



CREDIT NUMBER 5695-IN

# Financing Agreement

(Jhelum and Tawi Flood Recovery Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *JANUARY 21*, 2016

**FINANCING AGREEMENT**

AGREEMENT dated JANUARY 21, 2016, 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 the amount of two hundred and fifty million United States Dollars (USD 250,000,000) (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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be at a rate equal to the Reference Rate for the Credit Currency plus the Fixed Spread; provided, however, that the Interest Charge payable shall in no event be less than zero percent (0%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Dollar.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objective 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 Subsidiary Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Conditions of Effectiveness consist of the following: (i) the Recipient has entered into the Subsidiary Agreement with the Project Implementing Entity; and (ii) all conditions precedent for the effectiveness of the Subsidiary Agreement (other than the effectiveness of this Agreement) have been met/fulfilled.
- 4.02. The Additional Legal Matter consists of the following, namely that, the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 4.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

### **ARTICLE V — REPRESENTATIVE; ADDRESSES**

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

5.02. The Recipient's Address is:


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

5.03. The Association's Address is:

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

AGREED at NEW DELHI, India, as of the day and year first above written.

INDIA

 21.1.2016

By


\_\_\_\_\_  
Authorized Representative

Name: RAJ KUMAR

Title: JOINT SECRETARY

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

By

  
\_\_\_\_\_  
Authorized Representative

Name: ONNO RUHL

Title: COUNTRY DIRECTOR, INDIA

## SCHEDULE 1

### Project Description

The objective of the Project is to support the recovery and increase disaster resilience in Project Areas, and increase the capacity of the Project Implementing Entity to respond promptly and effectively to an Eligible Crisis or Emergency.

The Project consists of the following parts:

#### Component 1: Reconstruction and Strengthening of Critical Infrastructure

Reconstructing/restoring public buildings damaged during the September 2014 floods, such as hospitals, schools, higher and technical education buildings and fire stations (but excluding police stations), and providing furniture and equipment thereto.

#### Component 2: Reconstruction of Roads and Bridges

Rebuilding/reconstructing roads and bridges damaged during the September 2014 floods, including associated drainage works, retaining walls, breast walls and other structures necessary to increase resilience.

#### Component 3: Restoration of Urban Flood Management Infrastructure

(a) Rehabilitating/renovating storm water pumping stations in Srinagar municipal area, including replacing power equipment, elevating switch/panel boards, and improving operation, maintenance and management procedures; and (b) assessing urban flood management interventions in other Project Areas.

#### Component 4: Restoration and Strengthening of Livelihoods

1. Restoring training workshops and display buildings within the premises of the main handloom market in Srinagar and the School of Design, as well as productive assets in livelihood training institutions and affected craftsman families.
2. (a) Carrying out vulnerability assessment of non-farm livelihoods identifying opportunities for increasing resilience; and (b) providing technical assistance to develop options to increase access to finance and insurance for non-farm livelihood households.

Component 5: Strengthening Disaster Risk Management Capacity

1. Strengthening the Project Implementing Entity's capabilities for disaster management, through: (a) strengthening the institutional capacity of the State Disaster Management Authority, carrying out training program and regular emergency drills for emergency operation staff at district and state levels; (b) strengthening disaster response force and upgrading existing emergency services; and (c) setting up decision support systems and upgrading and/or establishing emergency operation centers to integrate and analyze emergency-related geo-spatial information.
2. Providing technical support for risk reduction and response preparedness through: (a) preparing a hydro meteorological resilience action plan focusing on extreme weather events, including assessing the existing early warning system to identify and address gaps and weaknesses and proposing solution / recommendation for the optimum use of networks and facilities; (b) carrying out studies on the entire morphology of selected key rivers impacted by the September 2014 floods to identify critical protective infrastructure needed for river bank strengthening; (c) carrying out detailed urban vulnerability analysis focus on seismic risk mitigation, and preparing models of possible risks scenarios for disaster preparedness and response planning; (d) upgrading/updating construction design standards and material specifications to align them with national and international best practices, considering the risk profile of the area; and (e) carrying out assessments of options for disaster risk financing and insurance to increase the financial resilience of the Project Implementing Entity.

Component 6: Contingent Emergency Response

Provide immediate response to an Eligible Crisis or Emergency, as needed.

Component 7: Implementation Support

Strengthening the institutional capacity of the Project Implementing Entity's agencies and their units responsible for carrying out the Project (including the PMU and PIUs) in order to enhance their capacity to execute procurement, financial management, safeguard, monitoring and evaluation, and reporting functions set forth in the Subsidiary Agreement and the Operations Manual.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. On-lending Arrangement

1. To facilitate the Project Implementing Entity carrying out the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity in accordance with the Recipient's standard arrangements for development assistance to the States of India.
2. Notwithstanding paragraph 1 above, in the event that any provision of this Agreement, including the instructions that the Association shall have specified by notice to the Recipient pursuant to Section IV.A.1 of this Schedule, were to be found inconsistent with the Recipient's standard arrangements for development assistance to the States of India, the provisions of this Agreement and related instructions shall prevail.
3. The Recipient shall at all times protect its own interests and the interests of the Association to accomplish the purposes of the Financing.

##### B. Subsidiary Agreement

1. In accordance with the provisions of Section 3.01 of this Agreement, the Recipient shall enter into a Subsidiary Agreement with the Project Implementing Entity setting forth the Project Implementing Entity's responsibilities and obligations in carrying out the Project, which agreement shall contain terms and conditions agreed with the Association including those set forth in Schedule 4 to this Agreement.
2. The Recipient shall ensure that the Project Implementing Entity: (a) performs all obligations set forth in Schedule 4 to this Agreement and in the Subsidiary Agreement; and (b) takes or causes to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to comply with the provisions of the Schedule 4 to this Agreement and of the Subsidiary Agreement and to achieve the Project's development objectives.
3. The Recipient shall:
  - (a) exercise its rights under the Subsidiary Agreement in such a manner as to protect the interest of the Recipient and the Association and accomplish the purpose of the Financing; and

- (b) not assign, amend, novate, suspend, waive, void, annul or abrogate the Subsidiary Agreement, whether in whole or in part, without the prior written concurrence of the Association.
- 4. In the event of any conflict between any provision of the Subsidiary Agreement and any provision of this Agreement or the General Conditions, the provisions of this Agreement and the General Conditions shall prevail, in that specific order of precedence.
- C. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
- D. CER Component**

The Recipient shall ensure that the following have occurred prior to the commencement of any activities under the CER Component: (i) the Recipient and the Project Implementing Entity have determined that an Eligible Crisis or Emergency has occurred; (ii) the Recipient and the Project Implementing Entity have furnished to the Association a request to include said activities in the CER Component in order to respond to said Eligible Crisis or Emergency; (iii) the Association has agreed with such determination, accepted said request and notified the Recipient and the Project Implementation Entity thereof; and (iv) the Project Implementing Entity has prepared and disclosed all safeguards instruments required for said activities in accordance with Section E.3 of the Schedule 4 to this Agreement and the Subsidiary Agreement.

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

### **A. Project Reports**

- 1. The Recipient shall cause the Project Implementing Entity 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 agreed with the Association. Each Project Report shall cover the period of one calendar quarter, 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, and cause the Project Implementing Entity to maintain 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 cause the Project Implementing Entity to prepare and furnish to the Association



by no later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have, and cause the Project Implementing Entity to have, the Project Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient and the Project Implementing Entity, commencing with the fiscal year in which the first withdrawal was made under the Project. The audited Financial Statements for each such period shall be furnished to the Association not later than nine (9) months after the end of such period.

### **Section III. Procurement**

#### **A. General**

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

#### **B. Particular Methods of Procurement of Goods, Works and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) Limited International Bidding; (b) National Competitive Bidding, subject to the additional provisions set forth in the Procurement Plan; (c) Shopping; (d) procurement under

Framework Agreements in accordance with procedures agreed with the Association; (e) Direct Contracting; and (f) Force Account.

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants' Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

**D. Procurement of Emergency Expenditures under the CER Component of the Project**

Notwithstanding any provision to the contrary in this Section, Emergency Expenditures required for the CER Component of the Project shall be procured in accordance with the procurement methods and procedures set forth in the CER Operations Manual.

**E. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association. For avoidance of doubts, the Association, shall be entitled to conduct, at any time, independent procurement reviews of all the contracts financed under the Financing.

**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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for the Project (other than the CER Component)	250,000,000	100%
(2) Emergency Expenditures under the CER Component	0	100%
<b>TOTAL AMOUNT</b>	250,000,000	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
- (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed fifty million United States Dollars (USD 50,000,000) may be made for payments made prior to this date but on or after September 2, 2014, for Eligible Expenditures under Category (1); or
  - (b) under Category (1), until and unless, the Project Implementing Entity has prepared and adopted the Operations Manual, in a manner and substance satisfactory to the Association; or
  - (c) under Category (2), for Emergency Expenditures under the CER Component of the Project, unless and until the Association is satisfied, and has notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities:
    - (i) the Recipient and the Project Implementing Entity have determined that an Eligible Crisis or Emergency has occurred, have furnished to the Association a request to include certain

activities in the CER Component in order to respond to said Eligible Crisis or Emergency, and the Association has agreed with such determination, accepted said request, and notified the Recipient and the Project Implementing Entity thereof;

- (ii) the Project Implementing Entity has prepared and disclosed all safeguard instruments required for said activities, and has implemented any actions which are required to be taken under said instruments all in accordance with the provisions of Sections II.E.1 and 3 of the Terms & Conditions Applicable to the Subsidiary Agreement;
- (iii) the Project Implementing Entity has provided sufficient evidence satisfactory to the Association, that the Coordinating Authority has adequate staff and resources for the purposes of said activities, all in accordance with the provision of Section II.E.2 of the Terms & Conditions Applicable to the Subsidiary Agreement; and
- (iv) the Project Implementing Entity has adopted an CER Operations Manual in form, substance and manner to be agreed with the Association and the provisions of the CER Operations Manual remain –or have been updated in accordance with the provisions of Section II.E.1 of the Terms & Conditions Applicable to the Subsidiary Agreement so as to be– appropriate for the inclusion and implementation of said activities under the CER Component.

2. The Closing Date is June 30, 2020.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each May15 and November 15  Commencing on November 15, 2020 to and including May 15, 2040	2.5%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid.

#### **SCHEDULE 4**

##### **Terms & Conditions Applicable to the Subsidiary Agreement**

For the purposes of Section I.B of Schedule 2 to this Agreement, the Subsidiary Agreement to be entered into by the Recipient and the Project Implementing Entity shall comprise, *inter alia*, the following terms and conditions:

##### **Section I. General Principles**

1. The General Conditions (as defined in the Appendix to the Financing Agreement) shall constitute an integral part of the Subsidiary Agreement.
2. For purposes of paragraph 1 above:
  - (a) any reference in the General Condition to the "Project Agreement" shall be deemed a reference to the "Subsidiary Agreement";
  - (b) the term "Legal Agreement" shall be construed as a reference to either the Financing Agreement or the Subsidiary Agreement, as applicable, except for Section 1.02 of the General Conditions where it should be construed as referring to the Financing Agreement exclusively; and
  - (c) the term "Legal Agreements" shall be construed as referring to the Financing Agreement and the Subsidiary Agreement collectively.
3. The Project Implementing Entity shall declare its commitment to the objectives of the Project, and to this end, shall carry out the Project in accordance with the provisions of Article IV of the General Conditions and shall provide, promptly as needed, the funds facilities, services and other resource required for the Project.
4. For purposes of Section 8.05(c) of the General Conditions, the date on which the provision of the Subsidiary Agreement shall terminate is twenty (20) years after the date of the Financing Agreement.

##### **Section II. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. Project Implementing Entity shall vest the responsibility for the day-to-day implementation of Project activities in the various implementing agencies, as follows: Components 1, 2 and 7: the RBD; (b) Components 3(a) and 7: the SMC with the assistance of the UEED; (c) Components 4 and 7: the ICD; (d) Component 6: the Coordinating Authority; and (e) Components 3(b), 5 and 7 and procurement under Components 1 and 2: the RRD.

2. For purposes of paragraphs 1 above, the Project Implementing Entity shall:
- (a) maintain throughout the period of implementation of the Project, a Project Steering Committee ("PSC"), headed by the Chief Secretary, with membership, powers, functions and competencies agreed with the Association, as shall be required to provide policy guidance for, and exercise general oversight of, the implementation of Project activities, including the approval of Project investments, the coordination of inter-departmental clearances, the facilitation of any external clearance required for the Project, the carrying out of semi-annual reviews of Project progress and budgetary allocations, and the review of Project reports;
  - (b) maintain throughout the period of implementation of the Project, a Project Management Unit ("PMU") within RRD: (i) headed by a project director assisted by competent staff, all with experience and qualification, in numbers and under terms of reference agreed with the Association; and (ii) provided with such powers, financial resources, functions and competences, agreed with the Association, as shall be required for, *inter alia*: (A) carrying out of day-to-day overall Project management including overall financial management and reporting; (B) implementing the activities under Components 5 of the Project and carrying out procurement activities under Components 1 and 2; (C) drafting the Operations Manual for the Project; (D) coordinating, monitoring and evaluating the PIUs' execution of other Project Components, including providing assistance to the PIUs for the preparation of detailed project reports, bidding documents and the tendering thereof; (E) maintaining the Project's management information systems and producing quarterly reports; (F) preparing, updating, and ensuring compliance with/implementation of the Safeguard Documents and handling Project grievances; and (G) carrying out regular quality control and supervision of the Project's performance and deliverables as pursuant to the Operations Manual; and
  - (c) establish, or cause to establish, by no later than three (3) months after the Effective Date, and thereafter maintain throughout the period of implementation of the Project, at least three (3) Project Implementation Units ("PIUs") located within the RRD, SMC and ICD, respectively, which units shall have adequate professional and administrative staff, in numbers and with qualification and experience, and under terms of reference agreed with the Association, in order to carry out the day-to-day planning and implementation of Project activities within the purview of RRD, SMC and ICD, respectively, as set forth in paragraph 1 above; including: (i) preparation of costs estimates, detailed project reports and bidding documents; (ii) carrying out the bids tender and preparing bids evaluation reports; (iii) managing and supervising contract execution by

contractors/consultants; (iv) liaising and coordinating the PMU and/or the PSC for the granting of any clearances and permits; (v) carrying out the financial management for the activities under their respective Components (vi) ensuring enforcement/compliance with the Safeguard Documents and handling Project grievances; and (vii) monitoring, supervising and reporting on the progress achieved in carrying out their activities under the Project.

3. The Project Implementing Entity shall select and engage, by no later than three (3) months after the Effective Date, and thereafter maintain throughout the period of implementation of the Project, the services of third party quality consulting firm(s) ("TPQC") with qualification and experience and under terms of reference agreed with the Association, to carry out quality monitoring and reporting to the PMU on: (i) contract performance (i.e. quality of construction, compliance with technical specifications, design requirements and maintenance plans); and (ii) compliance with and/or implementation of the statutory/regulatory requirements, the Safeguard Documents and the Operations Manual.

**B. Operations Manual**

1. The Project Implementing Entity shall prepare and adopt, and thereafter carry out the Project in accordance with, an Operations Manual for the Project, agreed with the Association, which manual shall set forth:
  - (a) (i) the detailed description of Project implementation activities, their sequencing and the prospective timetable and benchmarks in relation thereto; and (ii) the detailed institutional arrangements in respect thereto, including allocation or responsibilities among RRD, RBD, SMC, ICD and their PMU and the PIUs, required staff and minimum qualifications thereof;
  - (b) the selection criteria for the identification of non-farm households benefiting from productive assets restoration assistance (in-kind grants) under Component 4.1 of the Project;
  - (c) the administrative, accounting, auditing, internal control, asset management, reporting, financial, procurement and disbursement (flow of funds) procedures for the Project; which procedures shall be consistent with those of the Financing Agreement and the Association's instructions thereunder, as well as the requirements of the Subsidiary Agreement;
  - (d) (i) the procedural steps for the update of the Procurement Plan; and (ii) an outline of the mechanism for the settlement of procurement complaints and the disclosure of critical procurement information (website maintenance);



- (e) the guidelines and arrangements for training and capacity building activities under the Project; and
  - (f) the plan for implementing, monitoring and supervision of Project activities, including all technical environmental and social aspects in relation thereto.
2. The Project Implementing Entity shall ensure that RRD, RDB, SMC, ICD and their respective PMU and PIUs shall:
- (a) carry out the Project in accordance with the Operations Manual; provided however that in the event of conflict between the provisions of the Operations Manual, on the one hand, and those of the Financing Agreement, the General Condition or the Subsidiary Agreement, on the other, the provisions of the Financing Agreement, the General Conditions and the Subsidiary Agreement shall prevail in that specific order of precedence; and
  - (b) refrain from amending, suspending, waiving, and/or voiding any provision of the Operations Manual, whether in whole or in part, without the prior written concurrence of the Association.

**C. Anti-Corruption**

1. The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**D. Safeguards**

1. The Project Implementing Entity shall, and shall cause SMC to:
- (a) carry out the Project in accordance with the ESMF and the ESIA(s), EMP(s), the RAP(s), and/or IP/TPDP(s) prepared, and/or to be prepared pursuant to paragraph 3 of this sub-section, in accordance with the objectives, policies, procedures, time schedules, compensation arrangements and other provisions set forth in the ESMF (together, the "Safeguard Documents"), in each case as agreed with the Association; and
  - (b) refrain from taking any action which would prevent or interfere with the implementation of the Safeguard Documents, including any amendment, suspension, waiver, annulment and/or avoidance of any provision of the Safeguard Documents, whether in whole or in part, without the prior written concurrence of the Association.

2. Notwithstanding the generalities of paragraph 1 above, the Project Implementing Entity shall refrain from carrying out any activities under the Project that may:  
(a) have a significant, irreversible and long term environmental and social impact; or (b) involve works in protected areas; or (c) cause any significant degradation to forest land.
3. With respect to any activities under Components 1 through 5 of the Project, the Project Implementing Entity shall refrain from tendering any contract to contractors/consultants, or initiating any preparatory activities therefor, until and unless:
  - (a) the proposed activities have been screened by the PMU or the PIUs, as the case may be, in accordance with the guidelines, standards and procedures set forth in the ESMF;
  - (b) the respective EMP(s), RAP(s) and/or IP/TPDP(s) required for such activities pursuant to the ESMF has/have been prepared, and agreed with the Association; and
  - (c) the foregoing Safeguard Documents have been publicly disclosed by the Project Implementing Entity, including an executive summary in local language(s) at the relevant Project's sites.
4. The Project Implementing Entity shall ensure, prior to commencing any civil works under the Project: (a) all necessary governmental permits and clearances for such civil works shall have been obtained from the competent governmental authority/ies; (b) all pre-construction conditions imposed by the governmental authority/ies under such permit(s) or clearance(s) shall have been complied with/fulfilled; and (c) all resettlement measures for the respective civil works set forth in the applicable RAP shall have been fully executed, including the full payment of compensation prior to displacement and/or the provision of relocation assistance to all Displaced Persons, as per the entitlements provided in the ESMF and/or the applicable RAP.
5. The Project Implementing Entity shall ensure that each contract for civil works under the Project includes the obligation of the relevant contractor to comply with the relevant Safeguard Documents applicable to such civil works commissioned/awarded pursuant to said contract.
6. The Project Implementing Entity shall:
  - (a) maintain monitoring and evaluation protocols and record keeping procedures agreed with the Association and adequate to enable the Project Implementing Entity and the Association to supervise and assess, on an on-going basis, the implementation of/compliance with the

Safeguards Documents, as well as the achievement of the objectives thereof; and

- (b) furnish to the Association, throughout the period of Project implementation quarterly reports, assessing the contractors' general compliance with the Safeguard Documents under the respective civil works contracts, monitor the efficacy of the social and environmental management measures, and the results of the mitigation or benefit-enhancing measures applied thereto, with particular emphasis on the implementation of health and safety measures and results of resettlement activities, during the period preceding the date of each such report.
- 7. The Project Implementing Entity shall strengthen, maintain and operate throughout the period of Project implementation, a district-level grievance redress mechanism (the "GRM") for the handling of any stakeholder complaints arising out of the implementation of Project activities. The operation and procedures of the GRM shall be subject to guidelines agreed between the Project Implementing Entity and the Association.
  - 8. The Project Implementing Entity shall ensure that the following Project expenditures are financed exclusively out of the Project Implementing Entity's own resources, and, to this end, shall provide, as promptly as needed, the resources required therefor, namely:
    - (a) all land acquisition required for the purpose of the Project; and
    - (b) any compensation, resettlement and rehabilitation payment to Displaced Persons in accordance with the provision of the RAPs.
  - 9. In the event of any conflict between any of the provisions of any of the ESMF, EMP(s), RAP(s), and/or IP/TPDPs, on the one hand, and any of the provisions of the Financing Agreement, the General Conditions and/or the Subsidiary Agreement, on the other hand, the provisions of the Financing Agreement, the General Conditions and the Subsidiary Agreement shall prevail, in that specific order of precedence.
- E. CER Component**
- 1. In order to ensure proper implementation of the Component 6 of the project ("CER Component"), the Project Implementing Entity shall:
    - (a) Prepare and furnish to the Association for their review and approval, an operations manual (the "CER Operations Manual") which shall set forth detailed implementation arrangements for the CER Component, including: (i) designation of terms of reference for, and resource to be allocated to, the entity to be responsible for the coordination and

implementation of the CER Component (the "Coordinating Authority"); (ii) specific activities which may be included in the CER Component, Eligible Expenditures required therefor ("Emergency Expenditures"), and any procedures for such inclusion; (iii) financial management arrangements for the CER Component; (iv) procurement methods and procedures for Emergency Expenditures to be financed under the CER Component; (v) documentation required for withdrawals of Emergency Expenditures; (vi) environmental and social safeguard management frameworks for the CER Component consistent with the Association's policies on the matter; and (vii) any other arrangements necessary to ensure proper coordination and implementation of the CER Component.

- (b) Afford the Association a reasonable opportunity to review said proposed CER Operations Manual.
  - (c) Promptly adopt the CER Operations Manual for the CER Component as shall have been approved by the Association.
  - (d) Ensure that the CER Component is carried out in accordance with the CER Operations Manual, provided, however, that in the event of any inconsistency between the provision of the CER Operations Manual and the Financing Agreement, the General Condition or Subsidiary Agreement, the provisions of the Financing Agreement, the General Conditions and the Subsidiary Agreement shall prevail, in that specific order of precedence.
  - (e) Not amend, suspend, abrogate, repeal or waive, whether in whole or in part, any provision of the CER Operations Manual without the prior approval by the Association.
2. The Project Implementing Entity shall, throughout the period of implementation of the CER Component, maintain the Coordinating Authority, with adequate staff and resources satisfactory to the Association.
3. The Project Implementing Entity shall undertake no activities under the CER Component (and no activities shall be included in the CER Component) unless and until the following conditions have been met in respect of said activities:
- (a) (i) The Recipient and the Project Implementing Entity have determined that an Eligible Crisis or Emergency has occurred;
  - (ii) the Recipient and the Project Implementing Entity have furnished to the Association a request to include said activities in the CER Component in order to respond to said Eligible Crisis or Emergency; and

- (iii) the Association has agreed with such determination, accepted said request and notified the Recipient and the Project Implementation Entity thereof; and
- (b) The Project Implementing Entity has prepared and disclosed all safeguards instruments required for said activities, in accordance with the CER Operations Manual, the Association has approved all such instruments, and the Project Implementing Entity has implemented any actions which are required to be taken under said instruments.

### **Section III. Reporting, Monitoring and Evaluation**

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08(b) of the General Conditions and on the basis of indicators agreed with the Association. Each such Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Recipient and the Association by not later forty five (45) days after the end of the period covered by such report.
2. The Project Implementing Entity shall: (a) prepare the Project execution/completion report referred to in Section 4.08(c) of the General Conditions; and (b) furnish such execution/completion report to the Recipient and the Association not later than six (6) months after the Closing Date.

### **Section IV. Financial Management**

1. The Project Implementing Entity shall maintain, and/or cause to maintain, a financial management system and prepare, or cause to prepare, financial statements in accordance with consistently applied accounting standards agreed with the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity and its agencies, including the operations, resources and expenditures related to the Project.
2. Without limitation to Section III above, the Project Implementing Entity shall prepare and furnish to the Association, no later than forty five (45) days after the end of each calendar quarter, interim financial reports for the Project covering the expenditures incurred during the quarter, as agreed with the Association.
3. The Project Implementing Entity shall have, or cause to have, the Project financial statements referred to above audited by independent auditors agreed with the Association, in accordance with consistently applied auditing standards agreed with the Association. Each audit of these Project financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited Project financial statements for each period shall be: (a) furnished to the Recipient and the Association not later than nine (9) months after the end of the period; and (b)

made publicly available in a timely fashion and in a manner acceptable to the Association.

**Section V. Procurement**

1. 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 Consultants Guidelines, the Procurement Guidelines and the provisions of Section III of Schedule 2 to the Financing Agreement. For avoidance of doubts, the Association, shall be entitled to conduct, at any time, independent procurement reviews of all the contracts financed under the Financing.

## APPENDIX

### Section I. Definitions

1. "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.
2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. "CER Component" means the Component 6 of the Project.
4. "CER Operations Manual" means the immediate response mechanism operations manual referred to in Section II.E.1(a) of the Terms & Conditions Applicable to the Subsidiary Agreement, to be adopted by the Project Implementing Entity for the CER Component of the Project, in accordance with the provision of said Section.
5. "Component" means each set of activities grouped separately, as Components 1 through 7, in Schedule 1 to this Agreement.
6. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).
7. "Coordinating Authority" means the entity or entities designated by the Project Implementing Entity in the CER Operations Manual and approved by the Association pursuant to Section II.E.2 of the Term & Condition Applicable to the Subsidiary Agreement, to be responsible for coordinating the CER Component of the Project.
8. "Credit Currency" means the currency in which the Credit is denominated.
9. "Financial Center" means the principal financial center for the United States Dollar.
10. "Fixed Spread" means the Association's fixed spread for the Credit Currency in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of this Agreement and expressed as a percentage per annum.
11. "Displaced Persons" means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to

another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impact on the livelihoods of such persons.

12. "Eligible Crisis or Emergency" means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient and/or Project Implementing Entity, associated with a natural or man-made crisis or disaster.
13. "Emergency Expenditures" means any of the eligible expenditures set forth in the CER Operations Manual in accordance with the provision of Section II.E.1(a)(ii) of the Terms & Conditions Applicable to the Subsidiary Agreement, and required for the activities to be financed under the CER Component of the Project.
14. "EMP(s)" means the environmental management plans to be prepared by the Project Implementing Entity and/or the SMC pursuant to Section II.D.3 of the Terms & Conditions Applicable to the Subsidiary Agreement, in accordance with the provisions of the EMF, in each case setting out mitigation, enhancement, monitoring and institutional measures, including capacity building through training, required to: (i) eliminate adverse environmental impacts of activities to be implemented under the Project; (ii) offset them, or reduce them to acceptable levels; (iii) enhance any positive impacts thereof; and/or (iv) ensure compliance with the Recipient's statutory environmental requirement, as such plans may be amended, from time to time, with the prior written mutual concurrence of the Association.
15. "Environmental and Social Management Framework" and the acronym "ESMF" means the Project Implementing Entity's environmental and social management framework disclosed on April 22, 2015, setting forth the guiding principles, standards and procedures for: (a) the screening of Project activities and identifying, assessing any adverse or positive environmental and social impacts caused, or expected to be caused, on account of their implementation including the procedures for the consultation with Displaced Persons and Tribal Peoples; and (b) the preparation of their prescribed ESIA(s), SIA(s), EMP(s) and/or RAP(s) for Displaced Persons and/or IP/TPDPs for Indigenous Peoples/Tribal Peoples in the zone of impact; which framework includes the GESI Guidelines addressing gender equity and social inclusion, as such framework may be revised, updated or supplemented from time to time with the prior written concurrence of the Association.
16. "ESIA(s)" means the qualitative and quantitative environmental and social impact assessments to be prepared by the Project Implementing Entity and/or SMC pursuant to Section II.D.3 of the Terms & Conditions Applicable to the Subsidiary Agreement, in accordance with the provisions of the ESMF, in order to determine the potential positive and adverse impacts that are likely to occur on the local environment and/or communities living in the Project area (including



Displaced Persons and Tribal Peoples) on account of the carrying out of the Project, each such assessment in form and substance satisfactory to the Association; as such assessment(s) may be revised from time to time with the prior written concurrence of the Association.

17. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
18. "GESI Guidelines" means Gender Equality and Social Inclusion Guidelines, the guidelines incorporated into, and publicly disclosed with, the ESMF, setting out actions to ensure equal participation of women and men beneficiaries without discrimination and better outreach to women, children, and other vulnerable groups.
19. "GRM" means the grievance redress mechanism established by the Project Implementing Entity pursuant to the Subsidiary Agreement, as required in Section II.D.7 of the Terms and Conditions Applicable to the Subsidiary Agreement.
20. "ICD" means the Project Implementing Entity's Industry and Commerce Department, or any successor thereto.
21. "Incremental Operating Costs" means the reasonable costs of incremental expenditures incurred by the Project Implementing Entity on account of Project implementation, management and monitoring, including, *inter alia*: (i) costs of incremental staff salaries (other than consultants); (ii) dissemination of Project related information; (iii) office rental and leasing operation and maintenance of equipment; (iv) office supplies and utilities; (v) travel and boarding/lodging allowances; (vi) leasing, operation and maintenance of vehicles; (vii) advertising and communication expenses; and (viii) bank charges.
22. "Indigenous Peoples/Tribal Peoples" means any distinct, vulnerable, social and cultural group within the territory of the Recipient, that: (i) self-identifies as such and claims, and is recognized by others as, having a distinguishable cultural identity; (ii) has collective attachment to geographically distinct habitats or ancestral territories in the Project area, and to the natural resources in these habitat and territories; (iii) has customary cultural, economic, social and political institutions that are separate from those of the dominant society and culture; (iv) has an indigenous language, often different from the official language of the Recipient; and/or (v) as defined by the Constitution of India.
23. "Interest Period" means the initial period from and including the date of this Agreement to but excluding the first Payment Date occurring thereafter, and after the initial period, each period from and including a Payment Date to but excluding the next following Payment Date.

24. "IP/TPDP(s)" means the Indigenous Peoples/Tribal Peoples development plans to be prepared by the Project Implementing Entity and/or SMC in accordance with the ESMF, which set forth the principles and procedures, including mitigation and adaptive measures to offset, reduce to acceptable levels, or eliminate, any adverse social impact under the Project, including measures designed to ensure meaningful consultation with, and informed participation of, Indigenous Peoples/Tribal Groups and their communities in the design and implementation of the Project activities, as well as their participation in the envisioned culturally appropriate and socially inclusive benefits thereof; as such plan(s) may be amended from time to time with the prior written concurrence of the Association.
25. "LIBOR" means for any Interest Period, the London interbank offered rate for deposits in the relevant Credit Currency for six months, expressed as a percentage per annum, that appears on the Relevant Rate Page as of 11:00 a.m. London time on the Reference Rate Reset Date for the Interest Period.
26. "Operations Manual" means the Project's operations manual to be prepared by the Project Implementing Entity pursuant to Section II.B.1 of the Terms and Conditions Applicable to the Subsidiary Agreement.
27. "Procurement Guidelines" means the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).
28. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 24, 2015 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
29. "Project Areas" means the North-Eastern Districts of Anantnag, Baramula, Budgam, Bandipora, Ganderbal, Kupwara, Kulgam, Pulwama, Shopian, Srinagar, Jammu, Samba, Kathua, Reasi, Doda, Kishtwar, Ramban, Poonch, Rajauri, Udhampur, and/or any successor or subdivisions thereof.
30. "Project Implementation Units" and the acronym "PIUs" mean the units to be established by the Project Implementing Entity pursuant to the Subsidiary Agreement, as required in Section II.A.2(c) of the Terms and Conditions Applicable to the Subsidiary Agreement.
31. "Project Implementing Entity" means the Recipient's state with jurisdiction over the Project Areas, and which is the agency responsible for implementing the Project.
32. "Project Management Unit" and the acronym "PMU" mean the unit established by the Project Implementing Entity pursuant to the Subsidiary Agreement, as

required in Section II.A.2(b) of the Terms and Conditions Applicable to the Subsidiary Agreement.

33. "Project Steering Committee" and the acronym "PSC" mean the committee established by the Project Implementing Entity pursuant to the Subsidiary Agreement, as required in Section II.A.2(a) of the Terms and Conditions Applicable to the Subsidiary Agreement.
34. "RAP(s)" means the resettlement action plans to be prepared by the Project Implementing Entity and/or SMC pursuant to Section II.D.3 of the Terms & Conditions Applicable to the Subsidiary Agreement, in accordance with the provisions of the ESMF, setting forth any compensation, rehabilitation and resettlement assistance to Displaced Persons, in a manner and substance satisfactory to the Association, as such plan(s) may be revised, updated or supplemented from time to time with the prior written concurrence of the Association.
35. "RBD" means the Project Implementing Entity's Roads and Bridges Department, or any successor thereto.
36. "Reference Rate" means, for any Interest Period:
  - (a) LIBOR. If such rate does not appear on the Relevant Rate Page, the Association shall request the principal London office of each of four major banks to provide a quotation of the rate at which it offers six-month deposits in Dollar to leading banks in the London interbank market at approximately 11:00 a.m. London time on the Reference Rate Reset Date for the Interest Period. If at least two such quotations are provided, the rate for the Interest Period shall be the arithmetic mean (as determined by the Association) of the quotations. If less than two quotations are provided as requested, the rate for the Interest Period shall be the arithmetic mean (as determined by the Association) of the rates quoted by four major banks selected by the Association in the relevant Financial Center, at approximately 11:00 a.m. in the Financial Center, on the Reference Rate Reset Date for the Interest Period for loans in Dollar to leading banks for six months. If less than two of the banks so selected are quoting such rates, the Reference Rate for Dollar for the Interest Period shall be equal to the Reference Rate in effect for the Interest Period immediately preceding it; and
  - (b) if the Association determines that LIBOR has permanently ceased to be quoted for the Dollar, such other comparable reference rate for the relevant currency as the Association shall reasonably determine.
37. "Reference Rate Reset Date" means the day two London Banking Days prior to the first day of the relevant Interest Period (or in the case of the initial Interest

Period, the day two London Banking Days prior to the first or fifteenth day of the month in which this Agreement is signed, whichever day immediately precedes the date of this Agreement; provided that if the date of this Agreement falls on the first or fifteenth day of such month, the Reference Rate Reset Date shall be the day two London Banking Days prior to the date of this Agreement).

38. "Relevant Rate Page" means the display page designated by an established financial market data provider selected by the Association as the page for the purpose of displaying the Reference Rate for deposits in the Credit Currency.
39. "RRD" means the relief and rehabilitation division (department) of the Project Implementing Entity's Revenue Department, or any successor thereto.
40. "Safeguard Documents" means, collectively, the ESMF, the ESIA(s), the EMP(s), the RAP(s) and the IP/TPDP(s).
41. "School of Design" means the design school operating in the main handloom market in Srinagar.
42. "SMC" means Srinagar Municipal Corporation, established pursuant to the Project Implementing Entity's Government SRO No. 46 on February 18, 2003, or any successor thereto.
43. "Srinagar" means the summer capital city of the Project Implementing Entity.
44. "State Disaster Management Authority" means the authority established by the Project Implementing Entity or any successor thereto.
45. "Subsidiary Agreement" means the agreement to be entered between the Recipient and the Project Implementing Entity pursuant to Section I.B of Schedule 2 to this Agreement and satisfactory to the Association.
46. "Terms & Conditions Applicable to the Subsidiary Agreement" means terms and conditions set forth in Schedule 4 to this Agreement, as the same may be amended from time to time with the prior written concurrence of the Association.
47. "TPQC" means the third party quality consultant to be selected and retained by the Project Implementing Entity pursuant to the Subsidiary Agreement, as required in Section II.A.3 of the Terms and Conditions Applicable to the Subsidiary Agreement.
48. "Training" means the reasonable cost of trainings, seminars, workshops, conferences and study tours, conducted in the territory of the Recipient and/or overseas, including: (a) the fees of training institutions and courses; (b) domestic and international travel costs, lodging costs, and subsistence/per diem allowances

both for trainers and trainees; (c) the rental of training facilities; and (d) preparation, purchase or reproduction of training materials.

49. "UEED" means the urban environmental and engineering section (department) of the Project Implementing Entity's Housing and Urban Development Department.

## **Section II. Modifications to the General Conditions**

The General Conditions are hereby modified as follows:

1. The last sentence of Section 3.01(b) is modified to read as follows:  
  
"The Commitment Charge shall be computed using a day-count convention reasonably determined by the Association".
2. Section 3.02 is modified to read as follows:  
  
"Section 3.02. *Interest Charge*  
  
The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest Charges shall be computed using a day-count convention reasonably determined by the Association."
3. In Section 3.03, paragraph (b) is deleted in its entirety and the resulting paragraph (a) is modified to read as follows:  
  
"Section 3.03. *Repayment of the Credit*  
  
The Recipient shall repay the Withdrawn Credit Balance to the Association in installments as provided in the Financing Agreement."
4. Section 3.04 is modified to read as follows:  
  
"Section 3.04. *Prepayment*  
  
(a) After giving not less than forty-five days' notice to the Association, the Recipient may repay the Association in advance of maturity, as of a date acceptable to the Association, all or any part of the principal amount of one or more maturities of the Credit specified by the Recipient, provided the Recipient has made payments due on the Credit as at such date, including any prepayment premium calculated pursuant to paragraph (b) of this Section.

- (b) The prepayment premium payable under paragraph (a) of this Section shall be an amount reasonably determined by the Association to represent any gains or losses to the Association arising from the termination of any interest rate risk management transactions undertaken by the Association with respect to the Credit."

- 5. A new Section 3.11 is added to read as follows:

*"Section 3.11. Cancellation Premium on Payment Failure, Cancellation, Suspension, Acceleration or Refund of the Credit*

The Recipient shall pay to, or be entitled to receive from, the Association a cancellation premium that the Association shall reasonably determine represents any losses or gains to the Association arising from the termination of any interest rate risk management transactions undertaken by the Association with respect to the Credit as a result of: (i) the Recipient's failure to make payment (notwithstanding the fact that such payment may have been made by a third party) of principal, interest, service charges or any other amount due to the Association under this Agreement; (ii) any cancellation, suspension or acceleration of the Credit under Article VI of these General Conditions; or (iii) any refund of the Credit. The Recipient shall pay any cancellation premium due to the Association not later than sixty days after notice shall have been given by the Association."

- 6. Paragraph 28 of the Appendix ("Financing Payment") is modified by substituting the words "the Service Charge" with the words "the Interest Charge".
- 7. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the subsequent paragraphs accordingly:

"32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02."
- 8. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by substituting the words "Service Charges" with the "Interest Charges".
- 9. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is deleted in its entirety.