

Checklist for Compliance with Major Undertaking and Loan Covenants

Date: _____

Executing Agency: _____

			Covenant Items	Agency	Compliance Status
	FFA	LA			
Others					
National Steering Committee					
1	iii	2	MOUD shall be the national-level Project Executing Agency. Within three (3) months of the Effective Date, MOUD shall establish a NSC to monitor the use of funds under the Project as well as overall Project performance. The NSC shall be chaired by the Secretary MOUD and comprise representatives of DEA, the Ministry for Development of the North Eastern Region, the Planning Commission, and representatives of each State. The NSC shall meet whenever necessary, but not less than once every quarter. (paras. 1 & 2)	MOUD	
IPCC					
2		3	The IPCC established within MOUD shall at all times during Project implementation be headed by an Investment Program Manager who shall be supported by at least one administrative and financial official, one technical official, and one official responsible for environmental and social issues. The IPCC shall be supported by a team of program management and monitoring consultants, to be headed by an experienced urban development or municipal engineering expert, and including an urban management and finance specialist as well as a management information systems specialist. (para. 3)	MOUD	
3		4	The IPCC shall be responsible for (i) reporting to ADB on Investment Program and Project implementation progress; (ii) the preparing and submitting to ADB of consolidated quarterly reports; (iii) consolidating payment and reimbursement requests; (iv) coordinating policy-related activities and ensuring that actions highlighted during NSC meetings are acted upon; (v) preparing the overall Investment Program implementation plan and consolidated annual work plans; (vi) coordinating training programs and allocations for each of the States; (vii) conducting monitoring and evaluation activities to ensure compliance with Loan covenants and agreed targets; and (viii) designing and implementing Investment Program performance management system surveys. (para. 4)	MOUD	
State executing agencies					
4		5	Each State shall have a SEA as follows: (i) for Meghalaya: its Urban Affairs Department; (ii) for Mizoram: its Urban Development and Poverty Alleviation Department; (iii) for Nagaland: its Urban Development Department; (iv) for Sikkim: its Urban Development and Housing Department; and (v) for Tripura: its Urban Development Department. (para. 5)	GoMe, GoMi, GoNa, GoSi & GoTr	
5		8	The SIPMIU established in each State shall at all times during Project implementation be headed by a full-time Project Director who shall be a senior civil servant authorized to make any decision affecting the Project at State level. S/he shall be assisted by a full-time Deputy Project Director, a senior administration officer, a senior accounts officer, technical and engineering staff, a public relations officer, and a management information systems specialist. Each of the senior staff shall be supported by sufficient qualified junior staff. Each SIPMIU shall establish small engineering cells, as needed, with staff deputed from relevant departments and ULBs. Each engineering cell, headed by a superintending or executive engineer, shall be responsible for designing, contracting, supervising, and administering the work of that cell. (para. 8)	GoMe, GoMi, GoNa, GoSi & GoTr	
State steering committee					
6		6	Within three (3) months of the Effective Date, each State shall have established a SSC and an IPEC. Each SSC shall be chaired by the Chief	GoMe, GoMi,	

			Covenant Items	Agency	Compliance Status
			Secretary of the concerned State, and comprise relevant Secretaries and Heads of Department of such State. The SSC shall meet quarterly to (i) review progress on Project implementation; (ii) provide policy guidance; (iii) advise on matters that affect the scope or cost of the Project, as well as on matters related to the Urban Reform Program; and (iv) facilitate inter-agency coordination. (para. 6)	GoNa, GoSi & GoTr	
IPEC					
7		7	Each IPEC shall be chaired by the Secretary of the concerned SEA and comprise representatives from ULBs and relevant departments of the concerned State. Each IPEC shall decide on matters related to the implementation of the Project that do not affect its scope or cost. The IPEC shall meet whenever needed, at the request of any IPEC member. The Program Director shall be the IPEC's member-secretary. (para. 7)	GoMe, GoMi, GoNa, GoSi & GoTr	
SIPMIU					
8		9	Each SIPMIU shall be responsible for overall management and implementation of the Project in its respective State, including (i) recruiting consultants and NGOs; (ii) carrying out detailed surveys, investigations, and engineering designs of investment activities prior to starting any tendering process; (iii) coordinating with agencies and obtaining all required statutory clearances; (iv) conducting all aspects of the procurement process in compliance with ADB's Procurement Guidelines; (v) ensuring compliance with Loan covenants; (vi) administering the contracts of consultants and contractors, certifying payments and preparing change orders; (vii) submitting disbursement requests to MOUD for forwarding to DEA for onward transmission to ADB; (viii) timely submitting reports, including audit reports, to the IPCC and ADB; (ix) supervising the implementation of the gender action plan for the Project as well as other social activities; (x) guiding awareness campaigns and participation programs; (xi) organizing and operating state-level Project performance monitoring systems, including collecting data for key indicators and conducting baseline and completion surveys; (xii) reviewing and facilitating the progress of the Urban Reform Program; and (xiii) designing and organizing capacity building programs. (para 9)	GoMe, GoMi, GoNa, GoSi & GoTr	
PPMS					
9		27	Within three (3) months of the Effective Date, IPCC shall have established an Investment Program performance monitoring system (IPPMS) that shall be used to monitor and evaluate each project under the Facility, including the current Project. The IPPMS shall include: (i) procedures and data collection and reporting; (ii) performance indicators for physical infrastructure, capacity development, and program management support; and (iii) target dates for reaching the performance indicators. Within six (6) months of the Effective Date each State, through its SIPMIU, shall have established baseline indicators for each target. (para. 27)	MOUD, GoMe, GoMi, GoNa, GoSi & GoTr	
Project Review					
10		28	The Borrower and the States, and ADB shall jointly review the Project on a semi-annual basis as well as conduct a detailed mid-term review towards the end of the third year of Project implementation. (para. 28)	GOI,GoMe, GoMi, GoNa, GoSi & GoTr	
Approved plan for investment					
11	v		Prior to any investment in augmentation of water supply in any of the capital cities, the city concerned will have approved a plan for increased investments in sewerage and sanitation.		
Public information for water supply and sanitation					
12	xi	19	Within nine (9) months of the Effective Date, each State SIPMIU publicize and make available information on water and effluent discharge testing. This shall include posting of testing results in municipality offices in a place visible to all visitors. (para. 19)	GoMe, GoMi, GoNa, GoSi & GoTr	
Project website					
13		12	Within three (3) months of the Effective Date, MOUD and the States shall	MOUD,	

			Covenant Items	Agency	Compliance Status
			have established a Project website, including for procurement issues. The website shall include at a minimum the following information: (i) bidding procedures, bidders, and contract awards for the Project; (ii) use of the funds disbursed under the Project; and (iii) decisions of the SSC. (para. 12)	GoMe, GoMi, GoNa, GoSi & GoTr	
Project scope change					
14		16	The Borrower and the States shall ensure that in the event there are any changes to the Project scope as described in Schedule 1 to this Loan Agreement, those changes shall be made in conformity with the selection criteria as set out in schedule 4 to the FFA. (para. 16)	GOI, GoMe, GoMi, GoNa, GoSi & GoTr	
Quality control					
15		26	Within three (3) months of the Effective Date, each SEA shall have approved a timebound plan, with budget allocation, to strengthen construction supervision, recording, and reporting systems through the use of modern technology. Each SEA shall establish a quality control cell and operationalize an internal third party technical audit mechanism. All Works contracts shall include provisions for third party inspection for quality control. (para. 26)	GoMe, GoMi, GoNa, GoSi & GoTr	
Sector					
Urban reform program					
16	ii	15	Each SEA shall fully and timely implement all actions specified in the Urban Institutional, Financial, Regulatory, and Operational Reform Program agreed between the Borrower, the States, and ADB and which is included in Annex 1 of the FFA, in as far as it is applicable to this first Project under the Facility. (para. 15)	GoMe, GoMi, GoNa, GoSi & GoTr	<i>See Appendix 20B for details</i>
Financing O&M					
17	iv	10	The Borrower and the States shall ensure sufficient funds shall be allocated to meet all operation and maintenance costs for all assets created under the Investment Program. (para. 10)	GOI, GoMe, GoMi, GoNa, GoSi & GoTr	
Social					
18	vi	20	India and the States will ensure that all land and right-of-way required for the Investment Program are made available in a timely manner, adequate compensations are provided prior to the signing of relevant civil works contracts, and involuntary resettlement is carried out in accordance with the Resettlement Framework (RF) and Resettlement Plans (RPs) agreed upon between the Government and ADB, the Government's National Policy on Resettlement and Rehabilitation, and ADB's Policy on Involuntary Resettlement (1995). An RP will be prepared for each sub-project involving land acquisition or resettlement and shall be submitted to ADB for review and approval prior to award of any related civil works contracts. For sample sub-projects, updated RPs will be provided to ADB for review and approval following detailed design and prior to award of civil contracts. (FFA)		
19	viii		India and the States will ensure that sub-projects will not negatively impact vulnerable groups, such as indigenous peoples. In the event of their involvement in any of the sub-projects, the GoI and the States will ensure that the sub-projects are carried out in accordance with the Indigenous Peoples Development Framework (IPDF) agreed upon between GoI and the States and ADB and comply with ADB's Policy on Indigenous Peoples (1998) and India's and the States' laws and regulations. (FFA)		
20		21	In the event any issues related to indigenous people arise in the course of Project implementation, the Borrower and the States shall ensure to address those issues in accordance with the applicable laws and policies of the Borrower, ADB's Policy on Indigenous Peoples (1998) and the Indigenous Peoples Development Framework for the Facility as agreed between the Borrower, the States and ADB and incorporated by	GOI, GoMe, GoMi, GoNa, GoSi & GoTr	

			Covenant Items	Agency	Compliance Status
			reference into Schedule 5 to the FFA. In the case of any discrepancy between the Borrower's legislation and ADB's policy, ADB's policy shall prevail. (para. 21)		
21	ix	24	GOI and the States will ensure that all civil works contractors comply with all applicable labor laws, including those on occupational health and safety, equal pay for work of equal value between men and women, and do not employ child labor as defined in national legislation for construction and maintenance activities. (para. 24)		
22	x	23	The Borrower and the States shall ensure to take all appropriate and necessary measures to encourage adequate representation of all sections of society in ULBs. (para. 23)	GOI, GoMe, GoMi, GoNa, GoSi & GoTr	
23	xii	22	The Borrower and each State shall ensure to fully implement the gender action plan for the Investment Program as it applies to the Project. (para. 22)	GOI, GoMe, GoMi, GoNa, GoSi & GoTr	
		25	Within six (6) months of the Effective Date, each State shall have established a grievance reporting and redressal mechanism. (para. 25)	GoMe, GoMi, GoNa, GoSi & GoTr	
Environmental					
24	vii	17 18	India and the States will ensure that the design, construction, operation and implementation of all sub-project facilities is carried out in accordance with the environmental assessment and review procedures and Initial Environmental Examinations (IEEs) for core sub-components agreed upon between the Government and ADB, and complies with the Government's environmental laws and regulations and ADB's Environment Policy (2002). Any adverse environmental impacts arising from the construction, operation and implementation of sub-component facilities will be minimized by implementing the environmental mitigation and management measures, and other recommendations specified in environmental assessment reports (e.g., IEEs). The Government will ensure environmental requirements will be incorporated in bidding documents and civil works contracts. Issuance of bid documents will be made after review and clearance of IEE/EIA by ADB and SEIAA or MOEF. GoI will prepare and submit annually to ADB an environmental monitoring report that describes progress in implementation of the EMP and EARP and issues encountered and measures adopted; and compliance with the relevant assurances and loan covenants. (FFA)		
Financial					
25		13	The Borrower and the States shall undertake, through their internal audit wing, annual financial audits, including the investigation of all financial records and transactions. (para. 13)	GOI, GoMe, GoMi, GoNa, GoSi & GoTr	

Checklist for Compliance with Major Undertaking and Loan Covenants
FFA Annex 1 - Urban Institutional, Financial, Regulatory, and Operational Reform Program

Date: _____

Executing Agency: Agartala

	Reform Program	Compliance Status
A	Institutional	
	Implement 74th Constitutional Amendment (CA) -Objective: Implementing decentralization measures through establishing and strengthening elected ULBs	
1	Within six months of loan effectiveness develop and submit a plan approved by the State Empowered Committee (SEC) containing (i) a situational assessment of the capacities of the various functional arms of the Urban Local Body (ULB) (ii) a time-bound ULB capacity development and resource program and (iii) a time-bound action plan for devolving further functions in a phased manner to ULBs in line with 74 th CAA and JNNURM ¹	
2	Within six months of 1 st tranche approval, develop and submit to MOUD and ADB an administrative, organizational, operational development strategy and plan approved by the SEC and the Agartala Municipal Council (AgMC including (a) finalization/ clarification of the jurisdictions, mandate, and power of zones/wards and their logistical requirements, (b) organizational structure of AgMC (considering also the expansion of boundaries of AgMC), its political and administrative wings, departments, sections, and their job descriptions, (c) asset management and operation systems development, and (d) personnel management and staff augmentation/ development.	
3	Within 3 years of 1 st tranche approval and prior to Tranche 3 approval (expected end 2011), all States must have (i) substantially devolved functions to their respective capital cities (for no less than those sectors supported under the Investment Program but also expected in other areas), (ii) adequately staffed engineering, administrative and financial sections of the ULBs, and allocated sufficient budget to initiate activities in newly established ULBs and (iii) transferred assets associated with these functions.	
B	Service Delivery	
	Reforms for Efficient and Financially Sustainable Water Supply and Sewerage Service Providers	
4	Within one year of 1 st tranche approval, restructure PHED/AgMC (as per agreed model) and create one single city ring fenced area headed by a senior officer with control over city water and sewerage operations as well as separate accounting and balance sheet.	
5	Issue order to use double entry accounting, asset inventory and asset management in the circle within two years of 1 st tranche approval and implement within 1 year of WS subprojects approval (expected 2 nd tranche).	
6	Develop performance improvement plans within one year of approval for WSS subprojects and start implementing them.	
7	Within two years of 2 nd tranche approval, commence implementation of selected options of financially self sustainable, efficient and commercially operated water and	

¹ Depending on the level of municipalization in each city, the following activities may need to be considered in the preparation of the action plans: (1) Formation of Core Group/ Task Force for carrying out reform and constitution of Municipalities; (2) Framing the Rules under Municipal Act for day-to-day administration; (3) Issuance of an executive order for constituting a municipality; (4) Agreeing on general principles of demarcating municipal boundaries and wards; (5) Making amendment in Municipality Act as per 74th CAA; (6) Issuance of Government orders/Notification of Transfer of functions listed under 12th Schedule of 74th CAA; (7) Framing Rules for Ward Delimitation; (8) Conduct Municipal Election; (9) Agreeing on a proposed staffing and reporting structure and manpower requirements and recommend to State Finance Commission; (10) Constitute State Finance Commission and its recommendation implemented; (11) Send recommendations to the State Finance Commission for allocation of municipal budgets; (12) Fixing of cadre strength and responsibilities for various levels of officers; (13) Recruitment of officers and staff with appropriate skills and qualification or transfer from state line departments; (14) Imparting of short term training to newly recruited staff and officers and transferred staff towards municipal council's operations; (15) Complete transfer of functions to municipal council and (16) Transfer of assets to municipal council.

	Reform Program	Compliance Status
	sewerage agency and start consultations with stakeholders including ADB on options available.	
8	Within 1 year of 2 nd tranche approval, and based on the results of the PSP study, conduct consultations and develop a plan and proposals for components with potential for PSP.	
9	Within four years of tranche approval of WS subprojects, approve appropriate arrangements/laws for regulating the water service providers	
	Improved Operational Efficiency	
10	Prior to loan effectiveness, issue Government Order to implement a NRW reduction program, as well as a bulk and consumer metering program, and commence implementation within 6 months of 1st tranche approval.	
	Regulatory Compliance	
11	In States whose capital cities receive funds from the MFF for subprojects in the sewerage and sanitation sector, the States will approve, within six months of tranche approval (generally 3 rd), regulations to (a) enforce those households with access to a sewerage pipeline to connect to the sewerage system within one year of network completion; (b) enforce all households not to discharge their sanitary waste without treatment and maintain their septic tanks in specified levels of efficiency; (c) require new buildings to obtain a sanitary waste discharge permit; and (d) enforce generators of large quantities of wastes such as industries not to discharge their wastes without treatment and to maintain their discharges at specified levels of efficiency.	
12	In States whose cities receive funds from the Facility for subprojects in the solid waste management sector, the States will approve, at the latest by the commencement of civil works, regulations regarding (a) the discharge of solid wastes; (b) the separation of wastes and disposal of hazardous wastes; (c) the installation of improved procedures for vehicle routing, asset control and staff management; and (d) establishment of operations and maintenance procedures for vehicles and other equipment; (e) the monitoring of waste collection and treatment, revenues and costs, staff costs, and other inputs.	
C	Financial	
	Municipal Financial Management	
13	Within 2 years of 1 st tranche approval for Agartala and Shillong, and within 2 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, capital cities will have completed migration to an accrual based double entry accounting system. ²	
	Property Tax Improvements	
14	Within 18 months of 1st tranche approval, Agartala will have implemented property tax reforms, including preparation of GIS based property mapping, unit area based and self assessment based property tax system whilst Shillong will have updated its system and retrained staff.	
15	Within 3 years of 1 st tranche approval for Agartala and Shillong, and 3 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, collection efficiency should be no less than 60%, and 85% one year later.	
	Introduction and Rationalization of User Charges	
16	Within 1 year of 1 st tranche approval, develop (with guidance from Supplementary Appendix M plan) and submit a Financial Action Plan to ensure improved utility financial performance.	
17	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement solid waste collection charges to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created SWM assets and services	
18	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement volumetric water charges with regular adjustments to tariffs to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created water and sewerage assets.	

² This will include, amongst other, (1) Completion and adoption of accounting manual, (2) passing of GO/Legislation/Modification of Municipal Finance rules for migrating to double entry accounting system, (3) Training of personnel, (4) Undertaking of Business process re-engineering, (5) Valuation of assets and liabilities, (6) Drawing up of opening balance sheet, and (7) Drawing up of opening balance sheet.

Checklist for Compliance with Major Undertaking and Loan Covenants
FFA Annex 1 - Urban Institutional, Financial, Regulatory, and Operational Reform Program

Date: _____

Executing Agency: **Kohima**

	Reform Program	Compliance Status
A	Institutional	
	Implement 74th Constitutional Amendment (CA) -Objective: Implementing decentralization measures through establishing and strengthening elected ULBs	
1	Within six months of loan effectiveness develop and submit a plan approved by the State Empowered Committee (SEC) containing (i) a situational assessment of the capacities of the various functional arms of the Urban Local Body (ULB) (ii) a time-bound ULB capacity development and resource program and (iii) a time-bound action plan for devolving further functions in a phased manner to ULBs in line with 74 th CAA and JNNURM ¹	
2	Within six months of 1 st tranche approval, develop and submit to MOUD and ADB an action plan approved by the SEC to gradually transfer to KMC responsibility and resources for urban functions and to build necessary capacities, including developing administrative, organizational, operational, and financial systems, and staffing.	
3	Within one year of 1 st tranche approval, develop a time-bound plan approved by the SEC to carefully integrate the traditional systems, e.g., panchayats and gaon buras into the Kohima Municipal (KMC) and the ward set up	
4	Within 3 years of 1 st tranche approval and prior to Tranche 3 approval (expected end 2011), all States must have (i) substantially devolved functions to their respective capital cities (for no less than those sectors supported under the Investment Program but also expected in other areas), (ii) adequately staffed engineering, administrative and financial sections of the ULBs, and allocated sufficient budget to initiate activities in newly established ULBs and (iii) transferred assets associated with these functions.	
B	Service Delivery	
	Reforms for Efficient and Financially Sustainable Water Supply and Sewerage Service Providers	
5	Within one year of 1 st tranche approval, restructure PHED/KMC (as per agreed model) and create one single city ring fenced area headed by a senior officer with control over city water and sewerage operations as well as separate accounting and balance sheet.	
6	Issue order to use double entry accounting, asset inventory and asset management in the circle within three years of 1 st tranche approval and implement within 1 year of WS subprojects approval (expected 2 nd tranche).	
7	Develop performance improvement plans within one year of approval for WSS subprojects and start implementing them.	
8	Within two years of 2 nd tranche approval, commence implementation of selected options of financially self sustainable, efficient and commercially operated water and sewerage agency and start consultations with stakeholders including ADB on options available.	
9	Within 1 year of 2 nd tranche approval, and based on the results of the PSP study, conduct consultations and develop a plan and proposals for components with	

¹ Depending on the level of municipalization in each city, the following activities may need to be considered in the preparation of the action plans: (1) Formation of Core Group/ Task Force for carrying out reform and constitution of Municipalities; (2) Framing the Rules under Municipal Act for day-to-day administration; (3) Issuance of an executive order for constituting a municipality; (4) Agreeing on general principles of demarcating municipal boundaries and wards; (5) Making amendment in Municipality Act as per 74th CAA; (6) Issuance of Government orders/Notification of Transfer of functions listed under 12th Schedule of 74th CAA; (7) Framing Rules for Ward Delimitation; (8) Conduct Municipal Election; (9) Agreeing on a proposed staffing and reporting structure and manpower requirements and recommend to State Finance Commission; (10) Constitute State Finance Commission and its recommendation implemented; (11) Send recommendations to the State Finance Commission for allocation of municipal budgets; (12) Fixing of cadre strength and responsibilities for various levels of officers; (13) Recruitment of officers and staff with appropriate skills and qualification or transfer from state line departments; (14) Imparting of short term training to newly recruited staff and officers and transferred staff towards municipal council's operations; (15) Complete transfer of functions to municipal council and (16) Transfer of assets to municipal council.

	Reform Program	Compliance Status
	potential for PSP.	
10	Within four years of tranche approval of WS subprojects, approve appropriate arrangements/laws for regulating the water service providers	
	Improved Operational Efficiency	
11	Prior to loan effectiveness, issue Government Order to implement a NRW reduction program, as well as a bulk and consumer metering program, and commence implementation within 6 months of 1st tranche approval.	
	Regulatory Compliance	
12	In States whose capital cities receive funds from the MFF for subprojects in the sewerage and sanitation sector, the States will approve, within six months of tranche approval (generally 3 rd), regulations to (a) enforce those households with access to a sewerage pipeline to connect to the sewerage system within one year of network completion; (b) enforce all households not to discharge their sanitary waste without treatment and maintain their septic tanks in specified levels of efficiency; (c) require new buildings to obtain a sanitary waste discharge permit; and (d) enforce generators of large quantities of wastes such as industries not to discharge their wastes without treatment and to maintain their discharges at specified levels of efficiency.	
13	In States whose cities receive funds from the Facility for subprojects in the solid waste management sector, the States will approve, at the latest by the commencement of civil works, regulations regarding (a) the discharge of solid wastes; (b) the separation of wastes and disposal of hazardous wastes; (c) the installation of improved procedures for vehicle routing, asset control and staff management; and (d) establishment of operations and maintenance procedures for vehicles and other equipment; (e) the monitoring of waste collection and treatment, revenues and costs, staff costs, and other inputs.	
C	Financial	
	Municipal Financial Management	
14	Within 2 years of 1 st tranche approval for Agartala and Shillong, and within 2 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, capital cities will have completed migration to an accrual based double entry accounting system. ²	
	Property Tax Improvements	
15	Within 18 months of 2nd tranche approval, Aizawl, Gangtok and Kohima will have introduced property tax, following the unit area based and self assessment based property tax system.	
16	Within 3 years of 1 st tranche approval for Agartala and Shillong, and 3 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, collection efficiency should be no less than 60%, and 85% one year later.	
	Introduction and Rationalization of User Charges	
17	Within 1 year of 1 st tranche approval, develop (with guidance from Supplementary Appendix M plan) and submit a Financial Action Plan to ensure improved utility financial performance.	
18	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement solid waste collection charges to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created SWM assets and services	
19	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement volumetric water charges with regular adjustments to tariffs to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created water and sewerage assets.	

² This will include, amongst other, (1) Completion and adoption of accounting manual, (2) passing of GO/Legislation/Modification of Municipal Finance rules for migrating to double entry accounting system, (3) Training of personnel, (4) Undertaking of Business process re-engineering, (5) Valuation of assets and liabilities, (6) Drawing up of opening balance sheet, and (7) Drawing up of opening balance sheet.

Checklist for Compliance with Major Undertaking and Loan Covenants
FFA Annex 1 - Urban Institutional, Financial, Regulatory, and Operational Reform Program

Date: _____

Executing Agency: **Aizawl**

	Reform Program	Compliance Status
A	Institutional	
	Implement 74th Constitutional Amendment (CA) -Objective: Implementing decentralization measures through establishing and strengthening elected ULBs	
1	Within six months of loan effectiveness develop and submit a plan approved by the State Empowered Committee (SEC) containing (i) a situational assessment of the capacities of the various functional arms of the Urban Local Body (ULB) (ii) a time-bound ULB capacity development and resource program and (iii) a time-bound action plan for devolving further functions in a phased manner to ULBs in line with 74 th CAA and JNNURM ¹	
2	Within six months of 1 st tranche approval establish an administrative arm the ULB, including an acting CEO, accounting and engineering units. Transfer/reallocate staff as necessary.	
3	Within one year of 1 st tranche approval organize Aizawl Municipal Council (AiMC) elections.	
4	Within two years of 1 st tranche approval Review the role of village councils and develop a plan to integrate them within the new AiMC structure e.g., as sub-municipal units	
5	Within 3 years of 1 st tranche approval and prior to Tranche 3 approval (expected end 2011), all States must have (i) substantially devolved functions to their respective capital cities (for no less than those sectors supported under the Investment Program but also expected in other areas), (ii) adequately staffed engineering, administrative and financial sections of the ULBs, and allocated sufficient budget to initiate activities in newly established ULBs and (iii) transferred assets associated with these functions.	
B	Service Delivery	
	Reforms for Efficient and Financially Sustainable Water Supply and Sewerage Service Providers	
6	Within one year of 1 st tranche approval, restructure PHED/AiMC (as per agreed model) and create one single city ring fenced area headed by a senior officer with control over city water and sewerage operations as well as separate accounting and balance sheet.	
7	Issue order to use double entry accounting, asset inventory and asset management in the circle within three years of 1 st tranche approval and implement within 1 year of WS subprojects approval (expected 2 nd tranche).	
8	Develop performance improvement plans within one year of approval for WSS subprojects and start implementing them.	
9	Within two years of 2 nd tranche approval, commence implementation of selected options of financially self sustainable, efficient and commercially operated water and sewerage agency and start consultations with stakeholders including ADB on options available.	
10	Within 1 year of 2 nd tranche approval, and based on the results of the PSP study,	

¹ Depending on the level of municipalization in each city, the following activities may need to be considered in the preparation of the action plans: (1) Formation of Core Group/ Task Force for carrying out reform and constitution of Municipalities; (2) Framing the Rules under Municipal Act for day-to-day administration; (3) Issuance of an executive order for constituting a municipality; (4) Agreeing on general principles of demarcating municipal boundaries and wards; (5) Making amendment in Municipality Act as per 74th CAA; (6) Issuance of Government orders/Notification of Transfer of functions listed under 12th Schedule of 74th CAA; (7) Framing Rules for Ward Delimitation; (8) Conduct Municipal Election; (9) Agreeing on a proposed staffing and reporting structure and manpower requirements and recommend to State Finance Commission; (10) Constitute State Finance Commission and its recommendation implemented; (11) Send recommendations to the State Finance Commission for allocation of municipal budgets; (12) Fixing of cadre strength and responsibilities for various levels of officers; (13) Recruitment of officers and staff with appropriate skills and qualification or transfer from state line departments; (14) Imparting of short term training to newly recruited staff and officers and transferred staff towards municipal council's operations; (15) Complete transfer of functions to municipal council and (16) Transfer of assets to municipal council.

	Reform Program	Compliance Status
	conduct consultations and develop a plan and proposals for components with potential for PSP.	
11	Within four years of tranche approval of WS subprojects, approve appropriate arrangements/laws for regulating the water service providers	
	Improved Operational Efficiency	
12	Prior to loan effectiveness, issue Government Order to implement a NRW reduction program, as well as a bulk and consumer metering program, and commence implementation within 6 months of 1st tranche approval.	
	Regulatory Compliance	
13	In States whose capital cities receive funds from the MFF for subprojects in the sewerage and sanitation sector, the States will approve, within six months of tranche approval (generally 3 rd), regulations to (a) enforce those households with access to a sewerage pipeline to connect to the sewerage system within one year of network completion; (b) enforce all households not to discharge their sanitary waste without treatment and maintain their septic tanks in specified levels of efficiency; (c) require new buildings to obtain a sanitary waste discharge permit; and (d) enforce generators of large quantities of wastes such as industries not to discharge their wastes without treatment and to maintain their discharges at specified levels of efficiency.	
14	In States whose cities receive funds from the Facility for subprojects in the solid waste management sector, the States will approve, at the latest by the commencement of civil works, regulations regarding (a) the discharge of solid wastes; (b) the separation of wastes and disposal of hazardous wastes; (c) the installation of improved procedures for vehicle routing, asset control and staff management; and (d) establishment of operations and maintenance procedures for vehicles and other equipment; (e) the monitoring of waste collection and treatment, revenues and costs, staff costs, and other inputs.	
C	Financial	
	Municipal Financial Management	
15	Within 2 years of 1 st tranche approval for Agartala and Shillong, and within 2 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, capital cities will have completed migration to an accrual based double entry accounting system. ²	
	Property Tax Improvements	
16	Within 18 months of 2nd tranche approval, Aizawl, Gangtok and Kohima will have introduced property tax, following the unit area based and self assessment based property tax system.	
17	Within 3 years of 1 st tranche approval for Agartala and Shillong, and 3 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, collection efficiency should be no less than 60%, and 85% one year later.	
	Introduction and Rationalization of User Charges	
18	Within 1 year of 1 st tranche approval, develop (with guidance from Supplementary Appendix M plan) and submit a Financial Action Plan to ensure improved utility financial performance.	
19	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement solid waste collection charges to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created SWM assets and services	
20	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement volumetric water charges with regular adjustments to tariffs to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created water and sewerage assets.	

² This will include, amongst other, (1) Completion and adoption of accounting manual, (2) passing of GO/Legislation/Modification of Municipal Finance rules for migrating to double entry accounting system, (3) Training of personnel, (4) Undertaking of Business process re-engineering, (5) Valuation of assets and liabilities, (6) Drawing up of opening balance sheet, and (7) Drawing up of opening balance sheet.

Checklist for Compliance with Major Undertaking and Loan Covenants
FFA Annex 1 - Urban Institutional, Financial, Regulatory, and Operational Reform Program

Date: _____

Executing Agency: **Shillong**

	Reform Program	Compliance Status
A	Institutional	
	Implement 74th Constitutional Amendment (CA) -Objective: Implementing decentralization measures through establishing and strengthening elected ULBs	
1	Within six months of loan effectiveness develop and submit a plan approved by the State Empowered Committee (SEC) containing (i) a situational assessment of the capacities of the various functional arms of the Urban Local Body (ULB) (ii) a time-bound ULB capacity development and resource program and (iii) a time-bound action plan for devolving further functions in a phased manner to ULBs in line with 74 th CAA and JNNURM ¹	
2	Within two years of 1 st tranche approval, install an elected urban local body in the Shillong Municipal Board (SMB) Area.	
3	Within one year of 1 st tranche approval, conduct a public debate, involving all stakeholders, on the need for an urban governance set up for the Greater Shillong area. Submit a report to ADB and MOUD.	
4	Within four years of 1 st tranche approval, finalize the urban governance arrangements for the Greater Shillong area and integrate the traditional governance structures into the urban governance framework.	
5	Within 3 years of 1 st tranche approval and prior to Tranche 3 approval (expected end 2011), all States must have (i) substantially devolved functions to their respective capital cities (for no less than those sectors supported under the Investment Program but also expected in other areas), (ii) adequately staffed engineering, administrative and financial sections of the ULBs, and allocated sufficient budget to initiate activities in newly established ULBs and (iii) transferred assets associated with these functions.	
B	Service Delivery	
	Reforms for Efficient and Financially Sustainable Water Supply and Sewerage Service Providers	
6	Within 18 months of 1 st tranche approval, restructure PHED/SMB (as per agreed model) and create one single city ring fenced area headed by a senior officer with control over city water and sewerage operations as well as separate accounting and balance sheet.	
7	Issue order to use double entry accounting, asset inventory and asset management in the circle within two years of 1 st tranche approval and implement within 1 year of WS subprojects approval (expected 2 nd tranche).	
8	Develop performance improvement plans within one year of approval for WSS subprojects and start implementing them.	
9	Within two years of 2 nd tranche approval, commence implementation of selected options of financially self sustainable, efficient and commercially operated water and sewerage agency and start consultations with stakeholders including ADB on options available.	
10	Within 1 year of 2 nd tranche approval, and based on the results of the PSP study,	

¹ Depending on the level of municipalization in each city, the following activities may need to be considered in the preparation of the action plans: (1) Formation of Core Group/ Task Force for carrying out reform and constitution of Municipalities; (2) Framing the Rules under Municipal Act for day-to-day administration; (3) Issuance of an executive order for constituting a municipality; (4) Agreeing on general principles of demarcating municipal boundaries and wards; (5) Making amendment in Municipality Act as per 74th CAA; (6) Issuance of Government orders/Notification of Transfer of functions listed under 12th Schedule of 74th CAA; (7) Framing Rules for Ward Delimitation; (8) Conduct Municipal Election; (9) Agreeing on a proposed staffing and reporting structure and manpower requirements and recommend to State Finance Commission; (10) Constitute State Finance Commission and its recommendation implemented; (11) Send recommendations to the State Finance Commission for allocation of municipal budgets; (12) Fixing of cadre strength and responsibilities for various levels of officers; (13) Recruitment of officers and staff with appropriate skills and qualification or transfer from state line departments; (14) Imparting of short term training to newly recruited staff and officers and transferred staff towards municipal council's operations; (15) Complete transfer of functions to municipal council and (16) Transfer of assets to municipal council.

	Reform Program	Compliance Status
	conduct consultations and develop a plan and proposals for components with potential for PSP.	
11	Within four years of tranche approval of WS subprojects, approve appropriate arrangements/laws for regulating the water service providers	
	Improved Operational Efficiency	
12	Prior to loan effectiveness, issue Government Order to implement a NRW reduction program, as well as a bulk and consumer metering program, and commence implementation within 6 months of 1st tranche approval.	
	Regulatory Compliance	
13	In States whose capital cities receive funds from the MFF for subprojects in the sewerage and sanitation sector, the States will approve, within six months of tranche approval (generally 3 rd), regulations to (a) enforce those households with access to a sewerage pipeline to connect to the sewerage system within one year of network completion; (b) enforce all households not to discharge their sanitary waste without treatment and maintain their septic tanks in specified levels of efficiency; (c) require new buildings to obtain a sanitary waste discharge permit; and (d) enforce generators of large quantities of wastes such as industries not to discharge their wastes without treatment and to maintain their discharges at specified levels of efficiency.	
14	In States whose cities receive funds from the Facility for subprojects in the solid waste management sector, the States will approve, at the latest by the commencement of civil works, regulations regarding (a) the discharge of solid wastes; (b) the separation of wastes and disposal of hazardous wastes; (c) the installation of improved procedures for vehicle routing, asset control and staff management; and (d) establishment of operations and maintenance procedures for vehicles and other equipment; (e) the monitoring of waste collection and treatment, revenues and costs, staff costs, and other inputs.	
C	Financial	
	Municipal Financial Management	
15	Within 2 years of 1 st tranche approval for Agartala and Shillong, and within 2 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, capital cities will have completed migration to an accrual based double entry accounting system. ²	
	Property Tax Improvements	
16	Within 18 months of 1 st tranche approval, Agartala will have implemented property tax reforms, including preparation of GIS based property mapping, unit area based and self assessment based property tax system whilst Shillong will have updated its system and retrained staff.	
17	Within 3 years of 1 st tranche approval for Agartala and Shillong, and 3 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, collection efficiency should be no less than 60%, and 85% one year later.	
	Introduction and Rationalization of User Charges	
18	Within 1 year of 1 st tranche approval, develop (with guidance from Supplementary Appendix M plan) and submit a Financial Action Plan to ensure improved utility financial performance.	
19	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement solid waste collection charges to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created SWM assets and services	
20	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement volumetric water charges with regular adjustments to tariffs to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created water and sewerage assets.	

² This will include, amongst other, (1) Completion and adoption of accounting manual, (2) passing of GO/Legislation/Modification of Municipal Finance rules for migrating to double entry accounting system, (3) Training of personnel, (4) Undertaking of Business process re-engineering, (5) Valuation of assets and liabilities, (6) Drawing up of opening balance sheet, and (7) Drawing up of opening balance sheet.

**Checklist for Compliance with Major Undertaking and Loan Covenants
FFA Annex 1 - Urban Institutional, Financial, Regulatory, and Operational Reform Program**

Date: _____

Executing Agency: **Gangtok**

	Reform Program	Compliance Status
A	Institutional	
	Implement 74th Constitutional Amendment (CA) -Objective: Implementing decentralization measures through establishing and strengthening elected ULBs	
1	Within six months of loan effectiveness develop and submit a plan approved by the State Empowered Committee (SEC) containing (i) a situational assessment of the capacities of the various functional arms of the Urban Local Body (ULB) (ii) a time-bound ULB capacity development and resource program and (iii) a time-bound action plan for devolving further functions in a phased manner to ULBs in line with 74 th CAA and JNNURM ¹	
2	Within six months of 1 st tranche approval establish an administrative arm of the Gangtok Municipal Council (GMC), including an acting CEO, accounting and engineering units. Transfer/reallocate staff as necessary.	
3	Within one year of tranche approval organize GMC elections.	
4	Within 3 years of 1 st tranche approval and prior to Tranche 3 approval (expected end 2011), all States must have (i) substantially devolved functions to their respective capital cities (for no less than those sectors supported under the Investment Program but also expected in other areas), (ii) adequately staffed engineering, administrative and financial sections of the ULBs, and allocated sufficient budget to initiate activities in newly established ULBs and (iii) transferred assets associated with these functions.	
B	Service Delivery	
	Reforms for Efficient and Financially Sustainable Water Supply and Sewerage Service Providers	
5	Within one year of 1 st tranche approval, restructure PHED and create one single city ring fenced area (as per agreed model) headed by a senior officer with control over city water and sewerage operations as well as separate accounting and balance sheet.	
6	Issue order to use double entry accounting, asset inventory and asset management in the Circle within three years of 1 st tranche approval and implement within 1 year of WS subprojects approval (expected 1 st tranche).	
7	Develop performance improvement plans within one year of approval for WSS subprojects and start implementing them.	
8	Within two years of 2 nd tranche approval, commence implementation of selected options of financially self sustainable, efficient and commercially operated water and sewerage agency and start consultations with stakeholders including ADB on options available.	
9	Within 1 year of 2 nd tranche approval, and based on the results of the PSP study, conduct consultations and develop a plan and proposals for components with potential for PSP.	
10	Within four years of tranche approval of WS subprojects, approve appropriate arrangements/laws for regulating the water service providers	

¹ Depending on the level of municipalization in each city, the following activities may need to be considered in the preparation of the action plans: (1) Formation of Core Group/ Task Force for carrying out reform and constitution of Municipalities; (2) Framing the Rules under Municipal Act for day-to-day administration; (3) Issuance of an executive order for constituting a municipality; (4) Agreeing on general principles of demarcating municipal boundaries and wards; (5) Making amendment in Municipality Act as per 74th CAA; (6) Issuance of Government orders/Notification of Transfer of functions listed under 12th Schedule of 74th CAA; (7) Framing Rules for Ward Delimitation; (8) Conduct Municipal Election; (9) Agreeing on a proposed staffing and reporting structure and manpower requirements and recommend to State Finance Commission; (10) Constitute State Finance Commission and its recommendation implemented; (11) Send recommendations to the State Finance Commission for allocation of municipal budgets; (12) Fixing of cadre strength and responsibilities for various levels of officers; (13) Recruitment of officers and staff with appropriate skills and qualification or transfer from state line departments; (14) Imparting of short term training to newly recruited staff and officers and transferred staff towards municipal council's operations; (15) Complete transfer of functions to municipal council and (16) Transfer of assets to municipal council.

	Reform Program	Compliance Status
	Improved Operational Efficiency	
11	Prior to loan effectiveness, issue Government Order to implement a NRW reduction program, as well as a bulk and consumer metering program, and commence implementation within 6 months of 1st tranche approval.	
	Regulatory Compliance	
12	In States whose capital cities receive funds from the MFF for subprojects in the sewerage and sanitation sector, the States will approve, within six months of tranche approval (generally 3 rd), regulations to (a) enforce those households with access to a sewerage pipeline to connect to the sewerage system within one year of network completion; (b) enforce all households not to discharge their sanitary waste without treatment and maintain their septic tanks in specified levels of efficiency; (c) require new buildings to obtain a sanitary waste discharge permit; and (d) enforce generators of large quantities of wastes such as industries not to discharge their wastes without treatment and to maintain their discharges at specified levels of efficiency.	
13	In States whose cities receive funds from the Facility for subprojects in the solid waste management sector, the States will approve, at the latest by the commencement of civil works, regulations regarding (a) the discharge of solid wastes; (b) the separation of wastes and disposal of hazardous wastes; (c) the installation of improved procedures for vehicle routing, asset control and staff management; and (d) establishment of operations and maintenance procedures for vehicles and other equipment; (e) the monitoring of waste collection and treatment, revenues and costs, staff costs, and other inputs.	
C	Financial	
	Municipal Financial Management	
14	Within 2 years of 1 st tranche approval for Agartala and Shillong, and within 2 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, capital cities will have completed migration to an accrual based double entry accounting system. ²	
	Property Tax Improvements	
15	Within 18 months of 2nd tranche approval, Aizawl, Gangtok and Kohima will have introduced property tax, following the unit area based and self assessment based property tax system.	
16	Within 3 years of 1 st tranche approval for Agartala and Shillong, and 3 years of 2 nd tranche approval for Aizawl, Gangtok and Kohima, collection efficiency should be no less than 60%, and 85% one year later.	
	Introduction and Rationalization of User Charges	
17	Within 1 year of 1 st tranche approval, develop (with guidance from Supplementary Appendix M plan) and submit a Financial Action Plan to ensure improved utility financial performance.	
18	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement solid waste collection charges to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created SWM assets and services	
19	In line with JNNURM's MOA, within 1 year of 3rd tranche approval, implement volumetric water charges with regular adjustments to tariffs to generate sufficient revenues to meet 100% of the cost that is incurred in undertaking O&M of existing and project-created water and sewerage assets.	

² This will include, amongst other, (1) Completion and adoption of accounting manual, (2) passing of GO/Legislation/Modification of Municipal Finance rules for migrating to double entry accounting system, (3) Training of personnel, (4) Undertaking of Business process re-engineering, (5) Valuation of assets and liabilities, (6) Drawing up of opening balance sheet, and (7) Drawing up of opening balance sheet.