CONFORMED COPY

LOAN NUMBER 7897-IN

Project Agreement

(Andhra Pradesh Water Sector Improvement Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF ANDHRA PRADESH

Dated August 14, 2010
PROJECT AGREEMENT

AGREEMENT dated August 14, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and the STATE OF ANDHRA PRADESH ("Andhra Pradesh" or the "Project Implementing Entity") ("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 carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall 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 the Chief Secretary to 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:

Chief Secretary
Government of Andhra Pradesh
Secretariat
Hyderabad, 500 022
India

Facsimile:

91 40 2345 3700

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Giovanna Prennushi
Authorized Representative

STATE OF ANDHRA PRADESH

By /s/ Aditya Nath Das
Authorized Representative
Section I. Implementation Arrangements

A. Project Implementation Arrangements

1. Andhra Pradesh shall cause its government departments and agencies to carry out the Project in accordance with the Project Implementation Plan, the Financial Management Manual, the Procurement Plan and the Safeguards Framework, and shall not amend or waive any provision of the Project Implementation Plan, the Financial Management Manual, the Procurement Plan and the Safeguards Framework, except as the Bank shall otherwise agree.

2. Andhra Pradesh shall at all times throughout Project implementation, staff and maintain, in a manner satisfactory to the Bank, the Project Preparation and Management Unit within its Irrigation and Command Area Development Department. The Project Preparation and Management Unit shall be headed by a project director and comprise of such staff and personnel that are necessary for carrying out the Project. The project director shall not be an officer below the rank of joint secretary to the Government of Andhra Pradesh and with experience in coordination of and working in multiple departments, who shall be assisted by competent multi-disciplinary staff in adequate numbers and with adequate resources.

3. Andhra Pradesh shall maintain, at all times throughout Project implementation, in a manner satisfactory to the Bank the Project Steering Committee to provide inter-departmental co-ordination and strategic directions and to take necessary decisions for the timely and successful implementation of the Project. The Project Steering Committee shall be chaired by the Chief Secretary to the Government of Andhra Pradesh and comprise relevant principal secretaries or secretaries (as the case may be) representing the Finance Department, the Planning Department, the Irrigation and Command Area Development, the Agriculture Department, the Water Supply and Sanitation Department, the Industries Department and other participating departments of the Government of Andhra Pradesh. The principal secretary or secretary (as the case may be) concerned with the Project in the Irrigation and Command Area Development Department shall act as the Project Steering Committee’s convener.

4. Andhra Pradesh shall cause its Irrigation and Command Area Development Department, with the assistance of State water user organizations, to carry out the participatory rehabilitation and modernization activities under Part A of the Project (as defined in the Loan Agreement).
B. Financial Allocations and Counterpart Funds

1. Andhra Pradesh shall take necessary and appropriate actions to ensure that adequate allocations are included in the state budget for annual counterpart funds, and said allocations are released promptly thereafter to implement the Project.

2. Andhra Pradesh shall take necessary actions to ensure that adequate allocations are included in the State budget to satisfy the Nagarjuna Sagar Scheme’s full annual operational and maintenance requirements, as determined by the Andhra Pradesh Water Resources Regulatory Commission.

C. Institutional and Sector Strengthening Measures

1. Andhra Pradesh shall take necessary actions to ensure the existence and functioning of water user organizations at all levels within the Nagarjuna Sagar Scheme in accordance with applicable provisions of the Andhra Pradesh Farmers Management of Irrigation Systems Act (No.11 of 1997, as amended in June 2009).

2. Andhra Pradesh shall, by no later than December 31, 2011, take necessary actions to operationalize the Andhra Pradesh Water Resources Regulatory Commission in accordance with applicable provisions of the Andhra Pradesh Water Resources Regulatory Commission Act (No.15 of 2009).

3. Andhra Pradesh shall cause the provision of bulk water supply to water user organizations according to their respective allocations under the Nagarjuna Sagar Scheme, as determined by the Andhra Pradesh Water Resources Regulatory Commission.

D. Anti-Corruption

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

E. Safeguards

1. Andhra Pradesh shall ensure that all Project activities are carried out in accordance with the Safeguards Framework including any individual environmental and social management plans prepared under said framework for carrying out the Project.

2. Andhra Pradesh shall ensure that dam safety works on Nagarjuna Sagar Dam and any appurtenant structures commence only after a review or clearance of the proposed dam safety works by an independent dam safety review panel established by Andhra Pradesh for the Project.
3. Andhra Pradesh shall maintain throughout Project implementation a dam safety panel for the purpose of reviewing dam safety activities to be carried out under the Project.

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 the Key Performance Indicators. Each such Project Report shall cover the period of six (6) months, and shall be furnished to the Bank not later than (6) six weeks after the end of the period covered by such report.

2. Andhra Pradesh shall provide to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request with respect to the report referred to in Section 5.08(c) of the General Conditions.

3. Andhra Pradesh shall establish within six (6) months of the Effective Date, and thereafter maintain at all times during the implementation of the Project, an external monitoring and evaluation agency, all under the supervision of qualified and experienced management assisted by competent staff in adequate numbers and with adequate resources satisfactory to the Bank. Said monitoring and evaluation agency will monitor and prepare monitoring reports satisfactory to the Bank and also conduct evaluation and prepare reports to assess the Project’s implementation and its progress in achieving its development objectives.

4. Andhra Pradesh shall cause the Project Preparation and Management Unit to furnish to the Bank for their review and approval, by December 31 of each year until completion of the Project, commencing on December 31, 2010, an annual action plan for the Project for the following fiscal year and proceed thereafter to coordinate the carrying out of the annual action plan taking into account the Bank’s comments.

B. Financial Management, Financial Reports and Audits

1. Andhra Pradesh shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition including the operations, resources and expenditures of the Project.

2. Andhra Pradesh shall have the Project 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 (1) Financial Year of Andhra Pradesh. The audited financial statements for each period shall be furnished to the Bank not later than (6) six months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.