Financing Agreement

(Bihar Panchayat Strengthening Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 27, 2013
CREDIT NUMBER 5160-IN

FINANCING AGREEMENT

AGREEMENT dated June 27, 2013, entered into between INDIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to fifty-five million, seven hundred thousand Special Drawing Rights (SDR 55,700,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are February 1 and August 1 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is United States Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause Bihar and the Society respectively, to carry out their respective parts of the Project in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consists of the following, namely, that the Memorandum of Association or Bylaws of the Society has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Society to perform any of its obligations under the Project Agreement.

4.02. The Additional Events of Acceleration consists of the following, namely, that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V—TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

5.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is Secretary, Department of Economic Affairs, Ministry of Finance, Government of India.

6.02. The Recipient's Address is:

Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Facsimile:
91-11-23092039

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 1-202-477-6391
AGREED at New Delhi, India, as of the day and year first above written.

INDIA

By

Authorized Representative
Name: Nilaya Mitash
Title: Joint Secretary (m1)

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
Name: Michael Hanay
Title: Operations Adviser, India
SCHEDULE 1

Project Description

The objective of the Project is to support Bihar’s capacity to promote and strengthen inclusive, responsive and accountable Panchayat Raj Institutions ("PRIs") in selected Project Districts across the state.

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

Part A. Panchayat Sarkar Bhawans

Construction of new Panchayat Sarkar Bhawans (local self-government offices) in selected Gram Panchayats in Project Districts.

Part B. Capacity Building for PRIs

Promoting inclusive, responsive, and accountable PRIs through:

1. strengthening core institutional capacity and functioning of PRIs and their committees;

2. promoting community mobilization to increase people’s knowledge of their rights and responsibilities, engagement, and participation in relation to PRIs;

3. improving the PRIs’ financial management capacity and performance; and

4. developing PRIs’ capacity to plan and implement development initiatives in natural resource management, nutrition of women and children, quality of drinking water, and village sanitation.

Part C. Strengthening Bihar’s Capacity to Manage a Gradual Decentralization and Empowerment Process

1. Establishing a regulatory framework for PRIs including the formulation and promulgation of financial management rules and manuals, procurement and accounting manuals and tax administration guidelines.

2. Developing a quality assurance mechanism for curricula for PRIs and pre-qualifying a panel of providers to support field implementation, experimentation, evaluation, quality assurance and operational adjustment.
3. Establishing and strengthening a Panchayat finance and performance monitoring unit in the Society to undertake research and analysis on PRIs’ finance and performance and to monitor and produce periodic reports.

4. Progressively expanding the audit coverage of Gram Panchayats in each Project District.

Part D. Panchayat Performance Grants

Providing Panchayat Performance Grants to eligible Gram Panchayats selected on a competitive basis in accordance with Schedule 1 to the Project Agreement for their service-delivery and development performance.

Part E. Project Management

Supporting Bihar’s and the Society’s role in carrying out its activities under this Project.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to Bihar, in accordance with the Recipient’s standard arrangements for development assistance to the States of India.

2. The Recipient shall protect the interests of the Association to accomplish the purposes of the Financing.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and those of the Governance and Accountability Action Plan.

C. Implementation of Components by Society and Building Construction Department

1. The Recipient shall cause Bihar to ensure that the Society carries out Part D of the Project (Panchayat Performance Grants) in accordance with the provisions of Schedule 1 of the Project Agreement.

2. The Recipient shall cause Bihar to ensure that its Building Construction Department and the Society carry out Part A of the Project (Panchayat Sarkar Bhawans) in accordance with Schedule 1 of the Project Agreement and their respective roles and responsibilities, as outlined in the Operational Manual.

D. Safeguards.

1. The Recipient shall cause Bihar and the Society to ensure that the Project is carried out in accordance with the environmental and resettlement standards set forth in the Environmental Management Framework and the Resettlement Framework, and any plans developed thereunder. Except as the Association shall otherwise agree, the Recipient shall not amend, vary or waive any provision of either framework, and any plans developed thereunder, if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.
2. The Recipient shall cause Bihar and the Society to: (i) ensure that sites necessary for carrying out the Project are selected according to Bihar's criteria acceptable to the Association; (ii) ensure that sites selected pursuant to sub-paragraph (i) above are free of claims, disputes, and significant encumbrances; (iii) until the completion of the Project, monitor, at the Project sites, discovery of all cases of involuntary resettlement, land acquisition and adverse impact on income of individuals, including titleholders and non-titleholders, and provide compensation and/or assistance in accordance with the provisions of the Resettlement Framework; and (iv) properly operate and maintain the grievance redress system provided for under the Resettlement Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and shall cause Bihar through its Society and the Building Construction Department, as the case may be, to prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators acceptable to the Association. Each Project Report shall cover the period of one (1) calendar quarter (three (3) months), and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

2. The Recipient shall cause Bihar to provide the Recipient and the Association all such information as the Recipient or the Association shall reasonably request with respect to the report referred to in Section 4.08 of the General Conditions

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause each of Bihar and the Society to maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall cause Bihar and the Society to prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall cause Bihar and the Society to have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) financial year of the Recipient. The audited Financial Statements for each
such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. **Procurement**

A. **General**

1. **Goods, Works, and Non-Consulting Services.** All goods, works, and non-consulting services required for the Project and to be financed out of the proceeds of the Financing 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 Financing 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 Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

B. **Particular Methods of Procurement of Goods, Works, and Non-Consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works, and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding, subject to the additional provisions agreed upon from time to time between the Recipient and the Association.

2. **Other Methods of Procurement of Goods, Works, and Non-Consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works, and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Limited International Bidding</td>
</tr>
<tr>
<td>(b) National Competitive Bidding (subject to the additional provisions agreed to from time to time between the Recipient and the Association and referred to in the Procurement Plan)</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
<tr>
<td>(d) Shopping</td>
</tr>
</tbody>
</table>
3. **Particular Methods of Procurement by Beneficiaries:** Procurement by Beneficiaries under Part D of the Project shall be carried out under Community Procurement procedures in accordance with the provisions of paragraph 3.19 of the Procurement Guidelines.

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.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies 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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality Based Selection</td>
</tr>
<tr>
<td>(b) Selection based on Consultants’ Qualification</td>
</tr>
<tr>
<td>(c) Fixed Budget Selection</td>
</tr>
<tr>
<td>(d) Least Cost Selection</td>
</tr>
<tr>
<td>(e) Single Source Selection</td>
</tr>
<tr>
<td>(f) Selection of Individual Consultants</td>
</tr>
<tr>
<td>(g) Single Source Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

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

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

Section IV. **Withdrawal of the Proceeds of the Financing**

A. **General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works and consultants' services under Part A of the Project</td>
<td>23,200,000</td>
<td>70% of eligible expenditures</td>
</tr>
<tr>
<td>(2) Goods, works, and consultants' services financed by a Performance Grant under Part D of the Project</td>
<td>9,300,000</td>
<td>70% of eligible expenditures</td>
</tr>
<tr>
<td>(3) Goods, works, consultants' services, non-consulting services, training and operating costs for the Project, other than under Parts A and D of the Project</td>
<td>20,900,000</td>
<td>70% of eligible expenditures</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>2,300,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>55,700,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $3,000,000 equivalent may be made for payments made prior to this date but on or after September 30, 2011, for Eligible Expenditures.
2. The Closing Date is December 31, 2017.
**SCHEDULE 3**

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 1 and August 1:</td>
<td></td>
</tr>
<tr>
<td>commencing February 1, 2018 to and including August 1, 2027</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing February 1, 2028 to and including August 1, 2037</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions


2. "Beneficiaries" means those eligible Gram Panchayats in Bihar that are selected to carry out Sub-Projects under Part D of the Project and in accordance with a Sub-project Agreement with the Society.


4. "Bihar" means the Recipient's State of Bihar or any other successor entity thereto and its government departments and agencies including the Department of Panchayati Raj.

5. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


8. "Department of Panchayati Raj" means Bihar’s Department of Panchayati Raj or any successor thereto.

9. "Environmental Management Framework" means Bihar’s Environmental Management Framework, dated June 1, 2011, governing the environmental aspects of Project implementation, including mitigation and adaptive measures to offset, reduce to acceptable levels, or eliminate, any adverse environmental or social impacts under the Project, together with guidelines for the carrying out of consultations with potentially affected communities and procedures for the preparation of environmental management plans, as said framework may be updated from time to time by agreement between the Association and Bihar.

10. "Governance and Accountability Action Plan" means Bihar’s Governance and Accountability Action Plan, satisfactory to the Association, which sets out the key actions to be undertaken by Bihar, its Building Construction Department, and the
Society to strengthen governance, transparency, and accountability under the Project, as such plan may be amended from time to time by agreement between the Association and Bihar.


12. “Gram Panchayat” means an institution of village self-government for rural areas in Bihar constituted under the Bihar Panchayat Raj Act (2006);

13. “Operating Costs” means Project operating costs, including: (i) office expenses and maintenance, including Project office rent; (ii) operation, hiring and maintenance of vehicles, equipment, and other goods purchased under the Project; (iii) salaries of contractual staff recruited by Society and government employees deputed to the Society; and (iv) Project related travel, including per-diem costs.

14. “Operational Manual” means the Project Implementation Plan adopted in August 2011, containing a detailed set of policies, rules, procedures, and protocols necessary for carrying the Project in accordance with this Agreement and includes eligibility criteria for Beneficiaries under Part D of the Project (Panchayat Performance Grants), and the financial management and procurement manuals, and includes any amendments made by mutual agreement between the Association and Bihar.

15. “Panchayati Raj Institutions or PRIs” means, collectively the Zilla Parishad (District Panchayat), the Panchayat Samiti (Block Panchayat), and the Gram Panchayat (Village Panchayat), which are local government bodies in Bihar constituted under the Bihar Panchayat Raj Act (2006).

16. “Performance Grant” means a Panchayat Performance Grant made by Bihar, through the Society, to a Beneficiary under Part D of the Project in accordance with Schedule 1 of the Project Agreement.


18. “Procurement Plan” means Bihar’s procurement plan for the Project, dated August 14, 2012 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

19. “Project Districts” mean Bihar’s districts of Patna, Nalanda, Bhojpur, Saharsa, Supaul and Madhepura, or any successor districts as well as such other districts to which this Project may be extended by mutual agreement between the Association and Bihar.
20. "Resettlement Framework" means Bihar's Resettlement Policy Framework, adopted in May 2011, satisfactory to the Association, which sets forth: (i) an entitlement framework to compensate and assist Project affected persons; (ii) resettlement, social, land acquisition, and communities rehabilitation and assistance actions to be undertaken by Bihar; (iii) procedures for the preparation of environmental management plans; (iv) a monitoring mechanism to identify potential cases of encroachers; and (v) a three-tier grievance redress mechanism; as such framework may be revised from time to time with the prior consent of the Association.

21. "Society" means the Bihar Gram Swaraj Yojana Society registered under the Societies Registration Act, 1860 by Bihar's Department of Panchayati Raj.

22. "Sub-financing Agreement" means an agreement between the Society and a Beneficiary under Part D of the Project for the utilization of a Performance Grant.

23. "Sub-project" means one or more activities carried out by a Beneficiary with the proceeds of Performance Grants under Part D of the Project in accordance with a Sub-financing Agreement with the Society.

24. "Training" means non-consultant expenditures incurred in connection with the provision of training and workshops, including training institution fees, logistics, materials, and the reasonable cost of travel and per diem costs of trainers and trainees.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

   "Section 3.02. Service Charge and Interest Charge

   (a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months

   (b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually
in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

2. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the remaining paragraphs accordingly:

   "32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02(a).