



Project Administration Memorandum

Project Number: 37066-02
Loan Number: 2414-IND
December 2008

India: Rural Roads Sector II Investment Program (Project 2) – State of Orissa

The project administration memorandum is an active document, progressively updated and revised as necessary, particularly following any changes in project or program costs, scope, or implementation arrangements. This document, however, may not reflect the latest project or program changes.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
FFA	–	framework financing agreement
IA	–	implementing agency
km	–	kilometer
MFF	–	multitranches financing facility
MORD	–	Ministry of Rural Development
NRRDA	–	National Rural Roads Development Agency
OMMAS	–	online management, monitoring, and accounting system
OSRRA	–	Orissa State Rural Road Agency
PIU	–	program implementation unit
PMGSY	–	Pradhan Mantri Gram Sadak Yojana (Prime Minister's Rural Roads Program)
SRRDA	–	state rural roads development agency
TSC	–	technical support consultant

NOTES

In this document, "\$" refers to US dollars.

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LOAN PROCESSING AND ADMINISTRATION HISTORY
Chronology of Important Events

	Activity	Date(s)
A.	Processing of the Multitranche Financing Facility	
1.	Approval of PPTA 4220-IND: Rural Roads Sector II Investment Program	20 November 2003
2.	Feasibility Study	Nov 2004 – Aug 2005
3.	Consultation Mission	18-28 April 2006
4.	Consultation/Contract Mission	18-28 March 2005
5.	Fact-finding Mission	18 April –17 May 2005
6.	Management Review Meeting (1 st MRM)	11 July 2005
7.	Appraisal Mission	1-5 August 2005
8.	Borrower officially communicated its view that the loan size should be expanded, subject to availability of MFF to the Borrower	31 August 2005
9.	Specific Consultation	12-16 September 2005
10.	Management Review Meeting (2 nd MRM)	14 October 2005
11.	ADB approval to proceed with loan negotiations	19 October 2005
12.	Framework Financing Agreement Negotiations held in India	24 November 2005
13.	Signing of Framework Financing Agreement	25 November 2005
14.	First Periodic Financing Request from Government for an indicative amount of \$100 million	25 November 2005
15.	Board RRP circulation	28 November 2005
16.	Board Consideration and Approval of \$750 million for the Investment Program	20 December 2005
B.	Processing of the Second Loan	
1.	Second Periodic Financing Request received from Government for an indicative amount of \$77.65 million.	28 November 2007
2.	ADB Management's approval to proceed with negotiations of the second loan	22 February 2008
3.	Second Loan Negotiations successfully concluded between Government of India and ADB in India	12 March 2008
4.	ADB approval of the Loan	17 March 2008
5.	Signing of Loan Agreement and Project Agreements	28 March 2008
6.	Loan Effectiveness	9 July 2008
C.	Project Implementation	
1.	Loan Inception Mission	11-14 November 2008
2.	Initial Disbursement to the Imprest Account	Not Applicable
3.	Loan Review Mission	
4.	Loan Review Mission	
5.	Loan Review Mission	
6.	Midterm Review Mission	Not Applicable
7.	Loan Review Mission	
8.	Loan Review Mission	
9.	Project Completion Review Mission	
10.	Loan Closing Date (Original)	31 December 2009

KEY PERSONS INVOLVED IN THE PROJECT

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DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Contribute to reduction in poverty and deprivation, and support economic growth of the community connected by Investment Program roads.</p>	<p>Three to four years after completion of subprojects under the Investment Program (2011 for first loan subprojects):</p> <ul style="list-style-type: none"> • Reduction in poverty rates in rural areas served by Investment Program roads by 5% • Improvement in social indicators in rural areas served by Investment Program roads by 10%, including for maternal and infant deaths, safe delivery, immunization, post primary dropout, and primary school teacher attendance 	<ul style="list-style-type: none"> • Census (next due in 2011) • State and district statistics • Sample impact study conducted by NRRDA • Impact monitoring by the technical support consultant of selected roads in their principal villages 	<p>Assumption</p> <ul style="list-style-type: none"> • Various government rural development schemes are effectively coordinated
<p>Outcome</p> <p>Improved connectivity of rural community to markets, district headquarters, and other centers of economic activity via Investment Program roads</p>	<p>By the end of the Investment Program (2010):</p> <ul style="list-style-type: none"> • Investment Program states to have rural road networks connecting all habitations with populations of 1,000 and above with all-weather roads (as of April 2005, habitations in this population class without all-weather connectivity are 4,692 in Assam, 2,151 in Orissa, and 9,533 in West Bengal) • Improved access to markets, and health and education facilities measured in terms of the number of days when access to these facilities are disrupted (currently up 1/4 of the year down to less than 15 days per year) 	<ul style="list-style-type: none"> • OMMAS • State and district statistics • Completion reports of each individual loan and the multitranche financing facility • Sample impact study conducted by NRRDA • Impact monitoring by the technical support consultant of selected roads in their principal villages 	<p>Assumption</p> <ul style="list-style-type: none"> • Availability of transport modes and services to newly connected habitations

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> Diversified income opportunities in rural areas measured in terms of the number of people obtaining work outside the village and the change in cropping pattern and agricultural produce marketing (increase in perishable crops in both cropping and marketing) 		
<p>Outputs</p> <p>1. Construction and upgrading of rural roads into all-weather standard</p> <p>2. Improved community participation</p>	<p>By the end of the Investment Program (2010):</p> <ul style="list-style-type: none"> 30,000 km priority rural roads in the Investment Program states constructed and upgraded to all-weather standard connecting about 19,000 rural habitations (ADB financing to cover about 1/3 of this requirement) Rural roads improved under earlier-completed loans of the Investment Program to maintain pavement condition index (defined in PMGSY Operations Manual) value of 5 Improvements to PMGSY community consultation procedures measured by satisfaction of the affected communities 	<ul style="list-style-type: none"> OMMAS National quality monitor inspection reports Biennial pavement condition index survey Quarterly progress reports and loan completion reports ADB review missions ADB midterm review mission External monitoring of community participation 	<p>Assumptions</p> <ul style="list-style-type: none"> Continuous allocation of central Government's funds to PMGSY in the Investment Program states Continuous allocation of state Governments' funds for post construction maintenance works Quality control and monitoring of civil works effective Active participation of rural community in planning and preparation of subprojects
<p>Activities with Milestones</p> <p>1.0 Framework Financing Agreement</p> <p>1.1 Signed in November 2005</p> <p>2.0 Subproject Preparation and Implementation</p> <p>2.1 Appraisal of first PFR subprojects (about 3,200 km) completed by August 2005</p> <p>2.2 For the second PFR, subproject proposals for 1,200 km of rural roads prepared by the state of Orissa</p> <p>2.3 In the other two states, subprojects have been prepared for the subsequent PFRs</p>			<p>Inputs</p> <ul style="list-style-type: none"> ADB OCR financing of \$750 million <ul style="list-style-type: none"> Project 1: \$180 million Project 2: 77.65 million Government financing of \$1,350 million ADB staff time for multitranché financing facility administration

<p>2.4 Subprojects may be implemented using advance contracting and retroactive financing provisions of FFA</p> <p>3.0 Periodic Financing Request</p> <p>3.1 First PFR submitted in November 2005</p> <p>3.2 First PFR resubmitted in June 2006 for \$180 million, based on which the Project 1 loan was processed and made effective on 18 October 2006</p> <p>3.3 Second PFR submitted in November 2007 for \$77.65 million</p> <p>3.4 The last PFR to be received by March 2009</p> <p>4.0 ADB Review</p> <p>4.1 Review of ongoing subprojects - biannually</p> <p>4.2 ADB review of states' readiness to implement additional loans – to be done concurrently with above review of ongoing subprojects</p> <p>4.3 For the second PFR, staff fielded review missions</p> <p>5.0 Safeguards</p> <p>5.1 Social and environmental safeguard frameworks prepared during processing</p> <p>5.2 For new states to be included under the multitranche financing facility, safeguard framework documents to be prepared</p> <p>5.3 Community consultation completed and land made available in accordance with construction schedule – applicable to all subprojects under the facility</p> <p>6.0 Monitoring and Reporting</p> <p>6.1 Baseline survey, and annual impact monitoring</p> <p>6.2 Monthly internal monitoring using OMMAS</p> <p>6.3 Quarterly progress reporting</p> <p>6.4 Quarterly external monitoring of safeguard implementation</p> <p>6.5 Impact monitoring by NRRDA to continue after completion of the Investment Program</p>	<p>including review of PFRs and preparation of loan/project agreements for individual loans</p>
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ADB = Asian Development Bank, NRRDA = National Rural Roads Development Agency, OCR = ordinary capital resources, OMMAS = online management, monitoring, and accounting system, PFR = periodic financing request, PIC = project implementation consultant, PMGSY = Pradhan Mantri Gram Sadak Yojana.

REFERENCES

A. Project Related

1. ADB Report and Recommendation of the President to the Board of Directors Proposed Multitranches Financing Facility India: Rural Roads Sector II Investment Program
(<http://www.adb.org/Documents/RRPs/IND/37066-IND-RRP.pdf>)
2. Loan Agreement (Ordinary Operations) (Rural Roads Sector II Investment Program – Project 2) between INDIA and Asian Development Bank dated 28 March 3008
(<http://www.adb.org/Documents/Legal-Agreements/IND/37066/37066-IND-LBJ.pdf>)
3. Project Agreements (Rural Roads Sector II Investment Program –Project 2) between Asian Development Bank and Ministry of Rural Development and State of Orissa dated 28 March 3008
(<http://www.adb.org/Documents/Legal-Agreements/IND/37066/37066-IND-PA1.pdf>)

B. Anticorruption

1. Anticorruption Policy
(<http://www.adb.org/Documents/Policies/Anticorruption>)

C. Consultants

1. Guidelines on the Use of Consultants by the Asian Development bank and its Borrowers (February 2007)
(<http://www.adb.org/Documents/Guidelines/Consulting>)
2. Consulting Services Operation Manual
(<http://www.adb.org/Documents/Manuals/Consulting-Services-Operations-Manual/CSOM.pdf>)

D. Procurement

1. Procurement Guidelines (February 2007)
(<http://www.adb.org/Documents/Guidelines/Procurement>)

E. Disbursement

1. Loan Disbursement Handbook (January 2007)
(http://www.adb.org/Documents/Handbooks/Loan_Disbursement/)

F. Safeguards

1. Community Participation Framework (Assam, Orissa, and West Bengal)
(http://www.adb.org/Documents/Resettlement_Plans/IND/37066/default.asp)

2. Environmental Assessment and Review Framework
3. Environmental Management Standard (Environmental Codes of Practice)

G. Multitranche Financing Facility

1. ADB Policy Paper: (R194-05) *Pilot Financing Instruments and Modalities: A New Approach* (August 2005)
(<http://www.adb.org/Documents/Policies/Financing-Instruments-Modalities/>)
2. Operations Manual Section D14/BP Multitrance Financing Facility
(<http://www.adb.org/Documents/Manuals/Operations/OMD14.pdf>)

I. INTRODUCTION

1. The Rural Roads Sector II Investment Program (the Investment Program) is a subset and an area and time slice of the Government's rural roads program—Pradhan Mantri Gram Sadak Yojana (PMGSY). The Investment Program will be financed by the Government of India's (GOI's) own resources and through borrowing from the Asian Development Bank (ADB). ADB will provide funding through multiple loans, each to finance a discrete investment project that forms part of the Investment Program, under a multitranche financing facility (the Facility). The Rural Sector II Investment Program – Project 2 is a second in the series of projects to be financed under the Facility.

2. The loan amounting to \$77.65 million for the Project was negotiated on 12 March 2008 by the GOI and ADB, and approved on 17 March 2008 by ADB. The Loan and Project Agreements for the Project were signed on 28 March 2008, and made effective on 9 July 2008.

3. A Framework Financing Agreement (FFA) on the Facility was entered on 25 November 2005 by India and the ADB. This Project Administration Manual (the PAM) provides Project data and information supplementary to that of the Loan and Project Agreements, and records for reference purposes administration and implementation arrangements of Project 2 that have been agreed and monitoring and control procedures to be used to help ensure that the intended Project objectives are realized.

4. The provisions in the PAM will be reviewed, progressively updated and revised as and when necessary, within the administrative framework given in the Loan and Project Agreements.

II. PROJECT DESCRIPTION

A. Project Area and Location

5. Project 2 is located in the State of Orissa in India. Rural roads to be taken up under Project 2 comprise about 300 stretches of rural roads scattered over in 14 districts of the State.

B. Output, Outcome, and Impacts

6. Project 2 will finance part of the cost of a subset of the Investment Program comprising (i) improvement to about 1,200 km of rural roads in the state of Orissa that are part of PMGSY, and (ii) part of consultancy services of the technical support consultants (TSC) that may be required beyond the closing of Project 1 (originally scheduled for 31 December 2008, and having been extended to 30 June 2009). In addition to the improved roads, Project 2's outcome is expected to include enhanced community participation in the project preparation and implementation phases. Outcome will be the improved connectivity of rural community to markets, district headquarters, and other centers of economic activity via the improved roads, which is expected to bring about the impacts of reduced poverty and deprivation, and economic growth of rural communities in the vicinity of Project 2 roads.

C. Subprojects

7. The subprojects for financing under Project 2 are to be selected following the Selection Criteria in Schedule 2 of the FFA. Originally 191 subprojects had been prepared by the State for ADB financing, of which 150 subprojects that had seen contract award before August 2007 were included in Project 2. After the scope change in October 2008 that shifted 62 subprojects from

Project 2 to Project 1, 88 subprojects are left in Project 2 for further implementation. GOI intends to include additional subprojects in Project 2 so that the uncommitted loan proceeds, currently estimated at \$40 million in ADB financing, will be effectively utilized for achieving the objective of the Investment Program.

III. COST ESTIMATES AND FINANCING PLAN

8. The total cost of Project 2 is estimated at about \$100.5 million equivalent inclusive of taxes, duties, and interest and other charges on the loan from ADB during construction (Table 1).

Table 1: Cost Estimates
(\$ million)

Item	Total ^a
Road Connectivity Component ^b	95.26
Capacity Building Component ^c	0.15
Contingencies	2.03
Financing Charges ^d	3.02
Total	100.46

^a In December 2007 prices.

^b Including social and environmental mitigation, civil works, and project implementation consultants.

^c Including technical support consultants for capacity building.

^d Including interest during construction and commitment charges recalculated based on the latest prevailing rates.

Source: Staff estimates based on PFR-Project 2.

9. To finance part of the cost of Project 2, a loan of \$77.65 million from ADB's ordinary capital resources will be provided under ADB's LIBOR-based lending facility,¹ with a 25 year term including a grace period of 5 years, a commitment charge of 0.15%,² and such other terms and conditions as agreed in the FFA, and further supplemented under the Loan and Project Agreements. The remaining cost of Project 2 will be financed by the Government and the state of Orissa.

10. The Government will provide the proceeds of the loans under the multitranches financing facility (MFF) in local currency to MORD and through MORD to the Government of Orissa on a grant basis.³ The Government will bear the foreign exchange risk on the loan. The financing plan for Project 2 is in Table 2.

¹ ADB. 2001. *Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources*. Manila.

² 0.35% was indicated in the submitted PFR. A new rate of 0.15% will apply to the Project 2 loan following the Board approval of a new pricing package on 7 December 2007.

³ As required under the PMGSY guidelines, the proceeds will be provided directly by MORD to the SRRDAs.

Table 2: Financing Plan
(\$ million)

Source	Total	Percent
Asian Development Bank	77.65	77.3
Government of India and state government ^a	22.81	22.7
Total	100.46	100.0

^a Including taxes and duties, and interest during construction.

Source: Staff estimates based on PFR-Project 2

11. The Borrower will make the loan proceeds available to MORD in accordance with the provisions of the Loan and Project Agreements.

12. Allocation and withdrawal of loan proceeds will be disbursed in accordance with the following percentages:

Table 3: Allocation of Loan Proceeds and Percentage of ADB Financing

No.	Category	Amount Allocated (\$)	Percentage of ADB Financing
1	Works	75,880,000	80% of total expenditure claimed
2	Consulting Services	50,000	100% of total expenditure claimed ^a
3	Unallocated	1,720,000	
	Total	77,650,000	

^a Exclusive of local taxes.

13. If the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, MORD, and the State (i) reallocate to such Category, to the extent required to meet the estimated shortfall amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

14. If the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, MORD, and the State reallocate such excess amount to any other Category.

IV. IMPLEMENTATION ARRANGEMENTS

A. Project Management Organization

15. The executing agencies (EAs) for Project 2 are MORD at the central level and government of Orissa at the state level. MORD, with technical and management support from National Rural Roads Development Agency (NRRDA), will continue to be responsible for overall Project supervision and execution. The state government, through the Rural Development Department, will be responsible for executing Project 2 at the state level. The coordination committee chaired by the MORD joint secretary, set up for the Investment Program, will meet quarterly and monitor the use of loan funds and overall implementation performance of Project 2.

16. The implementing agency (IA) is the Orissa State Rural Road Agency (OSRRA), which is the State Rural Roads Development Agency (SRRDA) for PMGSY in Orissa. For the implementation of Project 2, 17 divisions out of the state's 38 rural roads divisions are involved. For each of the divisions that generally correspond to a district, a PIU headed by an executive engineer has been established for implementing PMGSY investment. At the state level, project coordination will be through the state-level standing committee established for PMGSY implementation, involving senior officials of Rural Development, Finance, Forest, and Revenue, among others. The organizational structure for program implementation is in Appendix 1.

B. Implementation Period

17. Project 2 is expected to be implemented over 2 years inclusive of the implementation period under retroactive financing, and physical completion of Project 2 is expected to be by 30 June 2009. The Loan closing date is set at 31 December 2009, six months after the expected physical completion. Under PMGSY, each civil works contract normally requires 12 months for completion. The two-year implementation period is in anticipation of some delays in procurement and execution of civil works that have been observed under Project 1 and the past phases of GOI-financed PMGSY.

V. CONSULTING SERVICES

18. Project 2 has a provision for financing TSC's services beyond the closing of Tranche 1 (originally scheduled on 31 December 2008, and having been extended to 30 June 2009). Procurement of consulting services for this period will be as per ADB *Guidelines on the Use of Consultants* (2007, as amended from time to time). TSC's services during this period will be a natural continuation of the work being carried out under Project 1, and the assignment is relatively small in relation to the original assignment (maximum \$0.15 million against the current assignment under Project 1 of \$0.39 million). Operations Research Group, Private Limited, India has been engaged as TSC under Project 1. The firm's performance so far is satisfactory. Subject to continued satisfactory performance under Project 1, the firm may be selected on a single source basis. For the TSC assignment to be financed under Project 2, TSC's current TOR will be adjusted as necessary, at the time of their re-engagement.

VI. PROCUREMENT

19. Goods and works will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). Contracts for goods estimated to exceed \$1.0 million and contracts for works estimated to exceed \$10.0 million will be procured using international competitive bidding procedures. Contracts for goods and contracts for works estimated to cost equal or less than the international competitive bidding values, but more than \$100,000, will be procured using national competitive bidding procedures. The Procurement Plan as submitted by the EA is in Appendix 2.

20. Under the advance contracting and retroactive financing provisions of the FFA, OSRRA started procurement action as early as in October 2006. The first contract award under Project 2 was in December 2006. All the civil works contracts under the original 150 subprojects had been awarded by August 2007. The PFR 2 was submitted for financing these awarded contracts. Procurement of civil works followed the PMGSY standard bidding documents and procedures with the agreed ADB-financing specific adjustments in the areas of eligibility, anticorruption, social and environmental safeguards under Project 1. An ADB-engaged procurement consultant

carried out post-facto review of the procurement process followed and documentation used, and confirmed that there was no departure from the earlier-agreed procurement arrangements.

21. The following post facto approval procedures will apply to future procurement of civil works: (i) the SRRDA will retain a record of all procurement documentation, including copies of the signed contracts and the bid evaluation reports, to be available for inspection; (ii) at the time of each contract award, SRRDA will provide ADB with a certified summary sheet reporting on the main aspects of the bid evaluation and contract award (format in Appendix 3); (iii) the procurement processes and contract awards will be audited annually as part of the performance audit; and (iv) if any contract award is found unacceptable, ADB may refuse to finance the contract.

VII. DISBURSEMENT PROCEDURES

22. Loan funds will be disbursed according to ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). Statement-of-expenditure procedures (SOE) will be used in reimbursing eligible expenditures which will not exceed \$100,000. Withdrawals from the loan account may be made for reimbursement of reasonable expenditures incurred under Project 2 before 9 July 2008 (Loan effectiveness), but not earlier than 12 months before the date of the Loan Agreement (28 March 2008) in connection with items to be retroactively financed, subject to a maximum amount equivalent to 20% of the loan amount.

23. The summarized disbursement procedures and sample forms are in Appendix 4 and in the ADB *Loan Disbursement Handbook*. The guidelines for filling up the SOE format for civil works are also attached in Appendix 4.

24. ADB would regularly advise the Borrower, the EA and the IAs on the status of the loan fund disbursements through a semi-monthly Listing of Loan Disbursements. The handbook and the reports are available electronically in the Loan Financial Information Services Web System (LFIS) (<http://fis.adb.org>). To obtain access to the LFIS web access must be filled out and submitted to ADB.

VIII. PROJECT MONITORING AND EVALUATION

25. The implementation performance of the Investment Program will be evaluated against the Design and Monitoring Framework. The EAs (MORD and the Government of Orissa) will ensure that periodic performance review of the subprojects under Project 2 as also of the Investment Program be undertaken, in accordance with the Investment Program Performance Monitoring System (IPPMS), to evaluate the scope, implementation arrangements, progress and achievements of objectives of Project 2 and overall Investment Program.

IX. REPORTING REQUIREMENTS

26. **Monthly Report.** OSRRA will submit to MORD, through the state government, monthly progress reports on subproject implementation under the road connectivity component. Day-to-day reporting from the PIUs through the OSRRA to MORD/NRRDA will be by way of the existing online management, monitoring, and accounting system (OMMAS).

27. **Quarterly Progress Report.** Based on monthly reports, MORD, with assistance from NRRDA, will prepare and provide ADB with quarterly progress reports on subproject implementation under Project 2. The reports will include a report on progress made against

established targets during the period of review, changes if any of the implementation schedule, problems or difficulties encountered and remedial actions taken, utilization of funds, physical and financial progress; and proposed works to be undertaken in the coming quarter. The report should also include a summary financial account for each subproject, expenditures to date, and report on benefit monitoring. The report will be submitted to ADB within 45 days of the close of each quarter. The suggested contents of central EA's Quarterly Progress Reports is in Appendix 5.

28. **Project Completion Report.** GOI will submit to ADB a project completion report within 3 months of physical completion of Project 2. The report will include a detailed evaluation of Project 2, covering the design, costs, contractors' and consultants' performance, social and economic impact, social and economic impacts, implementation of social and environmental safeguard measures and other details relating to Project 2 as may be requested by ADB. The outline of the report is in Appendix 6.

X. REVIEW

29. ADB will field regular review missions to discuss progress of the subprojects and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving overall Project and Investment Program objectives.

30. Considering the comprehensive review carried out during the Inception Mission in November 2008 on Project 2 implementation started in early 2007, covered under retroactive financing, it could be considered that the same mission conducted the review normally done under a mid-term review. The Borrower, the State, and ADB agreed that there is no need to conduct a separate mid-term review for Project 2.

XI. AUDITING REQUIREMENTS

31. MORD and the Orissa State Rural Road Agency (OSRRA) will maintain separate records and accounts adequate to identify the goods and services financed from the loan proceeds, the expenditures incurred for Project 2 components and their subprojects, and use of local funds under Project 2. These accounts and related financial statements will be audited annually in accordance with sound auditing standards by independent auditors. The Government will submit to ADB within 9 months after the end of each fiscal year consolidated annual audited reports and related financial statements under Project 2, identifying separate accounts of subprojects. The auditor's opinion of that part of the examination relating to the statement of expenditure should be separately set out in the auditor's opinion. Since the PMGSY guidelines require state governments to engage chartered accountants of standing to audit PMGSY accounts, wherever possible the same auditors that audit OSRRA will audit Project accounts. Audit requirements are also discussed in Appendix 7.

32. ADB will conduct procurement audits during implementation as part of its regular review process.

33. In addition, state governments will be required to undertake an objective and independent performance audit of subprojects on a sample basis to evaluate adherence to procurement procedures, overall contract performance, and value for money. ADB will conduct procurement audits during implementation as part of its regular review process.

XII. MAJOR LOAN COVENANTS

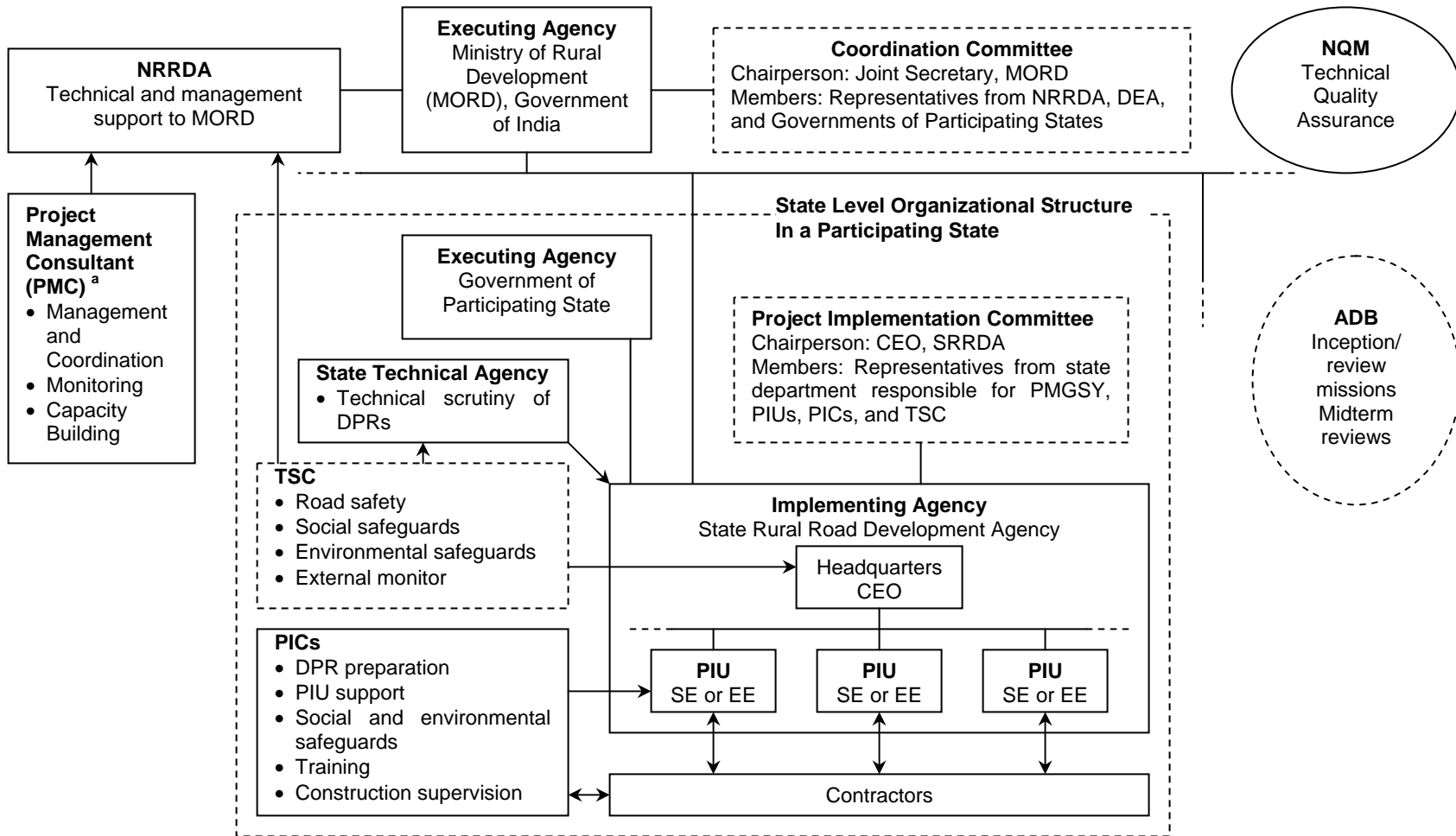
34. The standard loan covenants, as well as the other assurances, which have been agreed with the Government, the Executing Agency, and ADB to be complied with are in Appendix 8.

XIII. ANTICORRUPTION MEASURES

35. ADB defines corruption as “abuse of public or private office for personal gain.” ADB will systematically identify, in consultation with its member countries opportunities for reducing corruption as part of its broader emphasis on improving good governance and sound development management. ADB’s *Anticorruption Policy* (1998, as amended up to date) has set the guidelines and procedures in addressing fraudulent corrupt practices. Anyone coming across evidence of fraud or corruption associated with the Investment Program must contact ADB’s Office of the General Auditor, who will investigate such allegations.

36. ADB’s *Anticorruption Policy* (1998, as amended up to date) was explained to and discussed with the Government. Consistent with its commitment to good governance, accountability and transparency, ADB reserves the right to inspect, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Projects under the MFF. To support these efforts, relevant provisions of ADB’s *Anticorruption Policy* are included in the loan regulations and the bidding documents for the Projects under the MFF. In particular, all contracts financed by ADB in connection with the MFF shall include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency and all contractors, suppliers, consultants, and other service providers as they relate to Project 2.

ORGANIZATIONAL STRUCTURE FOR PROJECT IMPLEMENTATION



CEO = chief executive officer, DEA = Department of Economic Affairs, Ministry of Finance, DPR = detailed project report (road design), EE = executive engineer, MORD = Ministry of Rural Development, NQM = national quality monitor, NRRDA = National Rural Roads Development Agency, PIU = project implementation unit, PIC = project implementation consultant, PMC = project management consultant, PMGSY = Pradhan Mantri Gram Sadak Yojana, SE = superintending engineer, TSC = Technical Support Consultant.

^a Existing under the ongoing Rural Roads Sector I Project (ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to India for the Rural Roads Sector I Project*. Manila).

PROCUREMENT PLAN

1. Program Information

Project Information	
Country	India
Name of Borrower	Government of India
Project Name	Rural Roads Sector II Investment Program — Project 2
Date of Effectiveness	Targeted at January 2008
Amount US\$:	77,650,000
Executing Agency	Ministry of Rural Development
Approval Date of Original Procurement Plan	NA
Approval of most recent Procurement Plan	NA
Publication for Local Advertisement	October – November 2006
Period Covered by this Plan	Oct 2006 to March 2008

2. Procurement Thresholds, Goods & Related Services, Works and Supply and Install

Procurement Method	Thresholds
ICB Works	N.A
ICB Goods	N.A
NCB Works	Below \$10,000,000
NCB Goods	N.A
Shopping Works	N.A
Shopping Goods	N.A

3. Procurement thresholds, Consultants Services

Procurement Method	Thresholds
Quality Cost Based Selection (QCBS)	FTP : Over \$ 1,000,000
	STP : Over \$ 600,000 and less than or equal to \$ 1,000,000
	BTP : \$ 600,000 or less
Alternative Methods	
Single Source Selection	Technical Support Consultant (TSC) has already been appointed under Project 1 for subprojects in Batch 1 and also for subsequent batches. Project 2 will continuously finance TSC's services through single source selection. TSC's performance is so far satisfactory.

4. List of Contract Packages in Excess of \$100,000 Goods, Works and Consulting Services

Ref	Contract Description	Estimated Cost	Procurement Method	Expected Date of Advertisement	Prior Review Y/N	Comments
	Technical Support Consultant	\$150,000	SSS	NA	Y	
	Civil Works (154 packages)	\$150,000 - \$2,000,000	NCB	Advertised	N	(procurement reviews being carried out)

NCB = national competitive bidding, SSS= single source selection

SAMPLE FORMAT FOR REPORTING CONTRACT AWARDS

S.No.	Package No.	Name of Road	Date of NIT	Date of opening of tender	No. of bids received	No. of bids Technically qualified	Date of Financial bid opening	Name of winning contractor	Contractor's address	Date of the contract	Contract Amount (in Rs.)		Completion date (stipulated)	Name of other bidders to the contract	Result of Technical evaluation (y/n)
											Items rate civil works amount	Maintenance amount			
1	2	3	4	5	6	7	8	9	10	11	12(a)	12(b)	13	14	15
1	AS0118(AD B)	Mainamati PWD to Pahumara NH 31 at Marka Chowk to Jalikhata	15/09/2005	15.10.2005	1	1	21.10.2005	Anupam Sharma	1st Floor, Kalita Mansion, Opp. Gauhati Commerce College, Chandmari - 3	27.01.06	40,093,875.01	1,037,475.00	9 months	Anupam Sharma	y
2	AS0119(AD B)	NH-31 to Joypur Bazar	30/8/2005	21.9.05	4	4	17.10.2005	Anurupa Hannan	Barpeta Road, Barpeta	25.11.2005	8,037,262.00	749,984.00	9 months	Gunajit Nath	y
														Anurupa Hannan	y
														Sidananda Das	y
														Alimuddin Ahmed	y

**GUIDELINES FOR FILLING UP OF THE REIMBURSEMENT CLAIMS FORMAT
FOR CIVIL WORKS**

ADB Loan No.	:	Loan 2414-IND
Period From	:	Fill in the date from To for which the work done is reflected in the reimbursement claims e.g 1 st November 08 to 30 th November 2008.
Application No.	:	State/Month and Year e.g. WA submitted by Orissa for November 2008 would be numbered as OR-Nov 06
Office	:	Name of the PIU submitting the claim
Col No:2	:	Fill in the PCSS No. allotted by ADB for the respective packages
Col. No.3, 4 & 6	:	Fill in the package no. and name of the contractor to whom work has been awarded and the Contract Value (Construction cost).
Col No. 5	:	Construction/ Up-gradation of Rural Roads from _____ to _____ (in case of more than one road, write the name of the first road)
Col No. 7	:	Mention the running account bill no. i.e. 1 st , 2 nd or 3 rd as the case may be. In case only mobilization advance/retention money is paid, mention the same.
Col No. 8, 9 & 10	:	Value of work done should be value arrived at after the bill has been prepared and measurement certified as mentioned in the RA Bill. The amount in column no. 10 should be the difference of column no 8 and column no. 9.
Col. No. 13	:	Any amount withheld for any reason due to non compliance of contract conditions (non submission of labor report, not conducting of mandatory test, etc)
Col. No. 17	:	Specify any other taxes and duties.
Col. No. 21	:	Amount of Current Bill – total deduction i.e. Col 10- Col 20
Col. No. 24 (<i>Eligible Amount for claim</i>)	:	The sum of Income Tax, Sales Tax, Royalty any other Tax/ duties plus net amount as per Col. No. 21.
Col No. 25	:	This would be 80% of Col. No. 24. This should be rounded to the nearest rupee. In case of Doc claims (documented claims) which is required when the individual payments are in excess of \$100,000 following additional supporting documents (Clear legible photocopy) in respect of each contract package and each bill is required to be furnished. 1. Running bill duly passed, including Memo of Payment. 2. Acknowledgement from the Contractor for receipt of payments of exact cheque amount (not gross value of work done).

Notes:

1. The photocopy attached should be legible and clear
2. The SOE Sheet must be filled with the help of RA Bill. The amount as mentioned in the RA Bill should tally with those in SOE Sheet.
3. The claim should be made in nearest rupee.
4. Claim should be made and submitted on a monthly basis.

SUGGESTED CONTENTS OF CENTRAL EXECUTING AGENCY'S QUARTERLY PROJECT PROGRESS REPORTS

A. Introduction and Basic Date

Provide the following:

- ADB loan number, project title, borrower, executing agency(ies), implementing agency(ies);
- Total estimated project cost and financing plan;
- Status of project financing including availability of counterpart funds and cofinancing;
- Dates of approval, signing, and effectiveness of ADB loan;
- Original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
- Date of last ADB review mission.

B. Utilization of Funds (ADB Loan, Cofinancing, and Counterpart Funds)

Provide the following:

- Cumulative contract awards financed by the ADB loan, cofinancing, and counterpart funds (commitment of funds to date), and comparison with timebound projections (targets);
- Cumulative disbursements from ADB loan, cofinancing and counterpart funds (expenditure to date), and comparison with time-bound projections (targets); and
- Reestimated costs to completion, need for reallocation within ADB loan categories, and whether an overall project cost overrun is likely, as required.

C. Project Activities and Outputs

Provide the following:

- Progress of the road connectivity component since the last progress report in terms of Activities and Outputs;
 - recruitment of PICs and their performance, if applicable;
 - procurement of civil works, if applicable;
 - performance of contractors for civil works contracts; and
 - length of roads completed and their quality.
 -
- Implementation of social and environmental safeguards requirements since the last progress report;
 - recruitment of TSC;
 - progress of community consultation process in the previous quarter, if applicable; and
 - results of sample checking of social and environmental safeguards documentation by TSC carried out in the previous quarter.
- Implementation of impact monitoring:
 - progress of baseline survey by TSC; and
 - progress of annual impact monitoring by TSC.

- An assessment of the validity of key assumptions and risks in achieving the Output targets.

D. Project Outcome

Provide the following:

- Progress of the road connectivity component since the last progress report in terms of Outcome;
 - number of habitations connected (cumulative and newly connected in the previous quarter);
 - results of baseline survey by TSC; and
 - extent of improvement to road connectivity and in socioeconomic indicators from the baseline (to be surveyed by TSC and reported annually)
- An assessment of the validity of key assumptions and risks that affect attainment of the Outcome and realization of the impact.

E. Compliance with Covenants

Information on the borrower's, EA's, IA's compliance, as applicable, with key loan covenants included in Appendix 10, which will be included in the progress report with the "Remarks" column filled with relevant information by the Government.

F. Major Project Issues and Problems

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives. Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

PROJECT COMPLETION REPORT

Suggested Topics for Project Completion Reports to be Prepared by Borrowers (project, multiproject, sector, program, sector development program, and technical assistance loans)

I. PROJECT DESCRIPTION

- A. Objectives
- B. Components (or subprojects for sector and multiprojects)
- C. Implementation methods
- D. Description and justification of changes in components (or subproject appraisal criteria) or implementation methods

II. PROJECT IMPLEMENTATION

- A. Compare original and actual implementation schedules. Indicate delays, length and causes of delays, and remedial action taken.
- B. Compare cost estimates made during appraisal and actual costs (foreign and local). Local currency costs incurred, appropriate exchange rates for their conversion into US dollars, and the foreign exchange costs financed by cofinanciers must be compiled correctly with reference to audited project accounts. Indicate factors that contributed to any significant overruns or underruns.
- C. State problems or difficulties in recruiting consultants, with reference to ADB procedures. Assess the consultant's work and the working relationship between the executing agency (EA) and the consultant. Use of a design and monitoring framework is strongly recommended.
- D. State problems or difficulties encountered in procuring goods and services (including civil works) with reference to ADB procedures. Assess the supplier's or contractor's performance under the contract.
- E. Give the extent of compliance of the borrower and EA with loan covenants, with reasons for noncompliance or delays in compliance and the remedial actions taken.
- F. State reasons for any delays in loan utilization. Evaluate the appropriateness of the disbursement methods used. Justify the reallocation of loan proceeds.
- G. State problems or difficulties with subproject appraisal. Evaluate the EA's performance and capacity to appraise subprojects.

III. INITIAL OPERATIONS

- A. Describe initial operations of the project and transitional problems encountered from project completion to initial operations.

- B. Describe measures taken to ensure continued smooth operation of the project relative to management, staffing, funding, and maintenance of project facilities.
- C. Analyze the prospects of the project benefits being realized.

IV. EVALUATION OF THE ASIAN DEVELOPMENT BANK'S PERFORMANCE

- A. Assess ADB's performance in supervising project implementation. Include comments on the adequacy of the consultants' terms of reference and appropriateness of specifications in tender documents. Evaluate the effectiveness and timeliness of assistance extended by ADB to solve implementation problems.
- B. Comment on problems encountered with ADB's procedures. Note the measures taken to resolve these problems and suggest changes in procedures and requirements.



Asian Development Bank

8 April 2008

Mr. Arvind Mayaram
Joint Secretary
Department of Economic Affairs
Ministry of Finance
Government of India
North Block
New Delhi – 110001, India

**Subject: Loan No. 2414-IND: Rural Roads Sector II Investment Program – Project 2
FINANCIAL REPORTING AND AUDITING REQUIREMENTS**

This letter is to ensure your timely compliance with the loan covenants and the quality of financial information as required by ADB. ADB's *Handbook on the Financial Governance and Management of Investment Projects Financed by ADB* (the handbook) is enclosed to guide you.

ADB, by its Charter, is required to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used for the purposes for which the loan was approved. ADB requires accurate and timely financial information from its borrowers to be assured that expenditure was for the purposes stated in the loan agreement.

For this particular loan, the requirements are stipulated in Section 4.01 of the Loan Agreement dated 28 March 2008 between ADB and Government of India and Sections 2.09 and 2.10 of the Project Agreement. Copies of the Loan/Project Agreements are enclosed for onward transmission by your office to your EA and the auditor(s), together with a copy of this letter.

The following are the main requirements:

- ADB requires the EA to maintain separate project accounts and records exclusively for the Project to ensure that the loan funds were used only for the objectives set out in the Loan or Project Agreements. The project accounts comprise full audited financial statements including its detailed specification of investments as well as cost expenditures financed by the ADB.

The first set of project accounts to be submitted to ADB covers the fiscal year ending **31 March 2008**. As stipulated in the Loan or Project Agreements, they are to be submitted up to **9 months** after the end of the fiscal year. For this loan, the deadline is by **31 December 2008**. A sample report format with explanatory notes, is attached as Annex A.

- The accounts and records for the project are to be consistently maintained by using sound accounting principles. Please stipulate that your external auditor is to express an opinion on whether the financial report has been prepared using international or local generally accepted accounting standards and whether they have been applied consistently.

ADB prefers project accounts to use international accounting standards prescribed by the International Accounting Standards Committee. Please advise your external auditor to comment on the impact of any deviations, by the Ministry of Rural Development from international accounting standards.

- Please ensure that your external auditor specifies in the Auditor's Report the appropriate auditing standards they used, and direct them to expand the scope of the paragraph in the Auditor's Report by disclosing the key audit procedures followed. Your external auditor is also to state whether the same audit procedures were followed for all supplementary financial statements submitted.

ADB wishes that auditors conform to the international auditing standards issued by the International Federation of Accountants. In cases where other auditing standards are used, request that your external auditor to indicate in the Auditor's Report the extent of any differences and their impact on the audit.

- The external auditor's opinion is also required on whether
 - the proceeds of the ADB's loan have been utilized only for the project as stated in the Loan Agreement;
 - the financial information contains data specifically agreed upon between Ministry of Rural Development and ADB to be included in the financial statements;
 - the financial information complies with relevant regulations and statutory requirements; and
 - compliance has been met with all the financial covenants contained in the Loan or Project Agreements.
- The Auditor's Report is to clearly state the reasons for any opinions that are qualified, adverse, or disclaimers.
- Actions on deficiencies disclosed by the external auditor in its report are to be resolved by Ministry of Rural Development within a reasonable time. The external auditor is to comment in the subsequent Auditor's Report on the adequacy of the corrective measures taken by Ministry of Rural Development.

Compliance with these ADB requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor.

Yours sincerely,


 Kazuhiko Higuchi
 Director, Transport and
 Communications Division
 South Asia Department

cc: Mr. Shankar Bannerjee
Controller Aid Accounts and Audit
Department of Economic Affairs
Ministry of Finance, Government of India
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Mr. J. K. Mohapatra
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Fax No. +91 11 2687 0955

HI/adg

LOAN 2414-IND: RURAL ROADS SECTOR II INVESTMENT PROGRAM – PROJECT 2
STATUS OF COMPLIANCE WITH LOAN COVENANTS
(As of December 2008)

Covenant	Status of Compliance
LOAN AGREEMENT	
PARTICULAR COVENANTS	
Section 4.01. (a) The Borrower shall cause MORD, and the State to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, social and rural roads development practices.	Being complied with.
(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.	Obligations as stated in Schedule 5 of the Loan Agreement are being performed in carrying out of the Project.
Section 4.02. The Borrower shall make available to MORD, and the State promptly as needed, the funds, facilities services, and other resources which are required in addition to the proceeds of the Loan, for the carrying out of the Project.	Being complied with.
Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.	Being complied with.
Section 4.04. The Borrower shall take all action which shall be necessary on its part to enable MORD and the State to perform their respective obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.	Action being taken to perform obligations under the Project agreement and no action taken which would interfere with the performance of such obligations.
Section 4.05. (a) The Borrower shall exercise its rights under the financing arrangements in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.	Being complied with.
(b) No rights or obligations under the financing arrangements relating to the Project shall be assigned, amended abrogated or waived without the prior concurrence of ADB.	Being complied with.

Covenant	Status of Compliance
Schedule 4 of Loan Agreement	
<p>3. Except as ADB may otherwise agree, Works shall be procured only on the basis of the methods of procurement set forth below: National Competitive Bidding.</p> <p>The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.</p>	No modifications have been made to the procurement methods.
<p>4. The PMGSY standard bidding documents and procurement procedures, currently under use for National Competitive Bidding (NCB) (Works) under the ongoing Project 1 for the State shall continue to apply to Subprojects financed out of the proceeds of the Loan. Modifications in this regard, if any required by MORD/State, together with justifications, will be furnished to ADB by the MORD and the State for (i) ADB's concurrence, and (ii) reflecting in the Procurement Plan as required.</p>	Being complied with.
<p>5. The Borrower through MORD and the State shall ensure that no Works contracts financed under the Loan are awarded until all requirements as referred to in this Schedule and in paragraphs 12, 13, 14 and 22 of Schedule 5 to this Loan Agreement have been complied with as applicable.</p>	Being complied with.
<p>6. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower through MORD and the State shall apply quality- and cost-based selection for selecting and engaging consulting services.</p>	No consultant engagement has taken place under Project 2 yet.
<p>7. The Borrower shall cause MORD to apply the following method for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan: Single Source Selection for the technical support consultant.</p>	No consultant engagement has taken place under Project 2 yet.
Schedule 5 of Loan Agreement	
Execution and Implementation	
<p>1. (a) The Borrower shall ensure that the Project is carried out in accordance with the PMGSY Guidelines</p>	The Project is being carried out in accordance with PMGSY

Covenant	Status of Compliance
as supplemented by Project-specific requirements including those more fully described in the agreed CPF and the EAF for each state.	guidelines covering CPF and EAF and other Safeguards issues as per ADB's Guidelines.
(b) The Executing Agencies for the Project shall be (i) MORD at the central level and (ii) relevant State at the State level. MORD shall be responsible for overall supervision and execution of the Project at central level and each State through the respective IA shall be responsible for executing the Project at the State level.	Being complied with.
2. The State shall assist the related IA in obtaining approvals and clearances for timely Project execution under the PMGSY Guidelines and other applicable laws and regulations of the Borrower and the State.	The State assists IA in obtaining approval and clearance under PMGSY guidelines and other related laws and regulations.
3. The State shall provide, as necessary, respective counterpart staff, land facilities, and counterpart funding for the Project in accordance with the financing plan, cost of making land available for the Subprojects and assistance, and implementation and monitoring under the CPF and EAF, including related IEE (including unforeseen expenses beyond the estimates), utility relocation, general Project management expenses, and road maintenance, in a timely manner through approved annual budget allocations.	The State is providing all necessary items mentioned except the following: (a) Land is obtained by donation.
4. The State shall ensure that the PICs recruited under Project 1 continue to help implement the provisions of the CPF and the EAF (and related IEE) for all Subprojects under this Project.	PIC has been positioned from 15 November 2007.
Coordination Committees	
5. (a) The Borrower shall ensure that the Coordination Committee set up under Project 1 for the Investment Program continues to meet on a semi-annual basis and monitor the use of Loan funds and overall implementation performance of the Project under the Facility.	A Coordination Committee is being formed at MORD for RRSII Investment Program.
(b) The State shall likewise ensure that the State-level standing committee established for the PMGSY that has been serving as the State-level Project Implementation Committee under Project 1 shall continue to meet on a quarterly basis to monitor the use of Loan funds and overall implementation performance of the project under the Facility at the State level.	A Project Implementation Committee has been set up in ORISSA.
Road Maintenance	
6. In accordance with the PMGSY Guidelines, the State shall provide adequate and timely funding for proper	

Covenant	Status of Compliance
maintenance of the PMGSY roads. Any increases in the actual amounts to be provided shall be met by the State through its additional budget allocations, or other alternative sources of financing.	Being done.
7. The State shall ensure that the financing of maintenance of PMGSY roads as required under the PMGSY Guidelines shall not involve reduction of budgets for maintaining other roads under the responsibility of the State not include under the PMGSY.	Being done.
8. As also required under the PMGSY Guidelines, except as ADB may otherwise agree, the State shall require the IA (through the PIU) to ensure proper maintenance of the PMGSY roads until these are transferred to the designated zilla panchayats in accordance with the PMGSY Guidelines. The State shall also allocate the requisite funds to the relevant functionaries (the related PIU/zilla panchayat) for such maintenance in accordance with the requirements of the PMGSY Guidelines.	The State has agreed to maintain roads constructed under PMGSY from its budget.
9. The State shall ensure that the related PIU/zilla panchayat as the case may be shall enter into further maintenance contracts with competitively procured contractors (on the basis of the standard performance-based contracts for road maintenance to be prepared by Project Management consultants (PMC) under Rural Roads Sector I Project [Loan 2018]). The contracts shall begin upon completion of the initial 5-year maintenance period under the related construction contracts and shall cover routine maintenance and renewal of all PMGSY roads for further periods of not less than 5 years.	PMC's deliverable needs further improvement for use by the State. MORD is devising a mechanism for maintaining roads built under PMGSY, which will help the State as well as other participating states in discharging the responsibility to maintain PMGSY roads.
Road Safety	
10 As part of the mid-term review of the Investment Program as also the Project, the Borrower, the State, and ADB shall review the outcomes of the road safety program, to consolidate the institutional mechanism, financing modalities, and detailed implementing arrangements to further ensure sustainable road safety programs for the roads to be developed under PMGSY and the Investment Program at the national and State levels.	Will be reviewed by the road safety experts of PIC and TSC.
Land Availability	
11 The State shall ensure that the IA implements the provisions of the CPF for all Subprojects as agreed upon with ADB and in conformity with all relevant applicable laws and regulations of the Borrower and the State.	Implementation in progress.

Covenant	Status of Compliance
<p>12 The State shall ensure that the IA shall, subject to compliance with the relevant provisions of the CPF and EAF/ECOP (and related IEE) and in accordance with all relevant applicable laws and regulations of the Borrower/ State, acquire or make available the land and rights to land freed 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 civil works contract.</p>	Compliance in progress.
<p>13 (a) The State shall ensure that the IA shall (i) carry out the community consultation process for all Subprojects in accordance with the PMGSY Guidelines as supplemented by the CPF (and related IEE), (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 civil 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.</p>	<p>(i) Followed. (ii) Followed. (iii) Voluntary land donation is made in a transparent manner.</p>
<p>(b) The State shall ensure that 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.</p>	In progress.
Execution of Civil Works Contracts	
<p>14 (a) Subject to compliance with the requirements of CPF and EAF/ECOP (and related IEE), MORD shall ensure that the bid documents include the environmental management plan (EMP) and environmental checklist, to enable the contractor to include the cost required for implementing the EMP in its bid.</p>	The EMP has been included in the bid documents.
<p>(b) Subject to compliance with the requirements of CPF and EAF/ECOP (and related IEE), the State shall: (i) acquire or make available on a timely basis the land and rights in land, free from any encumbrances; (ii) clear the utilities, trees and any other obstruction from such land, on a timely basis, i.e. strictly in accordance with the schedule as agreed under the related civil works contract, as required for construction activities relating to each section of the related civil works contract under the</p>	Complied with.

Covenant	Status of Compliance
Subproject.	
15 The State shall ensure that subsequent to award of civil works contract under any Subproject no section or part thereof under the civil works contract will be handed over to the contractor unless the applicable provisions of the CPF and the EAF/ECOP (and related IEE) have been complied with.	Complied with.
16 Any changes to the land alignment or environment impacts on account of detailed designs of related Subproject roads shall be subject to prior approval by ADB or related agency (MORD) as the case may be in accordance with the Subproject selection criteria and procedures included in Schedule 2 to the FFA.	Approval will be sought from ADB/MORD if required.
Social Impacts	
17 (a) The State shall ensure through specific provisions in the bid documents and the civil works contracts financed under the Project that the contractors shall: (i) disseminate information at work sites on the risks of sexually transmitted diseases and HIV/AIDS as part of the health and safety measures for those employed during construction; (ii) follow legally mandated provisions on health, welfare, sanitation, and appropriate working conditions, including accommodation, where appropriate, for construction workers at camp sites; (iii) comply with all applicable labor laws, not employ child labor for construction camp sites; (iv) provide equal opportunity for women for road construction activities, and not differentiate wages for men and women for work of equal value.	(i) Complied with. (ii) Followed. (iii) Complied with. (iv) Equal opportunities provided to men and women.
(b) The State shall ensure that compliance with provisions in clause (a) of this paragraph is monitored by the implementing agency. The civil works contract shall also provide for their termination by the employer for breach of any provision.	Being complied with in the State.
18 The State shall ensure acceptance of the Project through effective community participation in selecting and implementing Subprojects in accordance with the PMGSY Guidelines as supplemented by the CPF (and related IEE).	Being followed.
19 In case of any significant impacts on Scheduled Tribes under any additional Subproject these 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	Being complied with.

Covenant	Status of Compliance
<p>Tribes, the legal provisions laid down by the Borrower and the related State pertaining to land transfer shall be followed.</p>	
Environment	
<p>20 Only those Subprojects that meet the eligibility requirements set out in Subproject selection criteria and procedures included in Schedule 2 of the FFA, and which adhere to the relevant requirements of the PMGSY Guidelines, the CPF, the EAF (and related IEE) and other applicable guidelines for Subproject implementation, shall be eligible for financing from the Loan proceeds. The State shall monitor the implementation of Subprojects through to the completion of each Subproject.</p>	Being complied with.
<p>21 The State shall ensure that: (i) Subprojects shall be implemented in accordance with the EAF and (related IEE); (ii) relevant provisions of the ECOP (and related IEE) identified in the Subproject preparation stage are incorporated into the Subproject designs and followed during Subproject design, construction, operation and maintenance; and (iii) Project documentation related to environment will be maintained and kept orderly throughout Project life.</p>	Complied with.
<p>22 The State shall require its SRRDA to implement the Project in accordance with all applicable laws and regulations regarding wildlife and protected areas/forest areas for Subprojects that involve roads passing through forest areas and address these under the relevant IEE for such Subprojects. No construction work will be undertaken on sections of Subprojects that pass through a forest reserve unless clearance is granted by the Borrower's Ministry of Environment and Forest under applicable laws and regulations of the Borrower and the State and no Subproject shall be located within or close to an environmentally sensitive area such as a wildlife sanctuary, national park, or other areas with significant ecological function that are declared as national parks, sanctuaries, or national/international cultural heritage.</p>	Complied with.
Subproject Selection and Approval Process; Subprojects Implementation	
<p>23 The Borrower through MORD shall ensure that the Subprojects follow the selection criteria and are promptly processed for approval by ADB as described in detail in Subproject selection criteria and procedures included in Schedule 2 to the FFA.</p>	<p>Complied with for the original Subprojects included in the PFR. Subprojects to be advanced from Batch 3 will need to follow the same criteria and procedure.</p>

Covenant	Status of Compliance
Performance Audit	
24 Without limiting the generality of Section 2.09 of the Project Agreement, MORD shall cause the State to allow ADB to carry out procurement audits during Project implementation as part of its regular review process.	Being complied with. Procurement review is being carried out on a regular basis.
Project Performance Monitoring and Progress Reports	
25 The State shall ensure under the Investment Program Performance Monitoring System (IPPMS) established by the IAs (established under Project 1), the respective IA shall undertake periodic Subproject performance review under the Project, as also for the Investment Program, in accordance with IPPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the Project and overall Investment Program.	Being complied with.
26 Notwithstanding the generality of Section 2.08 of the Project Agreement:	
(a) the State through the IA shall provide monthly progress report of Subprojects implementation under the Project, in such form and detail as required by ADB.	Being submitted.
(b) Based on the monthly reports provided by the State, MORD with assistance of National Rural Roads Development Agency, shall prepare and provide ADB with quarterly progress reports on subprojects' implementation in the State. Such reports shall summarize the monthly reports and include report on progress made during the period of review, use of Loan funds, achievement of Project objectives, compliance with Loan covenants, changes if any on implementation schedule, problems, or difficulties encountered and remedial actions taken, and work to be undertaken in the coming quarter. The reports that shall be submitted to ADB within 45 days from close of each quarter shall also include a summary financial account for the Project (including the Subprojects), expenditures to date, and report on benefit monitoring undertaken pursuant to previous paragraph of this Schedule.	Being submitted. The last progress report for the quarter ending September 2008 was received on 12 November 2008.
Reports and Review	
27 (a) Without limiting the generality of Section 2.08(c) of the Project Agreement and Section 7.04(d) of the Loan Regulations, the Borrower will submit to ADB a Project completion report within 3 months of physical completion of the Subprojects financed under the Loan and a Facility completion report within 3 months of physical completion of the Subprojects financed under the Facility. These	The reports will be submitted when due.

Covenant	Status of Compliance
<p>reports shall cover a detailed evaluation of the Project and the Investment Program respectively, covering design, costs, contractors' and consultants' performance, social and economic impact, economic rate of return, implementation of social and environmental safeguards measures, and other details relating to the Project and Investment Program, for the State as may be requested by ADB.</p>	
<p>(b) ADB, the Borrower, and the State shall meet regularly as required to discuss Project progress and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving overall Project and Investment Program objectives.</p>	<p>Meetings being regularly organized as part of review missions of the Investment Program.</p>
<p>(c) A mid-term review of the Project shall be undertaken by ADB, the Borrower, and the State, around December 2008. The mid-term review will include review of issues and any problems or weaknesses in implementation arrangements, and agree on any changes needed to achieve the objectives of the Project.</p>	<p>The Inception Mission in November 2008 concurrently discussed project implementation issues and hence considered as a mid-term review mission. There will be no further mid-term review.</p>
<p>(d) A similar mid-term review of the Investment Program by ADB, the Borrower, and the State shall be undertaken in the third year from date of approval of the Facility by ADB.</p>	<p>To be carried out in 2009.</p>
<p>Project Implementation Consultants (PIC)</p>	
<p>28 The services of domestic consultants financed under the Borrower's own resources (the PIC), shall be utilized in the carrying out of the Project, particularly with regard to assisting the Project implementation units and the IAs in: (a) preparing additional subprojects; (b) implementing the CPF; (c) monitoring and implementing the EAF (and related IEE) and the relevant provisions of the ECOP (and related IEE); and (d) support in social and environmental safeguard.</p>	<p>PIC has been engaged in Orissa. The following assistance will be given by PIC in Orissa: preparation of documents for Batches 3 and 4 and monitoring of road safety, social and environmental aspects of Batches 2 and 3.</p>
<p>Project Agreement</p>	
<p>Section 2.09 MORD and the State shall (i) maintain separate accounts for the Project, Subprojects, and consulting services; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than 9 months</p>	<p>Not yet due.</p>

Covenant	Status of Compliance
<p>after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditor's opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for statement of expenditures), all in English language. MORD and the State shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.</p>	
<p>Section 2.10 MORD and the State shall enable ADB's representatives to inspect the Project, the Works financed out of the proceeds of the Loan, and any relevant records and documents.</p>	Being complied with.