory process which would establish a prioritized and time bound program for implementation.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Procurement and Consultants' Services

Section I: Procurement of Goods

Part A: General

Goods 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 1996 and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

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, contract for goods shall be grouped in bid packages estimated to cost \$100,000 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

Contracts for goods estimated to cost the equivalent of \$200,000 or less but more than the equivalent of \$50,000 per contract, up to an aggregate amount of \$2,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping; and Direct Contracting

(a) Contracts estimated to cost \$50,000 equivalent or less each for equipment, books and materials, up to an aggregate amount of \$8,000,000 equivalent, may be awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) Books and computer software which are only available on a proprietary basis from a single source may be purchased up to an aggregate amount of \$2,000,000 equivalent through direct contracts in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part E: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods 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 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

1. Consultants' services (which also include contractual staff services under Category (2) of Schedule 1 to this Agreement) shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall maintain (a) a national steering committee; and (b) expert committees with respect to Part A(3) (Environmental Economics); Part E(1) (Mining Sector) and Part D (Environmental Law), each with membership and terms of reference satisfactory to the Association.

2. The Borrower shall carry out Part E(4) of the Project through DOD; Parts A(4), B(2), C(3) and F of the Project through Gujarat; and all remaining Parts of the Project through MOEF.

3. The Borrower shall establish by August 31, 1997, and thereafter maintain, an Environmental Economics, Indicators and Project Planning Cell in MOEF with terms of reference satisfactory to the Association.

Project Implementation Plan

4. The Borrower shall carry out the Project in accordance with an implementation plan satisfactory to the Association.

Strengthening MOEF

5. The Borrower shall, by December 31, 1997, complete the review and commence implementation of a plan, satisfactory to the Association for strengthening the regional offices of MOEF.

Strengthening Legal Capacity of MOEF, CPCB and SPCBs

6. The Borrower shall take necessary steps to strengthen the legal capacity of MOEF, CPCB and SPCBs under Part D(1) (b) of the Project in accordance with a plan satisfactory to the Association.

Environmental Indicators

7. The Borrower shall (i) prepare, or cause to be prepared by Gujarat, by December 31, 1998, environmental indicators under Part A(4) of the Project; and (ii) apply, or cause to be applied, such

indicators in the evaluation of investment projects by MOEF and Gujarat commencing April 30, 1999.

8. The Borrower shall take necessary action to ensure that, commencing April 30, 1999, annual environment status reports are published by MOEF based on indicators and indices developed under Part A(4) of the Project.

Annual Work Plans and Budget; Mid-Term Review

9. The Borrower shall:

(a) review annually with the Association progress in Project implementation and Credit disbursements over the preceding twelve months;

(b) discuss with the Association by March 31 of each year, annual work plans and budgets for the next twelve months;

(c) carry out with the Association mid-term review of the Project no later than March 31, 1999; and

(d) duly take into account the comments offered by the Association during such mid-term review in the course of further implementation of the Project.

Performance Monitoring Indicators

10. The Borrower shall:

(a) Maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the following indicators the carrying out of the Project and the achievement of the objectives thereof (indicators for Parts A(4), B(2), C(3) and F are set out in paragraph 8 of Schedule 1 to the Project Agreement).

Part A: Strengthening Environmental Policy Planning

(a) Review of research guidelines and procedures completed.

(b) All ENVIS Centers upgraded with information technology.

(c) Specialized expertise used in the review and revision of five industrial standards.

Part B: Strengthening Environmental Administration

Study on the reorganization of Regional MOEF offices completed.

Part C: Strengthening Decentralization of Environmental Management

About one hundred and thirty persons trained under the National Environment Awareness Campaign.

Part D: Strengthening Implementation of Environmental Law

(a) For Project implementation:

(i) Training needs (for MOEF, CPCB and SPCBs; as well as for environmental law teachers and community-based organizations) assessed and training programs prepared.

(ii) Assessment of adequacy of environment legal framework completed, particularly to enhance community-based implementation of environmental law.

(b) For Project Impact/Outcome:

(i) Strengthened legal capacity: Trained legal staff in place in MOEF, CPCB and SPCBs in accordance with Project parameters; trained environment law teachers

and courses in place in at least 25 law schools; trained legal staff in place in selected community-level institutions.

- (ii) Improved legal environmental law framework: recommendations of adequacy of assessment of environmental law considered and implementation commenced as appropriate.

Part E: Strengthening Monitoring and Compliance in Specific High-Priority Environmental Problem Areas

(a) For Project implementation:

- (i) Environmental Regulations in the Mining Sector: Review of existing policies and compliance monitoring mechanisms completed.
- (ii) Industrial Siting (Zonal Atlas): Zonal Atlases for 20 districts completed.
- (iii) Ambient Air Pollution Monitoring: Procurement and installation of air quality monitoring equipment completed.
- (iv) Coastal and Marine Area Management: Overseas training for ten staff completed.

(b) For Project impact/outcome:

- (i) Environmental Regulations in the Mining Sector: Increase in use of environmentally benign mining technologies.
- (ii) Industrial Siting (Zonal Atlas): Improved planning for industrial growth through local-level mapping of suitable and unsuitable sites for industrial estates.
- (iii) Ambient Air Pollution Monitoring: More reliable and timely air pollution data covering additional key pollutants.
- (iv) Coastal and Marine Area Management: Model ICMAMPs, GIS-based CHIS, WLA and Environmental Impact Assessment Guidelines completed.

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, at the mid-term review referred to in paragraph 9(c) above, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 objectives thereof during the period following such date; and

(c) review with the Association, during the mid-term review referred to in paragraph 9(c) above or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,000,000 withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.

2. (a) Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than the equivalent of \$750,000 shall be made exclusively out of the Special Account. The Association may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into

the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the Project, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

