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**LOAN NUMBER 7816-IN**

# **Project Agreement**

**(Andhra Pradesh Municipal Development Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**STATE OF ANDHRA PRADESH**

**Dated January 22, 2010**

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## **PROJECT AGREEMENT**

AGREEMENT dated January 22, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and STATE OF ANDHRA PRADESH (“Andhra Pradesh”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between India (“Borrower”) and the Bank. The Bank and Andhra Pradesh hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

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

### **ARTICLE II — PROJECT**

- 2.01. Andhra Pradesh declares its commitment to the objectives of the Project. To this end, Andhra Pradesh shall:
  - (a) carry out Parts A, B and D of the Project through MAUD; and Part C of the Project, through MAUD, with the assistance of APUIF (pursuant to the Contribution Agreement), all in accordance with the provisions of Article V of the General Conditions and the Operations Manual; and
  - (b) provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Andhra Pradesh shall otherwise agree, Andhra Pradesh shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

### **ARTICLE III — REPRESENTATIVE; ADDRESSES**

- 3.01. Andhra Pradesh’s Representative is any of the following: Secretary, Principal Secretary or Special Chief Secretary of MAUD of the Government of Andhra Pradesh.

3.02. The Bank's Address is:

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

Facsimile:

1-202-477-6391

3.03. Andhra Pradesh's Address is:

Secretary to Government of Andhra Pradesh  
MAUD Department  
Secretariat, Hyderabad - 500022

Email:

secy\_maud@ap.gov.in

Facsimile:

91-40-2345-0085

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ N. Roberto Zagha  
Authorized Representative

STATE OF ANDHRA PRADESH

By /s/ Pushpa Subrahmanyam  
Authorized Representative

**SCHEDULE****Execution of the Project****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. Andhra Pradesh, shall:
  - (a) through MAUD, maintain, at all times during Project implementation, a municipal strengthening unit within DMA's regular structure, with functions and responsibilities agreed with the Bank, including, *inter alia*, the responsibility of said unit to coordinate and monitor the carrying out of the Project;
  - (b) ensure that the MSU is, at all times during Project implementation, headed by the Commissioner/Director of Municipal Administration and is staffed with key personnel to carry out its operations, including a Project Director who is responsible for the day-to-day operations of the MSU, engineers, specialists in financial management (including a senior financial advisor), procurement specialists, a disbursement analyst, and a capacity enhancement coordinator, operating under terms of reference agreed with the Bank;
  - (c) through MAUD, implement a procurement capacity strengthening program for the MSU and ULBs, in a manner agreed with the Bank and in accordance with the terms set forth in the Operations Manual; and
  - (d) maintain, at all times during Project implementation, an independent implementation monitoring team, staffed with key personnel and with functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of said team to assist in the implementation and monitoring of the Project.
2. Andhra Pradesh shall:
  - (a) maintain at all times during project implementation the APUIF;
  - (b) maintain at all times during project implementation a project Steering Committee, with responsibilities and functions agreed with the Bank, including, *inter alia*, overseeing Project Implementation, assessing and approving Investment Subproject proposals and providing overall Project policy guidance and strategy; and

- (c) cause APUIF (pursuant to the Contribution Agreement) to adopt by not later than March 31, 2010, the financial reporting and disclosure norms prescribed by the Reserve Bank of India for Non Banking Finance Companies, through Notification No.DNBS 193/DG (VL)-2007, dated February 22, 2007 (NBFC Norms).
3. Andhra Pradesh shall cause APUIF, for the purposes of carrying out its obligations under the Project, to employ suitably qualified staff with experience and qualifications acceptable to the Bank, including an accountant who shall be responsible for maintaining the accounts and preparing the financial statements of APUIF.

### **Contribution Agreement**

4. (a) For the purposes of implementing Part C of the Project, Andhra Pradesh shall, out of the proceeds of the Loan made available to it by the Borrower, make available a portion thereof to APUIF under a Contribution Agreement to be entered into between Andhra Pradesh and APUIF, under terms and conditions satisfactory to the Bank, including those set out in the Annex to this Agreement.
- (b) Andhra Pradesh shall duly perform all its obligations under the Contribution Agreement. Except as the Bank shall otherwise agree, Andhra Pradesh shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Contribution Agreement or any provision thereof.
- (c) Andhra Pradesh shall, pursuant to the Contribution Agreement, cause APUIF to carry out its Project implementation responsibilities in accordance with the Operations Manual, which responsibilities shall include, *inter alia*:
- (i) assisting in the appraisal of Investment Subprojects forwarded to it by ULBs;
  - (ii) entering into Investment Subloan and Subgrant agreements with Investment Subborrowers whose Subprojects have been approved by the SC;
  - (iii) disbursing funds to Investment Subborrowers in accordance with procedures contained in the Operations Manual; and
  - (iv) collecting Investment Subloan repayments from Investment Subborrowers.

**Operations Manual**

5. (a) Andhra Pradesh, through MAUD, shall carry out and cause the Project to be carried out in accordance with the provisions of the Operations Manual, which contains *inter alia*, specific provisions on detailed arrangements for the carrying out of the Project, including:
- (i) the procurement, financial management and disbursement requirements thereof;
  - (ii) detailed criteria for the identification, selection and approval of Investment Subborrowers and Investment Subprojects;
  - (iii) detailed terms and conditions for Investment Subloans and Subgrants;
  - (iv) Investment Subloan and Subgrant financing proportion of the Investment Subprojects;
  - (v) a sample Memorandum of Understanding; and
  - (vi) the SEAMF and the Procurement Plan.
- (b) Andhra Pradesh shall not amend, delete, suspend or waive any provision of the Operations Manual without the Bank's prior written approval. In case of any conflict between the terms of the Operations Manual and those of this Agreement and of the Loan Agreement, the terms of this Agreement and of the Loan Agreement shall prevail.

**Institutional Reform and Capacity Building**

6. Andhra Pradesh, shall carry out a program, under terms of reference agreed with the Bank, to support state and local urban reforms and capacity building under Part A and B of the Project; and to this end, shall:
- (a) commence by March 31, 2010, the carrying out of a program of technical assistance in accordance with terms of reference satisfactory to the Bank, involving, *inter alia*, the carrying out of:
    - (i) municipal capacity enhancement program, including , *inter alia*, staff training, improvement of administrative systems, information technology, mapping and town planning in ULBs;
    - (ii) studies and consultation on urban finance framework;

- (iii) studies to plan the implementation of programs of the Mission to Eliminate Poverty in Municipal Areas; and
  - (iv) studies on state urban planning legislation, the establishment of an urban academy and a GIS monitoring cell;
- (b) prepare and furnish to the Bank by June 30, 2011, for its review and comments, a study on the design of an urban finance framework, and immediately thereafter, carry out a program of actions that takes into account the results of said study and the comments of the Bank thereon.

### **Urban Infrastructure Investment**

7. Andhra Pradesh shall carry out a program to enhance urban infrastructure and service delivery at the ULB level under Part C of the Project in accordance with the procedures and arrangements set out in the Annex to this Agreement.

### **Environmental and Social Safeguards**

8. Prior to the carrying out of works under an Investment Subproject, Andhra Pradesh, through MAUD, shall and shall cause APUIF, to:
- (a) obtain the prior review and approval of the Bank of the:
    - (i) environmental assessment and environmental management plan for the Subproject in the event that the Subproject is rated EA/EB, as such rating is defined in the SEAMF;
    - (ii) resettlement action plan for the Subproject, if required under, and in accordance with, the SEAMF; and
    - (iii) tribal development plan for the Subproject, if required under, and in accordance with, the SEAMF; and
  - (b) thereafter ensure that said Subproject is carried out in accordance with the relevant environmental assessment, environmental management plan, resettlement action plan, and/or tribal development plan, as the case may be, as shall have been accepted by the Bank as being satisfactory.

### **B. Anti-Corruption; Governance**

Andhra Pradesh shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the GAAP.

**Section II. Project Monitoring, Reporting and Evaluation****A. Project Reports**

1. Andhra Pradesh shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of indicators agreed with the Bank. Each such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Borrower not later six (6) weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
2. Without prejudice to the requirement in Section II.A(1) of this Schedule, Andhra Pradesh shall:
  - (a) prepare and furnish to the Bank by August 15, 2012, a mid-term Project report, satisfactory to the Bank, integrating the results of the monitoring and evaluation performed pursuant to said Section II.A(1) and setting out the progress achieved in the carrying out of the Project during the period preceding the date of said report, 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;
  - (b) review with the Bank, by October 31, 2012, or such later date as the Bank shall request, said mid-term Project report, 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 Bank's views on the matter; and
  - (c) upon request by the Bank, provide to the Bank all reports and information that Andhra Pradesh receives from APUIF under the Contribution Agreement.

**B. Financial Management, Financial Reports and Audits**

1. Andhra Pradesh shall maintain a financial management system and prepare financial statements related to the Project in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. Andhra Pradesh shall have the Project's financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one financial year. The



audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

### **Section III. Procurement**

#### **A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### **B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures, including the use of standard bidding documents and procedures approved by the Bank.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Limited International Bidding
(b) National Competitive Bidding, and the additional provisions agreed between the Borrower and the Bank
(c) Direct Contracting
(d) Shopping

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection, subject to the use of Bank approved Standard Request for Proposal documents and procedures.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Quality-based Selection
(b) Least-Cost Selection
(c) Selection Based on Consultants' Qualifications
(d) Single-Source Selection
(e) Selection Under a Fixed Budget
(f) Selection of Individual Consultants

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**ANNEX****Procedures for and Terms and Conditions of the Contribution Agreement,  
Investment Subloan and Subgrants****Part A. Contribution Agreement**

The principal terms and conditions of the Contribution Agreement referred to in Section I.A(4) of the Schedule to this Agreement shall include the following:

1. Andhra Pradesh shall make available to APUIF the Contribution as a grant.
2. The Contribution shall be made in accordance with terms and conditions agreed to between Andhra Pradesh and the Bank.
3. APUIF shall carry out the activities under Part C of the Project with due diligence and efficiency and in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower and the GAAP, and to conduct said operations and affairs in accordance with appropriate financial, administrative, environmental and social standards and practices.
4. APUIF shall utilize the proceeds of the Contribution to make Investment Subloans and Subgrants in accordance with procedures spelled out in the Operations Manual and under terms and conditions, satisfactory to the Bank, including those set out in Part B of this Annex.
5. APUIF shall, with respect to Part C of the Project, prepare and furnish to Andhra Pradesh a Financial Monitoring Report, for each calendar quarter within 45 days after such quarter, in form and substance agreed with the Bank, which sets forth sources and uses of funds for Part C, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds.
6. APUIF, with respect of Part C of the Project, shall:
  - (a) maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures;
  - (b) have the financial statements referred to in paragraph (a) of this Section, for each Fiscal Year audited, in accordance with consistently applied

auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

- (c) furnish to Andhra Pradesh and the Bank as soon as available, but in any case not later than six (6) months after the end of each such Financial Year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such Financial Year (or such other period agreed to by the Bank) as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
  - (d) furnish to Andhra Pradesh and the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.
7. APUIF shall duly perform all its obligations under the Contribution Agreement. Except as the Bank shall otherwise agree, APUIF shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Contribution Agreement or any provision thereof.
8. APUIF shall:
- (a) exchange views with and furnish all such information to Andhra Pradesh, the Borrower, and the Bank, as may be reasonably requested by any of them, with regard to the progress of the activities under Part C of the Project;
  - (b) prepare and submit to Andhra Pradesh quarterly reports on the progress of the activities under Part C of the Project; and
  - (c) provide to Andhra Pradesh all reports and information obtained by it under the contracts providing for Investment Subloans and Subgrants.

### **Part B. Investment Subloans and Subgrants**

Except as the Bank shall otherwise agree, APUIF shall provide Investment Subloans and Subgrants in accordance with the procedures and terms and conditions set out herein.

1. The detailed terms and conditions of Investment Subloans and Subgrants shall be as set out in the Operations Manual.
2. Investment Subprojects and Investment Subborrowers, shall meet all the eligibility criteria set out in the Operations Manual, including meeting the requirements relating to technical and financial viability, governmental

clearances, sector-specific criteria, audit completion requirements, entering into a Memorandum of Understanding with DMA for implementing urban sector reforms, and maintaining appropriate staff and organizational structure.

3. APUIF shall use the procedures set out in the Operations Manual for the supervision of Investment Subprojects.
4. Each Investment Subproject shall comply with the environmental, resettlement and social standards set forth in the SEAMF.
5. Requests made pursuant to the provisions of paragraphs 5 and 6 hereof shall be presented to the Bank on or before December 31, 2014 or such later date as the Bank may establish by notice to Andhra Pradesh.
6. Investment Subloans and Subgrants shall be made on terms whereby APUIF shall obtain by written contract with the Investment Subborrowers, rights adequate to protect the interests of the Bank and Andhra Pradesh, including:
  - (a) Requiring the Investment Subborrower to carry out and operate the Investment Subproject with due diligence and efficiency, in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower and the GAAP, in accordance with sound technical, financial and managerial standards and to maintain adequate records.
  - (b) Requiring that:
    - (i) the goods, works and services to be financed out of the proceeds of the Investment Subgrant and/or Investment Subloan shall be procured in accordance with the provisions of the Schedule to the Project Agreement; and
    - (ii) such goods, works and services shall be used exclusively in the carrying out of the Investment Subproject.
  - (c) Requiring the Investment Subborrower to ensure compliance with the environmental, resettlement and social standards referred to in the SEAMF.
  - (d) Requiring the Investment Subborrower to prepare and provide monthly reports setting forth the actual sources and application of funds, maintain adequate records and accounts, and provide periodic audit reports.

- (e) Requiring the Investment Subborrower to have completed the audit of the financial statements of the immediate preceding year and have no unresolved/outstanding audit issues.
  - (f) Permitting inspection, by APUIF or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Subproject, the operation thereof, and any relevant records and documents.
  - (g) Requiring that the Investment Subborrower take out and maintain appropriate insurance.
  - (h) Permitting the provision of all such information as the Bank, the Borrower or Andhra Pradesh shall reasonably request.
  - (i) Permitting APUIF to suspend or terminate the right of the Investment Subborrower to the use of the proceeds of the Loan upon:
    - (i) failure by such Investment Subborrower to perform its obligations under its contracts with APUIF, or upon notice by the Bank to the Borrower that it intends to exercise any of its remedies under Sections 6.02 and 6.03 of the General Conditions and Article V of the Loan Agreement; or
    - (ii) notice by the Investment Subborrower that it intends to terminate its contract with APUIF, or upon the actual termination of any such contract, whichever occurs first.
7. APUIF shall exercise its rights under each said written contract with an Investment Subborrower in such manner as to protect the interests of Andhra Pradesh and the Bank and to accomplish the purposes of the Loan.