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CONFORMED COPY

CREDIT NUMBER 4232-IN

Financing Agreement

(Uttaranchal Rural Water Supply and Sanitation Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 16, 2006

CREDIT NUMBER 4232-IN

FINANCING AGREEMENT

AGREEMENT dated October 16, 2006, between INDIA, acting by its President (“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 the Financing 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 eighty three million five hundred thousand Special Drawing Rights (SDR 83,500,000) (“Credit”) 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III - THE PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity 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 - EFFECTIVENESS

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

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Secretary to the Government of India, Department of Economic Affairs.
- 5.02. The Recipient's Address is:

Department of Economic Affairs
Ministry of Finance
New Delhi 110 001
India

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175 FINEIN	91-11-23093422

- 5.03. The Association's Address is:

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

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

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

INDIA

By

/s/ Madhusudan Prasad
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Rachid Benmessaoud
Acting Regional Vice President
South Asia

SCHEDULE 1

Project Description

The objective of the Project is to assist Uttaranchal in improving the effectiveness of the rural water supply and sanitation services through decentralization and the increased role of the Panchayati Raj Institutions and involvement of local communities in the State of Uttaranchal.

The Project consists of the following parts:

A. Rural Water Supply and Sanitation Sector Development

Carrying out of RWSS sector reform activities in Uttaranchal by developing its institutional capacity to implement, manage and sustain the MTP, including:

- (1) the implementation of a comprehensive capacity building plan that includes training modules based upon annually-updated work programs;
- (2) the development and implementation of an information, education, and communications strategy aimed at facilitating the RWSS sector reform program through the public dissemination of relevant information amongst sector stakeholders;
- (3)
 - (a) the establishment of a computerized RWSS sector information system; and
 - (b) the improvement of its water quality monitoring program, and source discharge measurement program for the purpose of planning sustainable sector investments and monitoring the effectiveness and quality of rural water services;
- (4) strengthening the public procurement capacity of RWSS sector institutions; and
- (5) strengthening the development of the RWSS sector through the carrying out of technical and sector studies.

B. RWSS Infrastructure Investments

Improving the quality of, and access to RWSS sector services, including:

- (1) the design, construction, or rehabilitation, and implementation of integrated RWSS investment schemes and catchment area protection activities, for:
 - (a) single village investment schemes identified by DDW after March 31, 2006;

- (b) multi-village investment schemes identified by DDW after November 30, 2006; and
 - (c) investment schemes, under the jurisdiction of UJN and UJS, transferred to the jurisdiction of PRIs.
- (2) the establishment and operationalization of UWSSCs and SLCs at the village and block levels and the carrying out of community development activities, including community mobilization, capacity building, and health and hygiene promotion activities; and
 - (3) the carrying out of a program of collective behavior changes, aimed at supporting the TSC, including activities related to:
 - (a) village-level information, education and communication;
 - (b) grant incentives for latrine construction for below-poverty line households; and
 - (c) rewards and incentives for habitation- and Gram Panchayat-level sanitation achievements.

C. RWSS Program Management Support and Monitoring and Evaluation

- (1) Operational Costs to support Project implementation activities for the provision of RWSS sector program management support to the SWSM, PMU, DWSMs, DPMUs, UJN, and UJS.
- (2) Establishment and operation of tools for RWSS sector program management, monitoring and evaluation, including:
 - (a) the establishment and operation of the Project financial management system;
 - (b) the development and operation of a Project monitoring and evaluation system that addresses the long-term sustainability of the technical, financial, institutional, social and environmental aspects of the investment schemes implemented under Part B of the Project;
 - (c) carrying out of audits of the investment schemes implemented under Part B of the Project; and
 - (d) carrying out of participatory community-level monitoring and evaluation activities related to investment schemes under Part B of the Project.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

- A. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity in accordance with the Recipient's standard arrangements for developmental assistance to the States of India.
- B. The Recipient shall protect the interests of the Recipient and the Association to accomplish the purposes of the Financing.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

The Recipient, together with the Project Implementing Entity, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than three (3) months after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

- 1. The Recipient shall maintain or cause to be maintained 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, or shall cause the Project Implementing Entity to, prepare and furnish to the Association as part of the Project Report not later than three (3) months after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
- 3. The Recipient shall 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 fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project was made. 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 and Works.** All goods and works 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 Schedule.
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 Schedule.
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, the Consultant Guidelines, the Procurement Manual, or the Procurement Plan, 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, subject to the following additional procedures:
 - (i) The Procurement Manual shall specify the circumstances under which such procurement method may be used.
 - (ii) Standard bidding documents and procedures approved by the Association shall be used.
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 Manual shall specify the circumstances and the manner under which such methods may be used:

Procurement Method
(a) National Competitive Bidding
(b) Limited Competitive Bidding/Shopping
(c) Direct Contracting
(d) Community Driven Procurement

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 following additional procedures:

- (i) The Procurement Manual shall specify the circumstances under which such procurement method may be used.
- (ii) Standard Request for Proposal documents and procedures approved by the Association shall be used.

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 Manual shall specify the circumstances and manner under which such methods may be used.

<u>Procurement Method</u>
(a) Selection under a Fixed Budget
(b) Least Cost Selection
(c) Selection Based on Consultant's Qualifications
(d) Single Source Selection
(e) Selection of Individual Consultants

D. Review by the Association

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 this Section and such additional instructions as the Association, as the case may be, may specify by notice to the Recipient, 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, the allocation of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Eligible Project Activities carried out under Part A of the Project	3,500,000	100% of Eligible Project Expenditures
(2) Eligible Project Activities under Parts B and C of the Project	80,000,000	100% of Eligible Project Expenditures in Fiscal Years 2006/07 to Fiscal Year 2007/08, 90% in Fiscal Year 2008/09, 70% in Fiscal Year 2009/10, and 55% thereafter
TOTAL AMOUNT	83,500,000	

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 one million four hundred thousand Special Drawing Rights (SDR 1,400,000) equivalent may be made for payments made prior to this date but on or after January 1, 2006.
2. The Closing Date is June 30, 2012.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing November 15, 2016 to and including May 15, 2026	1.25
commencing November 15, 2026 to and including May 15, 2041	2.50

*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

1. “Batch 1” means the category of investment schemes carried out under Part B of the Project that includes new investment schemes commencing on or after April 1, 2006, referred to in Section II.4(a) of the Schedule to the Project Agreement.
2. “Batch 2” means the category of investment schemes carried out under Part B of the Project that includes investment schemes commencing in accordance with the timetable set forth in the Operations Manual, referred to in Section II.4(b) of the Schedule to the Project Agreement.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers,” published by the Bank in May 2004.
5. “DDW” means the Project Implementing Entity’s Department of Drinking Water.
6. “DPMU” means each District Program Management Unit established or to be established, as the case may be, in each of the Project Implementing Entity’s districts, referred to in Section I.1(b)(ii) of the Schedule to the Project Agreement.
7. “DWSC” means each District Water and Sanitation Committee established or to be established, as the case may be, in each of the Project Implementing Entity’s districts, referred to in Section I.1(b)(i) of the Schedule to the Project Agreement.
8. “DWSM” means each District Water and Sanitation Mission established or to be established, as the case may be, in each of the Project Implementing Entity’s districts, referred to in Section I.1(b)(i) of the Schedule to the Project Agreement.
9. “Eligible Project Activities” means the activities set forth in Schedule 1 to this Agreement and financed through the proceeds of the Credit.
10. “Eligible Project Expenditures” means the aggregate of expenditures: (a) incurred by the Project Implementing Entity in a Fiscal Year for Eligible Project Activities under Categories (1) and (2) of Section IV.A. 2 of Schedule 2 to this Agreement; and (b) includes only such expenditures that are comprised of the Project Implementing Entity’s budgetary contribution to the SWAp Basket.
11. “EMF” means the Environmental Management Framework adopted by the Project Implementing Entity on April 3, 2006, and incorporated into the Operations Manual, for purposes of setting forth the environmental and social

framework to address the adverse temporary or permanent environmental and social impacts resulting, or likely to result from, the carrying out of the Project.

12. “Financial Management Manual” means the manual dated April 2006, satisfactory to the Association, adopted by the Project Implementing Entity for the purpose of carrying out, monitoring and supervising the financial management aspects of the implementation of the Project.
13. “Fiscal Year” means the fiscal year of the Project Implementing Entity, which commences on April 1 of a calendar year and ends on March 31 of the following calendar year.
14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants,” dated July 1, 2005.
15. “GO 738” means the Uttaranchal Government Order No. 739129(2)/06-2 (22 Pey) 2004, dated March 25, 2006, relating to the adoption of the sector wide policy for the water and sanitation sector.
16. “GP” means Gram Panchayat, a local self government body established under the Constitution of India.
17. “MTP” means the Medium Term Rural Water Sector Program adopted by the Project Implementing Entity for the period ending 2012, that includes RWSS sector reform and development activities, ongoing and new investment schemes in rural water and sanitation, and program management activities.
18. “Operational Costs” means operational and administrative costs related to the implementation of SWAp Basket activities, incurred by the SWSM, PMU, UJN, UJS, DWSSMs, and DPMUs, including staff compensation, office maintenance costs for the PMU and DPMUs, office equipment, vehicle rentals, travel allowances, consultants’ fees, and audit costs.
19. “Operations Manual” means the Operations Manual, dated April 2006, and adopted by the Project Implementing Entity, satisfactory to the Association, containing, *inter alia*, the operating procedures for the carrying out of the Project, including the criteria for the eligibility, selection, and implementation of investment schemes under Part B of the Project, SWAp Basket guidelines, implementation and institutional arrangements, funds flow, and Project performance indicators, as such Manual may be revised from time to time with the prior approval of the Association.
20. “Panchayati Raj Institution” or its acronym “PRI” means Panchayati Raj Institution, as provided for in the Constitution of India.
21. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.

22. “Procurement Manual” means the manual, dated July 2006, adopted by Uttaranchal which sets forth, inter alia, methods and procedures for the procurement of goods, works and services under the Project as said manual may be updated from time to time with the prior approval of the Association.
23. “Procurement Plan” means the Project Implementing Entity’s procurement plan for the Project, dated April 2006, 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.
24. “Project Implementing Entity” means the State of Uttaranchal of the Recipient, or any successor thereto.
25. “PMU” means the Swajal Directorate and Program Management Unit, referred to in Section I.1(a)(iii) of the Schedule to the Project Agreement.
26. “RWSS” means rural water supply and sanitation.
27. “SLC” means a scheme level committee, referred to in Section I.1(c)(ii) of the Schedule to the Project Agreement.
28. “SWAp Basket” means the state-wide program, adopted by the Project Implementing Entity, for RWSS sector investments, as reflected in GO 738, delineating its RWSS sector-wide approach for the decentralized implementation of common policy rules and guidelines, irrespective of the sources of financing, and includes the RWSS sector-wide:
 - (a) reform activities carried out by the Project Implementing Entity under Part A of the Project;
 - (b) approach involving the grouping of investment schemes under Part B of the Project, consisting of: (i) single-village investment schemes identified by DDW after March 31, 2006; (ii) multi-village investment schemes identified by DDW after November 30, 2006; or (iii) RWSS sector investment schemes operated by UJL or UJN selected or to be selected by the Project Implementing Entity for operation by the Panchayati Raj Institutions; and
 - (c) program management support and monitoring and evaluation activities carried out by the Project Implementing Entity under Part C of the Project.
29. “SWSM” means the Project Implementing Entity’s State Water and Sanitation Mission, its highest policy-making body in the RWSS sector, referred to in Section I(a)(i) of the Schedule to the Project Agreement.
30. “TSC” means the Recipient’s Total Sanitation Campaign program.

31. “UJN” means Uttaranchal Pey Jal Nigam, the Project Implementing Entity’s public utility established for the purpose of carrying out the construction activities of its rural water delivery schemes.
32. “UJS” means Uttaranchal Jal Sansthan, the Project Implementing Entity’s public utility established for the purpose of carrying out the operation and maintenance activities of its rural water delivery schemes.
33. “Uttaranchal” means the Recipient’s State of Uttaranchal, or any successor thereto.
34. “UWSSC” means the User Water Supply and Sanitation Committee established, or to be established, as the case may be, for each investment scheme carried out, or to be carried out, as the case may be, under Part B of the Project, referred to in Section I(c)(i) of the Schedule to the Project Agreement.