

FRAMEWORK FINANCING AGREEMENT

Parties

This Framework Financing Agreement ("**FFA**"), dated 17 May 2012 is between India acting by its President ("**India**") and Asian Development Bank ("**ADB**").

Investment Program

India is committed to and shall implement, through the Ministry of Rural Development ("**MORD**"), and the States of Assam, Chhattisgarh, Madhya Pradesh, Odisha, and West Bengal ("**States**") the Rural Connectivity Investment Program ("**Investment Program**" or "**RCIP**") which is an integral part of the Pradhan Mantri Gram Sadak Yojana¹ ("**PMGSY**"). PMGSY aims to provide all-weather road connectivity to eligible habitations in India's rural areas, where 70% of India's population live. Investments in rural roads will improve connectivity, cut transport costs, and provide enabling infrastructure to areas currently with poor access to markets and urban towns, and thus contribute to growth and equity in the country's largest sector. Both PMGSY and the Investment Program are described in Schedule 1 to this FFA.

The total cost of the Investment Program over the period 2012 to 2017 is estimated to be \$1,225.30 million equivalent.

¹ Means the Prime Minister's Rural Road Program.

Multitranche Financing Facility

ADB's financial support for the Investment Program is to be extended through a multitranche financing facility (**the "Facility"**). The Facility is intended to finance components and investment Subprojects under the Investment Program, provided that such components and subprojects comply with the criteria set out in Schedule 4 to this FFA and that understandings set out in this FFA are complied with.

The components and Subprojects may include:

(i) Road Infrastructure Development Component, involving construction or upgrading to the all-weather standard of about 9,000 km of rural roads connecting around 4,200 habitations in the States.

(ii) Institutional Development Component,² involving:

- a) Construction of field offices (including laboratories and other facilities required to perform functions) for the pilot Rural Road Network Management Units (RRNMUs) and providing all necessary equipment, system and tools for the rural road network management. According to the tentative schedule, it is anticipated that one RRNMU facility in each State will be constructed in the second year and around 5 more in each State by the fourth year of the Investment Program.
- b) Construction and equipping of 5 Rural Connectivity Training and Research Centers (RCTRCs) in each State.
- c) Rolling out systematic and large scale training and targeted rural roads research programs by the established RCTRCs and with assistance of related consultancy services.
- d) Consulting services by Project Implementation Consultant (PIC) engaged by the States and Technical Support Consultant (TSC) engaged by National Rural Development Agency (NRRDA) to assist States and MORD/NRRDA to comply with requirements inherent to the preparation and implementation of ADB-assisted projects in terms of safeguards, and provide additional support in, monitoring, evaluation, conducting road safety audits and road maintenance inspections and monitoring.

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by India, cancel the uncommitted portion of the Facility, and withdraw the right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

² The institutional Development Component will be supported by a capacity development technical assistance (CDTA) for Institutional Development for Rural Roads Asset Management provided on a grant basis. CDTA will support the piloting of Rural Road Network Management Units and the establishment of the Rural Connectivity Training and Research Centers.

This FFA does not constitute a legal obligation on the part of India to request any financing. India has the right not to request any financing under the Facility. India also has the right at any time to cancel any uncommitted portion of the Facility.

India and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other party. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

Financing Plan

The Financing Plan for the Investment Program is summarized below.

Financing Plan

Source	Amount (\$ million)
Asian Development Bank	800.00
India and the States	425.30
Total	1,225.30

Financing Terms

ADB will provide loans to finance physical investments for road improvements and physical and non-physical investments for road sector capacity development that are eligible under the Investment Program, as and when they are ready for financing, provided India is in compliance with the understandings hereunder, and the investments are in line with those same understandings and a related request is made under a periodic financing request. Each loan will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges are not payable on the Facility. These are payable only on financing actually committed by ADB as a loan. ADB rules on commitment charges, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is eight hundred million dollars (US\$800,000,000). It will be provided in

individual tranches in the form of loans from ADB's Ordinary Capital Resources.³

Availability Period

The last date on which any disbursement under any tranche may be made will be 30 June 2018. The last financing tranche is expected to be executed (approved and signed) no later than 30 June 2016.

Terms and Conditions

India will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

The National Executing Agency for the Investment Program will be the Ministry of Rural Development (MORD). The State-level Executing Agencies will be each State acting through its relevant agency, i.e. Public Works Roads Department of Assam, Chhattisgarh State Department of Panchayat and Rural Development, Madhya Pradesh State Department of Panchayat and Rural Development, Odisha State Department of Rural Development, and West Bengal State Department of Panchayat and Rural Development. The Executing Agencies will carry out the Investment Program in accordance with the principles set forth in this FFA, and as supplemented in the legal agreements for each tranche.

Periodic Financing Request

India may request, and ADB may agree, to provide loans under the Facility to finance Projects under the Investment Program upon the submission of Periodic Financing Requests ("PFRs"). Each PFR should be submitted by India, following confirmation by the relevant State(s) and MORD. India will make available to MORD, and through MORD to the relevant State(s) the proceeds of the loan in accordance with the related PFR, and the legal agreements for the tranche. A PFR may cover more than one State.

Each individual tranche will be for an amount of no less than thirty million dollars (US\$30,000,000), or its equivalent. The first tranche will be in an amount of \$252 million or its equivalent. The subsequent tranche is expected to be in an amount of up to \$200 million or its equivalent. ADB will review the PFR(s), and, if found satisfactory, prepare the related legal agreements.

The Subprojects for which financing is requested under the PFR will be subject to the criteria set out in Schedule 4 to this FFA, satisfactory due diligence, and preparation of relevant safeguards and fiduciary

³ Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each Loan, subject to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations, as so modified, if any, being hereinafter called the Loan Regulations).

frameworks and other documents, including performance assessment of previous loans. India and ADB have agreed on a Facility Administration Manual and an indicative schedule to initiate these activities as set forth therein.

Until notice is otherwise given by India, the Secretary, Additional Secretary, Joint Secretary, Director, or Deputy Secretary in the Department of Economic Affairs of the Ministry of Finance of the Government of India will be India's authorized representative for purposes of executing PFRs.

General Implementation Framework

The Facility will be implemented in accordance with the general implementation framework set out in Schedule 3 to this FFA.

Procedures

Tranches to be provided under the Facility will be subject to the following procedures and undertakings:

- (i) India will have notified ADB of a forthcoming PFR in advance of the submission of the PFR;
- (ii) India will have submitted a PFR in the format agreed with ADB;
- (iii) ADB may, in its sole discretion, for reasons provided, decline to authorize the negotiation and execution of any legal agreement for a tranche; and
- (iv) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR Information

The PFR will substantially be in the standard form required by ADB , and will contain the following details:

- (i) Loan amount;
- (ii) Description of the Project to be financed;
- (iii) Cost estimates and financing plan;
- (iv) Implementation arrangements specific to the Project;
- (v) Confirmation of the continuing validity of and adherence to the understandings in this FFA;
- (vi) Confirmation of compliance with the provisions under previous Loan Agreement(s) (and Project Agreement(s)), as appropriate; and
- (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.

Safeguard Requirements

Attached as Schedule 5 are references to the Safeguard Frameworks and documents that will be complied with during implementation of the Facility.

ADB's Safeguard Policy in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the Subprojects and component(s) financed under such financing tranche.

Procurement	All goods and services to be financed under the Facility will be procured in accordance with ADB's <i>Procurement Guidelines</i> (2010, as amended from time to time).
Consulting Services	All consulting services to be financed under the Facility will be procured in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2010, as amended from time to time).
Advance Contracting and Retroactive Financing	<p>Under each tranche, ADB may, subject to its policies and procedures, allow upon request (a) advance contracting of civil works, equipment and materials, and consulting services and (b) retroactive financing of eligible expenditures for civil works, equipment and materials and consulting services up to 20% of the proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement.</p> <p>India acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related investment.</p>
Disbursement	Disbursements of loan proceeds under the Facility will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2007, as amended from time to time).
Monitoring, Evaluation, and Reporting Arrangements	<p>Schedule 2 to the FFA sets out the Design and Monitoring Framework for the Facility, against which the implementation effectiveness will be evaluated.</p> <p>Further details to be complied regarding the monitoring, evaluation and reporting arrangements are provided in the Implementation Framework attached as Schedule 3 to this FFA.</p>
Representations and Warranties	<p>Authorizations. India and each of the States represent and warrant that each of the National Rural Roads Development Agency (NRRDA) and the State Rural Roads Development Agencies (SRRDAs) is duly constituted, empowered and authorized, for the purposes of the Investment Program, to carry out the function of the project executing and implementing agency with respect to relevant Subprojects in the relevant States and the entry into and performance by it or them of the transactions contemplated herein are in accordance with governing laws and regulations and do not conflict with any applicable law or regulation or any agreement or instrument binding upon it or them any of their assets.</p> <p>Fiduciary Oversight. Accounts for each project will be audited by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB and audit reports will be submitted to ADB within 9 months of the end of each fiscal year.</p>
Undertakings	The undertakings provided by India are set out in Schedule 6 to this FFA.

INDIA

By_____

Puneet Agarwal
Deputy Secretary (ADB), DEA

ASIAN DEVELOPMENT BANK

By_____

Hun Kim
Country Director

SCHEDULE 1

FACILITY CONSTITUENTS

A. Road Sector Roadmap

1. Strategic Objective

1. The strategic objective of the India's 11th Five Year Plan (FYP) for 2007-2012 is the poverty reduction and social development through faster and more inclusive growth. It aims at creating jobs; providing essential services to the poor; reinvigorating the rural economy; increasing manufacturing competitiveness; developing human resources; protecting the environment; and bridging the divides between regions, sectors, and genders. The 11th FYP emphasizes the development of physical and social infrastructure as being key for promoting broad-based economic growth, developing agriculture and the rural economy, and enhancing the competitiveness of Indian industry and services.

2. Rural roads are critical for rural development, as they provide access to markets, health, education, and administrative services. Poor road infrastructure affects economic growth in rural areas. It impacts negatively on domestic and local trade, on the final cost of goods, competition and competitiveness, logistics in general, movement of people, inward investment opportunities, and ultimately on employment. Poor road connectivity has a strong link to poverty. Past neglect of the rural road network in India has cut off rural communities from mainstream economic centers in the country and even locally and resulted in slow development, and in some cases a faster than needed exodus of young people to cities. A nationwide planning exercise conducted in 2000 to identify unconnected habitations found that in rural areas where 70% of India's population lives, about 330,000 habitations, 40% of the total 850,000 habitations, were without all-weather road connectivity

3. The Government of India is redressing this problem through the implementation of a nationwide rural road investment program, Pradhan Mantri Gram Sadak Yojana⁴ (PMGSY), aiming to provide all-weather road connectivity to currently unconnected eligible habitations in India's rural areas. To maximize the impacts of the investment under PMGSY, the Ministry of Rural Development (MORD) established strategic criteria to give priority to habitations with a larger population first and gradually expand to cover smaller habitations over time. The Investment Program will support the achievement of the PMGSY strategic objectives. For the investments in physical infrastructure to be effective and sustainable, the Investment Program will also focus on improvement of institutional arrangements, business processes and associated capacity building, especially in relation to design, planning, programming, maintenance, road safety and safeguard matters.

2. Progress of PMGSY

4. The level of rural connectivity varies significantly across the states. The eligible unconnected habitations under PMGSY are concentrated in the following 10 states: Assam, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh, and West Bengal; and accounted for 88% (151,000) of the all eligible habitations under PMGSY nationwide in 2000. Ministry of Rural Development (MORD) has selected these

⁴ Means the Prime Minister's Rural Roads Program.

states for the focused PMGSY intervention. The first Asian Development Bank (ADB) loan, Rural Roads Sector I Project (RRS-I), for \$400 million was to assist financing PMGSY in the states of Chhattisgarh and Madhya Pradesh. Subsequent Multitranche Financing Facility (RRS-II) for \$750 million was to assist financing PMGSY in the states of Assam, Chhattisgarh, Madhya Pradesh, Odisha, and West Bengal. The World Bank's first loan for \$400 million was to finance part of PMGSY in Himachal Pradesh, Jharkhand, Rajasthan, and Uttar Pradesh. The second World Bank loan for \$1,500 million approved in 2010 is to finance PMGSY in Uttar Pradesh, Jharkhand, Himachal Pradesh, Rajasthan, Punjab, Meghalaya, and Uttarakhand.

5. PMGSY is in its 12th year of implementation and has constructed, in 29 states, more than 332,022 km of rural roads connecting 80,015 habitations nationwide to a greater transportation network. Additional 88,185 km are under construction. PMGSY is yet to construct 260,557 km of roads nationwide connecting eligible 56,449 habitation. In Assam, Chhattisgarh Madhya Pradesh, Odisha and West Bengal, which are included in the proposed Rural Connectivity Investment Program (RCIP), PMGSY has constructed 108,637 km of rural roads connecting 39,721 habitations. Construction of additional 32,158 km of roads is ongoing. According to the latest program update, PMGSY is yet to construct 85,690 km to connect all remaining eligible habitations in RCIP states.

3. Key Problems and Opportunities

6. **Building institutional capacity for maintenance.** Institutional, arrangements, capacities and procedures for PMGSY in RCIP states are currently oriented towards project preparation and implementation. While over the initial years of PMGSY implementation this situation matched the demand under PMGSY, the implementation of RRS-I and RRS-II highlighted that with the coming shift to the operation and maintenance of the created network of rural roads,⁵ there will be an urgent need for strengthening of institutional arrangements and PIU capacities in the states for operation and maintenance of the created road network. In the course of implementation of the Investment Program, it is planned to establish RRNMUs on a pilot basis. It is anticipated that one pilot RRNMU in each participating state will be established during the first year of implementation. After sufficient experience with the work of RRNMUs is accumulated and analyzed (by the third year of implementation), around 5 more RRNMUs will be established in each RCIP state. Capacity Development Technical Assistance (CDTA) will be provided to support the establishment and operationalization of first 5 RRNMUs. Project Implementation Consultants (PICs) in each state will have road safety experts and road maintenance engineers to support mainstreaming of road safety audits and maintenance inspections, including support to the supervision of performance based maintenance contracts in RRNMU districts.

7. **Support to sustainable rural connectivity training and research.** Rural road network makes up more than 80% of the total road network in the country, however, qualifications and training of civil engineers remain oriented at high category roads. Lessons learned from the implementation of RRS-I and RRS-II have shown, that this may in certain cases negatively affect the quality of design, construction and maintenance of rural roads. The effectiveness in the use of available resources and sustainability of investments may also be negatively affected. In order to improve and keep up a high standard skills of engineers, technicians, site supervisors, concerned staff of Panchayati Raj Institutions (PRI), design consultants and contractors involved in the development and maintenance of the rural road network, there is a

⁵ Specifically, more than 65,000 km is currently on 5-year post-construction maintenance, and the length of roads beyond 5-year post-construction maintenance will increase from around 17,000 km to more than 80,000 km within the next 5 years.

need for a systematic, sustainable, and high quality training reflecting specifics of the rural roads and building up on the extensive experiences and lessons learned accumulated over 10 years of implementation of PMGSY across India. Previous experience with the training of PMGSY engineers supported under World Bank financed rural road project was successful, however, it was a one-off exercise, and due to the turnover of staff the acquired skills are already being diluted. Also, while NRRDA has already developed certain capabilities in conducting specialized practice-oriented research on PMGSY, these activities are not systematic and need support in staffing, business procedures, and facilities to become sustainable.

8. The Investment Program will (i) support a sustainable approach to training of engineers involved in the management of the rural road network, technicians, site supervisors, concerned staff of PRI, design consultants and contractors in participating states, and (ii) support a sustainable practice-oriented research on rural roads. The support to training will include financing of civil works to construct RCTRCs as a state-of-the-art training and research facilities in each participating state, provide equipment and tools for the RCTRCs, and consulting services to support operations of RCTRCs. The consulting services financed by the Investment Program will include development of specialized training modules, assisting in research and compiling best practices and experiences in rural roads, and supporting RCTRC operations, including rolling out systematic, large scale rural roads-oriented training. The training will be provided in the innovative apprenticeship mode where over the period of three years, the training will be conducted by the RCTRC consultant together with the concerned RCTRC staff with increasing responsibility given to RCTRC staff. The support to research will include equipping of research laboratories, and consulting services to compile all available research and data on rural roads, define directions of priority research and research programs,⁶ and support establishing of mechanisms of data collection, analysis, and dissemination/practical implementation of research results.

9. CDTA will be provided to support the establishment of the RCTRCs prior to the implementation of the longer term loan-financed support to the RCTRCs training program. CDTA scope will include tasks to (i) formulate the concept, organizational structure, business procedures, and staffing requirements of RCTRCs; (ii) formulate funding mechanisms for the RCTRCs operations; (iii) provide advisory support in design and procurement process for RCTRC facilities; (iv) provide training to RCTRC staff; (v) develop operational plan for the rollout of RCTRCs; and (vi) assist in the recruitment process for the loan-financed RCTRC consultant.

10. **Road Safety.** Road safety aspect was largely neglected in the past. Under PMGSY, awareness campaign materials were developed, but were unsuitable for the context and practically not implemented. States conducted few road safety audits, but those were not result-oriented and had very limited effect on the improvement of safety of road designs. Under the proposed RCIP, road safety awareness sessions are incorporated into the community participation framework and are systematically conducted. PICs will have a road safety expert on the team tasked to conduct systematic road safety audits on the sample of each DPR batch, during construction, and on existing roads; summarize recurrent issues and solutions and present to the SRRDA for action. Technical Support Consultant (TSC) will also have road safety auditors on the team which will provide training, general oversight and monitoring of road safety work.

⁶ E.g., one of the priority research topics could be improving current standards and specifications to better match the road category, the locally available materials, and the road environment. E.g., making pavement design standards linked with the quality of materials available locally could result in tangible cost savings.

11. **Quality control of design.** While under PMGSY quality control of design was routinely done by State Technical Agencies, it is felt, that more involvement and ownership of PIUs and SRRDAs is needed to further improve the quality of design. Under RCIP, PIUs and SRRDAs will use an improved design preparation process utilizing DPR templates and checklists, road safety audits of designs, and additional level of quality control supported by a software tool ensuring that all essential items are properly reflected in the DPRs.

B. Strategic context

12. Indian economy has been growing at a rate close to 8% in the last 6 years, which would continue for several years ahead. The inadequacy of India's transport infrastructure, including rural connectivity is, however, constraining the country's growth. The Government of India's 11th FYP highlights that India requires an efficient transportation system for increasing productivity and enabling the country to compete effectively in the world market. Accordingly, transport infrastructure development programs are high priorities for the Government of India, making ADB's strategy of reducing poverty through infrastructure-led growth especially relevant. PMGSY and ADB's continued support for PMGSY will help achieving country development goals. The Investment Program is relevant to the India 11th FYP Plan and ADB Strategy 2020. It is consistent with the strategic objective set out in the Country Partnership Strategy (CPS) 2009-2012 and is included in the Country Operations and Business Plan (COBP), 2011-2013. Specific contribution of the Investment Program to the achievement of country development goals is summarized below.

Country Development Goals ⁷	Contribution
Poverty reduction: reduce headcount poverty ratio	4,200 rural habitations will be newly connected RCIP roads. As a result, there will be around 85% decrease in the number of days when rural habitations are cut-off from markets, district headquarters, and other centers of economic activity. Better accessibility was shown to have a strong link to the poverty reduction.
Faster and more inclusive growth: Expand and strengthen rural infrastructure to accelerate agricultural growth and the rural economy	9,000 km of priority rural roads in the RCIP states will be constructed or upgraded to all-weather standards. All-weather access to local markets is linked to increase in agricultural production of perishable goods and cash turnover of agricultural produce in local markets.
Job creation	More agricultural jobs, road construction and maintenance jobs, housing construction, and vendor jobs in the areas connected by RCIP roads will be provided.
Social Development: improvement in education, health and social indicators	Providing all-weather access to rural habitations will improve key social indicators in such areas as maternal and infant mortality, safe delivery, immunization, post primary dropout, primary school teacher attendance, possession of movable assets, employment opportunities, and nutrition.

C. Policy Framework

13. The Investment Program will contribute to the four pillars of the road sector, as illustrated below.

⁷ Based on the Country Partnership Strategy Results Framework (India Country Partnership Strategy 2009-2012).

Pillars of the Road Sector	Contribution
Good governance and accountability	The Investment Program will support piloting of the RRNMUs in RCIP states, which will adopt new business processes in rural road network management with emphasis on: (i) quality control of design, construction and maintenance, (ii) data-driven programming, and (iii) accountability
Sustainability	The Investment Program will support piloting of the RRNMUs and RCTRCs in RCIP states and associated new road maintenance system and large scale rural roads-oriented training of engineers, technicians, site supervisors, PRI staff, design consultants and contractors. TA to support RRNMUs will provide advice on financing of rural road maintenance and operationalize data driven programming and budgeting. Accordingly, the contribution to sector sustainability will include (i) improving quality of maintenance budgeting, (ii) strengthening road maintenance capacity, and (iii) increase of quality of road maintenance.
Road safety	The Investment Program will introduce and support the mainstreaming of road safety audits of designs, during construction, and on existing roads.
Seamless connectivity	The Investment Program will contribute to a creation of seamless logistics chain and unimpeded flows of goods and people by providing the high-quality "last mile" connectivity to villages in rural areas.

PRI=Panchayati Raj Institution, RRNMU=Rural Road Network Management Unit, RCTRC=Rural Connectivity Training and Research Center, TA=technical assistance.

D. Investment Program and Financing Plan

14. **Funding gap.** Because PMGSY is a fully Government of India-sponsored scheme, the financial viability of the program depends on the willingness and ability of the Government of India to raise and allocate funds to effect its delivery and achieve its targets. Full achievement of program targets as originally scheduled has been constrained due to limited funding availability. The latest estimate for the remaining PMGSY financing requirement to achieve its goal over the next five years in RCIP the states, is about \$7.95 billion,⁸ while available PMGSY funding (with the major portion coming from the excise tax on high-speed diesel oil) for the same period is estimated to reach around \$5.04 billion. Accordingly, currently available funding sources will come short of the PMGSY needs. Specifically, additional \$2.91 billion will be needed to achieve PMGSY goal over the next 5 years in RCIP states.

15. **Maintenance funding.** Sustainability of the PMGSY investment will be dependent on effective implementation of appropriate design and construction standards and an adequate maintenance regime. PMGSY requires implementation of technical oversight during design and construction (including state and national quality monitor), as well as inclusion in the construction contract of a 5-year maintenance component to be implemented by the construction contractor. The maintenance component is separately financed by the states.

16. Robust enforcement mechanism ensuring adequate maintenance financing is in place. The State governments are required to furnish to MORD a certificate to the effect that the provision of funds for maintenance of PMGSY roads within 5-year post-construction period has been made separately in the state budget, as a precondition for submitting annual project proposals to the central Government of India. In 2010, MORD has introduced even more rigorous mechanism to ensure that states provide timely and adequate funding. Specifically, each state government is required to compute year wise requirement for maintenance funds in respect of all PMGSY contracts in force, give a certificate cum undertaking regarding proper

⁸ Based on exchange rate of \$1.00=Rs 45.00.

maintenance of all PMGSY roads, and to act upon it. Further, each state government is required to deposit the associated maintenance funds to the maintenance accounts of SRRDAs in two installments twice a year. Concurrently, the release of PMGSY funds for construction has been made contingent upon meeting the requirements for maintenance funding.

17. Funding of PMGSY roads after 5 years post construction maintenance period is covered by the Government of India non-plan resources provided based on recommendations of the Finance Commissions (FC) set up in accordance to the article 280 of the Constitution of India. Current funds for maintenance of PMGSY roads beyond the 5-year post-construction period are provided in accordance with the recommendations of the 13th FC and cover period from 1 April 2010 to 1 April 2015. Specifically, FC has assessed the requirement of ordinary repairs of roads in the states and has recommended a grant equivalent to 90% of the assessed requirement for PMGSY roads and 50% of the assessed requirement for other roads, for four years of the award period starting 2011-12, with specific allocation for each year for each state. The grants will be over and above the states' budget. Since PMGSY is a priority scheme of the Government of India, there is a confidence that grant-in-aids for maintaining of PMGSY roads beyond 5 post construction years will remain a priority item among the recommendations of the future FCs.

18. The internal financing from the states mainly comes through an independent head of account opened for maintenance fund in the budgets. Other financial sources are being explored; e.g., the state of Madhya Pradesh receives a significant amount through a dedicated fund generated by levy of cess on agricultural produce brought to local markets called Mandi and explores a possibility of getting a maintenance grant from the portion of cess being levied by the state government on mining companies to finance maintenance of roads which are being damaged by the mining-related traffic; and the Zilla Parishads in two districts in the state of West Bengal imposed a toll on large trucks using PMGSY roads and use a portion of collected funds for road maintenance. The Investment Program through the loan consultancies and with assistance of parallel CDTA will review these and other innovative mechanisms for additional financing for road maintenance and support their mainstreaming.

19. **Cost estimate and financing plan under investment program.** The investment program is estimated to cost \$1,225.30 million equivalent inclusive of civil works, consulting services, equipment, recurrent costs, social mitigation measures, taxes, duties, contingencies, and interest and other charges on the loan during construction (Table 1).

20. India has requested an MFF of up to \$800 million from the ordinary capital resources of the Asian Development Bank (ADB) to help finance a part of the Investment Program. The MFF is considered to be an appropriate modality for financing this investment program given its size and involvement of five states, as it will allow to (i) minimize commitment charge, (ii) ensure high readiness at entry, (iii) minimize cost overruns, (iv) ensure flexibility while maintaining control over the strategic context, and (v) minimize transaction costs. The MFF will consist of four tranches, subject to India's submission of related periodic financing requests, execution of the related loan and project agreements for each tranche, and fulfillment of terms, conditions, and undertakings set forth in the framework financing agreement.

Table 1: Investment Program Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1 Road infrastructure development component	974.75
2 Institutional development component	42.00
3 Project management costs	19.00
Subtotal (A)	1,035.75
B. Contingencies^c	148.36
C. Financing Charges during Implementation^d	41.19
Total (A + B)	1,225.30

^a Includes taxes and duties in the amount of \$51.3 million to be financed from government resources, and taxes and duties for certain goods and consulting services in the amount of \$1.0 million to be financed by ADB

^b In mid-2011 prices.

^c Price contingencies.

^d Includes interest and commitment charges. Interest during construction for the ADB loans is computed at the 5-year forward London interbank offered rate plus a spread of 0.4% and a maturity based premium of 0.20%. Commitment charges for an ADB loan are 0.15% per year on the undisbursed loan amount.

Source: Asian Development Bank estimates.

21. The loans under the MFF will finance civil works, equipment, consulting services, and other capacity building support. All of the provisions of the ordinary operations loan regulations applicable to ADB's London interbank offered rate (LIBOR)-based loans⁹ will apply to each loan, subject to modifications, if any, that may be included under any loan agreement. India has the option to choose between eligible currencies and the interest rate regime for each loan. The specific terms of each loan will be based on the related periodic financing request with interest to be determined in accordance with ADB's LIBOR-based lending facility. India has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility based on these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB.

22. The first tranche of the MFF, for which a draft periodic financing request has been prepared, will be \$252.0 million. The loan will use a sector modality, have a 25-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's LIBOR-based lending facility,¹⁰ a commitment charge on the undisbursed loan amount of 0.15% per year, and such other terms and conditions set forth in the draft loan and project agreements. The first tranche will finance civil works to construct rural roads in the states of Assam (342 km), Chhattisgarh (1,008 km), Madhya Pradesh (1,187 km), Odisha (757 km), and West Bengal (167 km), civil works to construct RRNMU and RCTRC facilities, and consulting services for project management, safeguard monitoring and due diligence, and rollout of RCTRCs.

23. India will provide the proceeds of the loans under the MFF in local currency to MORD and through MORD to the States on a grant basis. India will bear the foreign exchange risk on the loans. The MFF will finance 4 projects under the MFF. Time slicing financing of long-term

⁹ ADB. 2001. *Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources*. Manila.

¹⁰ The interest on the loan shall include a maturity based premium of 0.20%. This is based on the loan terms specified above and the government's choice of repayment options and dates.

contract packages for the consulting services (TSC and support to RCTRCs) will be used. The financing plan is in Table 2.

Table 2: Financing Plan
(\$ million)

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Source	2012	2013	2014	2015
Asian Development Bank	252.00	200.00	200.00	148.00
India and States	89.00	111.35	125.96	98.98
Total	341.00	311.35	325.96	246.98

Source: Asian Development Bank estimates.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Reduction in poverty and deprivation, and inclusive socioeconomic growth of the communities served by the investment program roads	Three years after completion of the investment program (2020) as compared to 2011: Improvement in social indicators in rural areas served by the investment program roads by 10%, including poverty rates, maternal and infant deaths, safe delivery, immunization, employment opportunities, and agricultural revenue.	Census (2011, next due around 2018), state and district statistics Impact monitoring by TSC in a sample of villages; Post-project monitoring by NRRDA	Assumptions PMGSY is prioritized in the Government of India's Twelfth Five Year Plan and being implemented in accordance with the PMGSY targets. Risks Extreme weather condition and severe economic downturn derail implementation
Outcome Connectivity of selected rural communities in five investment program states of Assam, Chhattisgarh, Madhya Pradesh, Odisha, and West Bengal to markets, district headquarters, and other centers of economic activity is improved and sustainable.	By the end of the investment program (2017): About 4,200 rural habitations (with at least 10% of households headed by women and 40% inhabitants from vulnerable groups) are newly connected by all-weather investment program roads under long-term PBMCs	OMMAS Impact monitoring and surveys by TSC	Assumptions Continuous allocation of central and state government funds for post construction road maintenance
Outputs 1. Selected priority rural roads in five investment program states are constructed to all-weather standard	By the end of the investment program (2017): About 9,000 km of priority rural roads (2000 km under PPP-based PBMCs) in the participating states are constructed to all-weather standard	OMMAS	Risks Initial delays in start of civil works due to delays with government clearances (e.g. environmental)
2. Quality of design of RCIP roads is improved	By the end of the investment program (2017) as compared to 2010: 100% of road designs follow standardized DPR template, undergo quality control with the use of quality control toolkit, and account for the climate change related impacts 100% of all affected communities (at least 30% women) are consulted in the	Quality control checklists attached to DPRs Community design briefs as included in the DPRs	Assumptions SRRDAs allocate enough budget for the preparation of designs and adequate staff time for the quality control of designs

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	design process		
3. Maintenance of the investment program roads is improved and sustained	By the end of the investment program (2017): At least 30 RRNMUs (with at least 25% of new staff as female staff) are established, fully operational, and mainstream a PPP approach to the road maintenance (at least 33% of which is conducted by women)	Government circulars and budget allocations Annual reports by RRNMUs PIC and TSC monitoring reports	
4. Road safety measures are incorporated into the life cycle of the investment program roads	By the end of the investment program (2017) in all RRNMU districts (30 in total): At least 50% of designs and 30% of existing rural road network undergo RSAs annually and improved accordingly, with emphasis on vulnerable road users	Summary RSA reports by PICs, TSC, and RRNMUs Annual reports on road safety works completed and response reports by SRRDAs	Assumptions States fully adopt RSA procedures and provide adequate budget for road safety improvements
5. Qualification and skills of PMGSY engineers, technicians, site supervisors, PRI staff concerned, design consultants, and contractors in the investment program states are improved and maintained	By the end of the investment program (2017): five RCTRCs are established, fully operational and completed training and certification of at least 4,000 PIU staff, 300 PRI staff (at least 30% women), 100 design consultants and 300 contractors	Government circulars and budget allocations RCTRC's training certification records	
6. Facility is managed effectively	Each tranche is approved as scheduled, and completed on time and within budget All investment program performance targets and indicators are systematically monitored and achieved.	OMMAS OMMAS PIC reports TSC reports	

Activities with Milestones 1.Construction of rural roads 1.1 State-wise PMGSY road lists for 2012 (project 1), 2013 (project 2), 2014 (project 3), and 2015 (project 4) selected and approved by start of the project year 1.2 Detailed designs cleared and sanctioned by NRRDA 2 months before PFR submission 1.3 Contractors implement contracts according to schedule and design 2. Improvement of quality control of design 2.1 New procedure for quality control of DPRs is piloted	Inputs ADB: \$800.00 million	
	Item	Amount (\$ million)
	Road infrastructure development	776.60
	Institutional development	23.40

Activities with Milestones	Inputs																				
on project 1 DPRs (throughout 2011) and subsequently used by all five investment program states throughout the investment program	India and the States: \$425.30 million																				
3. Improvement of asset management	<table><tr><th>Item</th><th>Amount (\$ million)</th></tr><tr><td>Road infrastructure development</td><td>198.15</td></tr><tr><td>Institutional development</td><td>18.60</td></tr><tr><td>Project management</td><td>19.00</td></tr><tr><td>Contingencies</td><td>148.36</td></tr><tr><td>Finance charges</td><td>41.19</td></tr></table>	Item	Amount (\$ million)	Road infrastructure development	198.15	Institutional development	18.60	Project management	19.00	Contingencies	148.36	Finance charges	41.19								
Item	Amount (\$ million)																				
Road infrastructure development	198.15																				
Institutional development	18.60																				
Project management	19.00																				
Contingencies	148.36																				
Finance charges	41.19																				
3.1 RRNMU (fully staffed) in place in five pilot districts: December 2012; in 25 more districts: December 2014																					
3.2 Construction and equipping of five RRNMUs completed: September 2014; 25 more RRNMUs: March 2017																					
4. Improvement of road safety	Japan Fund for Poverty Reduction: \$1.30 million																				
4.1 Systematic RSAs on existing roads, on sample DPRs under each tranche during construction, and on sample of newly constructed roads conducted (by PICs and PIUs: in 2011–2012; by RRNMUs: in 2013 in 5 districts, and in 2015 in 30 districts)	<table><tr><th>Item</th><th>Amount (\$'000)</th></tr><tr><td>Consultants</td><td></td></tr><tr><td>Remuneration and per diem</td><td>1,075.00</td></tr><tr><td>International and local travel</td><td>62.00</td></tr><tr><td>Reports and communications</td><td>5.00</td></tr><tr><td>Equipment</td><td>10.00</td></tr><tr><td>Workshops, seminars, conferences</td><td>15.00</td></tr><tr><td>Miscellaneous administration and support costs</td><td>20.00</td></tr><tr><td>Representative for contract negotiations</td><td>6.00</td></tr><tr><td>Contingencies</td><td>107.00</td></tr></table>	Item	Amount (\$'000)	Consultants		Remuneration and per diem	1,075.00	International and local travel	62.00	Reports and communications	5.00	Equipment	10.00	Workshops, seminars, conferences	15.00	Miscellaneous administration and support costs	20.00	Representative for contract negotiations	6.00	Contingencies	107.00
Item	Amount (\$'000)																				
Consultants																					
Remuneration and per diem	1,075.00																				
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Equipment	10.00																				
Workshops, seminars, conferences	15.00																				
Miscellaneous administration and support costs	20.00																				
Representative for contract negotiations	6.00																				
Contingencies	107.00																				
5. Capacity building																					
5.1 RCTRC (fully staffed) in place in five investment program states: December 2013																					
5.2 Large-scale training started: June 2014																					
5.3 Construction and equipping of five RCTRCs completed : December 2014																					
6. Effective project management	Technical Assistance Special Fund (TASF-other sources): \$1.00 million																				
6.1 SRRDAs, PIUs, TSC, and PICs in place with full staffing and equipment: throughout the investment program	<table><tr><th>Item</th><th>Amount (\$'000)</th></tr><tr><td>Consultants</td><td></td></tr><tr><td>Remuneration and per diem</td><td>603.00</td></tr><tr><td>International and local travel</td><td>43.00</td></tr><tr><td>Reports and communications</td><td>5.00</td></tr><tr><td>Equipment</td><td>7.00</td></tr><tr><td>Workshops, seminars, conferences</td><td>155.00</td></tr><tr><td>Miscellaneous administration and support costs</td><td>22.00</td></tr><tr><td>Representative for contract negotiations</td><td>6.00</td></tr><tr><td>Contingencies</td><td>159.00</td></tr></table>	Item	Amount (\$'000)	Consultants		Remuneration and per diem	603.00	International and local travel	43.00	Reports and communications	5.00	Equipment	7.00	Workshops, seminars, conferences	155.00	Miscellaneous administration and support costs	22.00	Representative for contract negotiations	6.00	Contingencies	159.00
Item	Amount (\$'000)																				
Consultants																					
Remuneration and per diem	603.00																				
International and local travel	43.00																				
Reports and communications	5.00																				
Equipment	7.00																				
Workshops, seminars, conferences	155.00																				
Miscellaneous administration and support costs	22.00																				
Representative for contract negotiations	6.00																				
Contingencies	159.00																				
6.2 Technical assistance-financed consultants in place: December 2012																					
6.3 Loan-financed RCTRC consultant in place: March 2014																					
6.4 Advance procurement of civil works starts: at least 2 months before PFR approval																					
6.5 Construction supervision by PIUs																					
6.6 Baseline surveys by TSC and DPR consultants prior to or during the first year of each tranche																					
6.7 Subsequent tranches prepared (annually)																					
6.8 Internal monthly monitoring by PIUs; quarterly reporting by SRRDAs; quarterly external monitoring by TSC and PICs (throughout the investment program implementation)																					
6.9 Impact monitoring by TSC (on completion of tranche 1–3 roads) and by NRRDA (on completion of the investment program)																					

ADB = Asian Development Bank; DPR = detailed project report; km = kilometer; NRRDA = National Rural Roads Development Agency; OMMAS = online management, monitoring, and accounting system; PBMC = performance-based maintenance contract; PFR = periodic financing request; PIC = project implementation consultant; PIU = project management unit; PMGSY = Pradhan Mantri Gram Sadak Yojana (Prime Minister's Rural Roads Program); PPP = public-private partnership; PRI = *panchayati raj* institution; RCTRC = rural connectivity training and research center; RRNMU = Rural Road Network Management Unit; RSA = road safety audit; SRRDA = state rural road development agency; TSC = technical support consultant.

Source: Asian Development Bank.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

Unless modified or amended in Loan or Project Agreement(s) under the Facility, the Facility will be implemented as follows:

A. Project Management

1. The National Executing Agency for the Investment Program will be the Ministry of Rural Development (MORD). MORD, with technical and management support from the National Rural Road Development Agency (NRRDA) will be responsible for overall supervision and execution of the Investment Program. The Coordination Committee for RCIP is in place from 30th August 2011, and will meet semi-annually to monitor to use of the loan funds and overall implementation performance of the project. The committee is chaired by MORD joint secretary cum director general, NRRDA; and includes director, rural connectivity, MORD; director (ADB-II), DEA; Director (Project-I), NRRDA, and senior representatives of the Implementing Agencies from all 5 RCIP states.

2. The NRRDA will be supported by the Technical Support Consultant (TSC) engaged by NRRDA. TSC will be responsible for overall monitoring and due diligence of preparation and implementation of Subprojects under the Investment Program, impact monitoring for each Project under the Investment Program, and overall guidance and related training to the States. NRRDA will also engage consultants to assist in the rollout of the Rural Road Training and Research Centers (RCTRCs) in each State and conduct large scale training of PIU engineers, technicians, site supervisors; concerned representatives of Panchayati Raj Institutions (PRIs); design consultants and contractors

3. The State-level Executing Agencies will be each State acting through its relevant agency, i.e. Public Works Department of Assam, Chhattisgarh State Department of Panchayat and Rural Development, Madhya Pradesh State Department of Panchayat and Rural Development, Odisha State Department of Rural Development, and West Bengal State Department of Panchayat and Rural Development. Overall oversight and coordination at the State level will be through State-level Coordination Committee headed by the Secretary of the Project Executing Agency or Chief Executive Officer of the IA. The Implementing Agencies (IAs) will be state rural roads development agencies (SRRDA)¹¹ and will implement the Investment Program through PIUs established at the district level in accordance with PMGSY guidelines. A PIU is normally responsible for the preparation and implementation of the Subprojects of the Investment Program in a single district. It is typically headed by a superintending/executive engineer, and is staffed with assistant/junior engineers, cashiers and other supporting staff. In the course of the implementation of the Investment Program each state will convert around 6 PIUs into the Rural Road Network Management Units (RRNMUs) to further strengthen capacities in the management of planning, budgeting, construction and maintenance of rural roads.

¹¹ The functions of SRRDA are carried out by State Road Board in Assam, State Rural Roads Agency in Odisha, State Rural Development Agency in West Bengal, and Rural Roads Development Authorities in Madhya Pradesh and Chhattisgarh.

4. SRRDAs and PIUs will be supported by the Project Implementation Consultants (PICs) engaged by each State. PICs will assist in the preparation of safeguard planning documents for each Road Subproject under the Investment Program and be responsible for the day-to-day monitoring and due diligence of implementation. PICs will also conduct regular road safety audits of designs, during construction and on existing roads, road safety awareness sessions to the affected communities, and road maintenance inspections and monitoring.

5. All matters relating to selection or appointment, or any changes to such selection or appointment, of NRRDA Director (Projects 1) in charge of ADB projects, or any head of State level EAs and IAs will be promptly notified by MORD/NRRDA to ADB under intimation to India.

6. India will ensure that the States implement all measures related to the setup and rollout of the RRNMUs and RCTRCs in a timely manner, including design of facilities and all necessary counterpart support to the consultants to be engaged to assist with the establishment and rollout of RRNMUs and RCTRCs under the ADB technical assistance (Institutional Development for Rural Roads Asset Management), which will have two components: (i) support to the piloting of Rural Road Network Management Units, and (ii) support to the establishment of the Rural Connectivity Training and Research Centers.

B. Fund Flow

7. The funds flow from MORD to the States will follow the pattern of grants-in-aid under the centrally sponsored schemes of the Government of India, and its relevant financial rules will apply. This includes requirements such as providing audited utilization certificates for each fund release from MORD to the States. In addition, to ensure timely release of the central grant, and exclusive state use for the purpose of the investment program, MORD will require that the central grant be kept in a separate bank account in each RCIP state. For disbursement of loan proceeds under the Facility, reimbursement procedures will be used.

8. In accordance with the PMGSY Guidelines, the States will provide adequate and timely funding for proper maintenance of the PMGSY roads. Any increases in the actual amounts to be provided will be met by the respective State through additional budget allocations, or other alternative sources of financing.

9. MORD will strictly enforce the in-built mechanism linking availability of central funds for construction with the States providing adequate maintenance financing. The Investment Program will further increase the effectiveness of the maintenance planning, budgeting, contracting and administration through the establishment of RRNMUs and RCTRCs.

D. Accounting, Auditing, and Reporting

10. (a) MORD and the States will (i) maintain separate accounts and records for the projects; (ii) prepare annual financial statements for the projects in accordance with accounting principles acceptable to ADB; (iii) have such financial statements for the projects audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the use of the loan proceeds and compliance with the financial covenants of the legal agreements as well as on the use of the procedures for the imprest account(s) and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the projects that were identified in the course of the audit, if

any); and (v) furnish to ADB, no later than 9 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB will disclose the annual audited financial statements for the projects within 30 days of the date of their receipt by posting them on ADB's website.

(c) MORD and the States will enable ADB, upon ADB's request, to discuss the financial statements for the projects with the auditors appointed by (i) MORD, and (ii) the States and will authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of MORD or the relevant State, unless MORD or the State shall otherwise agree.

11. MORD through NRRDA will prepare and submit to ADB consolidated quarterly progress reports on the implementation of each Project under the Investment Program. These reports will include expenditures to date, expenditures incurred during the reporting period vs. projections (total and Statewise), report on performance monitoring (including status of outcome and outputs for each Project), internal monitoring on social and environmental safeguards done on monthly basis, information on progress of civil works, consulting services, disbursements, status of loan covenants, issues encountered (including any changes to the implementation schedule, and remedial actions taken, anticipated problems and the proposed remedial measures, and work to be undertaken in the following period. NRRDA will submit the quarterly progress reports to ADB within 45 days from the close of each quarter.

12. Report on monitoring of social and environmental impacts will be provided to ADB annually by the States.

13. MORD through NRRDA will prepare and provide ADB with a project completion report within 3 months of physical completion of each individual Project and a Facility completion report within 3 months of completion of transactions under the Facility. These reports will provide a detailed evaluation of the design, costs, contractors' and consultants' performance, social and economic impact, economic rate of return, and other details relating to the Investment Program as may be requested by ADB.

E. Project Performance Monitoring and Evaluation

14. For monitoring purposes, MORD will maintain the online management, monitoring, and accounting system (OMMAS), which enables effective monitoring of work progress and reporting of fund flow via the PMGSY website. Specifically, for the monitoring of the performance of each Project under the Investment Program, NRRDA will, within 3 months of the date of the FFA, develop and establish a systematic project performance management system, in a form and substance acceptable to ADB, for use throughout the life of the Investment Program. NRRDA with support of TSC will establish, within 3 months of effectiveness of each Project, a baseline for performance indicators to be used for monitoring implementation of each Project. It will conduct annual evaluation surveys for each Project, in accordance with the project performance management system, to evaluate the scope, implementation arrangements, progress, and achievement of the outcomes and outputs. Further details of performance monitoring and evaluating are described in the Facility Administration Manual.

F. Project Review

15. ADB, India, MORD, and the States will meet regularly as required to discuss the progress of RCIP and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving the outcome of the Investment Program and each Project. Mid-term review of the Investment Program will be undertaken by ADB, India, MORD, and the States. The mid-term review will be undertaken in the fourth year from the date of approval of the Facility by ADB and will focus on issues related to implementation arrangements, and agree on changes, if needed, to achieve the outcome of the Investment Program.

G. Preparation of Subprojects

16. Preparation of the Road Subprojects will follow PMGSY guidelines supplemented by: (i) enhanced planning and basic design considerations; (ii) detailed estimates for the utility shifting and relocation; and road safety considerations; (iii) adherence to a standardized format of detailed project reports as developed by the project preparatory technical assistance; (iv) subjecting to a road safety audit on a sample basis and addressing recurrent road safety issues as identified by the road safety audits; and (v) additional level of quality control by IAs performed with the use of standardized quality control checklist and software as developed by the project preparatory technical assistance.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR INVESTMENT SUBPROJECTS

Investment Subproject Selection Criteria	<p>Unless modified or amended in Loan or Project Agreements under the Investment Program, the following criteria will apply in selecting Road Subprojects intended for financing under the Facility:</p> <ul style="list-style-type: none"> (i) Road Subprojects will cover rural roads that do not provide an all-weather road connectivity; (ii) Road Subprojects will be eligible for construction or upgrading in accordance with the PMGSY Guidelines, and be included in the respective district core network; (iii) Road Subprojects will be ranked using an area approach given in the PMGSY Guidelines, selecting packages of roads that contain: (a) the link road that connects the highest priority habitation in the Comprehensive New Connectivity Priority List, (b) the through road that serves the link road, and (c) other eligible link roads that connect to the through road; (iv) Road Subprojects will satisfy the requirements of PMGSY Guidelines for technical feasibility and cost-effectiveness; (v) Road safety measures will be incorporated in the road designs as required under the PMGSY Guidelines and incorporate measures to address road safety issues as identified by road safety audits; (vi) Design of Road Subprojects will be finalized based on input from community consultation conducted in accordance with the PMGSY Guidelines, as supplemented by the CPF and input from road safety audits; (vii) If a Road Subproject requires land to be made available, community consultation process in accordance with the PMGSY Guidelines, as supplemented by the CPF will be conducted, the information on process of land transfer, assistance/support options and grievance procedures will be disseminated to the affected communities, and issues are resolved before awarding civil work contract; (viii) Road Subprojects will be environmentally sound, and none will be located within or close to an environmentally sensitive area, such as a wildlife sanctuary, national park, or other areas having significant ecological functions; (ix) An environmental code of practice (ECOP) checklist will be prepared for each Road Subproject in accordance with the
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EARF, relevant provisions of the ECOP and related road-specific environmental mitigation measures for each Road Subproject identified, and road-specific environmental management plan (EMP) for each Road Subproject prepared;

- (x) Sufficient counterpart funding will be allocated by the India or related States, as required, to implement the Road Subproject as scheduled and maintain the Road Subproject road(s) under the post-construction 5-year maintenance contract; and
- (xi) All necessary central and State government approvals will have been obtained for the Road Subproject.

Unless modified or amended in Loan or Project Agreements under the Investment Program, the following criteria will apply in selecting Non-Road Subprojects (including offices of the rural road network management units, or rural connectivity training and research centers) intended for financing under the Facility:

- (i) Land for the Non-Road Subprojects will be government land;
- (ii) Non-Road Subprojects will be selected to comply with the related provisions of EARF, will be environmentally sound, and none will be located within or close to an environmentally sensitive area, such as a wildlife sanctuary, national park, or other areas having significant ecological functions;
- (iii) Relevant environmental assessment reports and Non-Road Subproject specific EMPs covering all Non-Road Subprojects on a state wise basis under each tranche will be prepared;
- (iv) Sufficient counterpart funding will be allocated by the India or related States, as required, to implement the Non-Road Subproject as scheduled and maintain the facility; and
- (v) All necessary central and State government approvals will have been obtained for the Non-Road Subproject.

Approval Procedures For Investment Subprojects

Approval procedures for Road Subprojects intended for financing under the Facility will follow the process given in the PMGSY Guidelines as supplemented by the requirements of the CPF and the EARF (including ECOP). Specifically, for Road Subprojects intended for financing under the Facility, the approval procedures will be as follows:

- (i) The State IAs will prepare Road Subproject proposals in formats given in the PMGSY Guidelines, the CPF and the EARF indicating compliance of each proposed Road Subproject with the selection criteria, and will submit the proposals to the National Rural Roads Development Agency (NRRDA);¹²

¹² SRRDAs and PIUs will complete quality control process of the detailed project reports, and will submit detailed project reports to the state technical agency for technical scrutiny after completing all the procedural requirements of the PMGSY guidelines, CPF, and EARF. Compliance with the requirements of the CPF and EARF will be concurrently reviewed by the technical support consultant financed under the MFF.

- (ii) NRRDA will review the Road Subproject proposals, check compliance with the selection criteria, and for those found compliant with the selection criteria, recommend approval to the MORD;
- (iii) MORD will scrutinize the proposals, recommend modifications as needed, and, subject to addressing modification, will give final approval for the Road Subproject proposals to the State IA;
- (iv) Each State will (a) prepare all required safeguard planning documents for each Road Subproject proposed to be financed under Facility, and (ii) safeguard planning documents for roads approved for each tranche proposed to be financed under the Facility¹³. Each State will submit safeguard planning documents and safeguard due diligence reports on each tranche proposed to be financed under the Facility to ADB and NRRDA for review and clearance.
- (v) Upon clearance of the safeguard planning documents by ADB and NRRDA, the State IA will proceed with tendering as guided by the PMGSY Guidelines.
- (vi) If any time during the implementation the design a Road Subproject is modified to affect social or environmental impact, all related safeguard planning documents for such Road Subproject will be modified accordingly and undergo clearance by NRRDA and ADB

Approval procedures for Non-Road Subprojects intended for financing under the Facility will be as follows:

- (i) The State IAs will prepare Non-Road Subproject proposals in formats required by MORD and the EARF indicating compliance of each proposed Non-Road Subproject with the requirements of MORD and EARF, and will submit the proposals to NRRDA;
- (ii) NRRDA will review the Non-Road Subproject proposals, check compliance, and forward those found compliant to ADB for the prior review and clearance;
- (iii) Upon ADB's clearance, NRRDA will recommend approval to the MORD;
- (iv) MORD will scrutinize the proposals, recommend modifications as needed, and through NRRDA inform ADB on the modifications;
- (v) Upon ADB clearance of modifications, MORD will give final approval for the Non-Road Subproject proposals to the State IA subject to addressing modifications; and
- (vi) The State IA will proceed with tendering in accordance with the procedures specified in the FAM.
- (vii) If any time during the implementation the design a Non-Road Subproject is changed to affect social or environmental impact, all related safeguard documents for such Non-Road

¹³ Preparation of these documents should be done in parallel and concurrently with the preparation of road designs.

Subproject will be modified accordingly and undergo clearance by NRRDA and ADB.

Monitoring during Implementation

Adherence to requirements of the PMGSY Guidelines, the CPF, the EARF (including ECOP) and other applicable guidelines for Subproject implementation will be monitored through the completion of each Subproject and only those Subprojects meeting the applicable requirements will be eligible for ADB financing. The existing monitoring mechanism for road construction under the PMGSY (OMMAS, State Quality Monitor and National Quality Monitor), will be supplemented by the quality control of designs conducted by PIUs and SRRDAs using design quality control checklists, and input from the Technical Support Consultant for safeguard compliance and road safety.

SCHEDULE 5

SAFEGUARD FRAMEWORKS

1. India will ensure that all the requirements prescribed in this Schedule, and in the following safeguard frameworks and plans, which have been prepared with respect to the Facility and the first tranche and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the Subprojects under the Facility:

- (i) Environmental Assessment and Review Framework (EARF) of 27 February 2012;
- (ii) Community Participation Frameworks (CPFs) for each State of 5 August 2011;
- (iii) Initial Environmental Examination (IEE) dated 27 February 2012, standard Environmental Management Plan (EMP) dated 27 February 2012, and subproject-specific EMPs for Tranche-1 roads; and
- (iv) Subproject-specific Community Participation Plans (CPPs) for Tranche-1 sample roads, and Subproject-specific Community Participation Frameworks for Tranche 1 roads.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies: (i) the general and specific anticipated social and environmental impacts of the Subprojects likely to be financed under the Facility; (ii) the safeguard criteria that are to be used in selecting Subprojects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity requirements) and the client's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each PFR, the applicability and relevance of each safeguard framework will be reviewed and updated as needed to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policy, as amended from time to time.

4. In all cases, for each new PFR preparation, India will review ongoing Subprojects under the Facility to check on the status of compliance with the safeguards plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the Subprojects included in the new tranche. In any case a noncompliance is discovered in the course of the review of ongoing subprojects, a corrective action plan will be prepared and submitted to ADB.

SCHEDULE 6

UNDERTAKINGS

Terms defined in Attachment 1 to this Schedule 6 and used as capitalized terms throughout the FFA shall have the same meaning as set out in Attachment 1 to this Schedule 6.

India shall ensure, and shall cause the States to ensure the following:

Execution and Implementation Arrangements

1. India, the States, Project Executing Agencies and the Implementing Agencies (IAs) shall ensure that each Project under the Investment Program is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by India and ADB. In the event of any discrepancy between the FAM and the Project-specific Loan Agreement, the provisions of the Loan Agreement shall prevail.
2. The Project Executing Agencies shall ensure that the Implementing Agencies employ sufficient staff for the duration of the Investment Program with adequate and relevant expertise in the field of project management, financial management, engineering, construction supervision, procurement, construction, road maintenance and safety, and environmental and social safeguards implementation. The Project Executing Agencies shall keep the Implementing Agencies equipped with the necessary office space, facilities, equipment, support staff and management information systems, and cover the costs of social impact mitigation, utility relocation, and road maintenance through annual budget allocations. India and the Project Executing Agencies shall normally (i) maintain assignment of the same persons to key positions in the Implementing Agencies for at least three consecutive years, (ii) not leave key positions vacant for more than 30 days, and (iii) not transfer more than one key staff within a 6-month period.
3. The Project Executing Agencies for the Project shall be (a) MORD at the central level, (b) Assam through its Public Works Roads Department, (c) Chhattisgarh through its Panchayat and Rural Development Department, (d) Madhya Pradesh through its Panchayat and Rural Development Department, (e) Odisha through its Rural Development Department, and (f) West Bengal through its Panchayat and Rural Development Department at the state level. MORD shall be responsible for overall supervision and execution of the Project at central level and each State shall be responsible for the execution of the Project at its own state level.
4. Each State shall assist the IA for that State in obtaining approvals and clearances for timely Project execution under the PMGSY Guidelines and other applicable laws and regulations of India and that relevant State.

Counterpart Support

5. Each State and Project Executing Agency shall provide, as necessary, respective counterpart staff, land, facilities, and counterpart funding required for timely and effective implementation of the Project including, without limitation, any funds required (a) to meet any shortfall between cost and revenues for the operation and maintenance of the facilities created or rehabilitated under the Project, (b) to mitigate unforeseen environmental and social impacts, (c) to meet additional costs arising from utility relocation, design changes, price escalation in construction costs and/or unforeseen circumstances, and (d) for maintenance of the facilities to be constructed and/or upgraded under the Project. India and/or the State shall make the resources thus required available on an annual basis for each fiscal year.

6. Each State shall ensure that the PICs are engaged and assist (a) the implementation of the provisions of the CPF and the EARF, IEE and EMPs for all Road Subprojects under the Facility along with road safety and road maintenance tasks, and that the PICs shall include, as a minimum, specialists in road maintenance, road safety, social safeguards, gender, and environmental safeguards.

7. Each State shall ensure that adequate counterpart staff and funding are dedicated for the implementation of the social and environmental safeguard requirements for all Non-Road Subprojects under the Facility.

Selection Criteria and Approval Process for Subprojects

8. India, the States and the Project Executing Agencies shall ensure that all Subprojects are selected and approved in accordance with the selection criteria and approval process stipulated in Schedule 4 to the FFA.

9. India, the States, Project Executing Agencies and the Implementing Agencies shall ensure that all documents forming the basis for screening, selection and processing of Subprojects are made available to ADB upon request and are kept available for such purposes for a minimum period of five years from the date of the project completion report for the Project.

10. India, the States the Project Executing Agencies and the Implementing Agencies shall analyze the recommendations made by the consultants engaged under the Project and/or associated technical assistance(s) for the Investment Program, and agree with ADB on the extent and manner of their implementation.

Coordination Committees

11. (a) India shall ensure that the Coordination Committee, chaired by a MORD Joint Secretary, shall be established at the outset of the Investment Program and shall continue to meet on a semi-annual basis throughout the implementation of the Investment Program and monitor the use of Loan funds and overall implementation performance of the Investment Program and of each Project under the Facility.

(b) Each State shall establish the State-level Coordination Committee headed by the Secretary of the Project Executing Agency or Chief Executive Officer of the IA. The State-level Coordination Committee shall meet on a semi-annual basis to monitor the use of Loan funds and overall implementation performance of the Investment Program and each Project under the Facility at the State level.

PIUs and RRNMUs

12. Each State shall ensure that the PIUs and the RRNMUs established under the projecta shall implement the Subprojects and carry out necessary coordination with the concerned departments in the State and Panchayats to ensure the smooth implementation of the Subprojects.

Institutional Reforms and Sustainability

Road Maintenance and RRNMUs

13. In accordance with the PMGSY Guidelines, each State shall provide adequate and timely funding for proper maintenance of the PMGSY roads. Any increases in the actual amounts to be provided shall be met by the respective State through its respective additional budget allocations, or other alternative sources of financing.
14. Except as ADB may otherwise agree, each State shall require the respective IA (through the PIUs and RRNMUs) to ensure proper maintenance of the PMGSY roads until these roads are transferred to the designated Zilla Panchayats in accordance with the PMGSY Guidelines. Each State shall also allocate the requisite funds to the relevant functionaries at either the Zilla Panchayat or the PIUs and RRNMUs, as the case may be, for such maintenance in accordance with the requirements of the PMGSY Guidelines.
15. Each State shall ensure that either Zilla Panchayat or the PIU or RRNMU, as the case may be, shall ensure further maintenance of the roads after completion of the initial 5-year maintenance period under the related contracts.
16. Each State shall establish one pilot RRNMU during the first year, and approximately five additional RRNMUs by no later than the end of the third year of implementation of the Investment Program (30 RRNMUs in total). The RRNMUs shall be created based on the existing PIUs for rural roads and shall have staffing, equipment, and facilities adequate to provide effective management of the rural road network. The States shall ensure full RRNMU staffing and budget adequate for the full implementation of RRNMU tasks, including adequate budget for the routine maintenance of the rural road network. The States shall prepare the design of RRNMU facilities and shall normally (i) not transfer key staff from the RRNMUs for at least 3 consecutive years, (ii) not leave key positions vacant for more than 30 days, and (iii) not transfer more than one key staff within a 6-month period.
17. Each State shall review the experience and lessons learned regarding the operations of RRNMUs and make a decision on converting the remaining PIUs into RRNMUs.

Road Safety

18. Each State shall incorporate on a representative sample basis road safety audits accompanied by road safety awareness sessions in the Subproject design process, during construction, and on existing roads and shall ensure that recommendations of the road safety audits are reviewed and promptly incorporated in the design and implemented on existing roads as appropriate.
19. Each State shall ensure that concerned staff of the PIU or RRNMU, as the case may be, participates in road safety audits and develops capacities to conduct the process in-house or to manage the process effectively.

Subproject Design

20. MORD shall cause the States to ensure that the design of Road Subprojects is conducted in accordance with the process as specified in Schedule 3 of the FFA.

Rural Connectivity Training and Research

21. Each State shall establish one Rural Connectivity Training and Research Center (RCTRC) during the first year of implementation of Investment Program to (i) conduct systematic training of engineers involved in the management of the rural road network, technicians, site supervisors, concerned staff of PRIs, design consultants and contractors, and (ii) support a sustainable practice-oriented research on rural roads. The RCTRCs shall have staffing, equipment, and facilities adequate for high-quality and large scale training, both in-house and with the use of external resource persons. Each State shall ensure full RCTRC staffing and budget adequate for the full implementation of RCTRC tasks. The States shall prepare the design of RCTRC facilities and shall normally (i) not transfer key staff from RCTRCs for at least 3 consecutive years, (ii) not leave key positions vacant for more than 30 days, and (iii) not transfer more than one key staff within a 6-month period.

Safeguards

Environment

22. India and the States shall ensure or cause the relevant Project Executing Agency to ensure, in respect of the relevant State, that the preparation, design, construction, implementation, operation and decommissioning of each Subproject comply with (a) all applicable laws and regulations of India and of the relevant State relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the relevant IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

23. Only those Subprojects that meet the eligibility requirements set out in Subproject selection criteria and procedures included in Schedule 4 to the FFA, adhere to ADB's Safeguard Policy Statement (2009), the EARF and related IEE, and other applicable guidelines for Subproject implementation (including PMGSY Guidelines applicable to Road Subprojects), shall be eligible for financing from the proceeds of Loans made under the Facility. Each State shall monitor the implementation of Subprojects through to the completion of each Subproject and report to NRRDA and ADB on the monitoring.

24. Each State shall require the respective IA to ensure that the preparation, design, construction, implementation, operation and decommissioning of each Subproject comply with (a) all applicable laws and regulations of India and of the relevant State relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the relevant IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report. No construction work shall be undertaken on sections of Road Subprojects that pass through a forest reserve unless clearance from appropriate authorities is obtained under applicable laws and regulations of India and each State, and no Subproject shall be located within an environmentally sensitive area such as a wildlife sanctuary, national park, or other areas with significant ecological functions that are declared as national parks, sanctuaries, or national/international cultural heritage. In accordance with the EARF each State shall require the IA to (i) prepare Environmental Code of Practice (ECOP) checklists for each and every road and bridges longer than 50 m, based on which Road Subproject specific EMPs and IEEs shall be prepared, and (ii) prepare relevant environmental assessment reports and EMPs for all Non-road Subprojects for each State under each tranche.

Land Availability and Community Participation Framework.

25. India and the States shall ensure or cause the relevant Project Executing Agency to ensure, in respect of the relevant State, that the respective IA implements the provisions of the CPF for all Road Subprojects as agreed upon with ADB and in conformity with all relevant applicable laws and regulations of India and each State.

26. India and the States shall ensure or cause the relevant Project Executing Agency to ensure, in respect of the relevant State, that the respective IA shall, subject to compliance with the relevant provisions of the CPF, EARF/ ECOP and related IEE, EMPs, and any corrective or preventative actions set forth in a Safeguards Monitoring Report, and in accordance with all relevant applicable laws and regulations of India and each State, acquire or make available the land and rights to land free from any encumbrances, clear the utilities, trees and any other obstruction from such land, required for commencement of construction activities in accordance with the schedule agreed under the related Works contract.

27. India shall cause each State to ensure that subsequent to award of any works contract for any Road Subproject, no section or part thereof under the works contract shall be handed over to the contractor unless the applicable provisions of the CPF have been complied with.

28. India shall cause each State to ensure that (a) the respective IA shall (i) carry out the community consultation process for all Road Subprojects in accordance with the PMGSY Guidelines as supplemented by the CPF, EARF and ECOP, (ii) disseminate the information on process of land transfer/availability as the case may be, support/assistance provisions and grievance procedures to the Project-affected communities in a timely manner so that all related issues are resolved before awarding Work contracts, and (iii) ensure that in case of voluntary land donations/transfer these are undertaken in a transparent manner under proper documentation, and avoid any kind of coercion or forced donations/transfer; and in this regard shall not exercise any eminent domain or related mechanisms that may be deemed to be compulsory acquisition of land; and (b) the details of land made available in accordance with the procedures prescribed in the PMGSY Guidelines, are reflected in the local land records in a timely manner, to avoid any disputes.

29. India and each State shall ensure acceptance of the Project through effective community participation in selecting and implementing Road Subprojects in accordance with the PMGSY Guidelines as supplemented by the CPF, EARF, and ECOP.

30. In case of any significant or related impacts on Scheduled Tribes under any Road Subproject, the mitigation shall follow the requirements as set out in the CPF as agreed by ADB. As also laid down in the CPF, for any impact on land involving traditional and tenure rights of the Scheduled Tribes, the legal provisions laid down by India and the related State pertaining to land transfer shall be followed.

Human and Financial Resources to Implement Safeguards Requirements

31. India and the States shall make available or cause the relevant Project Executing Agency to make available, in respect of the relevant State, necessary budgetary and human resources to prepare in accordance with CPF and EARF and fully implement the CPFs and EMPs.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

32. India and the States shall ensure or cause the relevant Project Executing Agency to ensure that, in respect of the relevant State, all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures and requirements relevant to the contractor set forth in the IEEs, ECOPs, EMPs and CPF (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set out in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Project Executing Agency with a written notice of any unanticipated environmental, social impacts that arise during construction, implementation or operation of the Project that were not considered in the IEEs, ECOPs, EMPs, and CPFs;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

33. Subject to compliance with the requirements of the CPF, EARF, ECOP and related IEE, each State shall (i) include a standard EMP into the bidding documents; and (ii) prepare and provide with the detailed project report a Subproject specific EMP, to enable the contractor to estimate and include the cost required for implementing the EMP in its bid.

34. Each State shall ensure that any changes to the land alignment or any environmental or social impacts during the preparation or implementation of each Subproject shall be subject to prior approval by ADB or related Project Executing Agency, as the case may be, in accordance with the Subproject selection criteria and approval procedures included in Schedule 4 to the FFA.

Safeguards Monitoring and Reporting

35. India and the States shall do the following or shall cause the relevant Project Executing Agency, in respect of the relevant State, to do the following:

- (a) submit annual Social Safeguard Monitoring Reports to NRRDA. MORD through NRRDA shall provide ADB with the annual Safeguard Monitoring Reports to be disclosed on the ADB website in accordance with the ADB's *Public Communications Policy*, (2011, as amended from time to time) and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) submit to NRRDA annual Environmental Safeguards Monitoring Reports for environmental category "B" Project and semi-annual Environmental Safeguards Monitoring Reports for environmental category "A" Project. MORD through NRRDA will provide ADB with the Safeguard Monitoring Reports to be disclosed on the ADB website in accordance with the

ADB's *Public Communications Policy*, (2011, as amended from time to time);

- (c) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEEs, ECOPs, EMPs, and CPFs, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (d) report any breach of compliance with the measures and requirements set forth in the EMPs, and CPFs promptly after becoming aware of the breach.

36. India through MORD and relevant States shall ensure that no Works contract for a Subproject are awarded which involves environmental impacts until the Project Executing Agency has incorporated the relevant provisions from the relevant EMP into the Works contract.

37. India through MORD and relevant States shall ensure that no Works contract involving social impacts for a Road Subproject are awarded until the relevant State has prepared a Community Participation Framework (CPF) for the Road Subproject.

38. India through MORD and the relevant States shall ensure that no Works contracts are awarded until all requirements as referred to in this Schedule in paragraphs 28(a), 32(a-c) and 46 have been complied with.

Prohibited List of Investments

39. India and the States shall ensure or cause the Project Executing Agencies to ensure that no proceeds of the Loans under the Facility are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Procurement

40. India, through MORD and the relevant State, and ADB shall ensure that any procurement activity under national competitive bidding is consistent with the Procurement Guidelines. The PMGSY standard bidding document, and procurement procedures each of such standard bidding document and procurement procedures as amended by agreement by ADB, and used for national competitive bidding under Rural Roads Sector II Investment Program [Loans No. 2248 (Assam, Odisha and West Bengal), Loan No. 2414 (Odisha), Loan No. 2445 (Assam and West Bengal), Loan No. 2535 (Assam, Odisha and West Bengal), and Loan No. 2651 (Chhattisgarh, Madhya Pradesh, Odisha and West Bengal)], , as further described in the FAM, shall apply to the Road Subprojects financed under the proceeds of the Loans under the Facility. Any modifications or clarifications to such procedures agreed between India and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after concurrence of such change by India and ADB.

Procurement Reviews

41. India through MORD shall cause the States to allow ADB carry out procurement audits during Project implementation as part of its regular review process.

Gender

42. India and the States shall ensure that the Project Executing Agencies adopt and implement the GAP in a timely manner over the entire Investment Program period, and that adequate resources are allocated for this purpose. In particular, India and the States shall ensure that (i) at least 10% of Investment Program beneficiaries are female headed households, and 40% of Investment Program beneficiaries are from vulnerable groups (poor, scheduled tribes, scheduled castes, women, and physically handicapped); (ii) at least 33% of the routine road maintenance works are done by women; and (iii) all remaining targets stated in the GAP are achieved. The Project Executing Agencies shall conduct training on GAP implementation for all staff involved in the Investment Program. Implementation of the GAP will be closely monitored, and the progress will be reported to ADB.

Labor Standards

43. India and the States shall ensure or cause the Project Executing Agencies to ensure that Works contracts follow all applicable labor laws of India and the relevant State, if any, and that these further include provisions to the effect that contractors (i) carry out HIV/AIDS awareness programs for labor and disseminate information at worksites on risks of sexually transmitted diseases and HIV/AIDS as part of health and safety measures for those employed during construction; (ii) follow and implement all statutory provisions on labor (including not employing or using children as labor, equal pay for equal work), health, safety, welfare, sanitation, and working conditions; and (iii) maximize employment of females and local poor and disadvantaged persons for construction and routine maintenance purposes, provided that the requirements for efficiency are adequately met. Such contracts shall include clauses for termination in case of any breach of the stated provisions by the contractors.

44. The PIUs and RRNMUs will coordinate with State AIDS Control Society and other public health agencies to carry out HIV/AIDS awareness programs for labor and dissemination of information at worksites on risks of sexually transmitted diseases and HIV/AIDS as part of health and safety measures for those employed during construction.

Development Coordination

45. India, MORD and each State shall keep ADB informed of discussions with other multilateral, bilateral and national aid agencies that may have implications for the implementation of the Investment Program. India and each State shall provide ADB with an opportunity to comment on any resulting policy reform and/or investment proposals, and shall take into account ADB's views before finalizing and implementing any such proposals.

Governance and Anticorruption

46. India, MORD, and the States, and the Project Executing Agencies shall ensure that anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to review and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Facility and Subprojects.

47. India, MORD, and the States, and the Project Executing Agencies shall comply with ADB's *Anticorruption Policy* (1998, as amended to date), and shall allow and assist ADB's representatives to carry out random spot checks on the work in progress and utilization of funds for the Facility and Subprojects.

Disclosure

48. By no later than 3 months after the effective date for each Project, each State shall ensure that under the PMGSY website each project related information about Project activities and procurement are disclosed as set out in detail in the FAM.

49. The States shall cause the Project Executing Agencies through the independent quality monitors under PMGSY to conduct periodic inspections and random spot checks of contractors' project related activities, bills and supporting documents..

Monitoring and Reporting

50. Each State through the respective IA shall undertake periodic Subproject performance review under each Project and the Investment Program, in accordance with the Investment Program Performance Monitoring System, to evaluate the scope, implementation arrangements, progress and achievements of objectives of the Project and overall Investment Program.

51. Each State through the respective IA shall submit to MORD the monthly progress reports on the implementation of the Subprojects under the Project. Based on these reports, MORD through NRRDA shall prepare and provide ADB with quarterly progress reports on the implementation of the Subprojects under the Project within 45 days of the close of each quarter.

52. MORD/NRRDA through India shall submit to ADB a project completion report within 3 months of physical completion of each Project. The report shall include a detailed evaluation of the Project, covering the design, costs, contractors' performance, social and economic impact, economic rate of return, implementation of social and environmental safeguard measures and other details relating to Project, as may be requested by ADB.

53. ADB, India, MORD, and each State, shall meet regularly as required to discuss Investment Program and/or Project progress and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving overall Project and Investment Program objectives.

Attachment 1 to Schedule 6, Undertakings

Relevant Definitions

(a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2010, as amended from time to time);

(b) "Coordination Committee" means committee chaired by Joint Secretary of MORD and including representatives of MORD, NRRDA, Department of Economic Affairs (DEA), the States of Assam, Chhattisgarh, Madhya Pradesh, Odisha, and West Bengal;

(c) "CPF" means the agreed Community Participation Framework applicable for the State or its implementation for each Subproject, as the case may be;

(d) "EARF" means the environmental assessment and review framework for the Investment Program, including any update thereto, agreed between India and ADB and incorporated by reference in the FFA;

(e) "ECOP" means the agreed Environmental Codes of Practice for Assam, Chhattisgarh, Madhya Pradesh, Odisha and West Bengal or its preparation for each Subproject or bridges longer than 50 m, as the case may be;

(f) "EMP" means each and any environmental management plan for a project, including any update thereto, incorporated in the IEEs, or environmental management plan for each Subproject, as the case may be;

(g) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(h) "Facility" means the multitranche financing facility provided by ADB to India for purposes of financing Projects under the Investment Program;

(i) "FAM" means the Facility administration manual dated May 2012 and agreed between India and ADB, as updated from time to time in accordance with the respective administrative procedures of India and ADB;

(j) "FFA" means the framework financing agreement dated 17 May 2012 between ADB and India with respect to the Facility;

(k) "GAP" means Gender Action Plan prepared for the Facility and for each tranche thereunder and approved by India and set out in the FAM;

(l) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(m) "IA" means the implementing agency responsible for implementation of the Subprojects under the Facility, which shall be the State Road Board in case of Assam, Chhattisgarh Rural Roads Development Agency in case of Chhattisgarh, Madhya Pradesh Rural Roads Development Authority in case of Madhya Pradesh, Odisha State Rural Roads Development Agency in case of Odisha, and West Bengal State Rural Development Agency in case of West Bengal;

(n) "IEE" means each and any initial environmental examination for the Project, including any update thereto, prepared and submitted by India pursuant to the requirements set forth in the EARF and cleared by ADB;

(o) "Investment Program" means the Rural Connectivity Investment Program, as further described in the FFA;

(p) "Ministry of Environment and Forests" means India's Ministry of Environment and Forests or any legal successor thereto;

(q) "MORD" means India's Ministry of Rural Development or any legal successor thereto;

(r) "Non-Road Subproject" means a subproject under the Investment Program and any Project that (i) meets the selection criteria set forth in Schedule 4 to the FFA, and (ii) involves the construction or development/equipping of RRNMUs or RCTRCs facilities as the case may be.

(s) "NRRDA" means the National Rural Roads Development Agency, which is an agency of MORD established to operationalize and manage the PMGSY at central level, or any legal successor thereto;

(t) "PRI" means the Panchayati Raj Institution, an institution of self-government constituted for rural areas under Article 243-B of the Constitution of India. The three levels of a PRI comprise gram panchayat at a village level, intermediate panchayat at a block level, and Zilla Panchayat/parishad at a district level.

(u) "PFR" means the periodic financing request submitted by India, for the purposes of each loan under the Facility, and for the purpose of this Loan Agreement means the periodic financing request dated 17 May 2012;

(v) "PIC" means the Project Implementation Consultants engaged by the States and financed by India;

(w) "PIUs" means project implementation units established by each State in accordance with the PMGSY Guidelines;

(x) "PMGSY" means *Pradhan Mantri Gram Sadak Yojana*;

(y) "PMGSY Guidelines" means the PMGSY Guidelines issued by MORD, as revised and issued in November 2004, as amended from time to time, and includes the Operations Manual issued in February 2005, and other instructions or notifications as may be issued under the stated guidelines;

(z) "Procurement Guidelines" means ADB's Procurement Guidelines (2010, as amended from time to time);

(aa) "Procurement Plan" means the procurement plan for the Project dated May 2012 and agreed between India and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(bb) "Project" means any project to be financed under the Facility;

(cc) "Project Executing Agency" means the entities indicated as follows, or any legal successor thereto acceptable to ADB; (a) MORD at the central level, (b) Assam through its Public Works Roads Department, (c) Chhattisgarh through its Panchayat and Rural Development Department, (d) Madhya Pradesh through its Panchayat and Rural Development Department, (e) Odisha through its Rural Development Department, and (f) West Bengal through its Panchayat and Rural Development Department at the state level;

(dd) "Project facilities" means the water supply, sewerage, solid waste management, drainage and urban transport infrastructure facilities to be constructed under the Investment Program;

(ee) "Road Subproject" means a subproject under the Investment Program and any Project that (i) meets the selection criteria set forth in Schedule 4 to the FFA, and (ii) involves the construction of PMGSY roads to an all-weather standard;

(ff) "RCTRCs" means the Rural Connectivity Training and Research Centers to be established pursuant to Paragraph 21 of Schedule 6 to the FFA;

(gg) "RRNMUs" means the Rural Road Network Management Units to be established pursuant to Paragraphs 17-21 of Schedule 6 to the FFA;

(hh) "Safeguards Monitoring Report" means each report prepared and submitted by India to ADB that describes progress with implementation of, and compliance with, the EMPs and the CPF, including any corrective and preventative actions;

(ii) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(jj) "Scheduled Tribe" means such tribes or tribal communities or parts of groups within tribes or tribal communities as are deemed under Article 342 of the Constitution of India to be Scheduled Tribes in the State

(kk) "State" means any or all of the States of Assam, Chhattisgarh, Madhya Pradesh, Odisha and West Bengal of India, as the context may require;

(ll) "State AIDS Control Society" means the governmental agency established in each State to promote AIDS awareness and control and prevention measures;

(mm) "Subproject" means any Road Subproject or Non-Road Subproject;

(nn) "TSC" means the technical support consultant to be engaged by NRRDA to assist the State IAs in, among other things, implementing road safety measures, conduct of maintenance for PMGSY roads, and monitoring compliance with Safeguard Requirements and project performance, as set out in the terms of reference attached to the FAM;

(oo) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

(pp) “Zilla Panchayat”¹⁴ means the Panchayat Raj Institution at district level as defined under Article 243-B of the Constitution of India.

¹⁴ Also known as *Zilla Parishad* in some States.