

December 7, 2006

Mr. S.K. Tripathy
Chief Secretary
Government of Tamil Nadu
Fort St. George
Chennai, Tamil Nadu
India

Dear Mr. Tripathy,

*Proposed Tamil Nadu Irrigated Agriculture Modernization and Water-Bodies
Restoration and Management Project - Appraisal Mission (November 17-25, 2006)*

The World Bank mission, which visited Tamil Nadu from November 13 to 25, 2006, reviewed the readiness of the proposed project for appraisal and then proceeded with appraisal from November 17 to 25, 2006. I understand that the appraisal process was completed satisfactorily and the findings of the mission were discussed in a wrap-up meeting chaired by you and attended by Secretaries to Government for Finance, Public Works, Agriculture, Animal Husbandry and Fisheries and Heads of Departments of Water Resources, Agriculture, Horticulture, Agricultural Marketing, Animal Husbandry and Fisheries and the Project Director and staff of the Multi-disciplinary Project Unit (MDPU).

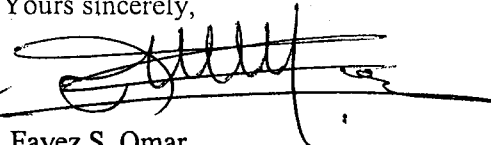
The mission has informed me about the good cooperation from the project preparation team and the rest of Government of Tamil Nadu all through the visit.

I understand that, during appraisal, the mission has revised some of the project scope and costs and the mission has estimated the project cost to be about US\$596 million equivalent, with approximately US\$475 million equivalent to be financed by the Bank. The *aide memoire* of the mission is attached for your reference.

I would like to bring to your attention that negotiations are tentatively scheduled to commence around December 11, 2006 in Washington, D.C.

With regards,

Yours sincerely,


For Faye S. Omar
Senior Manager India Program
and Acting Country Director, India

Enclosure:

cc: Mr. Madhusudhan Prasad, Joint Secretary (FB), Department of Economic Affairs, GoI
Mr. R. P. Singh, Director (FB), Department of Economic Affairs, GoI
Ms. Gowri Chatterjee, Secretary, Ministry of Water Resources, GoI
Mr. Ramasubban Joint Secretary, Ministry of Water Resources, GoI
Mr. L. Rynjah, Advisor (WR) Planning Commission, GoI

Mr. Rajaretinam, Secretary, Public Works Department, GoTN
Mr. Gnanadesikan, Secretary, Finance, GoTN
Mr. Surjit Choudhry, Secretary, Agriculture, GoTN
Ms. Leena Nair, Secretary, Animal Husbandry and Fisheries, GoTN
Mr. Vibhu Nayar, Project Director, IAM WARM Project
Mr. Rengaraju Gupta, Engineer-in-Chief, Water resources Organization, GoTN

Tamil Nadu Irrigated Agriculture Modernization and Water-Bodies Restoration and Management (TN-IAMWARM) Project

Aide Memoire

Introduction

A Bank mission¹ assembled in Chennai from November 13, 2006 to assess readiness of the project for appraisal and after a review undertook the appraisal of the proposed Tamil Nadu Irrigated Agriculture Modernization and Water-Bodies Restoration and Management (TN-IAMWARM) Project between November 17 and November 25, 2006. The appraisal has been completed successfully at the end of this mission. The mission worked closely with Mr. Vibhu Nayar- Project Director and his colleagues in the Multidisciplinary Project Unit (MDPU) and the nine first year sub-basin staff in finalizing project costs and benefits and activities to be taken under the project. The mission also had the opportunity to meet and brief Honorable Minister for Public Works- Mr. Duraimurugan, Honorable Minister for Agriculture Mr. Veerapandi Arumugam and Deputy Chairman of the State Planning Commission- Dr. Naganathan. Throughout the appraisal process, Secretary PWD- Mr. Rajarethinam extended excellent cooperation to the mission and but for his intervention at several times, the appraisal could not have been completed. The mission met the Finance Secretary Mr. Gnanadesikan and discussed and agreed upon the modalities for fund flow and budgeting. The mission wishes to thank Secretary PWD- Mr. Rajarethinam and Secretaries of all other participating agencies and their staff for their hard work and above all their pleasant manners and hospitality during appraisal. Actions agreed to, during the mission are summarized in this Aide Memoire.

The findings of the mission were discussed at a wrap-up meeting chaired by the Chief Secretary and attended by all senior officers associated with the project.

Mission findings:

Appraisal of the project was completed successfully. The Bank team will prepare the negotiations package and after obtaining internal Bank clearances will send it with an official invitation to negotiate at a place and time convenient in December 2006 to GoI and GoTN shortly. Detailed cost estimates have been prepared for nine sub-basins based on the sub-basin development plans. These costs were then up-scaled to account for the 63 sub-basins on the basis of hydrological similarity, infrastructure requirements and agro-climatic requirements. The total project cost is estimated to be approximately US\$ 596 million including physical and price contingencies out of which the Bank financing will cover approximately US\$ 500 million. Out of this, modernization of irrigation infrastructure in 63 selected sub-basins of the State is estimated to cost US\$ 327 million

¹ Bank Task Team on this mission included Srinivasan Raj Rajagopal- Lead Water Resources Specialist and Task Team Leader, Willem Janssen- Sr. Agriculture Specialist, S. Selvarajan- Consultant Economist, Mohan Gopalakrishnan- Sr. Financial Management Specialist, Sushil Kumar Behl- Sr. Procurement Specialist, Philip Beauregard- Senior Legal Counsel, Shankar Narayanan- Sr. Social Development Specialist, Jagdish Anand- IT Specialist, V.K. Garg- Consultant- Procurement, and Jacqueline Julian- Program Assistant.

out of which the Revival, Restoration and Rehabilitation of Water Bodies is estimated to cost US\$ 200 million. Details by project components and their associated costs are:

Component A:

Irrigation systems modernization in a sub-basin framework- (Covering 617,000 ha; 1623 system tanks covering 88,000 ha; 4140 non-system tanks covering 316,000 ha and canal- operated systems covering 213,000 ha	INR 1450 Crores
- Restoration and Revival of Traditional Water Bodies (System and non- system tanks)-	INR 1000 Crores
-Canal Based irrigation systems-	INR 450 Crores.

Component B:

Agriculture Intensification and Diversification- (Increasing cropping intensity by 20%; SRI techniques in paddy adopted in 66,000 ha. Drip irrigation adopted in 21,500 ha of Coconut, 23,300 ha of Sugarcane and 22,200 ha of fruits and vegetables. Diversification to maize-28,000 ha, Oilseeds- 29000 ha, fruits and vegetables-12,000 ha, Sugarcane-10,800 ha. Cross-bred lactating cows- 165,000; Aquaculture in 78,000 ha of water surface area.	INR 750 Crores
-Agricultural Engineering- AED	INR 360 Crores
-Agriculture-	INR 75 Crores
-TNAU-	INR 120 Crores
-Agriculture Marketing-	INR 30 Crores
-Horticulture-	INR 100 Crores
-Animal Husbandry-	INR 40 Crores
-Fisheries-	INR 25 Crores.
-Agri-Business Development	INR 65 Crores

Component C:

Institutional Modernization for Irrigated Agriculture – (Capacity building of WRO, Information Management Systems, Participatory Irrigation Management, Training for other participating agency personnel, operation of Irrigation Research Fund.)	INR 220 Crores
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Component D:

Water Resources management- (Formation of State Water Resources Agency in line with The 11 th Plan approach paper of the State Planning Commi- ssion; formation of basin boards, development of decision support systems including overall Cooum basin-development and management plans, operation of Water Resources Research Fund.)	INR 50 Crores
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Component E

Project Management Support- (MDPU-operational costs, monitoring and evaluation of Total project activities for the entire duration of the project)	INR 45 Crores
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TOTAL

INR 2580 Crores

Project benefits have been computed and the economic rate of return for the project is estimated to be around 23%. The Project is estimate to generate additional employment equivalent to 17 million person days annually. Project implementation arrangements already put in place by GoTN have been reviewed and found acceptable.

- **Project Title:** At the request of the Government of India to reflect the focus of the Bharat Nirman Program, the expansion of the acronym TN-IAMWARM has been revised to **Tamil Nadu- Irrigated Agriculture Modernization and Water-Bodies Restoration and Management Project (TN-IAMWARM)**. A suggested Tamil title for the project for approval by GoTN is “**Uzhavar Uyarvu Thittam**”.
- **Bifurcation of Public Works Department (PWD):** The mission is pleased to note that the Government Order related to bifurcation was issued on time to enable appraisal. The mission has been advised that actions are underway to implement this order. The mission requests that the Bank be kept informed of progress on follow up actions being taken to complete the bifurcation exercise as quickly as possible.
- **Project building:** As discussed during the previous mission, construction of multi storeyed office building housing the MDPU and other WRO offices should commence immediately. Administrative sanction for the first year bid packages should be provided immediately so that the approved bid documents can be put on sale on completion of negotiations.
- **Project Operations Manual (POM):** To facilitate clear understanding of project implementation procedures amongst all agencies and to institutionalize procedures adopted in the preparation of the nine sub-basin plans, it is necessary to have a Project Operations Manual (POM). The mission understands that a draft of the POM is in progress and requests that a completed version be presented to the Bank at the start of negotiations so that the contents of the manual can be discussed and agreed upon by the end of negotiations. Issues such as relationship of Sub Basin Executive Engineers, to their Regional Chief Engineers, Chief Engineer –Plan Formulation, MDPU and the IAMWARM project Cell in E-in C office need to be clarified.
- **Staffing: MDPU-**The MDPU requires staffing in various disciplines and these requirements have been identified, discussed and agreed with MDPU. **Finance Staff in MDPU:** The staffing structure for the Finance & Administration Unit will include an officer from the Treasury & Accounts Service, supported by a Superintendent from the WRO and two/ three accountants either on deputation or on contract basis. Currently the MDPU has one officer from the Treasury & Accounts service deputed on part time basis. It is important that the finance unit in MDPU is fully staffed by January 31, 2007. **Participating agencies:** It is understood that all participating agencies are facing staff shortages at the junior levels due to earlier recruitment freezes. GoTN has initiated action to recruit necessary staff and the mission requests that this process be expedited. All the cells to be created in the various participating agencies should be fully staffed

immediately. Each Project Sub basin or cluster of Sub basins shall be allotted to an Executive Engineer who will be the nodal officer for implementation of Sub basin plans

- **Participatory Irrigation Management:** To enable implementation of the TNFMIS Act in the IAMWARM project area, GoTN should issue the necessary notification to cover the project sub-basins. WUA delineation and formation through elections as per the Act for the approximately 2808 WUAs expected to be formed in the project area should be initiated on the basis of a detailed PERT chart and activity plan. Of these, approximately 280 WUAs are already in existence in the Palar and Aliyar sub basins as well as a few other sub-basins and project activities can begin in these WUAs immediately. Experience gained from this pilot effort would be the basis of finalizing project implementation modalities through WUAs for the project. The project proposes to provide building infrastructure and IT Kiosk facilities to a cluster of WUAs on a demand-driven and participatory basis for achieving project development outcomes through awareness and knowledge transfer on all project aspects. This shall be tested on a pilot basis with the 280 existing WUAs so that learning ensuing there from can be used to expand this effort with the remaining WUAs in the project area. All required Government directives to involve the District Collectors of project districts to facilitate formation of WUAs through elections as per the TNFMIS Act in a timely manner need to be issued without any further delay. Given the central role of WUAs as the primary node of interaction with farmers under the project, the roles and responsibilities of WRO and other participating agencies for the mobilization of farmers in the process of WUA formation and initiation of project activities through these WUAs needs to be detailed in the Project Operations Manual.
- **Training and Capacity building:** A training needs assessment for WUAs and WRO and all participating agency functionaries should be undertaken that would identify inter-alia training requirements in water management, agriculture diversification, on-farm technologies and training institutions. Training institutions both within and outside the State including institutions such as Irrigation Management Training Institute (IMTI) Trichy and other experienced training institutions could be involved to provide training. The mission recommends that experience gained by the TWAD Board in the area of Change Management be taken advantage of and effectively used by MDPU for effecting positive change in the capacity and understanding of all project functionaries.
- **Panchayat Union Tanks:** These tanks have been excluded from the project since the requirement that water users associations be formed to participate in the rehabilitation as well as management of these assets once they are repaired is not being met. The proposal that these tanks which are under the jurisdiction of the Rural development Department would be temporarily transferred to WRO for rehabilitation and then transferred to Rural development Department is not acceptable. RD expressed their inability to move ahead with the formation of

water users' associations. GoTN will discuss this issue internally and get back to the Bank later.

Financial Management

Budget Provision & Accounting: The financial management arrangements for the project would be mainstreamed using normal GoTN budget and other financial management procedures. The project activities would be budgeted under the respective demand for grants of line departments involved in the project; however the Annual Work Plan (AWP) and budget would be reviewed and approved by the MDPU to ensure consistency and coordination of plans/ budgets of the various departments. The budget would be incorporated in the State Budget by sub-basin using the minor head/ sub head in the GOTN budget code. *The new account codes to be opened and the detailed budget estimates for the FY 2007-08 needs to be submitted by the MDPU to Finance Department latest by December 15, 2006.* In order to avail of grant funding from the GOI for tank restoration, a separate sub-head will be opened to budget & account for expenditure on tank restoration and other activities such as for anicut, supply channel rehabilitation etc. Similarly, for the PAP, sub-heads by breakdown of canal types would be opened. As regards TNAU the budget provision would be made for TNAU as grant in aid in the demand for grants for the Agriculture Dept. The funds for the project will be advanced to TNAU (as grant in aid) on a quarterly basis based on an approved annual work plan from TNAU and actual progress during the year. The funds transferred to TNAU for the project purposes, will be treated as an advance and will be eligible for reimbursement only on reporting of actual expenditure by TNAU. TNAU will open a separate Bank account for the project funds to keep it distinct from the funds received from GOTN sources for establishment costs. TNAU will consolidate the expenditures from its various field units and send a consolidated report to the MDPU (via Dept of Agriculture) on a quarterly basis.

Audit Arrangements: the external audit for the project (including TNAU) would be carried out by the State AG. The terms of reference for audit would be sent by the project to the C&AG (through the Dept of Economic Affairs- MoF, GOI) for its consent. The MDPU will appoint a firm of Chartered Accountants to carry out internal audit for the project as a whole. This would supplement the audit by the State AG and would focus on compliance with the internal controls, appropriate procurement methods and processes followed by various line depts. etc

Disbursement & initial advance: The disbursement under the project would be on a quarterly basis (based on interim financial reports –as per expenditures reported by the various line departments, duly reconciled with the State AG (with the exception of TNAU- see above). The Bank will provide an initial advance to meet six months expenditure (estimated at approx USD 25 million) which can be increased in line with the increased level of expenditure.

Financial delegation: The existing financial delegation for the line departments (other than WRO) at the district levels are low and need to be enhanced for the project activities. During the wrap-up, Secretary, Finance advised that project-specific powers can be given to the officers to implement the project in a smooth manner.

Procurement:

1. The Project has prepared all the bidding documents for civil works to be procured out by WRO during the first year. The Mission has reviewed bidding documents for four packages and given its comments. The project will incorporate these comments in all the bid documents and forward the documents requiring prior review to the Bank for its final review and comments/no objection.
2. The project has prepared bidding documents for one package for procurement of computers following ICB and for one package for computer furniture following NCB procedures. The Mission has given its comments on both these documents. The project will incorporate these comments in the bid documents and forward the documents to the Bank for its final review and comments/no objection. The project will also incorporate these comments in all other bid documents to be prepared by all implementing agencies
3. The project has prepared procurement plan for first 18 months requirement of works, goods and consultancy to be procured by WRO. The Mission has given its comments on these procurement plans. The project will incorporate these comments and forward to the Bank for its review and comments/no objection
4. The project has also prepared draft procurement plans for procurement to be done by implementing agencies other than WRO. The Bank's comments given during the mission are being incorporated by the implementing agencies
5. The project has yet to complete the following and has agreed to complete up to negotiation:
 - (a) No bid documents have been prepared by implementing agencies other than WRO. The bid documents for all goods and works to be procured during the first year will be prepared and finalized.
 - (b) Draft RFPs for all consultancies to be procured during the first year by all implementing agencies. The EOIs will be issued for all the consultancies to be procured and TORs finalized.
 - (c) finalize procurement plans, packages and related bid documents incorporating the bank's comments for all procurement activities to be carried out by all the implementing agencies during the first 18 months
6. The Mission emphasized the need for further intensive efforts to complete the required bidding documents and the procurement plans

7. An action plan for enhancing transparency and accountability was discussed and agreed with the project and a sample framework has been handed over to the Project Director. The project will review and forward the proposed action plan and a schedule of activities to the Bank by December 4, 2006 and will also incorporate the action plan in its Project Operations Manual.
8. GOTN clarified that the required staff to be deployed to handle procurement activities in the IAMWARM cell located in the E-in C office and headed by the Joint Chief Engineer would be in place by December 31, 2006. This cell would comprise 1 Executive Engineers, 2 Assistant Executive Engineers and 4 Assistant Engineers. All these staff would be given procurement training through ASCI or NIFM.