

## I. PROGRAM DESCRIPTION

1. **Project Area and Location.** The NERCCDIP has been designed to improve the urban environment and promote reforms for sustainable, efficient, and responsive urban service delivery in the capital cities of five states in the North Eastern Region (NER), namely Agartala (Tripura), Aizawl (Mizoram), Gangtok (Sikkim), Kohima (Nagaland), and Shillong (Meghalaya). The physical investments include improvements to water supply, sanitation and sewerage, and solid waste management infrastructure. Physical improvements will be coupled with urban governance, finance, and service delivery reforms and a capacity building program to support the implementation of the investment program and the urban reform agenda.
2. **Project Appraisal Report and Loan Documents.** The Project was appraised by ADB in the form of the **Report and Recommendation of the President to the Board of Directors (RRP, Appendix 1)**. On financing the project activities, the Government of India, the executing agencies, and ADB entered into the **Framework Financing Agreement (FFA, Appendix 2)**, the **Loan Agreement (Appendix 3)** and the **Project Agreements (Appendix 4)** in response to the **First Periodic Financing Request (PFR1, Appendix 5)**.
3. **Design and Monitoring Framework (DMF).** Refer to **FFA, Schedule 2** and **PFR1, Annex 4** for the DMF that describe project goal, outcomes, outputs, and activities/inputs for the whole investment program and Project 1, respectively.

## II. COST ESTIMATES AND FINANCING PLAN

### A. Cost Estimate of Investment Program

4. The cost of the entire investment plan for water, sewerage and sanitation and solid waste management in the five capital cities of NER for the next 20 years period is estimated at \$1.1 billion, out of which the estimated cost of NERCCDIP is \$285.7 million (Table 1). Detailed cost estimates are in **Appendix 6**.

**Table 1: Program Investment Plan**  
(\$ million)

Items	Amount	Percentage
<b>A. Base Cost<sup>a</sup></b>		
<b>1. Urban Infrastructure and Service Improvement</b>		
a. Water Supply	73.8	25.8
b. Wastewater Management	83.4	29.2
c. Solid-Waste Management	16.0	5.6
<b>2. Capacity Development and Investment Program Management</b>		
a. Capacity Building	5.9	2.1
b. Investment Program Management	18.8	6.6
<b>3. Taxes and Duties</b>	26.8	9.4
<b>Subtotal (A)</b>	224.7	78.6
<b>B. Contingencies<sup>b</sup></b>	31.9	11.2
<b>C. Financing Charges During Implementation<sup>c</sup></b>	29.1	10.2
<b>Total (A+B+C)</b>	285.7	100.0

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> In end 2008 prices. Purchasing power parity was used as the base assumption in forecasting foreign exchange rates during project implementation years, as suggested in ADB. 2002. *Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank*. Manila.

<sup>b</sup> Physical contingencies computed at 10% for civil works; and 5% for equipment. Price contingencies were computed at 0.5% for domestic inflation and 0.4%–1.4% for international inflation.

<sup>c</sup> Includes interest and commitment charges. Financing charges assume an interest rate computed at the 6-month London interbank offered rate, a spread of 20 basis points, and a commitment fee of 0.15%. Available: <http://www.adb.org/Media/Articles/2007/12313-asian-loans-charges/>  
Source: Asian Development Bank estimates.

## B. Financing for Investment Program

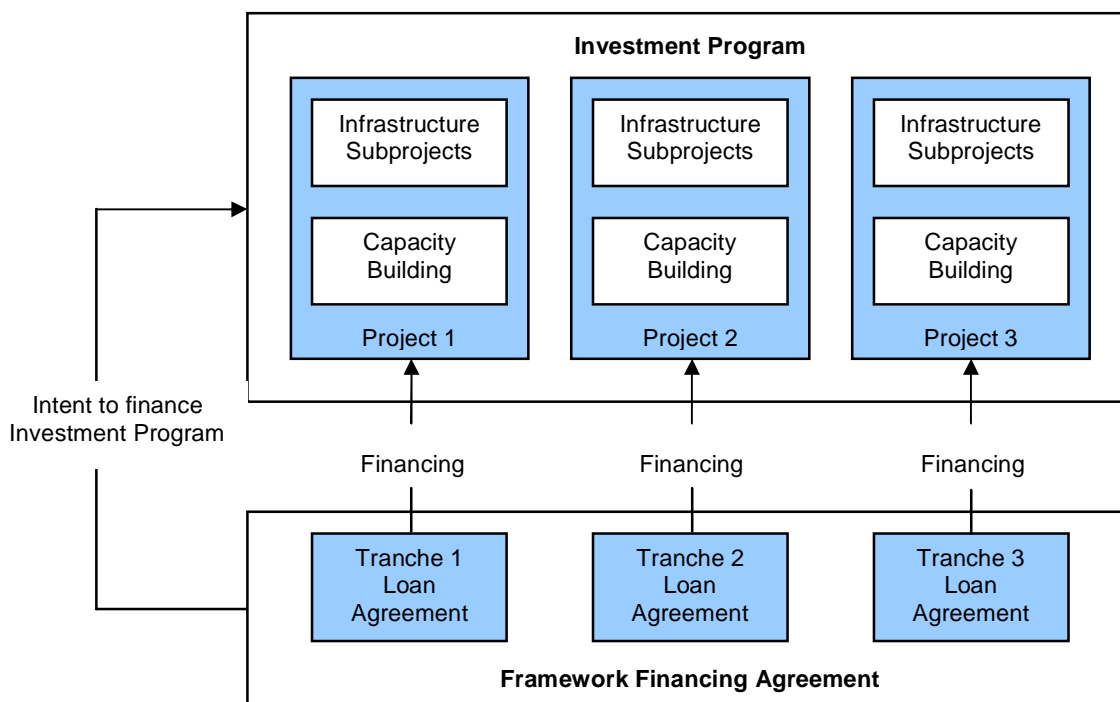
5. **Multitranche Financing Facility.** ADB will provide financing up to an equivalent of \$200 million from ADB's ordinary capital resources to help finance the Investment Program. The financing will be provided under an MFF in accordance with ADB policy.<sup>1</sup> The FFA outlines the specific terms and conditions under which succeeding tranches will be made as well as the first periodic financing request (PFR) in an amount of \$30.0 million of ADB loan and a total cost of \$42.8 million. The minimum amount of subsequent PFRs is \$30 million.

**Table 2: Financing Plan**  
(\$ million)

Source	Total	%
Asian Development Bank	200.0	70.0
Government of India and states governments	85.7	30.0
<b>Investment Program Total</b>	<b>285.7</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

**Diagram 1: Financing Structure under MFF**



<sup>1</sup> According to MFF guidelines (ADB. 2008. *Operations Manual* Section D14/BP: Multitranche Financing Facility. Manila), the MFF will extend several loans to finance a range of subprojects under NERCCDIP, subject to the submission of a related PFR by the Government and the execution of the related loan and project agreements.

6. **Tranches under MFF.** ADB will provide loans under the MFF as soon as the projects are ready for financing and upon submission of a satisfactory related PFR. Each loan will constitute a tranche and may carry terms different from the financing terms of previous or later loans. The choice of financing terms will depend on the project and ADB's financing policies at the time the loan is documented in a legal document. Tranches may be provided in sequence or simultaneously, and may overlap. The Government will provide the proceeds of each tranche to MOUD and each state to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in the FFA and the loan agreements for each tranche.

7. The ADB loans under the MFF will finance civil works, equipment, consulting services, and capacity building costs. All the provisions of the ordinary operations loan regulations applicable to London interbank offered rate (LIBOR)-based loans dated 1 July 2001 will apply to each loan, subject to any modifications that may be included in any loan agreements. The Government has the option to choose between eligible currencies and interest rate regimes for each loan. The specific terms of each loan will be based upon the related PFR with interest determined in accordance with ADB's LIBOR-based lending facilities.

8. Each PFR will have been technically prepared, financially appraised, and processed in compliance with the applicable social and safeguard frameworks. Each PFR will specify the tranche amount, the conversion instruments, the financing terms, cost estimates and financing plan, implementation arrangements, advance contracting, and the amount and purpose of retroactive financing.

9. The Government will submit to ADB, along with the PFR, the summaries of feasibility studies and engineering designs (as necessary), terms of reference for the engagement of advisors, results of any advance actions, and relevant economic and financial assessments. Each PFR will refer to and attach the procurement plan and the appropriate safeguard documents, including safeguard plans required under the safeguard frameworks prepared for the MFF. Each PFR will confirm that the general understandings under the FFA remain true and will describe the client's compliance with the undertakings.

10. **Commitment Charges.** Commitment charges are not payable on the MFF. They are payable only on financing actually committed by ADB as a loan. ADB rules on commitment charges, which are in effect when a tranche is provided, will apply with respect to such tranche, as per related loan and project agreements.

### **C. Cost Estimates and Financing Plan of the Project 1**

11. Project 1 is estimated to cost the equivalent of \$42.8 million (Table 3), including taxes and duties of \$4.2 million equivalent. It will cover consultancies for design, construction supervision and management; and civil works and equipment pertaining to (i) emergency works and (ii) the implementation of 2 small sample subprojects (water supply in Gangtok and solid waste management in Kohima). A loan of \$30 million has been provided from ADB's ordinary capital resources to cover part of the cost of Project 1. The ADB loan will have a term of 25 years, including a grace period of 5 years, with interest rate to be determined according to ADB's LIBOR-based lending facility, a commitment charge of 0.15% per annum, and such other terms and conditions as agreed in the FFA, and the loan and project agreements. The detailed cost estimates and financing plan are in **PFR1, Annex 2**.

**Table 3: Cost Estimates and Financing Plan for Project 1**  
(\$ million)

Items	ADB	India	Total
<b>A. Base Cost</b>			
1. Urban Infrastructure and Service Improvement	10.5	3.2	13.7
2. Capacity Development and Investment Program Management	16.9	0.1	17.0
3. Taxes and Duties	0.0	4.2	4.2
<b>Subtotal (A)</b>	27.4	7.5	34.9
<b>B. Contingencies</b>	2.6	0.4	3.0
<b>C. Financing Charges During Implementation</b>	0.0	4.8	4.8
<b>Total (A+B+C)</b>	30.0	12.8	42.8

Source: Asian Development Bank estimates.

#### **D. Allocation of Loan Proceeds of the Project 1**

12. The proceeds of the loan shall be used to finance eligible Project 1 expenditures. All goods and services to be financed out of the loan proceeds shall be procured in accordance with the Loan and Project Agreements and shall be used exclusively in the carrying out of the Project 1. ADB may refuse to finance a contract where goods or services have not been procured under procedures in accordance with those agreed between the Government and ADB, or where the terms and conditions of the contract are not satisfactory to ADB. Loan allocation and withdrawal percentages to be applied with withdrawing from the loan proceeds are in **Attachment to Schedule 3 of the Loan Agreement**.

### **III. IMPLEMENTATION ARRANGEMENTS AND SCHEDULE**

#### **A. Project Readiness Activities**

13. Project 1 of the NERCCDIP has been prepared complying with the Project Readiness Checklist of the Government of India (**Appendix 7**) and the subsequent tranches will be also prepared complying with it.

#### **B. Implementation Arrangements**

14. Refer to **FFA, Schedule 3**, for implementation arrangements including the organization charts, roles and responsibility of agencies and committees, and other detailed implementation arrangements. Key persons involved in the project implementation are listed in **Appendix 8**.

#### **C. Implementation Schedule and Tranches**

15. NERCCDIP will be implemented in three tranches (or more if necessary) over a period of 7 years (2009-2015). The last PFR is expected to be submitted by 31 December 2012. The overall implementation schedule is in **Appendix 9** and a schedule for each of the cities is in **Appendix 10**. The actual size of each tranche and the total number of tranches may vary from the estimates during the MFF appraisal. Tranching is based, in addition to subproject selection criteria, on readiness of subprojects in terms of, land acquisition and safeguard requirements for environment and resettlement, technical inter-linkages among components, and institutional capacities. The sequencing of tranches is based on following principles:

- (i) works pertaining to emergency repairs, improvement of existing infrastructure and operational efficiencies will be taken up in the 1st tranche – these include rehabilitation of water supply systems, e.g., leakage reduction, bulk and individual metering, and awareness raising for improved sanitation and solid waste practices, water conservation, and capacity building. Tranche I will also include 2 subprojects, one for water supply and another for solid waste management, which are to serve as samples for replication in other cities in subsequent tranches.
- (ii) subprojects on expansion of infrastructure and services would be taken up in the 2<sup>nd</sup> and 3<sup>rd</sup> tranches as they require commitments from the States, for example, on the availability of water source or suitable land with necessary safeguard clearances, and progress towards cost recovery for operation and maintenance to sustain improvements.

**Table 4: Proposed Financing Plan by Tranche**  
(\$ million)

	Tranche 1	Tranche 2	Tranche 3	Total	Percentage
Asian Development Bank	30.0	79.3	90.7	<b>200.0</b>	70.0
Government of India	12.8	33.9	39.0	<b>85.7</b>	30.0
<b>Total</b>	<b>42.8</b>	<b>113.2</b>	<b>129.7</b>	<b>285.7</b>	100.0

Note: this is only indicative and subject to change

16. **First Tranche** (May 2009–October 2015). The first tranche consists of 6 subprojects in the five cities under Part A, urban infrastructure and services improvements and under Part B, financing of (i) the whole community awareness and participation programs in the five capital cities, part of capacity building programs, (ii) a fraction of Investment Program Management and Monitoring Consultants, (iii) Design, Construction Supervision and Management Consultants in all cities, and (iv) Institutional Development Consultants in Agartala and Shillong. Project 1 is expected to be completed by 31 October 2015. No disbursements from the loan account will be requested or made later than 30 April 2016.

17. **Second Tranche** (March 2010–December 2013). The second tranche will focus on providing comprehensive water infrastructure to the cities of Agartala, Aizawl and Kohima and solid waste management infrastructure in Agartala, Aizawl, Gangtok and Shillong. In addition, support for the implementation of urban governance and municipal reform (through Institutional Development Consultants) will be provided for Aizawl, Gangtok and Kohima.

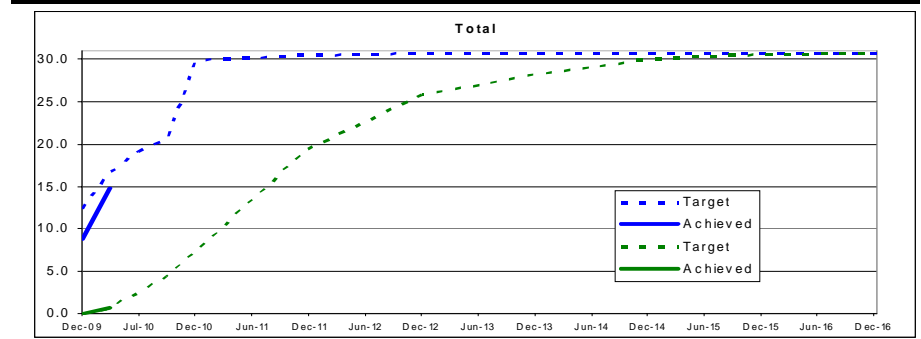
18. **Third Tranche** (December 2012–December 2015). The third tranche will support the construction of sewerage and sanitation facilities in Aizawl, Gangtok, Kohima and Shillong.

#### **D. Projection of Contract Awards and Disbursement for Project 1**

19. Overall contract awards and disbursement under Project 1 are projected as in the table below and S-curves are shown in the chart. Contract awards and disbursement projections of individual executing agencies are in **Appendix 11**.

**Table 5. Summary Projection of Contract Awards and Disbursement (Project 1), April 2010**

Indicators	Yr/Qtr	2009	2010					2011	2012	2013	2014	2015	2016	Total
			Q1	Q2	Q3	Q4	Total							
Contract Awards	Target	12.29	4.31	2.51	1.35	9.46	17.63	0.53	0.22	0.00	0.00	0.00	0.00	30.67
	Achieved	8.73	6.06				6.06							14.79
Disbursement	Target	0.04	0.66	1.74	1.93	2.94	7.26	12.09	6.46	2.31	1.90	0.58	0.03	30.67
	Achieved	0.03	0.65				0.65							0.68

**Chart 1. S-Curves for Overall Contract Awards and Disbursement**

#### IV. SUBPROJECT SELECTION CRITERIA AND IMPLEMENTATION PROCEDURE<sup>2</sup>

20. **Definition of Subproject.** Each project under the Investment Program will be financed by a loan as and when ready for financing. A project is a collection of various subprojects. For example, Project 1 under the Investment Program contains six investment subprojects.

21. Subproject selection criteria and implementation procedure are detailed in **FFA, Schedule 4**.

22. Individual subprojects selected in accordance with the above criteria will be implemented through the following procedures.

- (i) **Feasibility Studies.** For each proposed subproject/scheme (water supply, sewerage, solid waste management), SIPMIU will (a) form a planning team comprising specialized/deputized staff to the SIPMIU, and concerned line departments/ULBs (both technical and associated departments involved in provision of clearances, etc) and (b) conduct consultations with stakeholder groups. With the support of the DSMC consultants, the team will review and update feasibility studies conducted during the PPTA, or undertake new ones, and prepare subproject implementation plans and due diligence assessments (draft environmental and social safeguards documents, economic and financial). Upon concurrence with stakeholder groups in writing, Subproject Appraisal Report (SAR) is prepared and submitted to the State Government for approval. The SIPMIU will have those subprojects approved by the IPEC and forwarded to MOUD's IPCC. The draft SAR will be reviewed by MOUD and ADB.<sup>3</sup> Based on this, preparations for a new PFR to finance the subproject will be initiated by the

<sup>2</sup> This section is mostly replicated from FFA, Schedule 4 with the addition of description of ADB's appraisal works. To make this section comprehensive, the entire procedure was described.

<sup>3</sup> At this stage, a time-bound program for each SIPMIU/IPCC will be prepared showing how and when will Project Readiness Checklist be met for that specific tranche.

Government and ADB, in parallel to the preparation of detailed designs and tender documents.

- (ii) **Format for SAR.** Suggested format of SAR is in **Appendix 12**.
- (iii) **ADB's Appraisal.** A team of specialists from ADB will review the draft SAR based on the subproject selection criteria and other relevant ADB's requirements. It is unlikely that ADB comments on design and engineering aspects at this stage, but ADB may suggest how the SAR, particularly the portions related to safeguards, economic, and financial analysis, may be further improved.

As soon as all necessary surveys are completed, but before completing draft SAR, ADB may send a subprojects appraisal mission. ADB mission will review the project scope, financing size and documentation requirements, particularly on safeguards. All the checklists on the subprojects' impact on environment, resettlement and indigenous people must be submitted to ADB three weeks before a subprojects proposal review mission so as to identify which subprojects require field visits. ADB's appraisal mission for the specific PFR will be organized based on the quality of feasibility documentation and the timetable set forth for meeting readiness criteria.

After ADB's subprojects appraisal mission, IPEC will approve the subproject based on the draft SAR. The SIPMIU will prepare 'a matrix of comments and actions taken,' which will be attached to the draft SAR. The SIPMIU will submit the approved draft SAR to ADB/MOUD for its review. It is highly recommended that following documents are sent electronically:

- (a) Summary of subprojects, consolidated cost and financing plan under a tranche
  - (b) Updated checklists on the subprojects' impact on environment, resettlement and indigenous people
  - (c) An SAR for each subproject, including all safeguards and analytical documents
  - (d) Source excel files for cost estimates, economic and financial analysis
  - (e) Updated Project Readiness Checklist as issued by the Government of India
- (iv) **Detailed Design.** Detailed design will be undertaken by the SIPMIU upon review of the subproject concept papers and feasibility study updates by MOUD and ADB (and in parallel to the institutional strengthening process). The design process, supported by the DSCM, will involve undertaking of all surveys (topographical, geotechnical, soils etc.) necessary; preparation of detailed designs, associated calculations (utilizing computer aided design tools) and drawings. Moreover, the process should remain consultative and approved by State/ULB level institutions and stakeholder groups (as described in (i)) and their endorsement will be sought prior to design finalization and reflected in the implementation agreement. Tender documents will be prepared on the basis of the final design. Where applicable, land acquisition and resettlement plans will be finalized at this stage, and will be implemented with the engagement of an implementation NGO. Similarly, where applicable environmental documents (initial environmental examinations and/or environmental clearances) and

indigenous peoples' development plans, drafted under stage (i) will be finalized after receiving comments from ADB, and statutory clearances sought. The submission of all the above documents to MOUD and ADB will lead to the finalization subproject for inclusion in the next proposed PFR.

- (v) **Approval for Subprojects and Tranches.** Upon receipt of finalized documentation from the SIPMIUs as described in (i) and after incorporating ADB's comments, MOUD's IPCC will review the subproject proposals to confirm compliance with subproject selection criteria, and then forward those eligible subprojects to ADB for prior review and endorsement. MOUD will coordinate with the SIPMIUs the preparation of detailed engineering designs and agree a common timetable for all States to meet project readiness criteria outlined in (iv). The consolidated PFR to be formally submitted by MOUD to ADB through the Department of Economic Affairs should include (i) the required loan amount, (ii) a list of subprojects to be financed under the loan, (iii) cost estimates and financing plan, (iv) implementation arrangements, (v) confirmation of the continuing validity of, and adherence to, the provisions of the FFA, (vi) confirmation of compliance with the provisions under previous loan agreements and project agreements as appropriate, and (vii) due diligence on safeguards. The format of PFR1 will be followed for the subsequent tranches.
- (vi) **Legal Agreement.** ADB will send a draft legal agreement to the Government of India at least 3 weeks before the loan negotiations. Loan negotiations generally take 2 days. Upon successful conclusion of loan negotiations, ADB will seek its President's approval of the loan and project agreements.

### Indicative Processing Steps and Time Frames for Subsequent Tranches

Activities	Duration (weeks)	Responsibility
<b>A. Feasibility Studies</b>		
(i) Formation of planning team		SIPMIU
(ii) Consultations with stakeholder groups		SIPMIU
(iii) Review/update of feasibility studies conducted during the PPTA or undertaking of new ones		Planning Team, SIPMIU, DSMC
(iv) Preparation of subproject implementation plans and due diligence assessments		Planning Team, SIPMIU, DSMC
(v) Obtaining written concurrence with stakeholder groups		Planning Team and SIPMIU
(vi) Preparation of subproject appraisal report (SAR) and submit to State Government for approval		Planning Team, DSMC, SIPMIU
(vii) Approval of SAR		State Government
(viii) Submission of approved SAR with due diligence documents to MOUD & ADB for review		SIPMIU
(ix) Review of SAR and prepare PFR		Govt & ADB
<b>B. Detailed Design [in parallel with A.(ix)]</b>		
(i) Field surveys		SIPMIU, DSMC
(ii) Preparation of detailed designs, associated calculations and drawings in consultation with stakeholder groups		SIPMIU, DSMC
(iii) Obtaining approval of State/ULB & stakeholder groups		SIPMIU, DSMC
(iv) Finalization of design		SIPMIU, DSMC
(v) Preparation of tender documents		SIPMIU, DSMC
(vi) Finalization of land acquisition & resettlement plans (RPs)		SIPMIU, DSMC
(vii) Implementation of RPs		NGO, SIMPMIU



(viii)	Finalization of environmental documents and indigenous peoples' development plans		SIPMIU, DSMC
(ix)	Obtaining statutory clearances		SIPMIU, DSMC
(x)	Submission of above documents to MOUD & ADB		SIPMIU and SSC
<b>C. ADB's Appraisal</b>			
(i)	In-house review of the SARs	2 weeks	ADB
(ii)	Appraisal of subproject in the field	2 weeks	ADB
(iii)	Confirm categorization of the subprojects' impact on environment, resettlement and indigenous people	1 week	ADB
(iv)	ADB's comments on the subproject reports	1 week	ADB
<b>D. Finalization of Subproject Appraisal Reports</b>			
(i)	Incorporation of ADB's comments.	4 weeks	IPCC, SIPMIUs
(ii)	GOI's assessment of project readiness	1 week	IPCC, SIPMIUs
(iii)	GOI's 15-day prior notice in sending PFR officially	1 week	GOI, MOUD
(iv)	Submission of the PFR and the final SARs to ADB	1 week	IPCC
(v)	ADB's review of PFR and approval of loan negotiation	3 week	ADB
(vi)	Setting the date of loan negotiations	1 week	ADB, GOI, MOUD, States
(vii)	EA's official submission of PFR to GOI	1 week	GOI, MOUD
(viii)	GOI's official submission of PFR to ADB	1 week	GOI, ADB
<b>E. Loan Agreement</b>			
(i)	Preparation of loan and project agreements	1 week	ADB
(ii)	Official submission of draft loan and project agreements	1 week	ADB
(iii)	Loan negotiations	3 weeks	ADB
(iv)	ADB's approval of the PFR	1 week	ADB
(v)	Signing of loan and project agreements	1 week	ADB, GOI, MOUD, States

- (vii) **Tendering and Implementation of Civil Works.** Upon (a) approval of the detailed design by the State Government, the stakeholders and then MOUD's IPCC, (b) obtaining statutory clearances and (c) full completion of the land acquisition and resettlement process where applicable, SIPMIUs will commence the tendering process of the civil works and supply of goods. SIPMIUs will be responsible for complying with ADB's procurement processes, including (i) submission of bidding documents, and (ii) submission of bid evaluation reports for review and approval, as may be relevant to the different modes of procurement agreed in the PFR Procurement Plans. MOUD's IPCC will monitor the procurement process and the timely award of contracts, and will provide expert support wherever necessary in dealing with matters pertaining to contract administration (as may advise on aspects pertaining to arbitration etc).
- (viii) **Implementation of Capacity Development and Urban Reform Program.** SEAs, with support from the SIPMIUs will be responsible for the implementation of the detailed urban governance and municipal reform program. SEAs, with support from the SIPMIUs, should no less than quarterly present progress in the SSC. Information and associated documentation (such as any laws passed, plans prepared, etc.) as well as a summary of actions agreed during the SSS meeting should be included in the quarterly reports forwarded to the IPCC. The IPCC will consolidate the information provided by the State and prepare a consolidated report pertaining to compliance with targets agreed with each of the States, and include this in the Quarterly Reports submitted to ADB. Compliance with this program will also determine the eligibility of the States for subsequent PFRs.

## V. CONSULTANT RECRUITMENT AND PROCUREMENT

### A. Consultant Recruitment

23. The program will be led by each of the States, through a coordinated effort amongst the SIPMIU, the ULB, UDD and PHED. Design, Construction Supervision and Management Consultants (DSMCs) will be recruited by the SIPMIUs while Program Management and Monitoring Consultants (PMMCs) will be recruited by MOUD's IPCC. Institutional Development Consultants (IDCs) will be recruited by SIPMIUs, the capital city's ULB and the PHED, wherever relevant. The respective SIPMIUs will be responsible for ensuring compliance with ADB's consultant's recruitment process and other requirements of its guidelines, when recruiting DSMCs and IDCs. MOUD will be responsible for compliance with ADB's consultant's recruitment process and other requirements of its guidelines, when recruiting PMMC as well as monitoring the overall recruitment process and the timely award of contracts. Plan on the use of consultants is on **RRP, Appendix 7**. Flowcharts of recruitment process and consultant recruitment activity monitoring (CRAM) frame are in **Appendix 13**.

24. Consultants will be engaged by each of the five SIPMIUs for DSMC and IDC activities in accordance with ADB's *Guidelines on the Use of Consultants* (2007) as amended from time to time. Each State DSMCs will be headed by urban development/municipal engineering specialists with international and Indian experience. Their key tasks will include (i) supporting the SIPMIUs in identifying, preparing, and appraising of sub projects, ensuring conformance with the subproject selection criteria, as well as national, state and ADB's safeguards and other policy requirements and guidelines; (ii) undertake detailed surveys and investigations, prepare detailed engineering designs, technical specifications, procurement and contract documents and construction supervision in accordance with established good practices, (iii) support technical evaluation during the tender process and supervise construction of the Program investments, and (iv) support the SIPMIU conducting program management activities, awareness and public relations activities, financial management, monitoring and evaluation, technical capacity building programs etc. IDCs will also be recruited by each of the States and will support the SIPMIUs and Government agencies (particularly ULBs and, where relevant, parastatals) in (i) implementing the institutional, financial, regulatory, and operational reform agenda, (ii) conducting capacity building programs for improved asset management and (iii) updating action plans and strategies for meeting the objectives of the reform agenda. Outline terms of reference for consulting services in each of the SIPMIUs are in **RRP, Supplementary Appendixes H and I**.

25. The IPCC will be supported by the PMMC, headed by an urban development/municipal engineering expert with extensive experience, and will be comprised of a team, including an urban management/finance specialist, and an MIS specialist. The principal tasks of the central PMMC will include: (i) supporting the IPCC in MOUD in program coordination activities including regular progress monitoring and reporting, identifying implementation bottlenecks and recommending corrective actions; (ii) reviewing subproject appraisal reports prepared by the SIPMIUs in States, and supporting the IPCC in preparing the PFRs for submission to DEA; and (iii) supporting IPCC on capacity building activities. The consultant will also be required to assist the IPCC with implementation of the urban reform plan and undertake relevant studies, establish systems, and prepare strategy and action plans for solid-waste management and PSP packages. The services of both NGOs and community-based organizations are also likely to be required to support civic awareness raising, community-level solid-waste management, and resettlement monitoring. Outline terms of reference for the PMMC services are in **RRP, Supplementary Appendix J**.

26. It is estimated that a total of 1985 person-months of national consultancy inputs will be required for project management, design and construction supervision, and 549 person-months of national expert inputs will be required for institutional development activities over the Investment Program period.<sup>4</sup> The specific number of consultants deployed at any point of time will depend on work requirements but it is estimated that on an average 5-6 consultants would be deployed in the central IPCC and 10-12 consultants in each of the 5 State DSMCs at any one time. For contract values of at least \$0.1 million and above, consultants will be selected following the quality and cost-based selection method. For contract values of less than \$100,000, consultants will be selected following the least-cost selection method or individual recruitment. The need for consultancy services is expected to decline gradually with increasing SEA capacities during implementation, and will be reviewed during the MFF midterm review (MTR).

## B. Procurement

27. **Procurement Plan.** Procurement under the NERCCDIP will be carried out in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time) and the Loan Agreement. The Procurement Plans provide (a) a list of goods, works and consulting services contract packages that will be processed over the next 18 month; (b) the proposed methods for procurement, estimated values, and expected dates of start of procurement activities of such contracts. ADB discloses the Procurement Plans through its website according to ADB's Information Disclosure Policy and expects to attract consultants and service providers to ADB projects.

28. An Indicative Procurement Plan for the entire Financing Facility is in **Appendix 14** and the Procurement Plan for Project 1 is in **PFR1, Annex 3**. The Procurement Plans for subsequent loans will be prepared and attached to the PFRs. When a change in the disclosed Procurement Plans becomes necessary, a revision of the Procurement Plan will be proposed by the SIPMIUs for consolidation by IPCC and forwarded to ADB for approval and disclosure.

29. **Mode of Procurement.** International competitive bidding (ICB) procedures will be used for civil works contracts estimated to cost \$5.0 million or more, and supply contracts valued at \$1.0 million or higher. The upper limit for civil works and equipment to be procured through National Competitive Bidding (NCB) procedures will be less than \$5.0 million and \$1.0 million respectively. Shopping will be used for contracts for procurement of equipment worth \$ 100,000 or less. The feasibility of community contracting will be examined on a case-by-case basis for low-cost sanitation and other community level works not exceeding \$100,000 in value.

30. **Bidding Documents.** A bid document generally consists of nine sections as below. For faster review and approval of ADB, it is important to follow that (i) the provisions in Section 1 and Section 7 must be used with their text unchanged, and (ii) any data and provisions that these sections require for a specific procurement and contract shall be included respectively in Section 2 and Section 8.

- (i) Section 1 - Instructions to Bidders (ITB)
- (ii) Section 2 - Bid Data Sheet (BDS): This section consists of provisions that are specific to each procurement and supplement the information or requirements included in Section 1- ITB.

<sup>4</sup> In addition, 1386 person-months of support staff will be engaged for the purpose of project management, design and construction supervision activities and 640 person months of support staff will assist the IDCs.

- (iii) Section 3 - Evaluation and Qualification Criteria (EQC)
- (iv) Section 4 - Bidding Forms (BDF)
- (v) Section 5 - Eligible Countries (ELC)
- (vi) Section 6 – Employer’s Requirements (ERQ) or Works Requirements
- (vii) Section 7 - General Conditions of Contract (GCC)
- (viii) Section 8 - Particular Conditions of Contract (PCC)
- (ix) Section 9 - Contract Forms (COF)

31. The EA should provide ADB a copy of all signed contracts, equivalent to \$100,000 and above, including a Contract Summary Sheet (**Appendix 15**) to facilitate creation of contract record.

32. **Advance Contracting and Retroactive Financing.** As stated in FAA, under each loan of the MFF, advance contracting of (i) civil works, (ii) equipment and materials, and (iii) recruitment of consultants, may be requested subject to these being eligible as per the agreed procedures and guidelines indicated above. Except as otherwise agreed with ADB, the expenditures incurred for civil works, equipment and materials, and consulting services eligible for advance contracting, will be eligible for retroactive financing for up to 20% of the proposed amount for the loans under the facility for eligible expenditures in each category incurred prior to effectiveness of each loan, but no earlier than 12 months before the signing of the respective loan agreement.

33. **Environmentally Responsible Procurement.** ADB encourages borrowers and executing agencies to ensure, wherever possible, that the goods and services procured under ADB-financed projects have been produced/rendered in a responsible manner with a view to resource efficiency, waste minimization, and environmental considerations. For details, see guidelines for *Environmentally Responsible Procurement*.

## VI. FINANCIAL MANAGEMENT

### A. Disbursement Procedures

34. **Types of Disbursement Procedure.** Loan disbursements will be in accordance with ADB’s *Loan Disbursement Handbook* (2007, as amended from time to time). There are four major types of disbursement:

- **direct payment procedure** where ADB, at the borrower's request, pays a designated beneficiary directly;
- **commitment procedure** where ADB, at the borrower's request, provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a letter of credit financed from the loan account;
- **reimbursement procedure** (with or without full supporting documents) where ADB pays from the loan account to the borrower's account, or in some cases, to the project account for eligible expenditures which have been incurred and paid for by the project out of its budget allocation or its own resources; and
- **imprest fund procedure** where ADB makes an advance disbursement from the loan account for deposit to an imprest account to be used exclusively for ADB's share of eligible expenditures.

35. Use of (i) the reimbursement procedure 'without full supporting documents' and (ii) the imprest fund procedure require a prior approval of ADB. Both types of disbursement have been approved with some limitations under the FFA.

36. **Imprest Fund Procedure.** Loan disbursements will be in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). Immediately upon first loan effectiveness, the Government will open and maintain a first-generation imprest account (FGIA) in the account of the Controller of Aid Accounts and Audit of the Reserve Bank of India in Delhi to ensure the timely release of loan proceeds and expedite implementation. The FGIA will be denominated in US dollars. Imprest accounts will be opened separately for each PFR.<sup>5</sup> The amount to be advanced to the FGIA will be equivalent to 6-months estimated expenditure or 10% of the loan amount, whichever is lower. The initial advance or replenishment by ADB into the FGIA will be converted into equivalent rupees by the Controller of Aid Accounts and Audit following its policy, and transferred in rupees to each of the States through the budgetary mechanism.

37. Concurrently, second-generation imprest accounts (SGIAs) may be opened in a commercial bank by the governments of Meghalaya, Mizoram, Nagaland, Sikkim and Tripura; subject to the commitment by each of these governments and urban departments, as the State-level EAs, to adhere to ADB procedures for operating the SGIA. The Government will assure ADB that all ADB disbursements for imprest advance and/or replenishment will be passed on to urban development departments for deposit into the commercial bank SGIAs within 30 calendar days of receipt of the advance or replenishment from ADB. The initial amount to be deposited into each SGIA account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation for the respective State; or (ii) the equivalent of ten percent (10%) of the Loan amount allocated the State. The SIPMIUs will warrant that funds in each of the SGIAs will be used only to fund eligible expenditures in accordance with the terms of each of the Loan Agreements and to meet the immediate short-term disbursement requirements of the loans. Both the FGIA and SGIA will be established, managed, and liquidated in accordance with guidelines contained in ADB's *Loan Disbursement Handbook*. Procedures for establishing and operating the imprest account and SOE procedures are detailed in the Disbursement Letter (**Appendix 16**).

38. **Reimbursement and Liquidation Using Statement of Expenditures (SOE).** The SOE procedure will be adopted for reimbursing and liquidating the SGIAs for eligible expenditures not exceeding \$100,000 per payment.

39. **Disbursement Practice.** To expedite disbursement, ADB's *Loan Disbursement Handbook* has a dedicated section in Chapter 4 on (i) actions to be taken by the Borrower, (ii) basic requirements for disbursement, and (iii) withdrawal application.

40. **Fund Flow and Claim Submission.** The Investment Program Fund Flowchart (**the FFA, Figure S3.2**), shows MOUD reimbursement procedure under which States submit SOE in appropriate format as prescribed by ADB to MOUD and MOUD consolidates SOEs and submits withdrawal application for admissible amount to the Controller of Aid Accounts and Audit periodically. States do not make any withdrawal application to ADB. On its part, MOUD reimburses to States admissible project expenditure incurred by them on monthly/quarterly basis as required. Suggestions for improved claim submission are attached in **Appendix 17**.

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<sup>5</sup> Charges associated with opening and maintaining imprest accounts will be financed by the Government.

## B. Accounts and Auditing

41. The requirements related to accounting and auditing are given FFA and the Project Agreements as replicated below:

- **FFA Schedule 3, para 14.** India and States will ensure that accounts and records are maintained and audited in a timely manner, for the expenditure (including each subproject) under each loan to adequately identify use of the loan proceeds in such manner and details as may be specified under each loan agreement or project agreement.
- **Project Agreements. Section 2.09.** (a) MOUD and the State shall (i) maintain separate accounts for the Project; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, through MOUD, promptly after their preparation but in any event not later than nine (9) months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for [imprest account/statement of expenditures), all in the English language. MOUD and the State shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request. A letter requesting auditing of project accounts was issued to the Government of India and copied to the state governments, which explains scope of auditing (**Appendix 18**).

42. **Failure in Submitting Audited Project Accounts.** If ADB does not receive satisfactory audited project accounts after 6 months from the original due date, ADB may be obliged to suspend processing withdrawal applications and issuing PCSS numbers. To avoid such matters, it is essential for the executing agencies to discuss with the concerned auditing authority well in advance about the audit requirements and schedule such auditing.

## VII. SAFEGUARDS

43. **Safeguard Requirements and Other Undertakings.** FFA, Schedule 5 and 6 provide the requirements related to environmental and social safeguards and other undertakings agreed among MOUD, the state executing agencies, and ADB. ADB will regularly review the status of implementation of these requirements and undertakings with MOUD and the state executing agencies.

## VIII. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

44. **Investment Program Performance Monitoring System (IPPMS).** IPCC in MOUD will be responsible for establishing an IPPMS acceptable to ADB within three months of the effectiveness of the first loan under MFF, including (i) procedures on data collection and reporting, (ii) performance indicators relating to physical infrastructure and capacity development and program management support, including those in the design and monitoring

framework (for individual loans and overall investment program) and (iii) corresponding target dates, including those for institutional and financial reforms and capacity building. IPPMS will be established as soon as PMMC consultant is mobilized.

45. IPCC will help SIPMIUs establish baseline values for each of the indicators and subsequently conduct annual surveys to update these baseline values. IPPMS tracks implementation activities, target dates, expected inputs, impacts, outcomes and outputs against each indicator to monitor and evaluate the performance of the Investment Program and the subprojects under each loan. The guidelines for calculating progress are in **Appendix 19**.

46. **Quarterly Progress Reports (QPRs)**. The QPRs on Projects will provide the status of the Project implementation.

47. **QPR for Project 1**. The IPCC will provide ADB with QPRs informing ADB on the implementation progress of Project 1 which should consolidate the quarterly reports separately prepared by SIPMIUs, mainly providing information on (i) performance monitoring and (ii) status of and projections for contract awards and disbursement. The reports will also provide summary financial accounts of the Project 1, including (i) a summary financial account for each of the States, (ii) expenditures to date, (iii) a report on benefit monitoring, and (iv) a report on safeguard compliance.

48. The content of the progress report includes sufficient information in summary form to be useful to ADB as a funding agency. The purpose of the report is to enable the borrower, MOUD, SIPMIUs and ADB to monitor the latest progress, become aware of current problems, and assess whether the project's immediate objectives will be met. The progress report sent to ADB will enable ADB staff to readily capture key information for inputting into the project performance report (PPR).

49. States are being asked for strict compliance of periodicity of submission of QPRs. The QPR is due on the following dates:

- (i) 20 April (for the period January to March);
- (ii) 20 July (for the period April to June);
- (iii) 20 October (for the period July to September); and
- (iv) 20 January (for the period October to December of previous year).

50. The suggested format in preparing a Project 1 QPR is in **Appendix 20**. Based on the Project 1 QPRs, ADB will prepare annual implementation progress reports to be submitted to the Board each December. The template for computing progress for Project 1 is in **Appendix 21**.

51. **Completion Reports**. Within 3 months of physical completion of each loan, the IPCC will also submit to ADB a completion report which will cover the details of project implementation, costs, monitoring and evaluation activities, safeguard compliance, and other information requested by ADB. The format of the Project Completion Report is in **Appendix 22**. Within 3 months of physical completion of final tranche under the MFF, the IPMU will also submit to ADB an MFF completion report, which will cover the details of Investment Program implementation, total investment, evaluation of the Investment Program's impacts, and other information requested by ADB.

52. **ADB's Review of Project Implementation.** ADB will field review missions approximately during project implementation. Based on a review of annual progress reports on the Investment Program, ADB, MOUD and the State governments will meet as required to discuss the progress of the MFF. In addition to regular reviews, including a midterm review for each loan, an MFF midterm review will be conducted for the Investment Program. The midterm review will include a detailed evaluation of the scope and implementation arrangements of the MFF, safeguards issues, progress with achievement of set targets, contract management progress, and any other outstanding issues, and develop remedial measures to achieve the overall objectives of the Investment Program in a timely manner.

## IX. ANTICORRUPTION POLICY

53. **ADB's Anticorruption Policy (1998, as amended from time to time) (Appendix 23)** was explained to and discussed with the Government and States. Consistent with its commitment to good governance, accountability and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Program.<sup>6</sup> In this regard, investigation of government officials, if any, would be requested by ADB to be undertaken by the Government. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the loan regulations and the bidding documents under the Investment Program. In particular all contracts financed by ADB in connection with NERCCDIP shall include provisions specifying the rights of ADB to audit and examine the records and accounts of the EA and all contractors, suppliers, consultants, and other service providers as they relate to the Program. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the Program.<sup>7</sup>

54. To supplement the policy, these following specific measures are included: (i) information technology will be used to increase transparency, accountability, and efficiency, through (a) public disclosure of NERCCDIP information through the Government and program websites (to be prepared), and (b) an expedited program of e-governance in the states; (ii) communities will participate in state steering committee decisions, and the minutes of meetings will be disclosed to the public through the program webpage; (iii) independent procurement and performance audits, commissioned by MOUD, will be carried out as often as necessary, and at least once before the NERCCDIP midterm review; (iv) fiduciary issues will be reviewed; and (v) the Right to Information Act 2005 (RTI Act), the Prevention of Corruption Act (1998), and Service Rules and Codes of Conduct of Public Officials will be strictly applied in all the five states, thus empowering departments to investigate the conduct of their officials, and to investigate allegations of corruption, through internal vigilance offices or state equivalents of the Central Bureau of Investigation take legal action if required.

55. The ADB Office of Anticorruption and Integrity (OAI) is the point of contact to report allegations of fraud and corruption among ADB-financed projects or its staff. It assesses allegations and investigates thoroughly and confidentially, whether fraud or corruption has occurred. Refer to ADB's *Anticorruption Policy Handbook*. Anyone coming across evidence of corruption associated with the Project may contact OAI:

- by email at [integrity@adb.org](mailto:integrity@adb.org) or [anticorruption@adb.org](mailto:anticorruption@adb.org)

<sup>6</sup> Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

<sup>7</sup> ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>



- by **phone** at +63 2 632 5004
- by **fax** to +63 2 636 2152
- by **mail** at the following address (Please mark correspondence Strictly Confidential):

Office of Anticorruption and Integrity (OAI)  
Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila, Philippines

## **X. ACCOUNTABILITY MECHANISM**

56. People who are, or may in the future be, adversely affected by the project may address complaints to ADB, or request the review of ADB's compliance under the Accountability Mechanism.<sup>8</sup>

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<sup>8</sup> For further information see: <http://compliance.adb.org/>