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CREDIT NUMBER 4872-IN

# Financing Agreement

(Kerala Local Government and Service Delivery Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

*July 4*, 2011

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CREDIT NUMBER 4872-IN

**FINANCING AGREEMENT**

AGREEMENT dated July 4, 2011, entered into between INDIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred twenty eight million one hundred thousand Special Drawing Rights (SDR 128,100,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

### ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### ARTICLE IV — TERMINATION

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

### ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is any of the following: Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Recipient.
- 5.02. The Recipient's Address is:

Department of Economic Affairs  
Ministry of Finance, Government of India  
North Block  
New Delhi 110001  
India

Facsimile: 91-11-23092039

- 5.03. The Association's Address is:

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

Facsimile: 1 -202-477-6391

Thiruvananthapuram,  
AGREED at — , India, as of the day and year first above written.

INDIA

By /s/ Venu Rajamony  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Roland Lomme  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to enhance and strengthen the institutional capacity of the local government system in Kerala to deliver services and undertake basic administrative and governance functions more effectively and in a sustainable manner.

The Project consists of the following parts:

#### **Part A: Performance Grants**

Provision of annual, performance-based Grants, for the carrying out of Sub-projects, to eligible GPs and Municipalities to improve local governance and service delivery.

#### **Part B: Capacity Building**

Strengthening the institutional capacity of local self governments to deliver basic services, through the provision of technical advisory services, equipment, formal orientation and training of local self government officials and representatives.

#### **Part C: Enhancing State Monitoring of the Local Government System**

1. Strengthening of the Project State's systems of performance monitoring of GPs and Municipalities to enable the Project State to carry out: (i) Annual Assessments; (ii) improvement of internal monitoring and reporting systems in respect of GPs and Municipalities; (iii) evaluations of the different activities carried out under the Project; (iv) establishment of a database of basic GP and municipal level information; (v) service delivery survey, evaluations and studies for Project; and (vi) establishment, in GIFT, of a Decentralization Analysis Cell.
2. Strengthening the capacity of KILA and SIRD through the provision of equipment, technical advisory services and training.

#### **Part D: Project Management**

Provision of technical advisory services and logistical assistance to support the management and implementation of the Project, including for the organization of information, education and communications campaigns, reporting, annual audits, mid-term review, and final evaluation of the Project.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional and Other Arrangements

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project State in accordance with the Recipient's standard arrangements for developmental assistance to the States of India.
2. The Recipient shall protect the interests of the Recipient and the Association to accomplish the purposes of the Financing.
3. The Recipient shall cause the Project State to ensure that Sub-projects, for purposes of which withdrawal of the proceeds of the Credit is sought, shall have been prepared in accordance with the procedures, terms and conditions set forth or referred to in the Project Agreement and in the PIM.

##### B. Anti-Corruption

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

#### Section II. Project Monitoring, Reporting and Evaluation

##### A. Project Reports

The Recipient shall cause the Project State to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

##### B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall, or shall cause the Project State to prepare and furnish to the Association not later than forty-five (45) days after the end of each semester, Interim Unaudited

Financial Reports (IUFRRs) for the Project covering the semester, in form and substance satisfactory to the Association.

3. The Recipient shall have the Project's Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Project Financial Statements shall cover the period of one (1) financial year of the Recipient, commencing with the fiscal year in which the first withdrawal was made. The audited Project Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

**Section III. Procurement**

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of the Schedule to the Project Agreement.

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

**A. General**

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

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, consultants' services, workshops, training, and Incremental Operating Costs under Parts B, C and D of the Project	13,700,000	100%
(2) Performance Grants under Part A of the Project	114,400,000	100% for FY 2011/12; 84% for FY 2012/13; 70% for FY 2013/14; and 60% for FY 2014/15 and thereafter
<b>TOTAL AMOUNT</b>	<b>128,100,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2015.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15:	
commencing September 15, 2021 to and including March 15, 2031	1.25%
commencing September 15, 2031 to and including March 15, 2046	2.5%

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

## APPENDIX

### Section I. Definitions

1. "Annual Assessment" means the Project State's assessments of GPs and Municipalities (as hereinafter defined) to determine their annual eligibility to receive Performance Grants (as hereinafter defined), such assessment to be carried out on the basis of performance conditions and criteria agreed with the Association, including those set out in the PIM (as hereinafter defined).
2. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.
3. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004 and revised in October 2006 and May 2010.
5. "Displaced Person" means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and "Displaced Persons" means, collectively, all such Displaced Persons.
6. "Environmental and Social Management Framework" and the acronym "ESMF" mean the Project State's framework dated November 10, 2010, and incorporated into the PIM (as defined hereinafter), which framework sets out the principles and procedures for carrying out environmental and social assessments, and preparing and implementing environmental and social management plans in respect of the Project, as said Framework may be revised from time to time with prior agreement between the Recipient and the Association.
7. "Fiscal Year" or the acronym "FY" means the fiscal year of the Recipient, starting April 1 and ending March 31 of the following year.
8. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010.

9. "Governance and Accountability Action Plan" and the acronym "GAAP" mean the Governance and Accountability Action Plan, incorporated in the PIM (as defined hereinafter), which identifies key governance issues and sets forth mitigation measures to address said issues in respect of the carrying out of Project activities, as said plan may be amended from time to time in agreement with the Association.
10. "Gram Panchayat" and the acronym "GP" mean a local government body at the village level, constituted under the Kerala Panchayat Raj Act, 1994, and under the Panchayat Raj Institution system (as hereinafter defined).
11. "GIFT" means Gulati Institute of Finance and Taxation, an autonomous institution, registered under the Travancore-Cochin Literacy, Scientific and Charitable Societies Act, 1955.
12. "Implementing Agencies" means collectively GIFT, KILA (as hereinafter defined) and SIRD (as hereinafter defined).
13. "Incremental Operating Costs" means Project-related costs incurred on account of Project management, including salaries of Project staff, costs of staff travel, conveyance and subsistence, office and vehicle rentals, and equipment maintenance contracts.
14. "KILA" means Kerala Institute of Local Administration, an autonomous institution registered under the Travancore-Cochin Literacy, Scientific and Charitable Societies Act, 1955.
15. "LSGD" means the Local Self Government Department of the Government of the Project State.
16. "MOU" means the Memorandum of Understanding between LGSD and GIFT, KILA and SIRD (as hereinafter defined) respectively, and referred to in Section I.A.1 of the Schedule to the Project Agreement.
17. "Municipality" means a local government body established under the Kerala Municipality Act, 1994, but excluding a Municipal Corporation, as defined in the Act 1994.
18. "Participating GP" means any GP that has been selected, in accordance with criteria set forth in Section I.B.1 of the Schedule to the Project Agreement, to be eligible to receive a Performance Grant under Part A of the Project.
19. "Participating Municipality" means any municipality that has been selected, in accordance with criteria set forth in Section I.B.1 of the Schedule to the Project

- Agreement, to be eligible to receive a Performance Grant under Part A of the Project.
20. "Panchayat Raj Institution" and the acronym "PRI" mean a Panchayat Raj Institution, as provided for in the Constitution of India.
  21. "Performance Grant" means a grant made or proposed to be made by the Project State, out of the proceeds of the Financing, to a Participating GP or Municipality to finance the costs of goods, works and services incurred under Sub-projects (as hereinafter defined).
  22. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006 and May 2010.
  23. "Procurement Plan" means the Recipient's procurement plan for the Project, dated February 10, 2011, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
  24. "Project Implementing Entity" means the State of Kerala.
  25. "PMU" means Project Management Unit, established within LGSD.
  26. "Procurement Manual" means the manual included in the PIM, as Section 7, and which sets forth, *inter alia*, methods and procedures for the procurement of goods, works and services under Part A of the Project, as said manual may be revised from time to time in agreement with the Association.
  27. "Project Implementation Manual" and the acronym "PIM" mean the implementation manual for the Project, dated February 10, 2011, satisfactory to the Association, containing, *inter alia*, the operating procedures for the carrying out of the Project, including implementation and institutional arrangements, funds flow, performance indicators, eligibility criteria for the selection of Participating GPs and Municipalities to carry out Sub-projects and a list of expenditures ineligible to be financed under Sub-projects, as such manual may be revised from time to time in agreement with the Association.
  28. "Project State" means the Recipient's State of Kerala, which is the Project Implementing Entity for purposes of the General Conditions.
  29. "Resolution" means a resolution or any legal instrument of a Participating GP or Participating Municipality setting forth, *inter alia*, the terms and conditions for:  
(a) the intended use, and nature of activities and expenditures to be financed with

the proceeds of a Performance Grant; and (b) the reporting and monitoring requirements relating to the use of said Performance Grant.

30. "SIRD" means State Institute for Rural Development, an autonomous body established and operating under the auspices of the Government of the Project State.
31. "Sub-project" means an activity whose objective is to create, maintain and/or operate capital assets used in service delivery within the Project State, to be carried out by a GP or a Municipality using the proceeds of a Performance Grant.
32. "Tribal and Other Vulnerable Group Development Framework" means the Project State's framework, dated November 10, 2010, incorporated in the ESMF and the PIM, which framework sets out the principles and procedures to address the concerns of tribal populations within the Project State to ensure that they duly receive social and economic benefits that are due to them.