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CONFORMED COPY

CREDIT NUMBER 4225-IN
LOAN NUMBER 4837-IN

Operations Agreement

(Second Operation under the Orissa Socio-Economic Development Program)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF ORISSA

Dated August 28, 2006

**CREDIT NUMBER 4225-IN
LOAN NUMBER 4837-IN**

OPERATIONS AGREEMENT

AGREEMENT dated August 28, 2006, entered into among INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and STATE OF ORISSA (“Orissa”) acting by its Governor (“Operations Agreement”) in connection with the Financing Agreement of same date between India, acting by its President (“Recipient”) and the Association (“Financing Agreement”) and the Loan Agreement of same date between India, acting by its President (“Borrower”) and the Bank (“Loan Agreement”). The Association, the Bank and Orissa hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement (“Association General Conditions”) and the Appendix to the Loan Agreement (“Bank General Conditions”) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Operations agreement have the meanings ascribed to them in the Financing Agreement, the Loan Agreement or the General Conditions or in the Appendix to this Agreement.

ARTICLE II—PROGRAM

- 2.01. Orissa declares its commitment to the Program and its implementation. To this end Orissa shall carry out the Program in accordance with the provisions of Article IV of the Association General Conditions and Article V of the Bank General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Program.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association, the Bank and Orissa shall otherwise agree, Orissa shall carry out the Program in accordance with the provisions of Schedule 1 to this Agreement.
- 2.03 (a) Orissa shall from time to time, at the request of the Association and the Bank, and with the participation of the Recipient/Borrower, exchange views with the Association and the Bank with regard to the progress of the Program, the actions specified in Schedule 2 to this Agreement, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit and the Loan.

- (b) Prior to each such exchange of views, Orissa shall furnish to the Association, the Bank and the Recipient/Borrower for their review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association and the Bank shall reasonably request.
 - (c) Orissa shall promptly inform the Association, the Bank and the Recipient/Borrower of any condition, which interferes or threatens to interfere with the progress of the Program, the accomplishment of the purposes of the Credit and the Loan, or the performance by Orissa of its obligations under this Agreement.
 - (d) Without limitation upon the provisions of paragraphs (a), (b) and (c) of this Section, Orissa shall exchange views with the Association, the Bank and the Recipient/Borrower on any proposed action to be taken after the disbursement of the Credit or the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.
- 2.04. (a) Orissa shall utilize the amounts transferred to it by the Recipient/Borrower pursuant to Part D.2 of Schedule 1 to the Financing Agreement and the Loan Agreement exclusively for its budgetary expenditures. Orissa undertakes that the proceeds of such amounts shall not be used to finance any expenditures under a contract in respect of which the Association or the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by any representative of Orissa or any beneficiary of the Credit or the Loan during the procurement or execution of such contract, without Orissa having taken timely and appropriate action satisfactory to the Association and the Bank to remedy the situation.
- (b) If the Association or the Bank determines at any time that an amount was used to make a payment for any expenditure not consistent with paragraph (a) above, Orissa shall, upon request from the Association or the Bank as the case may be, refund such amount to the Borrower for further refund to the Association or the Bank. Amounts refunded to the Association or the Bank upon such request shall be cancelled.

ARTICLE III – TERMINATION

- 3.01. This Agreement shall come into force and effect on the date upon which the Financing Agreements and the Loan Agreement become effective.

- 3.02. The date on which the provisions of this Agreement shall terminate is 20 years after the date of this Agreement provided, however, that this Agreement shall terminate on an earlier date upon the termination of both the Financing Agreement pursuant to Section 8.05 of the Association General Conditions and the Loan Agreement pursuant to Section 9.05 of the Bank General Conditions.

ARTICLE IV– REPRESENTATIVE; ADDRESSES

- 4.01. Orissa’s Representative is it’s Chief Secretary.

- 4.02. The Association’s Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

- 4.03. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145 (MCI)	1-202-477-6391

- 4.04. Orissa’s Address is:

Chief Secretary
Government of Orissa
Bhubaneswar, Orissa
India

Telex:	Facsimile:
845-2239 CSGK IN	91-80-2258913

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By

/s/ Rachid Benmessaoud
Acting Regional Vice President
South Asia

STATE OF ORISSA

By

/s/ Sri K.C. Badu
Authorized Representative

SCHEDULE 1

Execution of the Program

Section I. Program Reports

1. Orissa shall monitor and evaluate the progress of the Program and prepare Program Reports in accordance with the provisions of Section 4.07(b) of the Association General Conditions and Section 5.07(b) of the Bank General Conditions and on the basis of indicators agreed with the Association and the Bank. Each such Program Report shall cover the period of one fiscal semester, and shall be furnished to the Association, the Bank and the Recipient/Borrower not later than sixty (60) days after the end of the period covered by such report.

2. Orissa shall provide to the Recipient/Borrower not later than October 31, 2008, for incorporation in the report referred to in Section 4.07(c) of the Association General Conditions and Section 5.07 of the Bank General Conditions all such information as the Recipient/Borrower, the Association and the Bank shall reasonably request for the purposes of such Section.

Section II. Financial Management, Financial Reports; Audits

1. Orissa shall, no later than thirty (30) days after the receipt of the Rupee amounts transferred to it by the Recipient pursuant to Part D.2 of Schedule 1 to the Financing Agreement and by the Borrower pursuant to Part D.2 of Schedule 1 to the Loan Agreement, provide a confirmation to the Association and the Bank showing the date and the Rupee amounts received from the Recipient and the Borrower, and stating that such amounts have been credited to the Consolidated Fund of Orissa on that same date.

Section III. Other Undertakings

2. Unless the context otherwise requires, as long as the Bank has not given notice to the contrary to Orissa, and so long as the Financing Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligation of Orissa to consult with, and furnish Program Reports information, documents, plans, reports, records and statements to the Bank and/or the Borrower shall be satisfied to the extent performance in respect of such obligations is rendered to the Association and/or the Recipient; and

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

SCHEDULE 2

Program Actions

A. **Actions Taken Under the Program.** The actions taken by Orissa under the Program referred to in the Preamble to the Financing Agreement and the Loan Agreement include the following:

Growth-enhancing Reforms

1. Orissa has amended the Orissa Agricultural Produce Markets Act, 1956 to lift state monopoly and enable private investment in marketing yards and storage facilities for agricultural products, and to regulate the sale of agricultural produce through contract farming outside of market yards.
2. Orissa has, continued with the implementation of its industrial policy (IPR 2001) and has enacted the Orissa Industries Facilitation Act, 2004 and the Orissa Industries Facilitation Rules, 2005, providing, inter alia, for streamlining the approval and operation of projects by private sector enterprises through the introduction of a single combined application form, formulation of self certification procedures and rationalization of inspections under applicable laws and regulations.
3. Orissa has, consistent with its Public Enterprise Reform and Privatization Policy, taken further measures to reform the public enterprises, including:
 - (a) selling the assets of two closed enterprises;
 - (b) initiating the environment audit of twenty enterprises; and
 - (c) privatizing two enterprises.
4. Orissa has continued progress on power sector reforms including initiating implementation of the order dated February 28, 2005 passed by the Orissa Electricity Regulatory Commission, relating to the business plan of the Distribution Companies, to improve financial viability of the sector including:
 - (i) payment by one government department of accumulated electricity dues to CESCO that have been reconciled as of March 31, 2006;
 - (ii) payment of electricity bills by state government departments to the Distribution Companies on an average of at least 90% of billing in Fiscal Year 2005-2006;

- (iii) execution of agreements between CESCO and two municipal authorities for the supply of electricity; and
- (iv) initiated steps to designate special courts to try electricity theft cases.

Fiscal Reforms and Expenditure Policy

5. Orissa has enacted Fiscal Responsibility and Budget Management Act, 2005 providing for, inter alia, responsibility of the state government to ensure prudence in fiscal management and fiscal stability, and greater transparency in fiscal operations, and has, consistent with the said Act:
 - (i) achieved the projections made under the budget for fiscal year 2005-06; and
 - (ii) made fiscal projections and disclosed financial information in the budget for fiscal year 2006-07.
6. Orissa has:
 - (a) converted the primary deficit of Rs.7125 million (1.3% of Gross State Domestic Product (GSDP) in Fiscal Year 2003-04 into a primary surplus of Rs.19960 million (3.4% of GSDP) in Fiscal Year 2004-05;
 - (b) reduced the overall fiscal deficit from 6.6% of GSDP in 2003-04 to less than 3% of GSDP in 2004-05;
 - (c) reduced the share of salaries in current expenditures (net of interest and pension) from 57% in 2003-04 to 54% in fiscal year 2004-05 and to less than 50% (according to revised estimates) in fiscal year 2005-06;
 - (d) Improved ratio of actual spending to targeted outlay in the approved Annual Plan from 91% in fiscal year 2003-04 to more than 95% in fiscal year 2004-05; and
 - (e) Improved utilization of central assistance earmarked for specific schemes, as ratio of pending amount at the beginning of the year, from 68% in fiscal year 2004-05 to 73% in fiscal year 2005-06.

Public Expenditure Management and Governance Reforms

7. Orissa has, as a part of its efforts to strengthen public accountability, formulated and approved an anti-corruption action plan covering measures to strengthen

prevention, enforcement and public awareness, and reform in the system of public procurement.

8. Orissa has taken a number of measures to improve the efficiency and productivity of the civil service, including redeploing about 1800 employees from surplus to deficient departments, identifying vacant regular posts for abolition, and abolishing 15,000 posts during April 2004-April 2006.
9. Orissa has initiated implementation of the Development Action Plan for strengthening financial accountability including enhanced disclosure of financial information in the budget for fiscal year 2006-07 and posting monthly accounts of rural local bodies on its website.

Human Development

10. Orissa has initiated implementation of the short term recommendations of the Organizational Review of the Department of Health completed in 2002 for reorganization of the said Department including abolition of select posts and conversion of paramedics to district cadre.

B. **Actions to be Taken Under the Program.** The actions to be taken by Orissa under the Program referred to in Part C of Schedule 1 to the Financing Agreement and the Loan Agreement include the following:

1. Orissa has made progress, satisfactory to the Association and the Bank in carrying out the Program.
2. The macroeconomic policy framework of Orissa is appropriate, including further strengthening of the fiscal position beyond FY 2005-06 towards achieving the targets and objectives of the Medium-Term Fiscal Plan.

APPENDIX

Section I. Definitions

1. “Medium Term Fiscal Plan” means Orissa’s plan dated January 2006 for the period covering Fiscal Year 2005-2006 to 2009-2010 and setting out the State’s own fiscal correction path in order to comply with the requirements of the Fiscal Responsibility and Budget Management Act (2005) of Orissa; and ;
2. “Annual Plan” means Orissa’s development plan for each Fiscal Year as approved by the Planning Commission of the Government of India.