

NATIONAL RURAL LIVELIHOODS PROJECT

NATIONAL FINANCIAL MANAGEMENT MANUAL

PART I A OVERALL NRLP FM MANUAL

23 March, 2011

(Version 3)

National Mission Management Unit

Ministry of Rural Development

Government of India

INDEX

	PARTICULARS	PAGE
	Abbreviations	4
	Glossary	6
	Introduction to Manual	7-8
PART I A: OVERVIEW OF NRLP		
Chapter 1	Description of Project	9-25
Chapter 2	Overview of FM Arrangements of NRLP	26-52
Chapter 3	Toolkit for FM Assessment of States	53-60
Chapter 4	Planning and Budgeting	61-70
Chapter 5	Flow of Funds	71-81
Chapter 6	Accounting	82-85
Chapter 7	Financial Reporting	86-91
Chapter 8	Audit	92-94
Chapter 9	Financial Management Disclosure	95-97
Chapter 10	Reimbursement from the World Bank	98-103

List of Annexes

ANNEX	PARTICULARS	PAGE
Annex 1	Format for Annual Work Plan	130
Annex 2	Format of Memorandum Register at MoRD	131-132
Annex 3	Consolidated IUFR of Project	133-143
Annex 4	Consolidated IUFR of State Level	144-150
Annex 5	Summary of Annual Statutory Audit Reports of Project	151-154
Annex 6	Consolidated FM Indicators of Project	155-164
Annex 7	Consolidated FM Indicators for State Level	165-169
Annex 8	Terms of Reference of Audit by the C&AG	170-183
Annex 9	NMMU's checklist for FM Monitoring Visits to States	184-185
Annex 10	Terms of Reference for Financial Controller- NMMU	186
Annex 11	Terms of Reference for Financial Management Consultant (NMMU)	187
Annex 12	Terms of Reference for Financial Management Consultant (States)	188
Annex 13	Utilization Certificate – Form GFR 19 A	189
Annex 14	Register of Grants to be maintained by the Sanctioning Authority – Form GFR 39	190
Annex 15	Register of Fixed Assets – Form GFR 40	191
Annex 16	Register of Audit Observations	192
Annex 17	Chart of Accounts – MORD level	193
Annex 18	Chart of Accounts – State Level	194-195
Annex 19	Selection Criteria for Auditors for Statutory Audit at State Level – to be added	196
Annex 20	Terms of Reference for Statutory Audit at State Level	197-206
Annex 21	Terms of Reference of Internal Audit at State Level	207-213

Abbreviations

AWP	Annual Work Plan
BLF	Block Level Federations
BMMU	Block Mission Management Unit
CAAA	Controller of Aid, Audit and Accounts
C&AG	Comptroller and Auditor General
CGA	Controller General of Accounts
CPSMS	Central Plan Scheme Monitoring System
COM	Community Operational Manual
CSS	Centrally Sponsored Scheme
DMM	District Mission Manager
DMMU	District Mission Management Unit
DRDA	District Rural Development Agency
DS	Deputy Secretary
EC	Empowered Committee
ECS	Electronic Clearing System
FM	Financial Management
FMM	Financial Management Manual
GB	Governing Body
ICT	Information and Communication Technology
IUFR	Interim Unaudited Financial Reports
JS	Joint Secretary
MDG	Millennium Development Goals
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MIS	Management Information System
NIRD	National Institute of Rural Development
MoRD	Ministry of Rural Development

MoU	Memorandum of Understanding
NMMU	National Mission Management Unit
NRLM	National Rural Livelihoods Mission
PAD	Project Appraisal Document
PAO	Pay and Accounts Office
PFT	Project Facilitation Team
PIP	Project Implementation Plan
RBI	Reserve Bank of India
SGSY	Swarnajayanti Gram Swarozgar Yojana
SHG	Self Help Group
SIRD	State Institute of Rural Development
SMD	State Mission Director
ToR	Terms of Reference
VO	Village Organisation

Glossary of Key Words Used in Manual

“Accounting Year”, “Year”, or “Financial Year” means the year commencing on 1st of April and ending on 31st of March.

“DMMU” means District Mission Management Unit responsible for facilitating, implementing, coordinating and monitoring the Project at the State level.

“Federation” means a group comprised of poor rural households, duly established under the laws of a Participating State, managed by an executive committee elected by said group, which may receive an Investment Support under Part B of the Project.

“Federation Grant Agreement” means the grant agreement entered into between a Participating State and a Beneficiary Institution.

“Federation Livelihood Plan” means a plan of Federation livelihood activities, prepared by a Beneficiary Institution and approved by the relevant Participating State, which consists, *inter alia*, of an aggregation of household investment plans for financing the purchase of goods, works and services needed to create assets, generate household income, develop technical skills, access educational and health services and meet specific household consumption needs.

“MOU” means Memorandum of Understanding, which contains the terms and conditions between the Ministry of Rural Development and States

“NMMU” means National Mission Management Unit created by Ministry of Rural Development for facilitating, implementing, coordinating and monitoring Project activities at National level.

“Project” means National Rural Livelihoods Project (NRLP)

“PIP” means Project Implementation Plan, including action plans, procedures and criteria for implementation of Project.

“SMMU” means State Mission Management Unit responsible for facilitating, implementing, coordinating and monitoring the Project at the State level.

“SPIP” means each Participating State’s operations manual, which provides state level guidance in respect of the Project, including procedures and criteria for the selection, appraisal and implementation of Federation Livelihood Plans, including the relevant audit requirements for each of the Participating States (as necessary).

INTRODUCTION TO MANUAL

This manual has been prepared for National Rural Livelihoods Project (NRLP). NRLP will be implemented by Ministry of Rural Development at national level and State Rural Development departments in states which will participate in the project. NRLP will be funded by the Government of India and the World Bank.

PURPOSE OF THE MANUAL

The prime objective of preparing this manual is to document FM procedures applicable at all levels in the project and bring in uniformity in Financial Management arrangements, such as accounting, financial reporting, audit etc.

STRUCTURE AND SCOPE OF MANUAL

This manual is divided into 3 parts:

PART I National FM MANUAL

PART I A FINANCIAL MANAGEMENT FRAMEWORK

- Overview of NRLP
- Summary of FM Arrangements of NRLP
- Chapters on Details of FM Arrangements of NRLP
- Toolkit for FM Assessment of participating states

PART I B: MORD FM Arrangements

- FM procedures applicable at MORD for NRLP

RESPONSIBILITY OF NMMU, MORD

The Manual shall be maintained by the head of Finance unit of National Mission Management Unit of MORD and will be made available to audit/inspecting agencies for guidance.

AMENDMENTS TO MANUAL

- The procedures of Financial Manual are mandatory and deviations are not allowed.
- Any change in the manual can be carried out only by NMMU, MORD in consultation with the World Bank.
- Any request for amendments based on implementation experience of NRLP should be directed to head of NMMU, MORD.
- All amendments to manual:
 - Should be circulated to all states for onward circulation to districts and other implementing units
 - Clearly state the paragraph(s) and lines replaced/added
 - Be serially numbered for control and easy reference
 - Mention the date from which amendments will be effective
 - Be annexed to the manual with a cross-reference at appropriate places in the Manual.

DISCLOSURE OF MANUAL

The Manual and all subsequent amendment will be displayed on the website of NRLP at national level.

OTHER RELATED PROJECT DOCUMENTS

Other related key documents which may be referred to along with this Finance Manual are:

- Project Appraisal Document (PAD)
- Project Implementation Plan (PIP)
- Procurement Manual (PM)
- Legal Agreements between the World Bank and the GoI for NRLP
- Memorandum of Understanding (MoU) between MORD and State governments
- NRLM Mission Document
- NRLM Framework of Implementation

CHAPTER 1

DESCRIPTION OF PROJECT

This chapter covers two sections:

Section A Background of NRLM

Section B Description of National Rural Livelihoods Project (NRLP)

A Background of National Rural Livelihoods Mission (NRLM)

The Union Cabinet, Government of India approved establishment of National Rural Livelihoods Mission (NRLM) on June 24, 2010 and mandated the newly established mission with the task of adopting a comprehensive 'livelihoods approach' to reduce rural poverty.

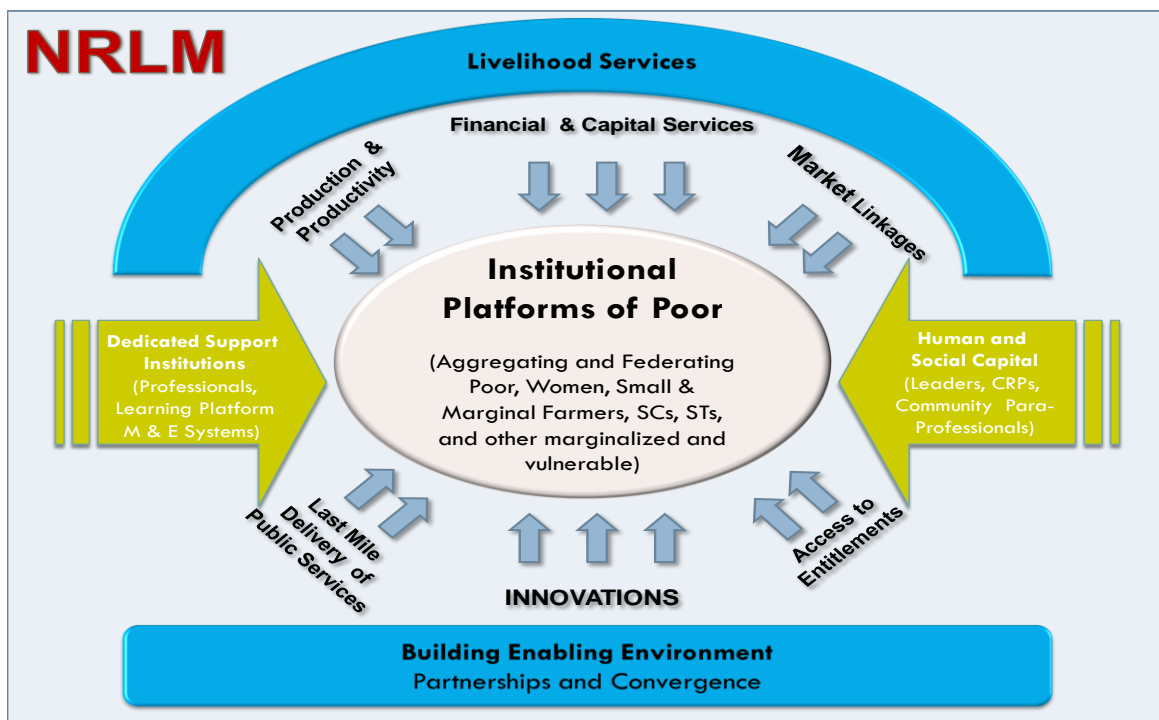


Diagram: National Rural Livelihoods Mission

Resource Allocation by Government of India

In a significant departure from earlier programs, NRLM proposes a strategic shift in financial resource allocations by the Government of India, from a 'population and entitlement –based approach' to a 'demand-driven approach,' wherein financial and technical support would be provided to states on the basis of poverty reduction strategies and time-bound action plans linked to specific outcomes.

Funding Pattern of NRLM for States

NRLM is a Centrally Sponsored Scheme and the financing of the program would be shared between the Centre and the States in the ratio of 75:25 (90:10 in case of North Eastern States including Sikkim; completely from the Centre in case of UTs). The Central allocation earmarked for the States would broadly be distributed in relation to the incidence of poverty in the States. A phased implementation approach is adopted in NRLM. NRLM would reach all districts and blocks by the end of 12th Five-year Plan.

Transition to NRLM

NRLM will not roll out simultaneously in all the selected states, as there are preconditions to funding. The phasing of the NRLP during the project period will follow a systematic strategy of preparedness by the states to implement NRLP. In order to transit successfully to NRLM, a state is required to:

- a. Set up dedicated program implementation structure in the form of SRLM;
- b. Trained professionals to manage and implement NRLM activities are in place; and
- c. State has prepared poverty reduction plan reflecting the local context.

B National Rural Livelihoods Project (NRLP)

The proposed National Rural Livelihoods Project (NRLP) will enable MoRD to increase effectiveness and results from a US\$2.2 billion public investment in NRLM for the two years of Eleventh Five Year Plan and the expected US\$5.5 billion for the Twelfth Five Year Plan (roughly US\$7.7 billion in total). The support to MoRD is for professionalizing the overall program management and moving towards a results-based approach throughout the country. The investment support would enable MoRD to launch the NRLM in the 12 states which account for 85 per cent of the rural poor households in India in an intensive manner. T

The proposed NRLP intends to support systemic reform and transformation of MoRD from focusing on allocation, disbursement, and monitoring of central government resources, to one of providing quality technical assistance to states implementing the NRLM.

There is a radical role transformation of the Ministry of Rural Development, GOI from just an allocation, disbursement, and monitoring of GOI resources body to one of providing quality technical assistance to the states for implementing NRLM. The role transformation of the MORD is shown in the Table below:

TABLE: ROLE TRANSFORMATION OF MORD

Role of MoRD under SGSY	Role of MoRD under NRLM
Expenditure focused scheme management reduced the role of MoRD to that of fund allocation agency and monitoring of disbursements	Results focused mission management with particular emphasis on enhancing institutional capacities of delivery system and building institutional platforms of the poor at the grassroots to ensure reach of all program benefits to all their members
Direct interface with district level entities on implementation strategies driven with little role for the state Governments	States will play lead role in developing poverty reduction strategies and creating a dedicated support structure upto the community levels. MoRD providing high quality technical assistance to States and other partner agencies.
Entitlement-based fund allocation made on year on year basis to the districts determined by the poverty ratio of the states	Program based financing with commitment beyond one year by subscribing to the mutually agreed results in perspective plans prepared by the States.
Program planning restricted to financial allocations under SGSY distributed thinly across the districts/blocks. Credit mobilization plans restricted to subsidy allotments for year.	Leverage model of NRLM places emphasis on convergence with other Government programs for the poor and formal financial institutions as primary source of investment.
Implementing SGSY as a scheme run only through the state system	NRLM envisages multi-stakeholder engagement particularly positioning itself as promoter and incubator for innovators, social entrepreneurs and private enterprise.
Input monitoring against physical and financial targets	Evidence based monitoring and policy impact analysis

DEVELOPMENT OBJECTIVE OF PROJECT

The development objective of the proposed project is *to establish efficient and effective institutional platforms of the rural poor that enable them to increase household income through sustainable livelihood enhancements and improved access to financial and selected public services.*

The activities to be supported under the proposed NRLP intend to achieve the following **key outcomes**:

- a) Enhance effectiveness of public expenditure on NRLM
- b) Leverage resources for the poor
- c) Increase access to other government programs

PROJECT APPROACH

The NRLM will be pivot of all poverty reduction efforts in the country. The mission will have strong 'results orientation' and in a significant departure from conventional program management, it has proposed the following:

- a) Providing **high quality technical assistance to the states** to enhance their program implementation capacities to reach mission goals in an effective manner
- b) Shifting from entitlement and allocation based strategies to a **demand driven strategy** that enables the states to determine poverty reduction priorities and formulate own plans
- c) Bringing time perspective in program planning with focus on **targets, outcomes and time bound results achievement** as opposed to the current year on year planning effort driven by expenditure targets
- d) **Continuous capacity building, imparting requisite skills and creating linkages with livelihoods opportunities for the poor**, including those emerging in the organized sector,
- e) Introducing **innovations and incubating alternate models for program delivery** in the last mile
- f) Creating **knowledge and learning platforms** that bring together good practices and facilitate cross learning

PROJECT BENEFICIARIES

The proposed National Rural Livelihoods Project (NRLP) intends to support the overall launch of the activities of the NRLM, including specific additional investments for twelve states that have the highest number of absolute poor and poverty rates in India (currently six states have WB-financed rural livelihood projects). These 12 states account for almost 85% of the poor in India.

The **NRLP** will target approximately 24 million rural poor (about 4.8 million households) in approximately **100 districts (roughly 400 blocks) of the 12 states**.

MORD will reach all remaining rural poor throughout the country through its own resources using the institutions created and/or supported by the NRLP at the national and state level.

PROJECT AREA AND SCOPE

The project will be implemented in 12 high poverty states accounting of 85 per cent of the poor in the country. Out of these, **intensive livelihood investments will be made in 100 districts and 400 blocks**.

The states to be covered under NRLP are described in the following below:

TABLE: States to be covered under NRLP

States with ongoing/closed livelihoods projects supported by the World Bank	Bihar Chhattisgarh Madhya Pradesh Orissa Rajasthan Tamil Nadu
Other States	Gujarat Jharkhand Karnataka Maharashtra Uttar Pradesh West Bengal

CRITERIA FOR SELECTION OF BLOCKS AND DISTRICTS

The broad criteria for the selection of districts and blocks for intensive livelihood investment support include:

- a) High poverty incidence
- b) Representation to different socio-economic regions of the state;
- c) Status of social mobilization of vulnerable and marginalized communities
- d) Areas affected by conflict; and
- e) Availability of social capital generated by successful livelihood programs in the nearby areas.

However, **NRLP will not be implemented in the same blocks as the ongoing WB-financed state livelihood projects to ensure that there is no risk in duplication of financing.**

The distribution of the districts and blocks will be identified by the states in consultation with MoRD and presented in their respective plans.

Particulars	Number
National unit	1
States covered	12
Districts covered	100
Blocks covered	400
Number of poor HH mobilized (million)	4.8
Number of poor covered (million)	24

PHASING OF NRLP

It is not envisaged that the NRLP will roll out simultaneously in all the selected states, as there are **preconditions to funding**. The phasing of the NRLP during the project period will follow a systematic **strategy of preparedness by the states** to implement NRLP.

In the **first year of the project**, the project will strengthen the professional team at NMMU and build its capacities for providing high quality technical support to all States. During this time, it will also institutionalize mechanisms and standard operating procedures for appraisal and approval of state plans and establish nationwide system of monitoring and learning, financial management and procurement management.

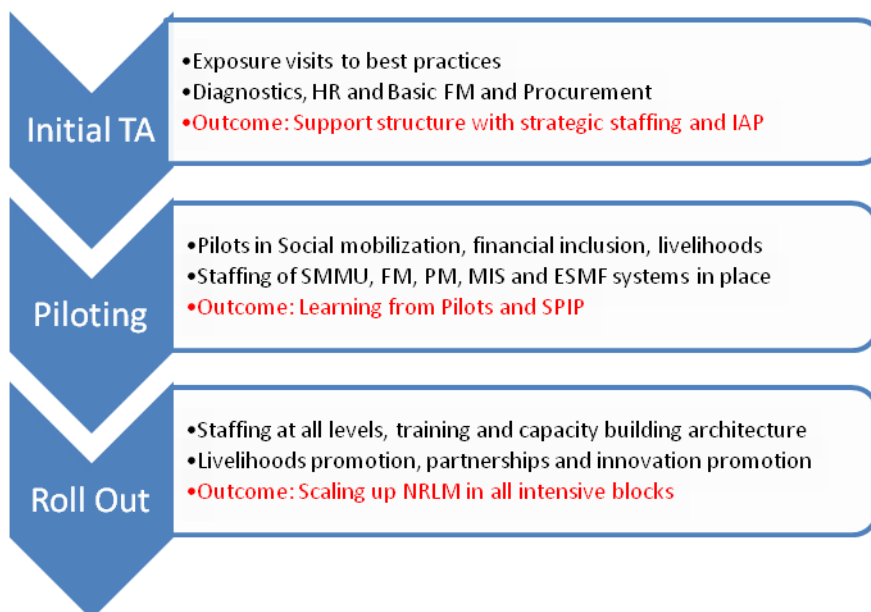
The phasing of the project at the state level is largely contingent on **the readiness of the states** viewed in terms of having in place professionally managed implementation structures and formulating high quality state perspective and implementation plan (SPIP). About **five of these states have developed this capacity** as they are implementing the large scale state level livelihood programs. The project will help them to align with the NRLM and expand their coverage to new areas.

In the **remaining seven new states**, NMMU will extend **technical assistance in the first year** to help them develop and implement Initial Action Plan (IAP) which will enable them to:

- a) Set up State Rural Livelihood Missions (**SRLM**) and fully staffed State Mission Management Units (**SMMU**)
- b) Undertake **poverty diagnostics** and launch field pilots
- c) Formulate of state perspective and implementation plans (**SPIP**) for poverty reduction.

It is anticipated that all the seven states that have received technical assistance and have launched field pilots in the first year will roll out the project activities from second year onwards. The year-wise phasing and coverage of the districts and blocks is given below:

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
States Covered	5	12	12	12	12
Districts Covered	32	64	100	100	100
Blocks Covered	128	256	400	400	400



PROJECT COST SUMMARY

TABLE: TOTAL PROJECT COST

(In US Dollars Millions)

Particulars	Govt. of India	IDA (World Bank)	Total
National Rural Livelihood Project	171	1000	1171
Percentage (%)	14.6%	85.4%	100%

PROJECT COMPONENTS

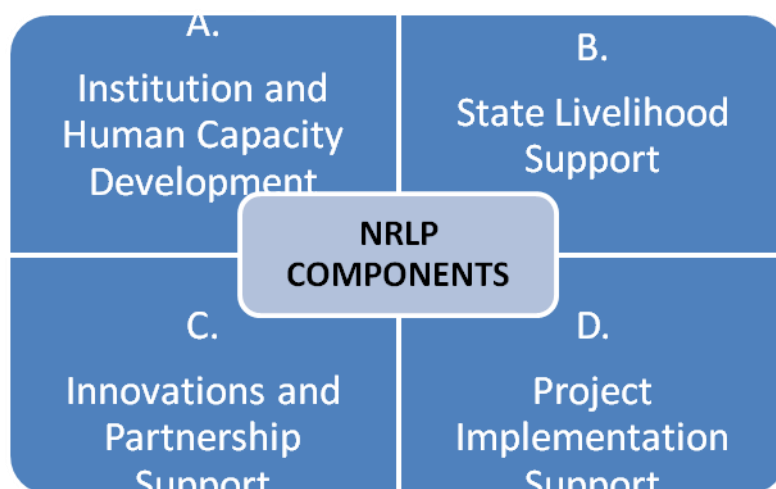


Diagram: NRLP COMPONENTS

With the exception of Component B that will be implemented in the 12 targeted states, the remaining components will provide support at the national level to enable the smooth rollout of the NRLM throughout the country.

Component A: Institution and Human Capacity Development

The **objective** of this component is to transform the role of MoRD into a provider of high quality technical assistance in the field of rural livelihoods promotion. This component will finance primarily staff, technical assistance consultancies, and training and related course material. **Support under this component will be for all states.**

To achieve the objective of this component, the proposed project intends to support the following activities:

- a) *Technical Assistance (TA)*: Establish teams of high quality professionals to provide TA to the states in various thematic areas. This team will provide continuous support to state governments in the implementation of the NRLM and related activities in the rural development sector.
- b) *Human Resource Development*: support development of partnerships with well established training and research institutions in the field of rural development throughout India that can deliver focused training programs for successful implementation of the NRLM and related activities in the rural development sector. The activities supported will include curriculum development, design and conduct of training programs including e-learning and distance learning. Under this feasibility of establishment of a National Center for Rural Livelihoods will also be explored.

Component B: State Livelihood Support

The **objective** of this component is to support state governments in the establishment of the necessary institutional structures and mechanisms for the implementation of NRLM activities from the state to the block level, including support to the formation of institutions of the rural poor.

The extent of financing to each state will depend on the basis of state-specific needs as detailed in their respective State Prospective and Implementation Plans (SPIP) which will be jointly reviewed and appraised by the MoRD and the WB prior to the financing of any activities.

This component will finance livelihood grants to the poor rural households (i.e. SHGs/federations) to undertake productive livelihood activities as detailed in their livelihood plans, technical assistance consultancies, training and related material, office equipment, and operational costs at the state level and below.

To achieve the objective of this component, the proposed project intends to support the following activities:

- a) *State Rural Livelihoods Missions (SRLM)*: support the formation of an autonomous and professionally managed mission at the state-level for the implementation of the NRLM comprising of a multi-disciplinary team. In addition, the SRLM would establish implementing entities at the district level comprising of multidisciplinary teams.

- b) *Institution Building and Capacity Building*: support the identification, selection, and mobilization of poor rural households into self-managed institutions, such as Self Help Groups (SHGs) and their federations. This would also include providing capacity building and training activities for SHG members and federations in livelihood activities, bookkeeping, financial literacy, and business education, among others. Teams of livelihood professionals trained in participatory methodologies and community facilitation will be set up at the block/sub-block level.
- c) *Community Investment Support*: provide livelihood grants to the institutions of the poor to enable them to undertake productive livelihood enhancing initiatives. In addition, the NRLP would facilitate the establishment of higher level producer institutions, producer groups, collectives, and/or companies.
- d) *Special Programs*: support for pilot activities that have potential for scaling-up and replication such as last mile delivery of public services including health and nutrition, implementing activities in high-conflict areas in partnership with civil society organizations, green opportunities, climate change-related activities, value-chain development, using new technologies for financial inclusion, among others. Activities under special programs will cover all States, including those States that are not directly participating in the NRLP.

Component C: Innovation and Partnership Support

The **objective** of this component is to create an institutional mechanism to identify, nurture and support innovative ideas from across the country to address the livelihood needs of the rural poor. Support under this component will be for all states.

This component will finance pilot initiatives and technical assistance consultancies that support innovative livelihoods activities in agriculture, livestock, youth employment, among others, for rural poor households. **Support under this component will be for all states.**

To achieve the objective of this component, the proposed project intends to support the following activities:

- a) *Innovation Forums and Action Pilots*: support selected innovations identified through development marketplace-type forums that have the potential to be scaled-up in a viable manner in partnership with development foundations.
- b) *Social Entrepreneurship Development*: support the development of a network of grassroots innovators and social entrepreneurs, identified through a competitive process, at state and national level.
- c) *Public-Private-Community-Partnership*: develop and support effective partnerships with the private sector, foundations public corporations, and civil society organizations on livelihoods development for the rural poor throughout India. These could include ICT, agribusiness, financial inclusion, and youth employment, among others. Process and procedures for identification, and partnering with NGOs and Social Entrepreneurs under this component will follow the Innovation and Partnership Development Guidelines agreed with the Project.

Component D. Project Implementation Support

The **objective** of this component is to strengthen the National Mission Management Unit for effective project management at the national level that develops key systems and processes for coordination and management of the proposed project and the NRLM.

Given that the NRLP, and more importantly the NRLM, will be implemented across India, there are substantial managerial requirements which are critical to ensure the satisfactory implementation of both the NRLP and NRLM. In this regard, a dedicated National Mission Management Unit (NMMU) has been established under the MoRD.

This component will finance technical assistance consultancies, training and related material, office equipment, MIS development, and operational costs. **Support under this component will be for all states.**

To achieve the objective of this component, the proposed project intends to support the following activities:

- a) *National Mission Management Unit (NMMU)*: strengthen the various functions of the NMMU to be able to manage, deliver and support all aspects of not only the NRLP, but also the NRLM.
- b) *Monitoring and Evaluation* - A comprehensive and robust monitoring and evaluation system will be established to track implementation progress of NRLP/NRLM and provide meaningful reports on household level impacts and implementation experiences. This will enable MoRD and state governments to take corrective actions, if necessary.
- c) *Electronic National Rural Livelihoods Management System (e-NRLMS) and ICT*: The objective of this sub-component is to design, develop and roll out electronic National Rural Livelihoods Management System (e-NRLMS) using state of the art IT platform for hosting and delivering variety of project services like management information system (MIS), decision support systems (DSS), financial management system (FMS), etc. This digital grid connecting village to the national level will be Aadhar (UID) compliant and will be leveraged to deliver ICT based services to rural poor households in the last mile.
- d) *Governance and Accountability Framework*: the NRLP would support the development and roll-out of a user friendly and highly responsive governance and accountability mechanism.
- e) *Knowledge Management and Communication*: The project will invest in a variety of products and services to enhance the generation and use of knowledge and communications as a key tool for enhancing the quality of the program.

PROJECT BUDGET

TABLE: NRLP: Project Cost Summary by Components and Financiers

Component / Sub component	(US\$ Million)		
	IDA	Gol	Total
A. Institutional and Human Capacity Building- Nation-wide Support			
A.1 Technical Assistance	47.5	-	47.5
A.2 Human Resource Development	13.9	-	13.9
Subtotal	61.3	-	61.3
B. State Livelihoods Support – Support to 12 States			
B.1 State Rural Livelihoods Missions (SRLM)	182.7	-	182.7
B.2 Institution Building and Capacity Building	186.5	62.2	248.6
B.3 Community Investment Support	326.5	108.8	435.3
B.4 Special Programs	98.0	-	98.0
Subtotal	793.7	171.0	964.7
C. Innovations and Partnership Support - Nation-wide Support			
C.1 Innovation Forums and Action Pilots	15.0	-	15.0
C.2 Social Entrepreneurship Development	10.0	-	10.0
C.3 Public Private Community Partnerships	20.0	-	20.0
Subtotal	45.0	-	45.0
D. Project Implementation Support - Nation-wide Support			
D.1 National Mission Management Unit (NMMU)	17.6	-	17.6
D.2 Monitoring and Evaluation	23.4	-	23.4
D.3 Electronic National Rural Livelihoods Mgmt System (e-NRLMS)	33.3	-	33.3
D.4 Governance and Accountability Framework	7.2	-	7.2
D.5 Knowledge Management and Communication	18.5	-	18.5
Subtotal	100.0	-	100.0

Total Project Costs	1,000.0	171.0	1,171.0
NRLM- Costs – covering geographic costs not under the NRLP	-	7529.0	7529.0
Total NRLP and NRLM – nation-wide costs	1,000.0	7,700.0	8,700.0

INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS OF NRLP

Sensitive and dedicated support structures will be established at the **National, State, district and sub-district levels.**

Please refer to the following diagram for structure of NRLP.

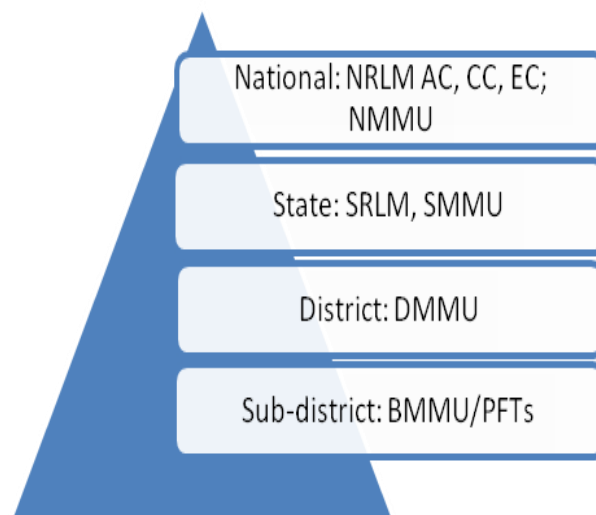


Diagram: Implementation Structure of NRLP

I National Level Implementation Arrangements for NRLP

The key functions of central level committees at national level are summarized in the following Table:

TABLE: National Level Committees for NRLM

Committee	Chaired By	Key Functions
Advisory Committee of NRLM (AC)	Union Minister of Rural Development	<ul style="list-style-type: none"> • Providing overall vision for NRLM • Providing direction and setting priorities for NRLM • Policy guidance on poverty reduction and livelihoods enhancement of the poor • Review progress of activities and provide strategic support for program implementation • Advocacy
NRLM Empowered Committee (NRLM-EC)	Secretary, Rural Development, Government of India	<ul style="list-style-type: none"> • Approve the State Perspective and Implementation Plans • Approve the Annual Action Plans prepared by the States and review the progress of their implementation • Approve release of funds to SRLMs

National Mission Management Unit (NMMU)

The NMMU has been established in New Delhi as an effective project management unit with key systems for coordination and management. The NMMU will provide leadership to the whole program implementation and creating a facilitating environment for the performance of state level rural livelihoods mission.

The Joint Secretary/Additional Secretary, NRLM, Ministry of Rural Development would lead the Mission at the National Level assisted by the NRLM Division. The NMMU is comprised of a combination of staff and consultants to perform different functions such as project management, various technical specialists, M&E, planning, appraisal and monitoring of the project in participating states.

The main role NMMU will be to establish and oversee structures and processes for:

- Policy Formulation,
- Project/Operations and Financial Management,
- Planning and Appraisal,
- Knowledge Management and Communication,
- Capacity Building and Training,
- Monitoring, Learning, Evaluation and Information Management, and most important
- Technical Assistance (TA) to States in rolling out the program.

The NMMU is divided into three functional units: (i) Thematic Support Unit, (ii) Technical Assistance Unit and (iii) Program Management Unit.

Project Management Unit

Project Management Unit will look after the operational dimensions of the NRLM such as fiduciary functions of finance and procurement, administration, state funding appraisal process, monitoring and evaluation and human resource development.

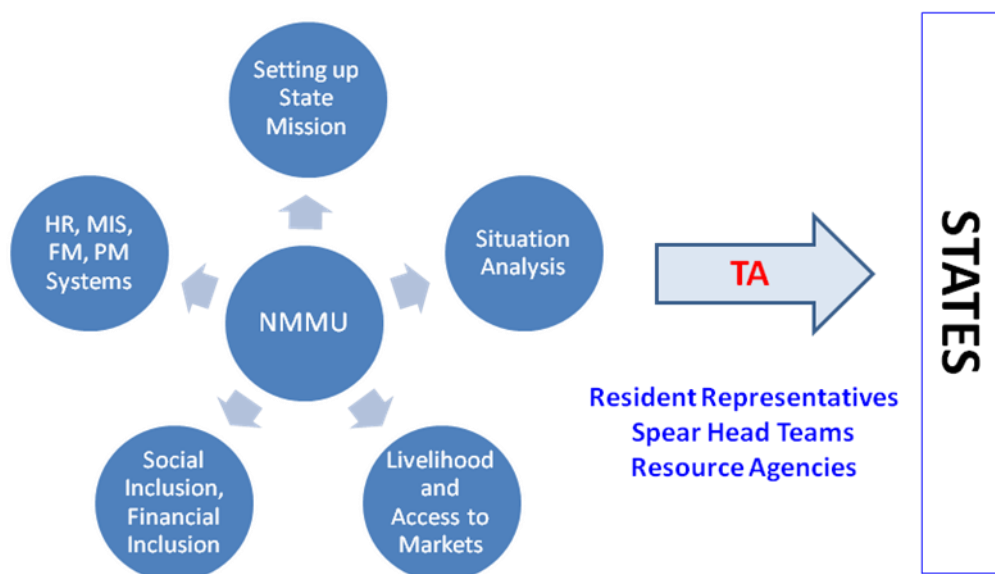


Diagram: TA to States

Technical Assistance Unit

Technical Assistance unit will have state level resident representatives and spearhead teams which will support states in establishing of State level Livelihood Mission structures and program implementation at the ground level.

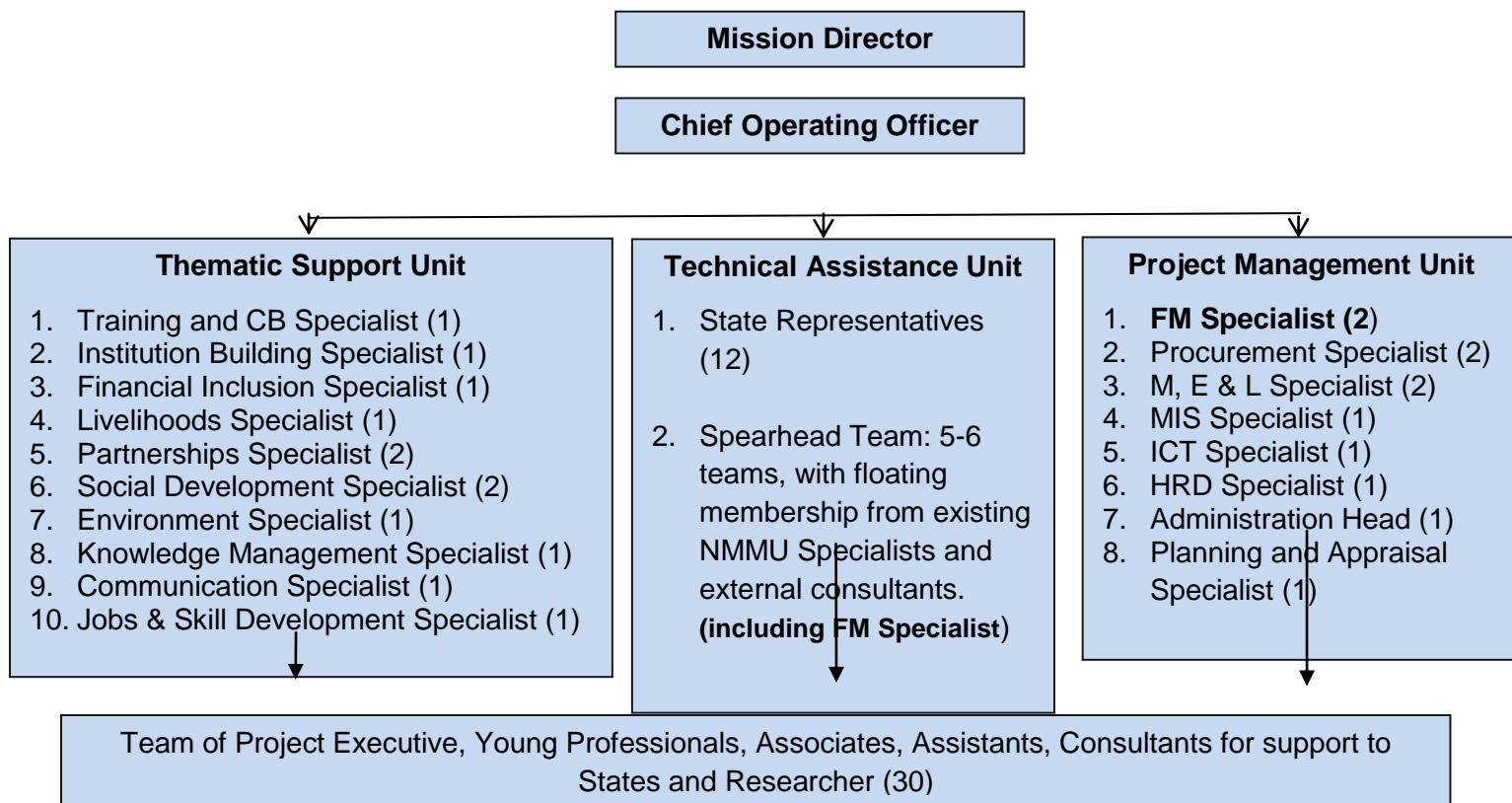


Diagram: National Mission Management Unit – Implementation Structure

II State Level Implementation Arrangements for NRLP

State Level

States will be required to create separate autonomous implementation structures as State Rural Livelihood Missions (SRLMs) with multi-stakeholder governance mechanisms.

Governing Body

The Governing Body (GB) and the Executive Committee (EC) of SRLM will provide guidance and advice in all aspects of planning and implementation. The Governing Body with the Principal Secretary/Secretary, Rural Development as its Member-secretary/Convener, would be chaired, preferably, by the Chief Minister or the Chief Secretary.

Executive Committee

The Executive Committee would be chaired, preferably, by the Chief Secretary/Development Commissioner with the Principal Secretary, Rural Development as Vice-chairperson and the State Mission Director as convener.

State Mission Management Unit (SMMU)

The State Mission Management Unit (SMMU) of the State Rural Livelihoods Missions (SRLM), has or will be constituted by state governments for the implementation of NRLP activities. SRLM would implement the NRLM activities in the state through an SMMU, at the state level, headed by a full-time State Mission Director (SMD). The major responsibilities of the SMMU include:

- a) Lead all NRLM activities in the state
- b) Drafting policies and implementation guidelines of the mission at the state level
- c) Handholding support to district and sub-district implementation/support structures
- d) Ensuring quality implementation of different components/thematic interventions
- e) Managing convergence and partnerships

Support Structures at the District Level

District and Block Level

SRLM will set-up District Mission Management Unit (DMMU) and Block Mission Management Unit (BMMU) for meeting NRLM objectives and implementing NRLM activities in the district and sub-districts. Suitable linkages with DRDAs would be explored during implementation after undertaking a capacity assessment.

The DMMU and BMMU will:

- Facilitate and support units for field structures
- Interface and forge convergence with District/Block Administration and line departments, banks, NGOs and corporate agencies.

Community Level

SHG Federations and SHGs will be the main community level institutes.

NRLP ROLES

The diagram below summarises respective roles of the centre, states and blocks in NRLP.

Key responsibilities of NMMU include building capacity of states for implementing NRLP, providing funds for the project and overall project management.

Key responsibilities for SMMUs include planning and implementation of NRLP activities at state level, including setting up infrastructure at block level for NRLP.

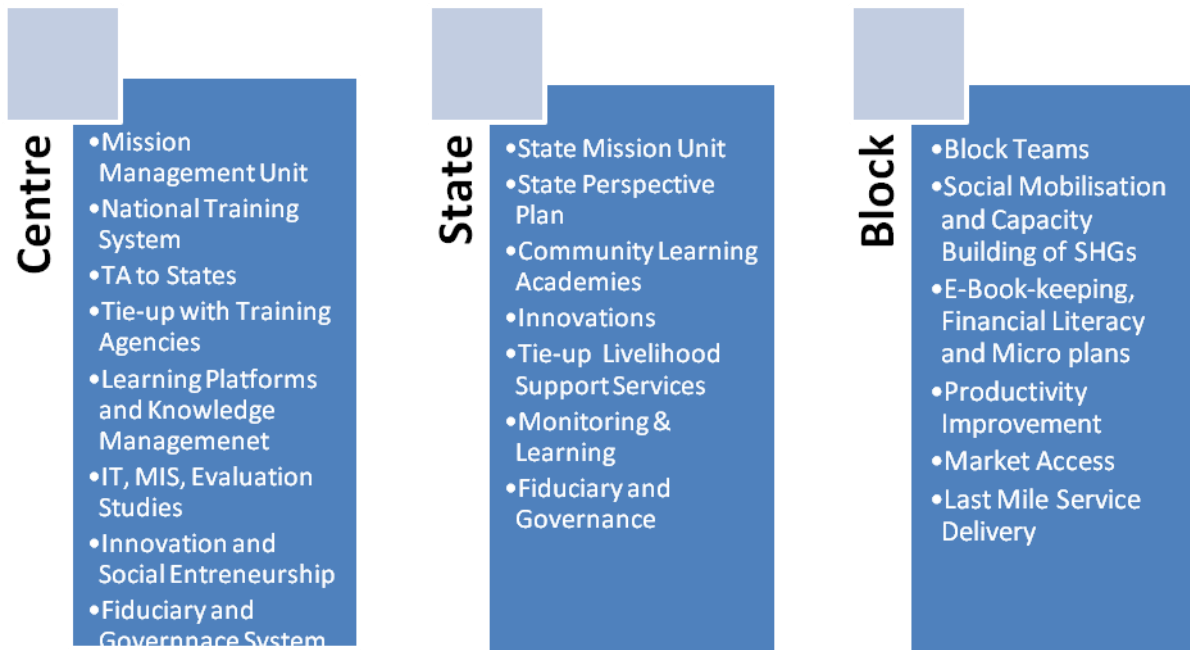


Diagram: NRLP Roles

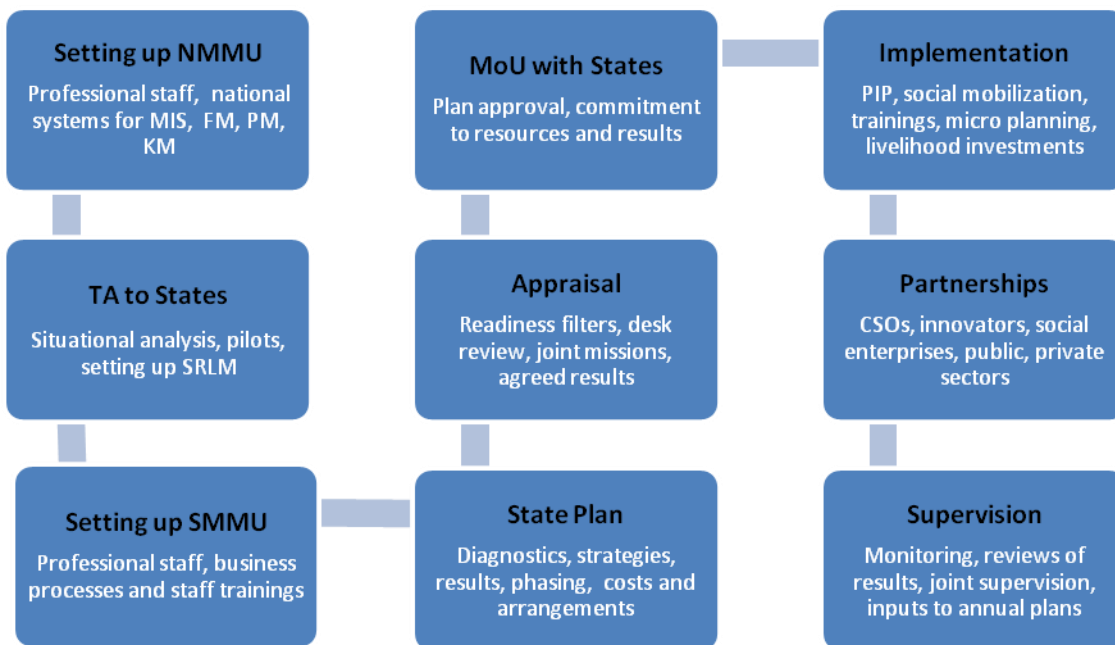


Diagram: NRLP Process

Please refer to Project Implementation Plan (PIP) for details of NRLP processes.

Please refer to chapter on **Planning and Budgeting** in Part IA and **FM Monitoring of NRLP** in Part I B for details of these arrangements.

CHAPTER 2

OVERVIEW OF FM ARRANGEMENTS OF NRLP

This chapter includes the following sections:

- | | |
|------------------|---|
| Section A | Principles of Financial Management for NRLP |
| Section B | Control Framework for Financial Management for NRLP |
| Section C | Overview of Financial Management Arrangements of NRLP |

A PRINCIPLES OF FINANCIAL MANAGEMENT OF NRLP

The guiding principles for the financial management arrangements for the project would be twofold:

1. Use the country fiduciary systems, to the extent feasible and considered satisfactory and meeting the essential fiduciary requirements.
2. Build upon successful models developed and tested in the World Bank funded rural livelihood projects implemented across eight states.
3. Review of Good practices in National Programs in other sectors (education, health)

Within this broad framework, the parameters of the financial management arrangements are briefly described in the following sections of this chapter.

B CONTROL FRAMEWORK OF FM of NRLP

This section includes the following sub-sections

- I Control Framework for Financial management of NRLP – Overall Project
- II Control Framework for Financial management of NRLP – State Level
- III Control Framework for Financial management of NRLP – Community Level

I Control Framework for Financial management of NRLP – Overall Project

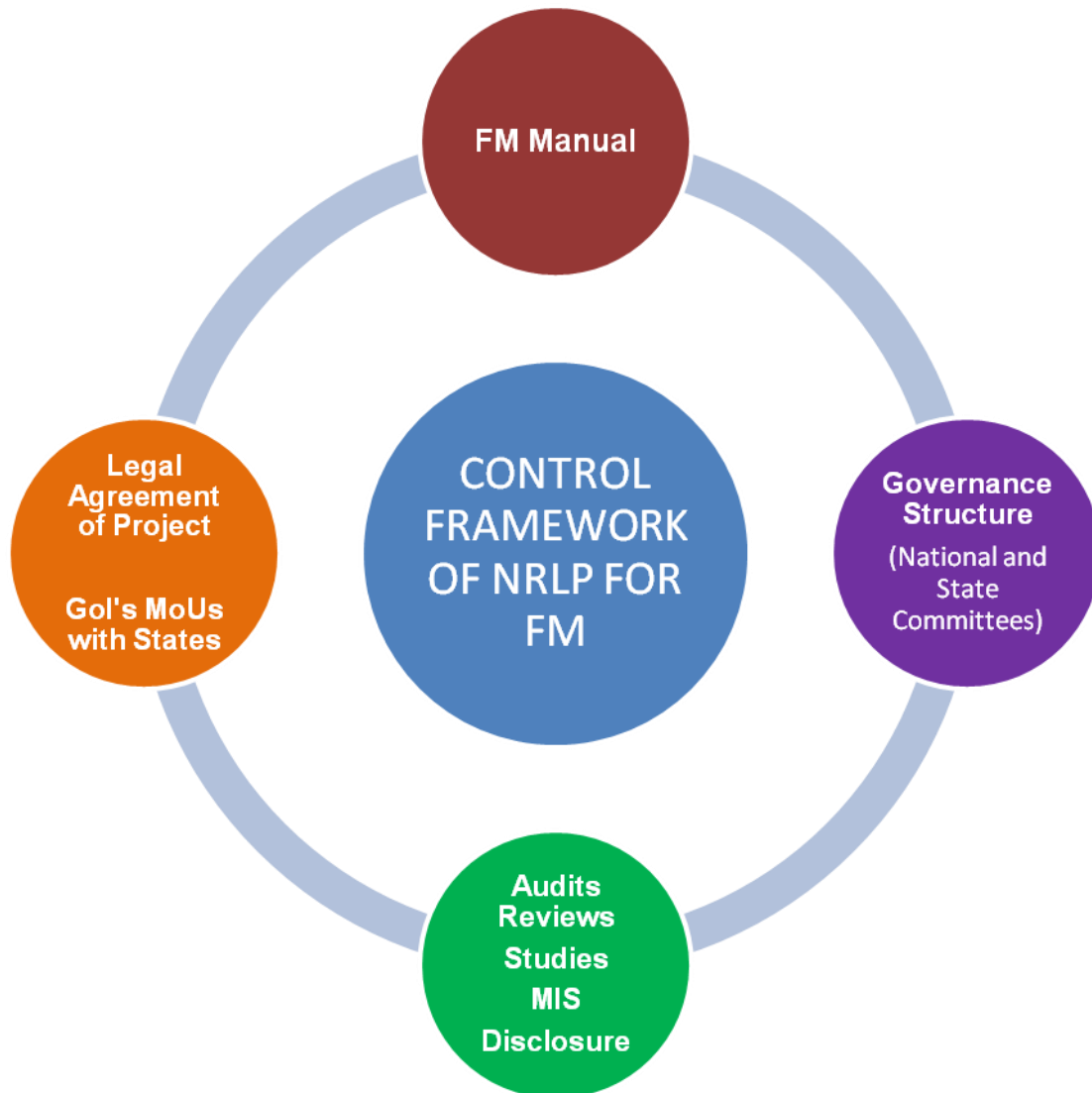


Diagram: Control Framework for Financial management of NRLP – Overall Project

The key elements of control framework for financial management for NRLP are as follows:

Financial Management Manual

- FM procedures applicable at national, state and community level as described in the manual in parts I, II and III respectively.
- Key areas covered in the manual include budgeting, planning, flow of funds, accounting, financial reporting, audits, internal control, FM Monitoring, FM disclosure, FM staffing and training.
- Implementation of FM procedures at all levels (national/state/community) will be monitored continuously during the project period.
- FM staff of NRLP will be trained as per FM Manual.

Governance Structure

- Committees formed at national level in MoRD for policy formulation and setting priorities, review of progress of the project, approval of state plans and releases to states.
- State Level committees for approving state FM manual, state plans and budget, review of project activities etc.

Legal Agreement

- Legal agreement for NRLP between the Government of India and The World Bank.
- FM covenants in the legal agreement include FM aspects such as maintenance of financial management system, maintenance of records, financial reporting and audits.
- Adherence to FM covenants will be monitored by The World Bank.

Memorandum of Understanding between GoI and States

- An MoU will be signed between Ministry of Rural Development (MORD) and each of the participating states.
- The MoU will include FM clauses relating to financial reporting, audit etc..
- Adherence to FM clauses by the states will be monitored by NMMU.

Audits

- Statutory audits at national and state level for NRLP.

- SRLMs will put in place acceptable internal audit arrangements, commensurate with the size of the operation.
- The project will implement a regular system of review of audit process, including quality of audit at state level, audit observations and monitoring compliance of the observations by implementing units.

Internal Review Mechanisms

Regular review of FM arrangements of NRLP will be conducted at national level and state level.

- *National Level:* These may include meetings of national level committees, six-monthly review missions by MoRD/World Bank, visits by NMMU FM staff to states, workshops, special FM reviews etc.
- *State Level:* Meetings of Executive Committees, Governing Bodies, Regular/one off review of progress of project by SMMU, visits by FM staff of SMMU to districts and by district staff to block/community level etc.

External Reviews/Studies

- Such as Process Monitoring, Evaluation of the project, Management Reviews etc.
- Key FM staff at national/state level will review such reports/studies to identify FM issues.

MIS and ICT

- Reports generated by MIS and ICT framework of the project (national databases, knowledge dissemination channels etc.) will also provide information for FM monitoring of the project at various levels.

Disclosure of FM Information

- FM information such as releases of funds, financial reports, annual audit reports etc. will be disclosed by NMMU and states.
- Please refer to Chapter on **FM Disclosure Requirements** for national and state level.
- Disclosure of FM information of the project will be regularly monitored at national/state level.

II Control Framework for Financial management of NRLP – State Level

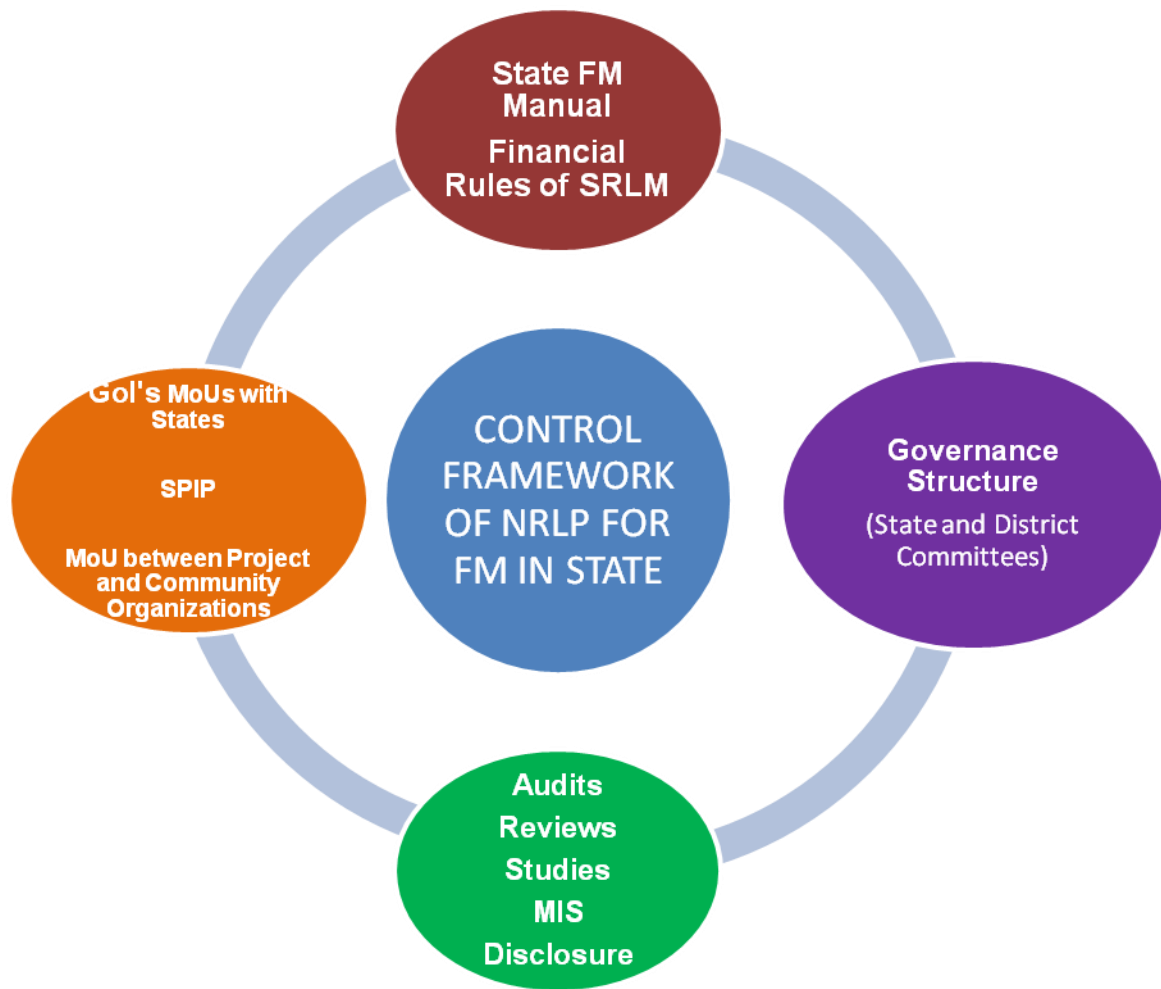


Diagram: CONTROL FRAMEWORK OF FM of NRLP – State Level

Key elements of control framework for financial management for NRLP at state level are as follows:

Financial Management Manual

FM procedures applicable at state (SMMU/DMMUs/Blocks).

Key areas include budgeting, planning, flow of funds, accounting, financial reporting, audits, internal control, FM Monitoring, FM disclosure, FM staffing and training.

Financial Rules

Financial controls including delegation of financial powers and financial rules will be documented in the Financial Management Manual/ Administrative rules of the state societies

Governance Structure

State Level and District Level committees for approving state FM manual, state plans and budget, review of project activities etc.

Memorandum of Understanding between Gol and States

An MoU will be signed between Ministry of Rural Development (MoRD) and each of the participating states of NRLP. Please refer to PIP document for a sample MoU. The MoU will include FM clauses which the states will have to adhere to.

State Perspective Plan (SPIP)

SPIP means each Participating State's operations manual, which provides state level guidance in respect of the Project, including procedures and criteria for the selection, appraisal and implementation of Federation Livelihood Plans, including the relevant audit requirements for each of the Participating States (as necessary).

MoU between State NRLP and Community Organizations

The project will sign an Memorandum of Understanding (MoU) with the Community Organization which will specify the support to be provided by the project and duties and obligations of both parties, including procedures for maintenance of records and financial reporting.

Audits

Statutory and internal audits at state/district/sub-district level for NRLP. Statutory Audit of SRLMs will be conducted by Chartered Accountant firms acceptable to the World Bank, as per terms of reference agreed with the World Bank. The 'call down' list of CA firms, based on agreed criteria, will be made available by NMMU for the states for procuring their services.

SRLMs will put in place acceptable internal audit arrangements, commensurate with the size of the operation.

Audit of Community Organizations

The SHG Federation/s annual accounts will be subject to statutory audits as required by state laws. The SRLMs will enter into draw down contracts with select CA firms at State and district levels and agree on fixed price budgets as well as the audit ToRs and templates for the annual financial statements. SHG Federation audit reports will be monitored at the state level and will not be considered a part of NRLP's audit requirements.

Internal Review Mechanisms

Review of FM arrangements of NRLP conducted at state level e.g.,

- Meetings of Executive Committees and Governing Bodies
- Regular/one off review of progress of project by SMMU
- Visits by FM staff of SMMU to districts and by district staff to block/community level

External Reviews/Studies

Such as Process Monitoring, Evaluation, Management Reviews etc.

MIS and ICT

Reports generated by MIS and ICT framework (national/state databases, knowledge dissemination channels etc.)

Disclosure of FM Information

FM information such as releases of funds, IUFRs, annual audit reports etc. will be disclosed by the states and districts.

III Control Framework for Financial management of NRLP – Community Level

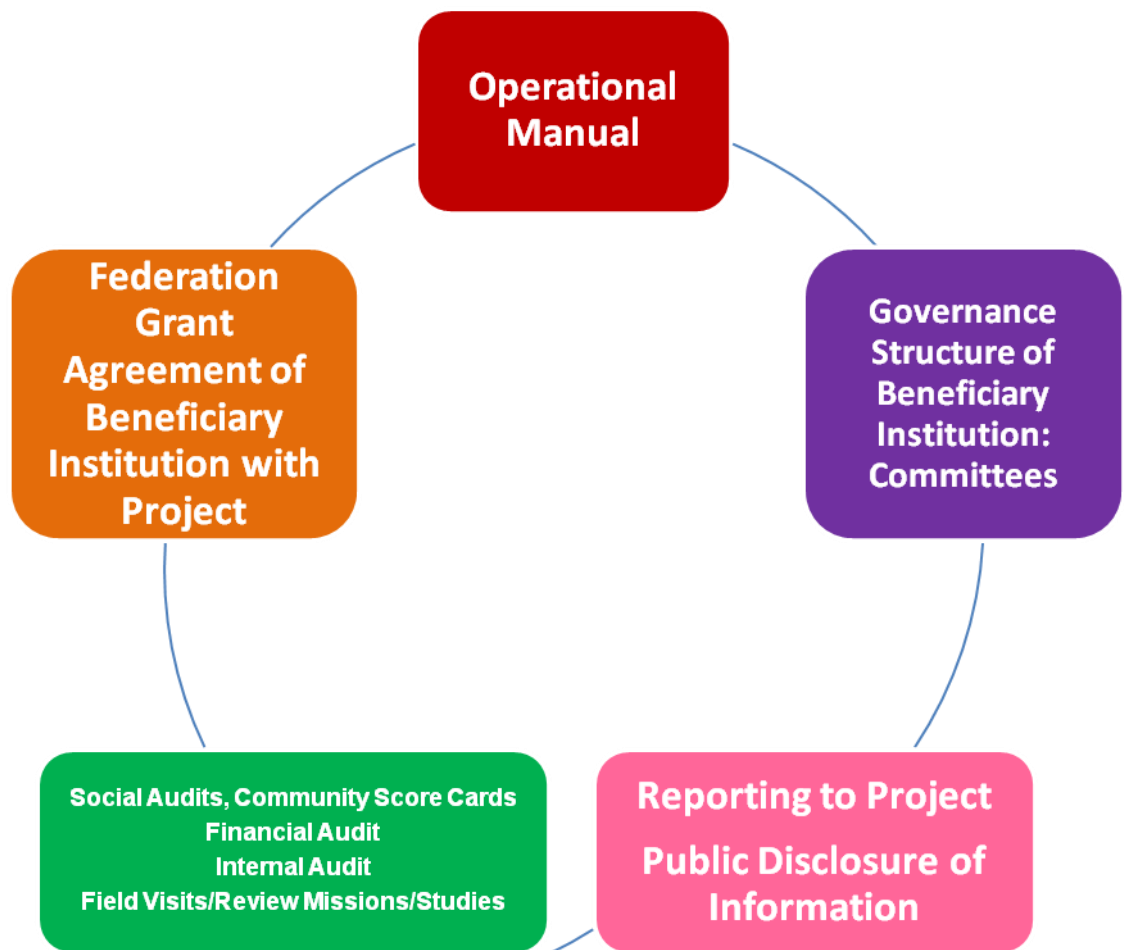


Diagram: Control Framework for Financial management of NRLP – Community level

Operational Manual

- Each state will develop an Operational Manual (OM). The Operational Manual would describe project principles, processes, procedures, governance structure etc. applicable at community level.
- Guidelines issued by project from time to time will be included in the Operational Manual.
- FM Manual for community level will be part of the Operational Manual. Please refer to **Part III** of this manual which provides a template for states to develop **Community Level FM Manual**.

Beneficiary Institution (Community Organization)

- Beneficiary Institution refers to a Federation i.e., a group comprised of poor households, duly established under the law of a participating state, managed by an executive committee elected by the group which may receive Investment Support under the project.
- “Investment Support” means a grant made or proposed to be made by a Participating State out of the proceeds of the Financing allocated from time to time to Part B of the Project, to a Beneficiary Institution to finance, in whole or in part, the technical assistance needs of a Federation, or a Federation Livelihood Plan all in accordance with the selection criteria and procedures set forth in the SPIP.
- “Federation Livelihood Plan” means a plan of Federation livelihood activities, prepared by a Beneficiary Institution and approved by the relevant Participating State, which consists, *inter alia*, of an aggregation of household investment plans for financing the purchase of goods, works and services needed to create assets, generate household income, develop technical skills, access educational and health services and meet specific household consumption needs.

Governance Structure of Beneficiary Institution (Community Organization)

- This includes various committees in Beneficiary Institutions (Community Organizations) which will be formed to plan, oversee and implement NRLP in the community. This will include Finance Committee, Procurement Committee, Social Audit committee etc.
- The composition and role of these committees will be described in the Operational Manual.
- The role and responsibility of office bearers of the community organization will also be described in the Operational Manual.
- The project will regularly review effectiveness of governance structure in the community organizations, including decision making processes and oversight mechanism for use of project funds etc.

Federation Grant Agreement with Project

- The project will sign a Federation Grant Agreement with the Beneficiary Institution (Community Organization).

Reporting to Project

- A system of regular reporting by the Community Organization to the project by way of regular financial reports and UCs will be established.

- The timeliness and accuracy of financial reports will be reviewed by project staff through field visits/desk reviews and during audit process.

Public Disclosure of Information

- As per policy of NRLP, information about funds received, expenditure, beneficiaries, progress reports/annual reports etc. will be displayed by the Community Organization.
- Adequacy of public disclosure will be monitored throughout the life of the project.

Social Audits

- Various social accountability measures at community level e.g., social audit committees, presenting project reports in Gram Sabha, community score cards etc. will be an important part of FM framework of the project.

Financial Audit / Internal Audit

- The SHG Federation/s annual accounts will be subject to annual audits. The SRLMs will enter into “draw down” contracts with select CA firms at State and district levels.
- SHG Federation audit reports will be monitored at the state level and will not be considered a part of NRLP’s audit requirements.
- Project staff will facilitate the audit and monitor quality of audit.
- The project will implement a system of monitoring status of audit, review of audit reports and monitoring compliance of observations by the community organizations.

Field Visits/Review Missions/Studies

- FM arrangements at community level will be regularly reviewed during field visits and missions.
- Project staff will document such visits and issues identified in the visits and continuously follow up with the community organisations for remedial actions/any capacity building requirements.

C OVERVIEW OF FM ARRANGEMENTS OF NRLP

Overview

Within the broad framework of principles mentioned in section A and Control Framework described in Section B, this section provides an overview of financial management arrangements for NRLP.

Details of FM arrangements

For national, state and community level are described in **FM Manual Parts I, II and III** respectively.



Diagram: Financial Management Cycle

This section includes the following sub-sections:

- I Overview of Flow of Funds for NRLP
- II FM Roles of MoRD and State
- III FM Roles of State and District/Blocks
- IV Component-wise Description of Activities, Expenses and Implementation /FM Arrangements
- V Community Level FM Arrangements
- VI Fiduciary Framework for Community Investment Fund

I OVERVIEW OF FLOW OF FUNDS

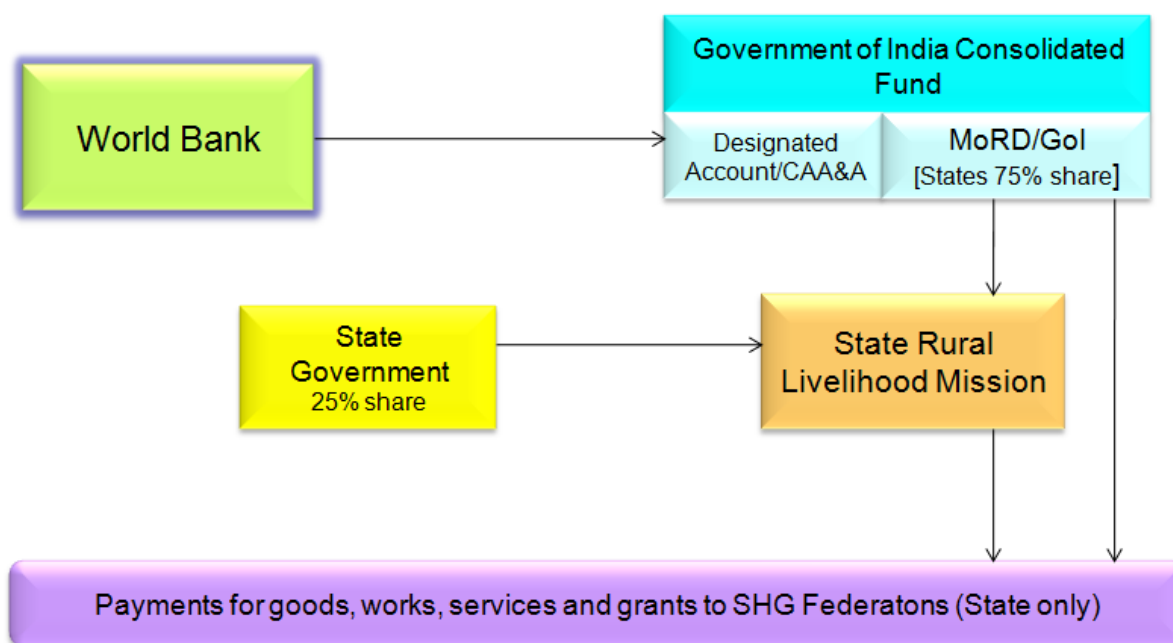


Diagram: Overview of Flow of Funds of NRLP

Central and State Share

As per the standard Centre-State mechanism for Central Sponsored Schemes, GoI funds to the States for Components 2 (b) and (c) will be on a grant basis with **25% counterpart funding by the States (10% in the case of North East and hill States)**.

MoRD Level

At MORD level, an annual work plan will be prepared and will form the basis for the budget allocations. The Empowered Committee (EC) of NRLM will approve AWP of national and state level activities of NRLP. The NMMU will remain within the existing financial management systems of MoRD, which operates through the centralized Pay and Accounts Office.

MoRD to States

MoRD will release **funds to states against agreed annual work plans** and as per FM provisions of MoU which will be signed between MoRD and each participating state.

State Level

Funding of Project Offices in the States

- SMMU will incur expenditure for state level activities directly.
- DMMU:SMMU will transfer funds to DMMUs **against annual work plan** into a separate bank account opened for the project.
- Common Costs at State and District level: **SRLMs will establish up-front, appropriate criteria to apportion common costs** (state and district levels) across the various projects and document the same in the SPIP.

Funding of SHG Federations by the Project in State

- In order to ensure that there is no risk in duplication of financing to the same SHGs/federations, it has been agreed that **NRLP will not be implemented in the same blocks as the ongoing WB-supported state livelihood projects**.
- All fund releases to SHG Federations will be made in accordance with **Federation Grant Agreement**. Such fund releases will be based on achievement of certain defined milestones/ triggers as defined in the description of Component 2 in Annex 2 of PAD.

Disbursement from the World Bank

Disbursements from the IDA Credit will be based on consolidated project financial reports (Consolidated IUFRRs) and will be made in six monthly intervals.

Details of Arrangements is shown in the following **Diagram**

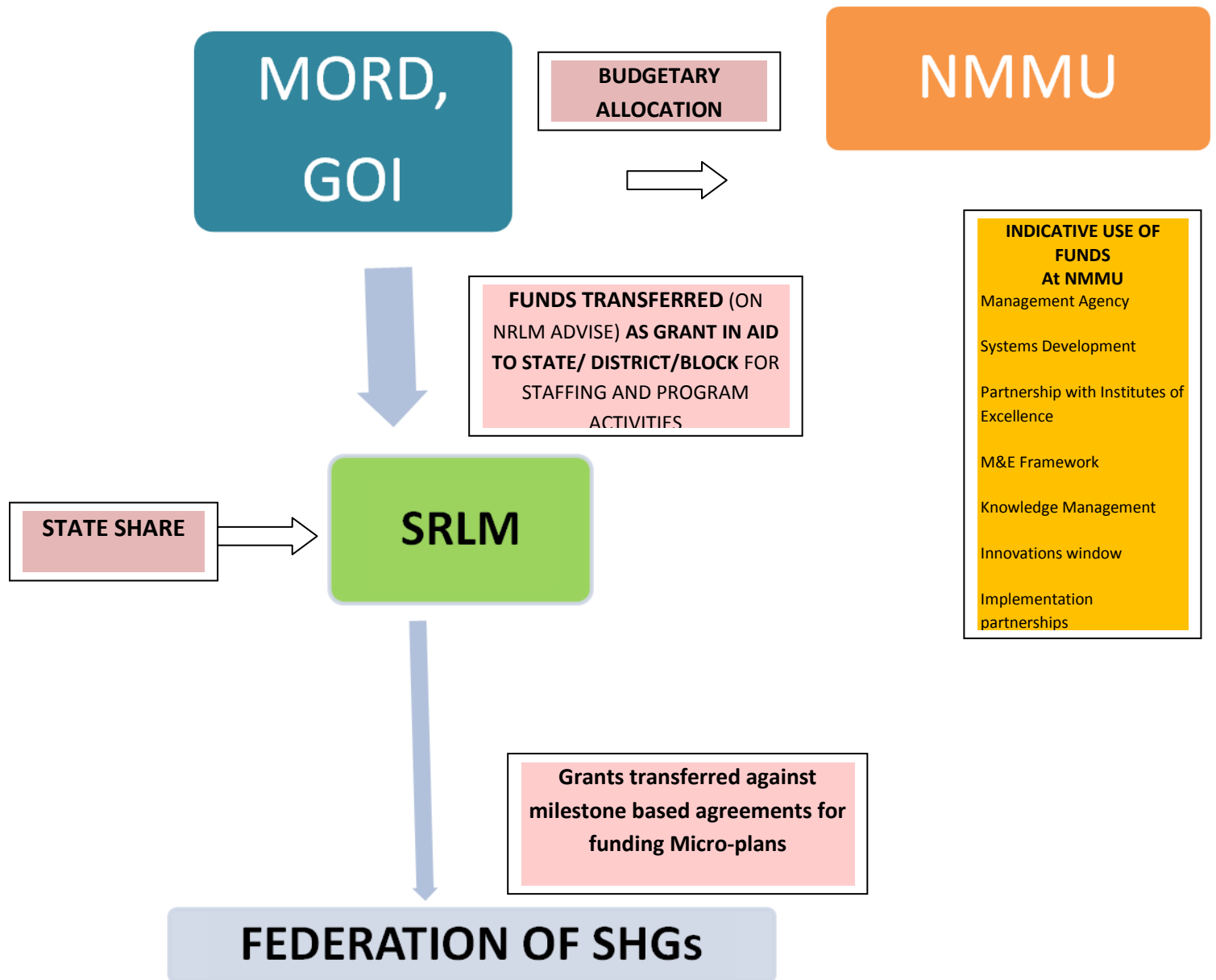


Diagram: Details of Flow of Funds Arrangements for NRLP

II FM ROLES OF MORD AND STATES FOR NRLP

The respective roles of NMMU, MORD and states in key financial management task of the project are summarized in the following table:

TABLE: FM ROLES OF MORD AND STATES FOR NRLP

	MORD	STATE
FM Manual/ Procedures	<ul style="list-style-type: none"> ○ Develop and Update National Level FM Manual ○ Develop Generic manuals for State Level and Community Level ○ Review of FM Manuals developed by states ○ Guide States about FM procedures of NRLP 	<ul style="list-style-type: none"> ○ Develop and Update State Level FM Manual based on Generic FM Manual ○ Develop and update Community Level FM Manual for State based on Generic FM Manual ○ Guide staff at district level about FM procedures
MoU	<ul style="list-style-type: none"> ○ Sign MoU with states ○ Monitor adherence to MoU by states 	<ul style="list-style-type: none"> ○ Sign MoU with MORD ○ Implement NRLP in the state as per MoU
Training on Financial Management	<ul style="list-style-type: none"> ○ Develop FM training strategy for NRLP as part of TA to states ○ Develop training materials ○ Implement training plan for project ○ Monitor training needs at state level on a regular basis 	<ul style="list-style-type: none"> ○ Participate in training activities organized by MORD ○ Develop state specific training materials, as per requirement ○ Prepare and implement training plan for district/sub-district level ○ Monitor training needs at district-sub-district level on a regular basis
Planning	<ul style="list-style-type: none"> ○ Develop Planning Procedures for NRLP at national level ○ Guidance to states on preparing perspective plans and annual plans 	<ul style="list-style-type: none"> ○ Issue guidance for planning to districts ○ Implement planning system at state level ○ Review district plans ○ Prepare consolidated plan for state and submit to MORD
Budgeting	<ul style="list-style-type: none"> ○ Budget provision in MORD Budget ○ Prepare estimates for activities at MORD level, ○ Review state level estimates and prepare overall NRLP estimates 	<ul style="list-style-type: none"> ○ Issue guidance for budgeting to districts ○ Scrutinise and approve district budgets ○ Prepare consolidated budget at state level and submit to MORD
Flow of Funds	<ul style="list-style-type: none"> ○ Flow of funds for MORD activities ○ Review requests from states and release funds to states as per NRLP procedure ○ Monitor effectiveness of funds flow system at state level 	<ul style="list-style-type: none"> ○ Submit request for funds to MORD ○ Provide timely and adequate funds for SMMU activities ○ Implement system of flow of funds to district/sub-district level

		<ul style="list-style-type: none"> ○ Monitor effectiveness of funds flow system at district/sub-district level
Accounting	<ul style="list-style-type: none"> ○ Establish accounting policies of NRLP ○ Accounting for MORD level expenditure, including Memorandum Records for preparing IUFs ○ Preparation of annual financial statements of NRLP for NMMU, MORD ○ Monitor regularity and correctness of accounting at state office and below 	<ul style="list-style-type: none"> ○ Implement accounting system for NRLP at state and district level ○ Consolidation of NRLP accounts at state level
Financial Reporting	<ul style="list-style-type: none"> ○ Implement financial reporting system at national level ○ Review financial reports submitted by states and prepare consolidated project level reports ○ Regular and timely submission of reports to MoRD/World Bank 	<ul style="list-style-type: none"> ○ Implement financial reporting system at state level ○ Review financial reports submitted by districts/sub-districts and prepare state level reports ○ Regular and timely submission of reports to MoRD/World Bank
Statutory Audit	<p><i>MORD</i></p> <ul style="list-style-type: none"> ○ Facilitate timely audit at MORD level for NRLP ○ Compliance of audit observations <p><i>States</i></p> <ul style="list-style-type: none"> ○ "Call down" lists of CA firms for audit of states ○ Monitor Quality of audit process at state level ○ Coordinate timely submission of audit reports by states ○ Review state audit reports and monitor compliance <p><i>NRLP</i></p> <ul style="list-style-type: none"> ○ Prepare summary of audit reports for NRLP and submit the summary and individual audit reports to the World Bank 	<ul style="list-style-type: none"> ○ Selection of auditor ○ Ensure timely finalisation of accounts and audit at state level ○ Timely audit of SMMU and compliance of audit observations ○ Ensure timely submission of audit report of state to MoRD ○ Review compliance by districts/sub-districts
Internal Audit and Internal Controls	<ul style="list-style-type: none"> ○ Regular internal audit at NMMU, MoRD as per requirements of NRLP ○ Review summary of internal audit reports of states and monitor compliance ○ Monitor quality of internal audit process at state level 	<ul style="list-style-type: none"> ○ Appointment of internal auditors as per NRLP requirements ○ Regular internal audit of SMMU and district/sub-districts ○ Monitor compliance by districts ○ Submit summary of reports for each period and Action Taken Report to MORD
FM Disclosure	<ul style="list-style-type: none"> ○ FM disclosure at national level ○ Monitor FM disclosure by states 	<ul style="list-style-type: none"> ○ FM disclosure at state level
FM Monitoring	<ul style="list-style-type: none"> ○ Regular monitoring of FM in states 	<ul style="list-style-type: none"> ○ Regular monitoring of FM at district/sub-district level

III FM ROLES OF STATE AND DISTRICTS FOR NRLP

The respective roles of NMMU, MORD and states in key financial management task of the project are summarized in the following table:

TABLE: FM ROLES OF STATE OFFICE AND DISTRICT FOR NRLP

	STATE	District	
		Project Level	Community Level
FM Manual/ Procedures	<ul style="list-style-type: none"> ○ Develop and Update State FM Manual ○ Develop and update Community Level FM Manual for State ○ Guide staff at district level about FM procedures 	<ul style="list-style-type: none"> ○ Implement State FM Manual ○ Guide staff at sub-district level about FM procedures 	<ul style="list-style-type: none"> ○ Facilitate and monitor implementation of FM Manual for Community level
MoU	<ul style="list-style-type: none"> ○ Sign MoU with MoRD ○ Implement NRLP in the state as per MoU 	<ul style="list-style-type: none"> ○ Ensure implementation of NRLP in the district as per provision of MoU with NMMU 	<ul style="list-style-type: none"> ○ Sign Federation Grant Agreement with SHG Federations ○ Implement NRLP in the district as per Federation Grants with Community Organizations ○ Monitor adherence to Agreement by Community level
Training on Financial Management	<ul style="list-style-type: none"> ○ Participate in training activities organized by NMMU ○ Develop state specific training materials ○ Prepare and implement training plan for district/sub-district level ○ Monitor training needs at district-sub-district level on a regular basis 	<ul style="list-style-type: none"> ○ Participate in training activities organized by NMMU and SMMU ○ Inputs to providing training at district/sub-district 	<ul style="list-style-type: none"> ○ Monitor training needs at sub-district/community level on a regular basis ○ Inputs to training at community level ○ Develop local level training material, if required
Planning	<ul style="list-style-type: none"> ○ Issue guidance for planning to districts ○ Implement planning system at state level 	<ul style="list-style-type: none"> ○ Prepare and submit district level plans to SMMU 	<ul style="list-style-type: none"> ○ Implement system for facilitating planning by community organizations

	<ul style="list-style-type: none"> ○ Review district plans ○ Prepare consolidated plan for state and submit to NMMU 		
Budgeting	<ul style="list-style-type: none"> ○ Issue guidance for budgeting to districts ○ Scrutinise and approve district budgets ○ Prepare consolidated budget at state level and submit to NMMU 	<ul style="list-style-type: none"> ○ Prepare and submit district level budget to SMMU (project level+ community level activities) 	<ul style="list-style-type: none"> ○ Compile budget for community level activities of NRLP
Flow of Funds	<ul style="list-style-type: none"> ○ Submit request for funds to NMMU ○ Provide timely and adequate funds for SMMU activities ○ Implement system of flow of funds to district/sub-district level ○ Monitor effectiveness of funds flow system at district/sub-district level 	<ul style="list-style-type: none"> ○ Submit request for funds to SMMU ○ Provide timely and adequate funds for district/sub-district level activities <p>Community</p> <ul style="list-style-type: none"> ○ Implement system of flow of funds for NRLP to community level ○ Monitor effectiveness of funds flow system at sub-district/community level 	<ul style="list-style-type: none"> ○ Implement system for flow of funds to Community Organizations
Accounting	<ul style="list-style-type: none"> ○ Implement accounting system for NRLP at state and district level ○ Consolidation of NRLP accounts at state level 	<ul style="list-style-type: none"> ○ Accounting of project funds at district level ○ Monitor record keeping at block/PFT level ○ Monthly closing of district level accounts ○ Send monthly/quarterly/annual accounts to SMMU 	<ul style="list-style-type: none"> ○ Implement capacity building activities at community level for maintenance of accounts ○ Implement system of monitoring community level accounting and record keeping
Financial Reporting	<ul style="list-style-type: none"> ○ Implement financial reporting system at state level ○ Review financial reports submitted by districts/sub-districts and prepare state level reports ○ Regular and timely submission to NMMU, MoRD/World Bank 	<ul style="list-style-type: none"> ○ Implement financial reporting system at district level ○ Consolidation and preparation of district level reports to SMMU 	<ul style="list-style-type: none"> ○ Implement and monitor system of financial reporting from Community Organizations
Statutory Audit	<ul style="list-style-type: none"> ○ Selection of auditor ○ Ensure timely finalisation of 	<ul style="list-style-type: none"> ○ Ensure timely finalisation of accounts and facilitate audit at district level 	<ul style="list-style-type: none"> ○ Facilitate and monitor financial audit at community level for

	<p>accounts and audit at state level</p> <ul style="list-style-type: none"> ○ Timely audit of SMMU and compliance of audit observations ○ Ensure timely submission of audit report of state to NMMU ○ Review compliance by districts/sub-districts 	<ul style="list-style-type: none"> ○ Timely and satisfactory compliance of audit observations in the district ○ Review compliance by sub-district level 	<p>NRLP</p> <ul style="list-style-type: none"> ○ Monitor compliance at community level ○ Ensure that key issues arising from the audit are addressed in capacity building and monitoring activities of NRLP
<p>Internal Audit and Internal Controls</p> <p>Community Level Audit</p>	<ul style="list-style-type: none"> ○ Appointment of internal auditors as per NRLP requirements ○ Regular internal audit of SMMU and district/sub-districts ○ Monitor compliance by districts ○ Submit summary of reports for each period and Action Taken Report to NMMU 	<ul style="list-style-type: none"> ○ Facilitate internal audit at district/sub-district level ○ Monitor compliance by sub-district level ○ Submit Action Taken Report to SMMU 	<ul style="list-style-type: none"> ○ Facilitate and monitor financial audit at community level for NRLP ○ Monitor compliance at community level ○ Review of audit observations ○ Ensure that key issues arising from the audit are addressed in capacity building and monitoring activities of NRLP
<p>FM Disclosure</p>	<ul style="list-style-type: none"> ○ FM disclosure at state level 	<ul style="list-style-type: none"> ○ FM disclosure at district level 	<ul style="list-style-type: none"> ○ Implement system of monitoring disclosure at community level
<p>FM Monitoring</p>	<ul style="list-style-type: none"> ○ Regular monitoring of FM at district/sub-district level 	<ul style="list-style-type: none"> ○ Regular monitoring of FM at sub-district level 	<ul style="list-style-type: none"> ○ Regular monitoring of FM at community level

IV: NRLP: COMPONENT-WISE DESCRIPTION OF ACTIVITIES, EXPENSES AND IMPLEMENTATION/FM ARRANGEMENTS

Table: NRLP: Component-wise FM/Implementation Framework

Component	Activity	Level	Expenses	Implementation/ FM Arrangements
Component A: INSTITUTION AND HUMAN CAPACITY BUILDING				
A1	<i>To assist states to set up autonomous and professionally managed SRLMs:</i>			
Technical Assistance	<ul style="list-style-type: none"> ▪ Resident Representatives and Spearhead Teams 	National	Cost of Resident Representatives, Spearhead Teams and Maintenance Contracts for Equipment	Part of NMMU AWP and Budget
	<ul style="list-style-type: none"> ▪ TA for HR: HR agency ▪ TA Innovations and Partnerships ▪ TA Financial Inclusion ▪ TA Livelihoods Promotion ▪ TA for Service Delivery for Poor ▪ TA for Knowledge Management ▪ TA for MIS ▪ Other TA 		MORD Contracts	
A2	<ul style="list-style-type: none"> ▪ National Centre for Livelihoods (software and some hardware support) 	National		

Human Resource Development	<ul style="list-style-type: none"> ▪ Partnership with Other institutes ▪ Regional Centers for Excellence ▪ Other demand driven training 	National National National	MORD Contracts	
Component B: STATE LIVELIHOOD SUPPORT – support to 12 states				
B1 State Rural Livelihoods Missions (SRLM)	State Office <ul style="list-style-type: none"> ▪ Establishment of State Support Structures (including recurring costs) ▪ Professional Staff at State Level 	State	<u>Non-recurring costs:</u> office refurbishment, equipment, vehicles <u>Recurring Costs:</u> operating costs. <u>Staff Costs</u>	As per annual work plans and budget of SRLMs. Annual budget released in two tranches by MORD into bank account of SRLM. Quarterly/annual financial reporting and submission of UCs by SRLMs. Annual audit of SRLMs.
	District Offices	District	Refurbishment cost Office equipment Staff costs at district level	Regular funds flow from state to district/blocks against AWP and financial reporting by district/blocks
	State Resource Centers <ul style="list-style-type: none"> ▪ Support to SIRD and others ▪ District Resource Centers ▪ Community Resource Centers ▪ Training of state, district and block staff 	State/district/ block	Cost of support to resource centers Training costs	As per annual work plans and budget of SRLMs
B2 Institution Building and Capacity Building	<ul style="list-style-type: none"> ▪ Community resource persons (CRPs) ▪ Self-help groups ▪ Village Organizations 	State/district/ block	Cost of external CRP teams and internal CRP teams <u>SHGs:</u> Start-up, training, community	As per annual work plans and budget of SRLMs

	<ul style="list-style-type: none"> ▪ Block level federations (BLFs) ▪ Other institutions 		<p>mobilisers and exposure visits</p> <p><u>VOs:</u> Start-up, training, exposure visits and miscellaneous</p> <p><u>BLFs:</u> start-up, training and exposure visits</p>	
	<ul style="list-style-type: none"> ▪ Block Teams 	State/district/ block	<p><u>Block office start –up costs:</u> office refurbishment, equipment</p> <p><u>Block Staff Costs:</u> staff salary</p> <p><u>Block Office Operating costs</u></p>	<p>District office</p> <p>District office</p> <p>Imprest system at block office funded by district</p>
<p>B3</p> <p>Community Investment Support</p>	<ul style="list-style-type: none"> ▪ Livelihoods plans, health and food security ▪ Agriculture Interventions ▪ Dairy Interventions ▪ Non-Farm Sector Interventions 	State/district/ block	Project will fund Livelihood Plans	<p>Livelihood grants to SHGs against pre-defined milestones in SPIP</p> <p>Releases as per Federation Grant Agreement.</p> <p>Livelihood grants to farmers' collectives/producer groups/producer companies to improve market access and link to main-stream agri-companies</p>

	<ul style="list-style-type: none"> ▪ <i>Health & Nutrition, Education etc.</i> 	National/State	<p>NRLP will finance cost relating to capacity building and setting up health and nutrition centers and Early Educations Centers by the institutes of poor.</p> <p>Community managed food security and health risk funds</p> <p>Small grants on limited basis to destitute, old, infirm and disabled for food and health purchase</p>	<p>Community fiduciary oversight arrangements. Monitoring of key indicators of portfolio.</p> <p>Contracts with Institutes of the poor</p>
<p>B4</p> <p>Special Programs</p>	<ul style="list-style-type: none"> ▪ Special initiatives – health, nutrition, etc. ▪ <i>Special Purpose Vehicles (SPVs)</i>: may be created in the form of a foundation or social enterprise for Sustainable Agriculture, Health, Education etc. ▪ Implementation in difficult areas 	<p>National</p> <p>National</p> <p>(Activity of CSOs may take place at district/block level)</p>	<p>Funding of SPVs</p> <p>Contracts with CSOs will cover cost of setting up dedicated field staff/spearhead teams, targeting strategies for covering poor household, organization and capacity building of CSOs, micro-enterprise development, organizing producer</p>	<p>MORD Contracts</p> <p>MORD Contracts</p> <p>MORD to have a contract with an Agency/no. of agencies.</p> <p>An FM framework will be defined</p>

			collectives/companies etc.	for assessment of such agencies.
Component 3: INNOVATIONS AND PARTNERSHIP SUPPORT – nationwide support				
C1 Innovation Forums and Action Pilots	Innovations and Action Pilots			
	1. Organizing Innovations Forum			
	- National Level	National	Cost of Organizing Innovation Forum	Part of NMMU AWP
	- Regional Level			
- State level	State			
2. Piloting Innovations				
- National Level	National	Funding of pilots	Part of NMMU AWP	
- State Level	State	Funding of pilots	Part of AWP of state which will be approved by NMMU and funds will be released to states as per standard procedure of NRLP.	
				State level contracts
				Will require:
				-Capacity building of SMMUs for contract management
				-Regular reporting system to project which will feed into MIS
				-Independent Monitoring Mechanisms
				Guidelines developed

C2 Social Entrepreneurship Development	Social Entrepreneurship Development <ol style="list-style-type: none"> 1. Develop a network of grassroots innovators, including developing and maintaining dedicated website 2. Provide start-up funds for Social Entrepreneurs/Enterprises for scaling up business models 3. Mentoring social entrepreneurs by linking them with role models/mentors 4. Capacity Building of Social Entrepreneurs on setting up systems 	National/state	MoRD contract	Guidelines to be developed for Social Entrepreneurship Development
C3 Public Private Community Partnerships	Public Private and Community Partnership (PPCP) <ol style="list-style-type: none"> 1. Developing Guidelines for Public Private and Community Partnership (PPCP) 2. Funding Activities: provide financial assistance to partners identified through a competitive process 	National	MoRD consultancy contract MoRD contract	Guidelines to be developed for PPCP
Component D PROJECT IMPLEMENTATION SUPPORT – nation-wide support				
D1	1. Establishment of NMMU (including recurring costs)	National	<u>NMMU Non-recurring costs:</u> office	MoRD contract with Management

National Mission Management Unit	2. NMMU Staff		refurbishment, furniture/fixtures, office equipment and vehicles <u>NMMU Recurring Costs:</u> operating costs	Agency Part of NMMU AWP
D2 Monitoring & Evaluation	Monitoring and Evaluation system	National	MoRD contract	Part of NMMU AWP
D3 Electronic National Rural Livelihoods Mgmt System (e-NRLMS)	<ol style="list-style-type: none"> 1. Project Management Agency 2. MIS Implementation Agency 3. IT Infrastructure, websites and portals 4. Applications and Software 	National	MoRD contracts	Part of NMMU AWP
D4 Governance and Accountability Framework	Third party client survey, Third party grievance cell etc.	National	MoRD contracts	Part of NMMU AWP
D5 Knowledge Management and Communication	Knowledge Management and Communication	National	MoRD contract	Part of NMMU AWP

V COMMUNITY LEVEL FM ARRANGEMENTS

FM Manual

- Please refer to **Part III** of this manual for a Template of FM Manual for Community Level. States will develop detailed FM Manual at community level based on the Template.
- FM Manual will be a part of Operational Manual.
- The information provided in Community Level FM Manual will be used for capacity building activities and monitoring FM arrangements at community level.

Capacity Building

- The project will make significant investments in building the FM capacity of SHG Federations.
- The capacity building activities will also seek to develop the oversight and regulatory framework for SHG Federations.

Monitoring

- The project will have mechanisms to continuously monitor and report on key indicators of performance of SHG Federations relating to :
 - Loan Portfolio, including regularity of savings, repayment rates for both SHG's own funds, project funds and commercial bank credits; and
 - Book keeping (regular and updated books of accounts), audited books of accounts, etc.
- The project will also develop a tool to grade the financial performance of the Federations.

Accounting and Reporting

- A simple system of maintenance of accounts and financial reporting will be established at SHG Federations.
- SHG Federation will maintain books of accounts for the receipts and loans provided to SHGs and will prepare regular financial statements. SHGs will in turn, provide loans to their constituent members to fund economic activities to enhance livelihoods or other consumption needs as described in the SPIP, but excluding the items listed in the negative list.
- A separate platform may also be developed for accounting and financial reporting for SHG Federations (and SHGs). This will ensure standardization and consistency in

the quality of accounting and the ability of Federations to provide online access to financial information at the aggregate as well as standalone basis.

- The accounting system at the SHG/federation level will be automated through e-bookkeeping using different front-end devices, including net books and handheld devices like tablets, mobile phones, etc.

VI Fiduciary Framework for Community Investment Fund

All fund releases to SHG Federations made in accordance with Federation Grant Agreement will be considered as eligible expenditures for the purposes of the project and accounted for as grants (expenditures) in the books of accounts of the SRLM.

Such fund releases will be based on achievement of certain defined milestones/ triggers as defined in the description of Component 2.

The project will obtain fiduciary assurance for the use of Community Investment Support provided to the SHG Federations from a combination of the following two processes:

(a) Periodic assessment of **robustness of the loan portfolio at the Federation level** and monitored through rigorous processes and use of eligibility indicators of profitability, capital and portfolio quality, acceptable levels of loan collections, appropriate capacity for appraisals and supervision etc.; and

(b) **Assessment of fiduciary oversight arrangements established at the Federation level** to monitor and verify the use of funds for intended purposes, including verification mechanisms for assets and other uses of funds, as applicable.

The project will invest in:

(a) Developing detailed **assessment criteria for grading of SHGs and Federations**; and

(b) Providing handholding **accounting technical assistance (book keepers, accounting hubs etc) to the Federations** to help maintain accounting records and prepare monthly/annual financial statements for the Loan portfolio.

CHAPTER 3

TOOLKIT FOR FM ASSESSMENT OF STATES

FM ASSESSMENT OF STATES

Five states¹ which are presently implementing World Bank Livelihood Projects have established and tested financial management arrangements.

For the remaining states being considered for NRLP, the adequacy of the financial management arrangements will be assessed at SRLM level.

These readiness filters will be applied both at the Initial Action Plan and State Perspective & Implementation stages jointly by MoRD and the World Bank.

FM Assessment will be undertaken jointly by the Bank and NMMU

There will be a Two-Stage FM Assessment:

- Stage 1: For initial funding
- Stage 2: For funding of SPIP

The framework will evaluate FM capacity of State and for first Stage funding include inter alia for

- SRLM is a registered body with documented financial rules and has formally adopted the financial rules
- If an existing entity e.g., society, annual accounts have been audited for last financial year within 4 months of the end of financial year
- If implementing a WB funded livelihood project, last IUFRR and audit report which were due have been received in the World Bank
- Bank account to receive NRLM funds
- CEO and key FM Positions in place at state office
- FM Staff trained by NMMU as per NRLP FM Manual

TOOLKIT FOR FM ASSESSMENT OF STATES

A toolkit of FM Assessment of States is described in the next section of this chapter.

¹ Bihar, Madhya Pradesh, Orissa, Rajasthan, and Tamil Nadu.

Financial Management Assessment of States

Overall FM Assessment Summary

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Agreed Actions with SRLM

S. No.	Agreed Action	To be completed by

Financial Management Assessment of States

	Key Questions	Yes/No	Remarks	Mitigation Measures
A. BUDGET AND COSTING				
1.	Presentation a) Does the format of the budget present components, sub-components and activities clearly and with adequate detail? b) Is the budget sufficiently detailed to provide annual and quarterly break-up? c) Does the budget clearly show the level at which budget will be spent – state/district/sub-district/community? d) Is summary of the budget adequately linked with detailed annexes? e) Has the budget been prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?			
2.	Consistency a) Is the budget consistent with components/sub-components of NRLP? b) Does the budget reflect planned activities adequately?			
3.	Realism and Accuracy a) Is the budget realistic and based on valid assumptions? b) Have assumptions been clearly stated? c) Have any costing norms prescribed by NRLP correctly applied?			
B. FINANCIAL AND ADMINISTRATIVE RULES				
1.	Comprehensive a) Do the rules cover key areas of operation of SRLM? b) Are the rules described in sufficient detail so that staff can apply them in day to day			

	<p>activities?</p> <p>c) Does delegation of financial and administrative powers cover all levels and types of operations?</p> <p>d) Is delegation of powers adequate for effective implementation of project activities?</p>			
2.	<p>Approval and Adoption Have financial and administrative rules been approved and adopted by the Executive Committee of SRLM?</p>			
C. FM MANUAL –STATE LEVEL				
1.	<p>FM Framework Is FM Framework for state level described in state FM manual consistent with the framework of National FM Manual?</p>			
2.	<p>FM Procedures Are procedures outlined in FM Manual consistent with National FM Manual and Part II of National Manual (Template of State FM Manual)?</p>			
3.	<p>FM Aspects Does FM manual cover key FM aspects at state level (budgeting, flow of funds, accounting, internal controls, financial reporting, FM disclosure and audit)?</p>			
4.	<p>Approval of Manual Has the manual been approved and adopted by the Executive Committee of SRLM?</p>			
D. STAFFING AND TRAINING				
1.	<p>Staffing Is the FM function staffed or proposed to be staffed adequately with experienced and qualified persons at state/district/sub-district level?</p>			

2.	Job Descriptions a) Are job descriptions available for all FM posts? b) Do they describe the responsibilities of each post adequately? c) Do job descriptions cover key FM functions at state/district/sub-district level?			
3.	Training a) Is there a strategy and plan for training FM staff at all levels in the state? b) Is the strategy adequate? Does it take into account and complement national level FM training? c) Does the strategy adequately cover: I. FM requirements as per National and State FM Manual and Guidelines II. Requirements of different levels of FM staff d) Training Material: Is the material appropriate? e) What is the status of training as per National FM Manual and State FM manual?			

E. FLOW OF FUNDS

1.	Has the system of flow of funds for different levels (state to districts/districts to sub-district and community level) planned and documented properly?			
2.	Does the system include appropriate triggers and control measures?			
3.	Is the mode of transfer of funds at different levels appropriate?			
4.	Have any standards of service been planned and are the standards appropriate?			

F. ACCOUNTING

1.	Accounting Standards Has SRLM adopted acceptable national/international accounting standards?			
2.	Policies Are there written policies and procedures covering all routine accounting and related administrative activities?			

3.	Chart of Accounts Is the chart of accounts adequate or can it be adapted to properly account for, and report on all project activities?			
4.	Accounting System a) Is the accounting/reporting system computerized? b) If not, are the manual systems adequate to account for project activities in a timely manner? c) Does a plan for computerization of accounting exist? Is the time framework for implementation reasonable? d) Is the accounting system capable of producing timely and accurate records of projects?			
G. INTERNAL CONTROLS				
1.	Approval and Authorization Are approval and authorization controls in place and properly documented?			
2.	Do policies and procedures clearly define <i>conflict of interest</i> and <i>related party transactions</i> (real and apparent) and provide safeguards to protect the SRLM from them?			
3.	Banking a) Is there an effective control system for opening bank accounts at different level? b) Is there a regular system of preparation and reconciliation of bank statements? c) Are bank reconciliations prepared by someone other than those who process or approve payments? d) Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?			
4.	Control of Fixed Assets a) Are memorandum records of fixed assets and stocks kept up to date and reconciled with control accounts? b) Are assets sufficiently covered by insurance policies?			

5.	Internal Audit Is the internal audit system planned for project and community level as per the requirements of NRLP i.e., ToRs, coverage, scope etc.?			
H. FINANCIAL REPORTS				
1.	Has the project established & documented financial reporting responsibilities that specify: a) What reports are to be prepared, b) When they are to be prepared, c) Periodicity of preparation and content and d) System of consolidation of reports at various levels?			
2.	Does the accounting system have the capability of meeting reporting requirements of NRLP?			
I. AUDIT				
1.	Is the audit system planned for project and community level as per the requirements of NRLP i.e., ToRs, coverage, scope etc.?			
J. COMMUNITY LEVEL FM ARRANGEMENTS				
1.	Community Level FM Manual a) Has SRLM developed Community Level FM Manual? b) Is the Manual consistent with the Template prepared at National level (part III of National FM Manual)? c) Does the Manual cover FM requirements clearly and adequately?			
2.	Guidelines a) Are guidelines available for key community level activities and organizations? b) Do Guidelines for community level cover FM and Governance aspects adequately			

	(e.g., maintenance of records, reporting, audit, social accountability and transparency?)			
3.	User-friendly a) Are the guidelines and manual available in local language? b) Are the manuals and guidelines presented in a format which can be easily understood by community members and project staff?			

CHAPTER 4

PLANNING AND BUDGETING

This chapter is divided into two major parts:

Part A Planning in NRLP

Part B Annual Work Plan and Budgeting in NRLP

A PLANNING FOR NRLP

Overview of Planning Process in NRLP

The resources from NRLP to the states will be transferred in a demand driven manner following an agreed protocol described in the PIP.

- Diagnostic Study: The states will carry out a diagnostic study of the poverty situation in the state.
- SPIP: Based on the diagnostics, each state will prepare their own multi-year State Perspective and Implementation Plan (SPIP).
- Readiness of State Mission: Upon submission of IAP/SPIP by the state mission, the NMMU will assess the readiness of the state mission.
- Appraisal and Approval of State Plans: These plans will be appraised and approved by MoRD.
- MoU between MoRD and State: Upon approval, NMMU would enter into MoU with the state mission for supporting the multi-year SPIP with technical and financial resources and fund one year operation plan.

The following diagram summarizes key processes of NRLP, from setting up NMMU to planning, implementation and supervision.

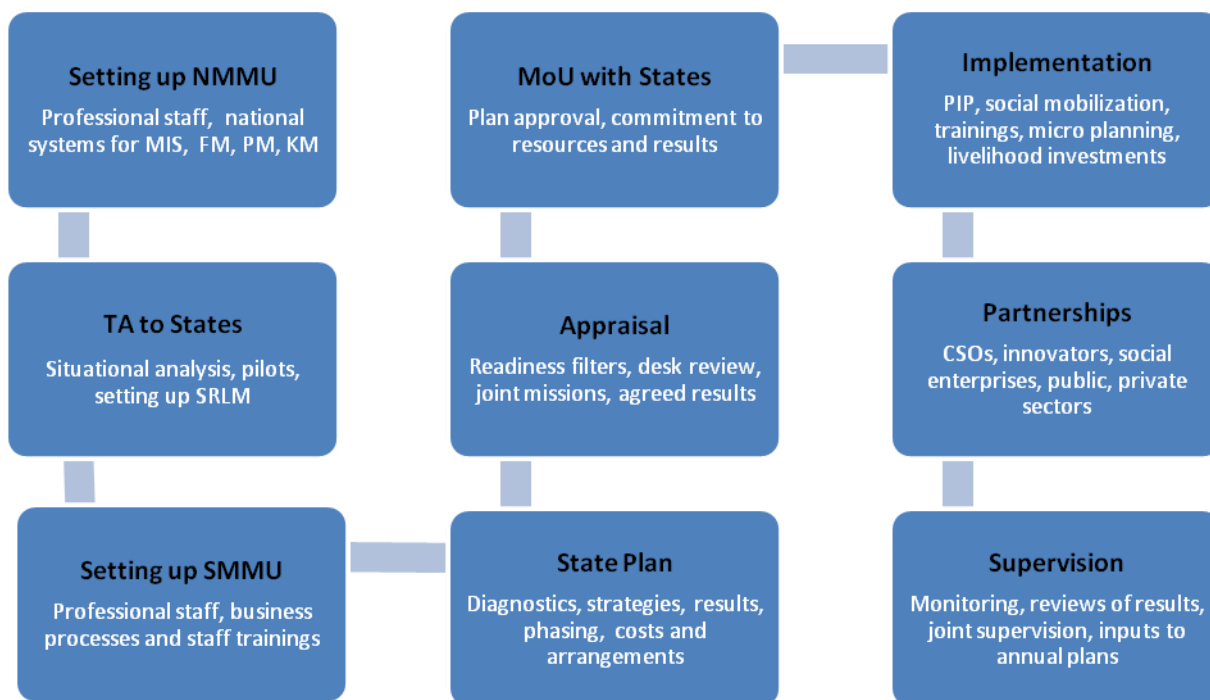


Diagram: Overview of Key Processes of NRLP

Planning and funding of state plans is described below:

Technical Assistance to States

As per the NRLM Implementation Framework of Ministry of Rural Development, States need to meet certain compliant conditions for accessing NRLM funds from centre.

To facilitate initial preparedness of State to be NRLM compliant, dedicated technical assistance will be provided to States in terms of support for setting-up the Society, conducting poverty diagnostic study and preparing State Perspective Plan.

TA to NRLP States

5 States with Existing Livelihoods Projects: These states have developed capacity in terms of professionally managed implementation structures and formulating high quality state perspective and implementation plan (SPIP). The project will help them to:

- **Align with the NRLM; and**
- **Expand their coverage to new areas.**

Other 7 States of NRLP: NMMU will extend technical assistance in the first year to help them **develop and implement Initial Action Plan (IAP)** which will enable them to

- (i) SRLMs: set up State Rural Livelihood Missions (SRLM) and fully staffed State Mission Management Units (SMMU),
- (ii) Poverty diagnostics and pilots: undertake poverty diagnostics and launch field pilots
- (iii) SPIP: formulate state perspective and implementation plans (SPIP) for poverty reduction.

Diagnostic Study

The states carry out a diagnostic study of the poverty situation in the state that include geographical distribution of poverty, special groups of the poor and vulnerable, situation analysis of the poor in terms of social, financial, and economic exclusion, etc.

State Perspective and Implementation Plan (SPIP)

Based on the diagnostics, each state will prepare multi-year SPIP detailing:

- Strategies and activities
- implementation arrangements
- Phasing and roll-out plans
- Sources and uses of the funds for achieving specific poverty reduction goals

Each SRLM would undertake a prioritization exercise and prepare draft SPIP. SMMU would prepare State Perspective Plan consolidating all District Action Plans and incorporating SMMU action plan. SMMU would submit State Perspective Plan, duly approved by its Governing Body, to MORD for appraisal and approval.

FM Arrangements / Information in SPIP

State Perspective Plan to include Financial Management arrangements in the community institutions and state mission structures, as mentioned below:

- Project Costing
- Main components of Project budget
- Administrative and Financial Rules
- Financial Management Framework: to be in line with the FM framework finalized at the national level. It is a matrix that specifies key FM and institutional arrangements at state/district/sub-district/community level.
- Fund Flows: basis for release of funds to different levels and nature of accounts at these levels
- Staffing and capacity building: Details of the key staff for financial management at all level along with the plan for their capacity building
- Accounting Policies and Procedures: A Financial Management Manual (FMM) needs to be prepared detailing the accounting and financial reporting requirements at the various levels. The key components of FMM should include accounting and financial

management processes such as funds flow, budgeting and audit arrangements. The financial and accounting policies contained in these manuals shall supplement the policies adopted for State Society, District Units and Block Units.

- Audit Arrangements

Please refer to **Template of SPIP** in **PIP for details**.

Initial Action Plan (IAP)

NMMU would provide technical assistance to the SMMUs in the preparation of IAPs.

The IAP would include

- a. Situation Analysis of the poverty , social mobilization, financial inclusion and livelihood context in the state
- b. Details of pilots on social mobilization, financial inclusion and livelihood promotion. The number of the blocks to be taken up under the piloting and the rationale for selection of the blocks
- c. The basic support structure to be put in place during the piloting
- d. The basic MIS, financial management and Procurement systems to be put in place.

FM Arrangements / Information in IAP

- Flow of Funds: Basis for release of funds to the different levels and nature of accounts at these levels needs to be detailed out.
- Staffing: Details of key staff for financial management at all level.
- Accounting Policies and Procedures: Arrangements for operation of bank accounts, maintenance of books of accounts and control mechanism.

Please refer to **Template of IAP** in **PIP for details**.

Appraisal of SPIP and Initial Action Plan

Upon submission of IAP/SPIP by the state mission, the NMMU will assess the readiness of the state mission and a joint appraisal mission will be undertaken by a team of experts drawn from NMMU, the World Bank, other donors (if any), CSOs and practitioners from other state missions. The mission will undertake field visits, participatory assessments, discussions with key officials, and state level multi-stakeholder workshops and would use the appraisal criteria described in the PIP.

Key readiness filters for FM are summarized in the Table:

Table: Key FM Readiness Filters for States

Plan	Readiness Filter	Broad Criteria for Appraisal
I Initial Action Plan*	<ul style="list-style-type: none"> ○ Action for setting up SLRM initiated ○ CEO appointed ○ Separate bank account opened in the name of SLRM 	<ul style="list-style-type: none"> ○ Administrative and fiduciary arrangements
State Perspective and Implementation Plan**	<ul style="list-style-type: none"> ○ Operational manual ○ Administrative & financial rules 	<ul style="list-style-type: none"> ○ Administrative and fiduciary arrangements

*The states without dedicated implementation structures will prepare a one year plan for incubating SRLM, program pilots and preparation of SPIP. The IAP will be backed by TA from NMMU).

** States that have set up dedicated implementation structures.

Table: Readiness Filters

Plan	Readiness Filter	Broad Criteria for Appraisal
Initial Action Plan (The states without dedicated implementation structures will prepare a one year plan for incubating SRLM, program pilots and preparation of SPIP. The IAP will be backed by TA from NMMU)	<ol style="list-style-type: none"> 1. Action for setting up SLRM initiated 2. CEO appointed 3. Separate bank account opened in the name of SLRM 4. Rapid poverty diagnostics undertaken 	<ol style="list-style-type: none"> 1. Results 2. Program strategies - pilots 3. Timelines 4. Implementation capacity 5. (Strategic staffing) 6. Partnership arrangements 7. Administrative and fiduciary arrangements 8. Cost effectiveness
State Perspective and Implementation Plan (The states that have set up dedicated implementation structures)	<ol style="list-style-type: none"> 1. Fully inducted state team 2. Operational manual 3. HR Policy and manual 4. Administrative & financial rules 5. Partnerships identified 6. The state has an Environmental Management Coordinator and a Social Coordinator as part of the core team. 7. Environmental Action Plan is developed in the SPIP through the process described in the EMF. 8. Social Inclusion Plan is developed in SPIP through the process described in the SMF. 	<ol style="list-style-type: none"> 1. Results 2. Program strategies and implementation cycle 3. Phasing 4. Implementation capacity (Structures, Staff, Systems & Partners) 5. Safeguards compliance 6. Administrative and fiduciary arrangements 7. Cost effectiveness

Revised SPIP and Annual Action Plan

Based on the agreed actions with the Appraisal Mission, SRLM would submit its revised SPIP and Annual Action Plan. Technical Support Cell/Appraisal Mission would review the revised SPIP and Annual Plans and prepare an appraisal document for approval of SPIP.

Appraisal and Approval of State Plans

The revised SPIP/IAP would be reviewed by NMMU and placed for approval before an Empowered Committee (EC) constituted by the MoRD for NRLM. The EC would approve the State Action Plan.

Upon approval, NMMU would enter into **MoU** with the state mission for supporting the multi-year SPIP with technical and financial resources and fund one year operation plan.



MoU between MoRD and SRLM

NRLM/NMMU and SRLM/SMMU, then, would enter into a Memorandum of Understanding (MoU).

Suggested FM Clauses in MoU

The MoU between MORD and states for NRLP will include clauses covering the following FM aspects:

- Adherence to FM procedures of NRLP as per FM Manual of the project and other instructions issued by NMMU during the project period.
- Compliance with terms and conditions for the release of first and subsequent installments by MORD to the state for NRLP, including submission of Utilization Certificates.
- Ensuring flow of funds for project activities as per procedures in National FM Manual and service standards of NRLP.
- Maintaining a separate bank account and separate records of the project funds received for NRLP.
- Implement accounting policies of NRLP and maintain accounting system as per NRLP requirements.
- Submit to MORD all reports and documents relating to progress of the Project, Accounts, Audit, Procurement, Disbursement and Annual Work Plan, as specified in the FM Manual and PIP and at such frequency as may be required by MORD.
- Furnish quarterly/annual financial statements in the prescribed format in accordance with the procedures mentioned in the Financial Management Manual.
- Get the accounts of the SRLM for NRLP audited as indicated in the FM Manual. The audited accounts along with a copy of the audit report shall be furnished to MORD every year as per the schedule indicated in the FM Manual.
- Implement disclosure management framework.
- Access to project records to MORD or its representatives.

Funds to States

MoRD will release funds to states **against agreed annual work** plans and as per FM provisions of MoU which will be signed between MoRD and each participating state. Funds will be released in two tranches each year through direct transfers into SRLM bank accounts.

On being satisfied with SRLM's readiness, NRLM/NMMU would release the first of the two tranches in a year (i.e. 50% of the annual allocation) into the SRLM Special Bank Account and SRLM would formally launch the SPIP. For all fund releases following the first tranche, the states will be required to submit audit reports and utilization certificates, as per established GoI procedures.

Please refer to **Chapter on Flow of Funds for details of tranche release conditions.**

Annual Plan of State

Before the commencement of the financial year, each State would get an indicative allocation based on the inter-se incidence of poverty among the States to enable the states to prepare their plans. Based on the broad indication of resource availability to the State in a particular year, SRLM would undertake a prioritization exercise and prepare Annual Action Plan dovetailing with State Perspective Plan.

The annual plan would include budget by components/sub-components and estimates of funds from different sources.

Approval of Subsequent Annual Plans and Tranches

For the subsequent years, the Annual Action Plans will be reviewed in the context of SPIP and the feedback provided by half yearly reviews, supervision/implementation support missions, concurrent evaluation studies, and performance criteria laid down from time to time.

As implementation of State Perspective Plan progresses, subsequent tranches would be subject to half-yearly reviews, annual reviews and plans, and utilization of the previous tranche(s) released and the balance funds available.

Half Yearly Review Missions would review implementation against the plan (Annual Plan and Perspective Plan) and the minimum quantitative/qualitative performance criteria laid down by NRLP, from time-to-time.

B ANNUAL WORK PLAN AND BUDGETING FOR NRLP

Overview of Annual Work Plan Process of NRLP

- AWP for NRLP will follow a “bottom up” approach.
- NMMU, MORD will issue instructions to states for preparation of AWP for every financial year. SMMUs will prepare estimates for state level NRLP activities based on estimates from districts and submit it to NMMU.
- NMMU will review estimates submitted by the states.
- NMMU will aggregate estimates of states and NMMU to prepare Annual Work Plan of NRLP.
- NRLP AWP will be approved by the Empowered Committee (EC).

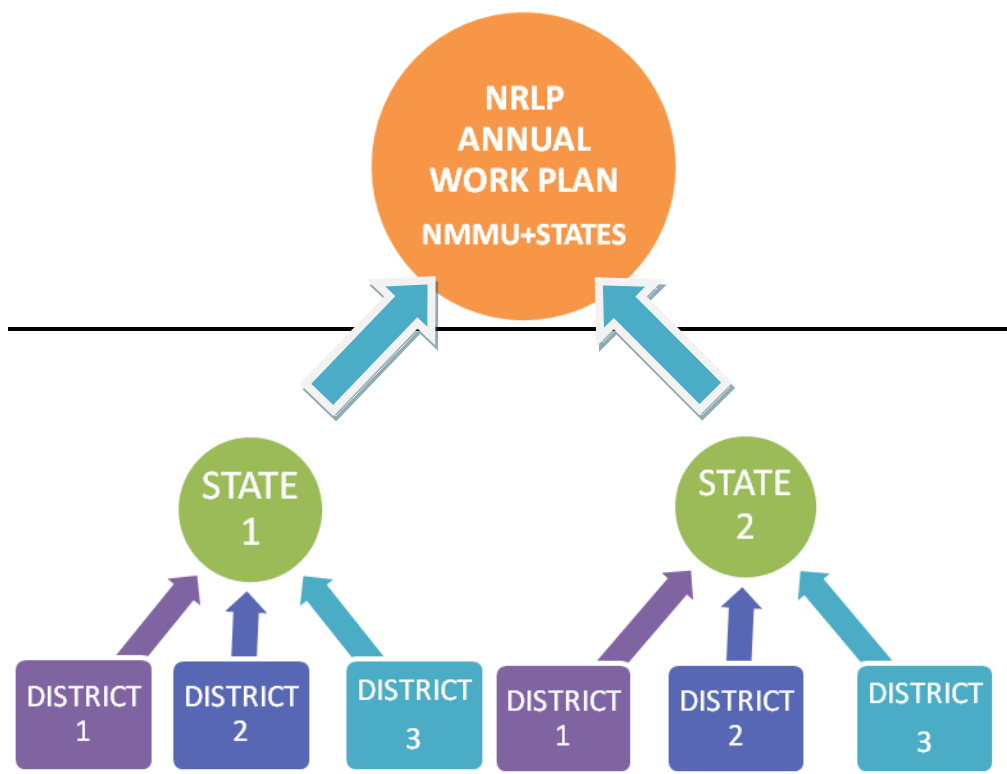


Diagram: Annual Work Plan Process of NRLP

Period of AWP

AWP period shall be the financial year of the GOI and states i.e., 1 April to 31 March. Annual Work Plan and Budget will be further divided into quarterly budgets.

At the **National** Level:

- MORD will be responsible for preparation of estimates for its own expenditure and releases to States.
- *Budget heads*: The project will be budgeted at the Union level, under an identifiable budget head item of the Ministry of the Rural Development. National Mission Management Unit (NMMU) of MoRD will prepare annual estimates of the project by consolidating state level and NMMU level estimates. Partly on account of the inflexibility in processing in-year budget reallocations, that this imposes, the project components and sub components have not been set up at the detailed budget head level. The budget heads for the project in MoRD's budget will be as follows: (to be added).
- *Estimates from states*: The estimates will be scrutinised at NMMU.
- *Consolidation of AWP of NRLP*: NMMU will prepare estimates of project by consolidating: (a) estimates of national level activities; and (b) state level activities based on estimates received from the states.
- Annual Work Plan (AWP) of NMMU will be approved by end February of each year.

At the **State** Level:

- The project's planning process will follow an "inverted" approach i.e. it will grow out of village level plans and get consolidated into Block, District and State level annual work plans.
- AWP and Budget for NRLP to be approved by the SRLM.

Structure of Annual Work Plan

Annual budget will be prepared as per project components/sub-components/activities. Please refer to Annex 1 for **Format of AWP**.

AWP Calendar

AWP for next financial year (April-March) should be received at MORD from SMMUs by 31st October. NMMU, MORD should prepare AWP for NRLP by 30th November.

TABLE: AWP Calendar for Next Financial Year – National and State Level

Last date	Inputs for AWP	Prepared by	Submitted to
1 st September	Instructions for Annual Action Plan for next Financial Year, including indicative allocation	NMMU	SMMUs
15 th October	Approved District level Plan sent by DMMUs to SMMU	DMMU	SMMU
31 st October	<ul style="list-style-type: none"> ○ <u>Approved State Action Plan</u> sent from state to NMMU ○ <u>State Share</u>: Approved State Plan also copied to state government for incorporating state share in its budget 	SMMU	NMMU
31 st October	Estimates for national level activities	NMMU Units	FM Unit, NMMU
30 th November	Consolidated Estimates for Next Financial Year for NRLP (national+states)	NMMU	Budget Division, MoRD

**TABLE: Revision/Supplementary AWP for Current Financial Year
National and State Level**

Last date	Inputs for AWP	Prepared by	Submitted to
15 th October	Revision of Estimates for Current Financial Year	SMMU	NMMU
15 th October	Revision of Estimates for National level Activities	NMMU Units	FM Unit of NMMU
15 th November	Consolidation and Submission of Revised AWP	NMMU	MORD

AWP Monitoring

Monitoring of actual expenditure against budget will be regularly carried out at all levels of the project.

CHAPTER 5

FLOW OF FUNDS

This chapter is divided into 2 parts:

Section A Overview of Flow of Funds for NRLP

Section B Flow of Funds to States

A OVERVIEW OF FLOW OF FUNDS FOR NRLP

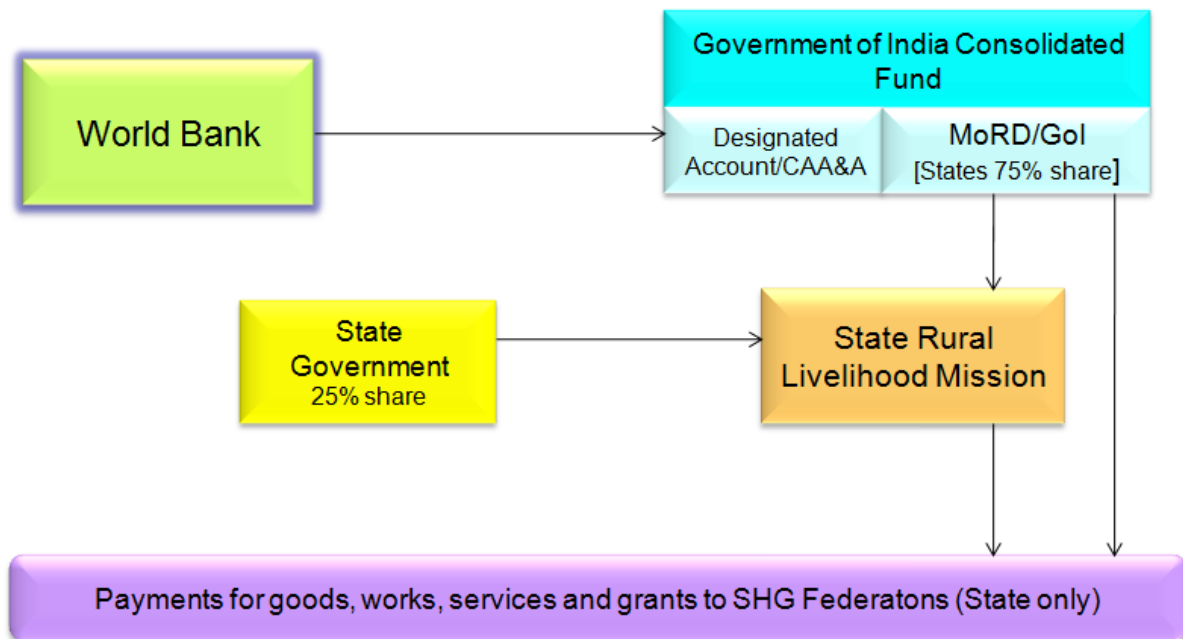


Diagram: Overview of Flow of Funds for NRLP

Central and State Share

As per the standard Centre-State mechanism for Central Sponsored Schemes, GoI funds to the States for Components 2 (b) and (c) will be on a grant basis with **25% counterpart funding by the States (10% in the case of North East and hill States)**.

MoRD Level

- Government of India, Ministry of Rural Development will provide funds for NRLP through its budgetary resources.
- The NMMU will remain within the existing financial management systems of MoRD, which operates through the centralized Pay and Accounts Office.
- At MoRD level, an annual work plan will be prepared and will form the basis for the budget allocations. The Empowered Committee (EC) of NRLM will approve AWP of national and state level activities of NRLP.

Disbursement from the World Bank to GoI

- Initial Advance: An initial advance with a fixed ceiling would be deposited into the segregated designated account maintained in US dollars at Reserve of Bank of India, Mumbai by CAA&A, GoI.
- Quarterly Reimbursement: Withdrawals from the Designated Account will be on receipt of periodic withdrawal applications in the form of quarterly Interim Unaudited Financial Reports (IUFs) from MoRD, GoI to the World Bank and to the extent of reported expenditures during the period.
- Eligible Expenditure:
 - *Fund releases to the States* and accounted for at MoRD level as 'Grants in Aid' will not be considered as eligible expenditures for purposes of disbursement under the project.
 - *Eligible expenditures for Community Investment Support Component* will include grants to SHG Federations made by the SRLMs for funding economic activities to enhance livelihoods, in accordance with procedures outlined in the Program Implementation Plan.

Please refer to Chapter on Reimbursement from the World Bank for details.

Details of Flow of Funds Arrangements is shown in the following **Diagram**:

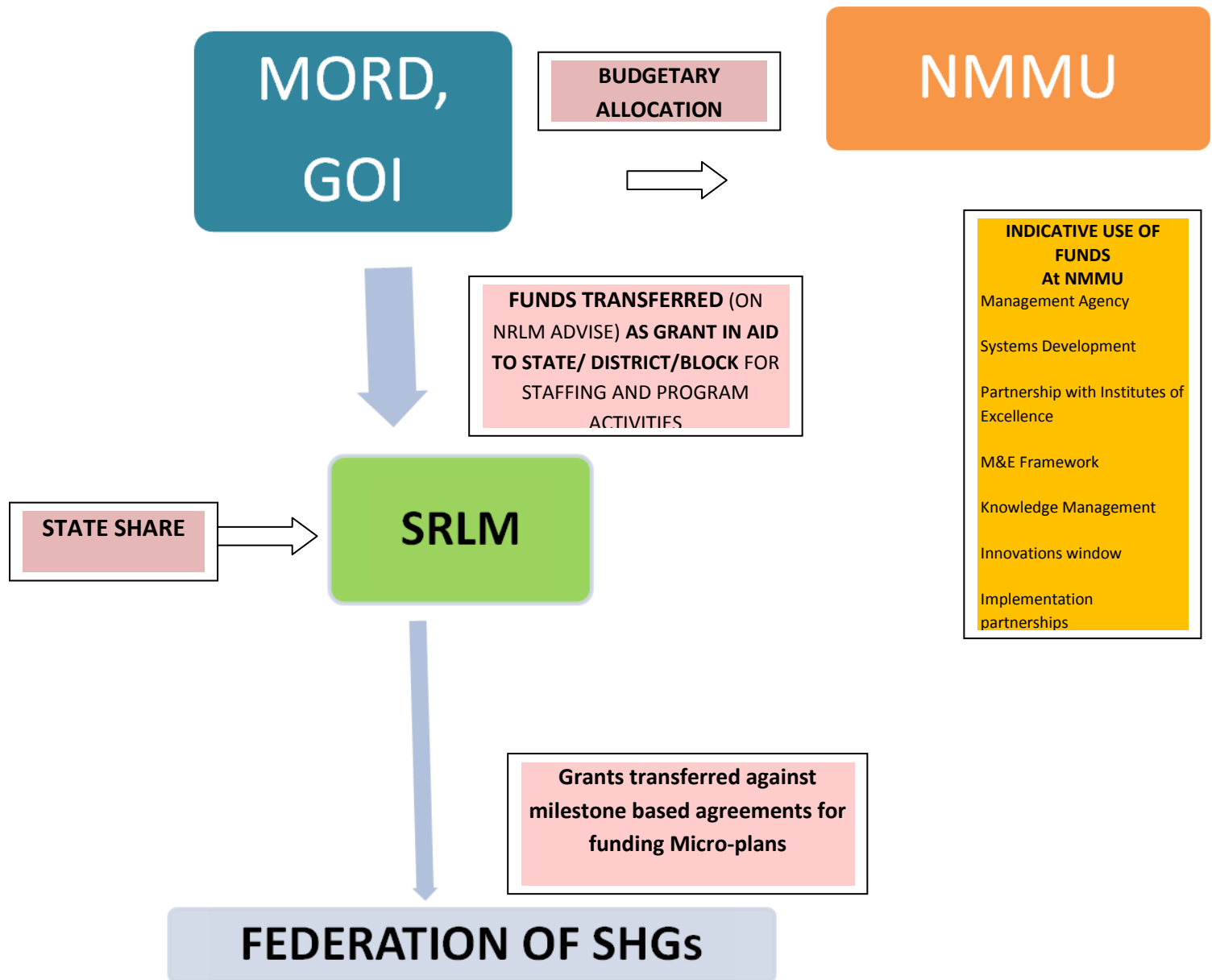


Diagram: Details of Flow of Funds Arrangements for NRLP

B FLOW OF FUNDS TO STATE LEVEL

National Level

MoRD to States

MoRD will release **funds to states against agreed annual work plans** and as per FM provisions of MoU which will be signed between MoRD and each participating state.

Procedure for Release of Funds to States

NRLM would fund states against appraised and approved **annual action plans and state perspective and implementation plans** that outline the results and the processes towards these results, and as per FM provisions of MoU which will be signed between MoRD and each participating state.

NMMU would review the performance against these plans half-yearly and annually and funds flow to the states would be based on the revised annual plans.

Funds will be released in two tranches each year through direct transfers into SRLM bank accounts. For all fund releases following the first tranche, the states will be required to submit audit reports and utilization certificates, as per established Gol procedures.

Please refer to Table below for details of conditions for each tranche.

TABLE: Tranche Release to States under NRLP

Tranche	Months	Conditions for Release
First Tranche	April-May	1) Approval of the State Annual Action Plan and 2) Terms and conditions stipulated from time to time.
Second Tranche	October-December	On the request of SRLM in prescribed pro-forma and on fulfilment of the following conditions: <ol style="list-style-type: none"> 1) Utilization of at least 60% of the available funds including the opening balance. 2) The opening balance of the SRLM should not exceed 10% of the allocation of the previous year (<i>in case, the opening balance exceeds this limit, the Central funds would be proportionally reduced</i>). 3) Audit Reports, Utilization Certificates for the previous year furnished. <i>Please refer to format of UC in Annex</i> 4) Achievement with reference to Annual Action Plan; and 5) Other terms and conditions stipulated at the time of the previous release should have been met.

Lapsing of Allocation

If the expenditure of any of the States is less than 60% by 31 December, their balance allocation would lapse.

Allotment of Lapsed Allocation

These lapsed amounts would be pooled and allotted to better performing States on the following criteria:

1. Expenditure of more than 75% of the total available funds by 31 December
2. Request for additional funds over and above the allocation for the year; and
3. Performance on key NRLP indicators.

The allotment to these better performing states would be in proportion to their allocation. However, the additional amount would not exceed one installment (i.e. 50%) of the State allocation.

Care would be taken to ensure that poverty states get their due allocation and better performing States get incentive for reaching their poverty reduction targets quickly.

Bank Account

SMMU will maintain a separate bank account in a commercial Bank for the Programme funds and notify the same to NMMU.

The transfer of funds from MHRD **to States** will be through ECS.

State Share & State Perspective/ Annual Plans

- State will contribute 25% of the state plan (10% in case of North-eastern states) for activities proposed under NRLP/NRLM for component 2 b and 2 c. Component 1, 2 a, 2 d, 3 and 4 will be funded 100% under NRLP/NRLM.
- The MoU between MoRD and states will include a clause for timely provision of state share. The State Perspective Plan and Annual Plan will include all activities and budgets relating to NRLM and NRLP and also WB supported state livelihood project, where applicable. This is to enable MoRD to get a full picture of the state livelihood program.

MoRD to States – Key Points

- Funding to states to be based on agreed work plans.
- SPIP will include estimates for NRLP, NRLM and activities of existing livelihood project (if applicable)

- *Common Costs*: Costs at the districts units and state units will be assigned/apportioned in a pre-agreed procedure to various funding sources.
- World Bank will fund all cost of intensive blocks in 12 states, except interest subsidy. State Plan for NRLM to identify specific line items for NRLP e.g., intensive blocks.
- NRLP to fund Intensive Blocks and Technical Assistance, (including setting up state/district/block units)
- Tranche conditions to states to be as per NRLM Guidelines
- State share will not apply to Component1, 2a, 2d, 3 and 4 and these components will be funded 100%
- Fund releases to the SRLMs will be through direct transfers into SRLM bank accounts and will be against agreed annual work plans.

State Level

Funding of Project Offices in the States – Key Points

- SMMU will incur expenditure for state level activities directly.
- DMMU: SMMU will transfer funds to DMMUs **against annual work plan** into a separate bank account opened for the project.
- Common Costs at State and District level: **SRLMs will establish up-front, appropriate criteria to apportion common costs** (state and district levels) across the various projects and document the same in the SPIP.

State to Districts

- SRLM would devolve funds to the districts in accordance with **district-wise allotments indicated in the Annual Action Plan**.
- To the extent feasible, funds flow from SRLMs to districts/sub-districts will not entail physical transfer of funds, and instead an **Electronic Fund Transfer** system will be established. Under this system annual budgetary allocations will be approved by state office for each cost center against specific budget lines. The cost center will generate sanctions and draw down from a centralized state level bank account using the online banking systems up to the budgetary limits and within the agreed delegation of financial powers.
- All funds released by the state to the district and block level units will be treated as **inter unit transfers** until expenditures are incurred at these levels.

State to SHG Federation/s and Other Institutions

Fund releases from the State to SHG Federation/s and other institutions (producer companies, NGOs etc.) will be made through electronic transfer systems, to the extent feasible and be based on the terms and conditions for fund releases as documented in the MoU or financing agreements, as the case may be.

To the extent feasible, SRLM will enter into service or results based agreements with Special Purpose Vehicles (SPVs), Producer Groups, Training Institutes etc. and all fund releases from the project will be based on achievement of outputs or results.

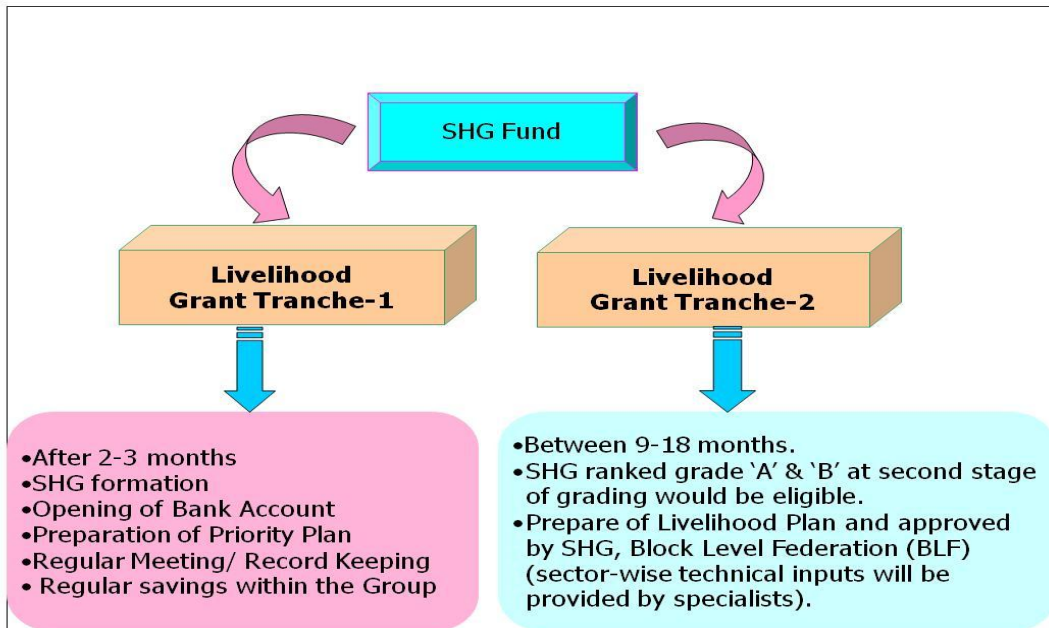
Innovation Funds/Producer Companies

- The fund releases to be based on **appraised business plans**
- All fund releases **be accounted for as advances in SRLM books of accounts**
- Actual expenditures reported to be booked as expenditures, **unspent balances to be refunded to SRLM.**

State to SHG Federations/SHGs

- In order to ensure that there is no risk in duplication of financing to the same SHGs/federations, it has been agreed that **NRLP will not be implemented in the same blocks as the ongoing WB-supported state livelihood projects.**
- All fund releases to SHG Federations will be made in accordance with **Federation Grant Agreement.** Such fund releases will be based on achievement of certain defined milestones/ triggers as defined in the description of Component 2 in Annex 2 of PAD.
- Fund releases to SHG Federation/s bank accounts will also be through direct transfers, to the extent feasible
- All fund releases to SHG Federations **be accounted for as expenditures.**
- SHG Federation will maintain **books of accounts** for the receipts and loans provided to SHGs and will prepare **regular financial statements.**
- States to monitor **financial performance of Federations** through monthly financial reports

The institutional building and resource transfer arrangements to SHGs/federations require that they have governance norms on rotational leadership, performance-based grading, social audits, and require formal audits.



Funding of SHGs

SHG Federations will fund livelihood plans of SHGs. SHGs will in turn, provide loans to their constituent members to fund economic activities to enhance livelihoods or other consumption needs as described in the SPIP, but excluding the items listed in the negative list.

SHGs will receive livelihood investment support when they reach a certain level of maturity, as measured by pre-defined milestones in the SPIP.

The livelihood grants to SHGs will only be provided in the initial formation phase but thereafter they will utilize these funds alongside their savings and other sources of financing to scale-up their livelihood activities.

It is estimated that approximately 480,000 SHGs would be supported under the proposed NRLP with each SHG receiving a total livelihood grant of approximately Rs. 36,000 (roughly US\$600 per SHG or US\$60 per SHG member household over the 5 year project period).

Community Investment Support



NOTE: Total livelihood grant to SHG members (i.e. one household) will be roughly US\$60. By the 5th Year, it is estimated that average savings per member within SHG will be roughly US\$80. In addition, voluntary savings within SHGs and formal financial institution including banks, insurance and pensions is estimated at an additional US\$300 per household (i.e. a total savings of almost \$400 per household).

Livelihood Grants

- The livelihood grants will be used to address **higher order livelihood and human development issues** like Millennium Development Goals (MDGs) related to food security, health, malnutrition and education.
- The project will also finance the **cost of pilots** including capacity building expenditures, setting up health and nutrition centers and early child education centers by institutions of the poor.
- The livelihood grants will also be provided to **farmers' collective/producer groups/producer companies** to improve market access and link to mainstream agri-business companies.

○

Financing of Blocks under NRLM and NRLP

NRLP (World Bank Financed Project) will finance activities in approx 400 blocks in identified states - (about 12 states). In addition, under NRLM, MoRD (through domestic sources) will finance the remaining blocks through a combination of intensive blocks (approx 150) and balance as extensive blocks. Similarly SGSY in its current form will cease with effect from Oct 2011 and will be subsumed under NRLP/ NRLM (intensive and extensive).

This understanding is summarized in the table below:

Blocks	Nature of Intervention	Financed under/by
Blocks in NRLP States (12 States)	Intensive Blocks	NRLP- World Bank
	Intensive Blocks***	NRLM - MoRD
	Extensive Blocks *	NRLM – MoRD
Blocks in non NRLP States (other than the 12 states)	Intensive Blocks **	NRLM - MoRD
	Extensive Blocks **	NRLM – MoRD and NRLP-World Bank

*technical support will be available to all the blocks in NRLP states from the SMMU under NRLP funding

** technical support will be available to non NRLP states from the NMMU (central level unit) under NRLP funding

***the initial extensive blocks will gradually being intensive blocks in NRLP states and will be funded by MoRD.

Allocation of Blocks under WB supported state livelihood project, NRLM and NRLM

To the extent possible, there would be no intermingling of finances from more than one source, especially at the block level in respect of intensive blocks with one exception i.e Interest subsidy element under NRLM which would not be funded by the World Bank. (the modalities of the transfer of such subsidy to be understood) and to also add in the negative list.

Blocks would be assigned for financing under:

- a) NRLP – Intensive Blocks
- b) NRLM - Intensive Blocks
 1. In non NRLP states
 2. In NRLP states in later years, when Extensive Blocks will graduate to Intensive blocks
- c) Extensive Blocks (NRLM)
- d) World Bank supported state livelihood projects, where applicable

Common Framework/Systems

- NRLP procedures and systems (program design, planning, procurement and financial management) for Intensive Blocks will be applicable to all Intensive Blocks in the country.

- There will be a common program management system (including MIS system) for all Intensive Blocks in the country.
- World Bank will, however, limit its fiduciary review, especially remedies in case of non compliance (e.g., discontinuation of disbursement in case of delayed audit reports), to the NRLP states/ blocks.

Extensive Blocks

MoRD will develop separate guidelines for funding of extensive blocks under NRLM.

Central Plan Scheme Monitoring System (CPSMS)

NRLP will be monitored using the CPSMS.

CHAPTER 6

ACCOUNTING

Accounting System

The Project Implementing Agency has to maintain a Financial Management System including adequate accounting and financial reporting, to ensure that it can provide to the World Bank and the Government of India, accurate and timely information regarding the project resources and expenditures.

Financial reports generated from the above accounting system will be comparable to Project allocations, yearly budgets and utilization of funds relating to physical and financial achievement as targeted under the Project.

Accounting Centers

The main accounting centers are:

- a. NMMU
- b. State Level: SMMUs, DMMUs, Block Units/PFTs

	Accounting	Reporting	Consolidation
NMMU, MoRD	✓	✓	✓
SMMU	✓	✓	✓
DMMU	✓	✓	✓

Block Units: There will be an **imprest** system at block level.

Accounting at National Level

Accounting System

At GoI level, NMMU will function within the existing Government systems using the Pay & Accounts Office (PAO) to process and account for project related expenditures.

Accounting Policies

The following accounting policies will be applicable for NRLP to ensure uniformity and consistency in method of accounting and financial reporting:

- General Financial Rules: The procedure and formalities for Grants-in-aid to states and for other expenditure at national level for the project will be as per General Financial Rules (GFRs) of the Government of India.
- Releases to States: In the MORD books of accounts, transfers (Grant in Aid) to SRLMs to finance approved state Annual Work Plans (AWP) will, in accordance with existing GOI rules, be recorded as expenditure. For the purpose of the program, however **NMMU will need to keep track of the actual expenditures reported against the grants by the States on an off-line basis** as these are essentially in the nature of advances. Releases to states.
- Releases to states will be treated as “**Grant-advances**” and actual expenditure will be treated as “**Grant-utilized**”.

Memorandum Registers

The consolidated `Monthly Accounts' prepared by the Pay & Accounts Office (PAO) will provide information on the project expenditures in summary form only. NMMU will maintain memorandum registers to track the project expenditures by activity heads to allow for quarterly interim financial reports to be prepared in a manner that will allow easy monitoring of actual expenditures against agreed work plans and for management decision making purposes. Please refer to **Annex 2 for Format of Memorandum Register**.

Accounting at state level

A common set of `back office' rules on financial management, including accounting and financial rules at the **State, SHG Federation and SHG** level will apply uniformly across all activities and all sources of funds, including NRLP.

A. Project Offices

Accounting System:

- SRLM and its constituent district and block units will maintain its books of account on a **cash basis** following the **double entry principle** of accounting.
- SMMUs will maintain separate records for NRLP activities. A computerized accounting system will be maintained.
- SMMU will prepare consolidated state level accounts for NRLP.

Fund Release

- Fund Release to Project Offices: All funds released by the state to the district and block level units will be treated as inter unit transfers until expenditures are incurred at these levels.

- Fund Release to SHG Federations for Community Investment Support: All fund releases to SHG Federations against Community Investment Support which are in the nature of grants to be used to undertake productive livelihood activities, will be **accounted for as grants (expenditures)** in the books of accounts of the SRLM.

Such fund releases will be based on achievement of certain defined milestones/triggers as defined in the description of Component 2 in Annex 2 of this PAD.

- Fund Release to Other Institutions: The accounting for fund releases (grants) to other institutions, including Producer Companies, livelihood federations, NGOs Partnerships and other service providers under the component of Special Programs (Component 2(d) and Innovations and Partnerships (Component 3) will be **guided by the terms and conditions of respective the contractual arrangements or financing agreements/MOUs**.

Fiduciary Assurance for Community Investment support

The project will obtain fiduciary assurance for the use of Community Investment Support provided to the SHG Federations from a combination of the following two processes:

- Periodic assessment of robustness of the loan portfolio at the Federation level. This will be monitored through rigorous processes and use of eligibility indicators of profitability, capital and portfolio quality, acceptable levels of loan collections, appropriate capacity for appraisals and supervision etc.; and
- Assessment of the fiduciary oversight arrangements established at the Federation level to monitor and verify the use of funds for intended purposes, including verification mechanisms for assets and other uses of funds, as applicable.

Detailed accounting requirements at state level will be included in Part II FM Manual for States.

B. Community Level

- SHG Federations will maintain books of account on **cash basis** following the **double entry** principle of accounting.
- SHG Federations will maintain **books of account** for the receipts and loans provided to SHGs and will prepare **regular financial statements**.
- The Federation annual accounts will be subject to **statutory audits** as required by the State laws.
- Over the medium and long term, a **separate platform will be developed for accounting and financial reporting for SHG Federations (and SHGs)**. This will ensure standardization and consistency in the quality of accounting. This will also provide online access to financial information for community level at the aggregate as well as standalone basis. The accounting system at the SHG/federation level will be automated through e-bookkeeping using different front-end devices, including net books and handheld devices like tablets, mobile phones, etc.

Technical Assistance by NRLP

The project will invest in:

- Developing detailed **assessment criteria for grading of SHGs and Federations**
- Providing **handholding accounting technical assistance (book keepers, accounting hubs etc) to the Federations** to help maintain accounting records and prepare monthly/annual financial statements for the Loan portfolio.

Details of accounting requirements for community level will be included in the Part III FM Manual for Community Level.

CHAPTER 7

FINANCIAL REPORTING

Project expenditures will be reported on quarterly, half yearly and annual basis by districts to states, states to NMMU and NMMU to MORD/World Bank. There will be 4 major types of financial reports in the project, which are as follows:

1. Interim Unaudited Financial Reporting (IUFs)
2. Statutory Audit Reports
3. Internal Audit Reports
4. Financial Management Indicators (FMIs)

TABLE: Reports to be submitted by NMMU to World Bank

Sl. No.	Report Type	Format	Periodicity	Timeline
1.	Consolidated IUFs of Project	Annex 3	Quarterly	Within 45 days of end of each quarterly period
2.	Statutory Audit Reports of Project for NMMU and SRLMs, including Summary of Reports	Annex 8 Annex 20 Annex 5	Annually	30 th September of every Project year for previous financial year
3.	Consolidated FM Indicators	Annex 6	Half yearly	Within 45 days of end of each period of six months

Consolidated Interim Unaudited Financial Report of Project

The quarterly consolidated project IUFs will be submitted to the World Bank within 45 days of end of each quarter. The IUFs will include component-wise, state-wise details for the previous quarter, year to date and project to date.

Disbursement from the World Bank will be on the basis of six-monthly IUFs.

Table: Description of Consolidated IUFs

IUFs Number	IUFs Title	Description of IUFs
1	Consolidated Statement of Uses of Funds	Part A: Expenditure at NMMU by components and sub-components (A to D) Part B: Expenditure at State Level for component B (B1 to B4) Part C: Additional Information – Grants Releases to States by MoRD
2	Sources and Uses of Funds - States	The IUFs provides the following information for each of the 12 states: A Opening Balances B Receipts include: <ul style="list-style-type: none"> o Grants received from MoRD and states for NRLP, NRLM, Others) o Other Receipts C Uses of Funds <ul style="list-style-type: none"> o NRLP by components o NRLM (summary only) o Other projects (summary only) D Closing Balances <ul style="list-style-type: none"> o Cash and Bank Balance o Advances
3A	Expenditures against Annual Work Plans - States	Detailed information for each of 12 states against sub-components of B2 for: <ul style="list-style-type: none"> o Approved annual Work Plan o Actual Expenditure Reported -for quarter -cumulative to date
3B	Expenditures against Annual Agreed Work Plans - NMMU	Detailed information for component and sub-component (A, C & D) <ul style="list-style-type: none"> o Approved annual Work Plan o Actual Expenditure Reported -for quarter -cumulative to date
4	Forecast of expenditures for two six-months period ending.....and	Forecast for next 2 six-monthly periods of expenditure at <ul style="list-style-type: none"> o NMMU by components and sub-components A, C and D o Each of the 12 states – consolidated figure and Total Fund Requirements at State Level
5	Summary of Payments of Prior Review Contracts	Summary of Payments of Prior review Contracts for: <ul style="list-style-type: none"> o NMMU Level o Each of the 12 states
6	Summary Sheet of Expenditure by Categories	By categories, Actual expenditure and Forecast of expenditure for next 6 months <ul style="list-style-type: none"> - Total I exp.(INR) - Bank's share (INR)

Preparation of IUFRRs and Submission of IUFRRs to World Bank

NMMU will be responsible for compiling and preparing consolidated project financial progress reports on a quarterly basis. These reports will aggregate the financial reports for the following:

- NMMU level expenditures as obtained from PAO reports
- Fund releases to SRLMs by MORD, as obtained from PAO reports
- SRLM level financial reports, as obtained from their financial management systems.

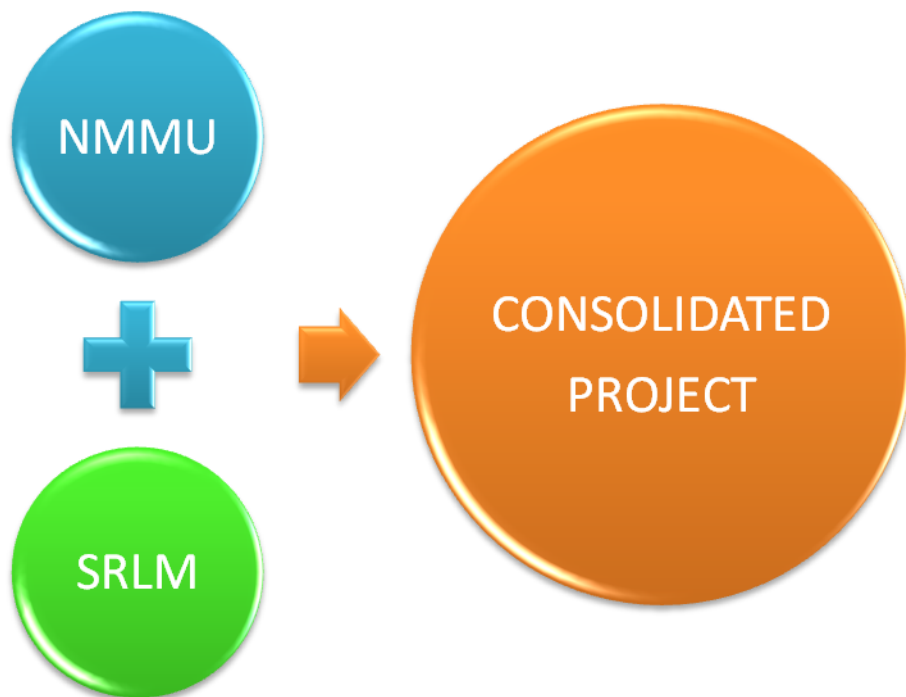


Diagram: Consolidation of IUFRRs

IUFRRs should be submitted in a timely basis. If there are delays by individual states in submitting IUFRRs to NMMU beyond the deadline, the consolidated IUFRR should not be delayed.

NMMU should also advise the states that in case of any errors/changes in IUFRRs submitted earlier, the state does not have to re-submit IUFRR for that quarter, but instead make the necessary adjustment in the next IUFRR and provide explanatory notes of adjustment made to NMMU along with the IUFRR.

Review of IUFRRs submitted by SMMU

Review of IUFR is an important task of NMMU, as IUFRs submitted by SMMUs forms part of claim to World Bank.

Checks exercised by NMMU may include (but not be limited to) the following points:

1. Completeness of information: all reports are as per correct formats and all formats are filled appropriately.
2. Main summary to be signed by the head of SMMU.
3. Consistency with figures of previous IUFR e.g., year to date and cumulative to date figures, opening balances etc.
4. Consistency of individual reports with summary reports.
5. Arithmetical accuracy of all formats.
6. Any adjustments made in the current IUFR for figures reported in earlier IUFRs.
7. Whether appropriate justification is provided for any adjustment in figures reported in an earlier IUF and the adjustment has been made correctly in the current IUFR.
8. Comparison of expenditure against budget, trend of sources and uses, including change in level of advances etc.
9. Any queries regarding previous IUFRs raised by MORD/World Bank/CAAA have been satisfactorily resolved.

Statutory Annual Audit Reports of Project

Audit Reports of NMMU and SRLMs: The audit reports of NMMU and each of the SRLMs will be submitted to the World Bank by 30th of September every year for previous financial year.

Summary of Audit Reports: NMMU will also prepare a Summary of Audit Reports of NMMU and State reports will be prepared by NMMU and submitted to the Bank along with individual audit reports. Please refer to **Annex 5 for Format of Summary of Audit Reports.**

Summary of Internal Audit Report and Action Taken from SMMU to NMMU

Within 45 days of end of every six months, SMMU will submit a summary of Internal Audit report of the previous six months to NMMU.

The summary will be of 2-3 pages and include systemic issues and action taken by SPFU/Project Institutions regarding the issues.

Financial Management Indicators (FMIs)

Financial Management Indicators (FMIs) is a set of parameters which have been developed to monitor whether financial arrangements are working satisfactory or not in NMMU and SMMU. These will cover FM aspects such as staffing, training, accounting, financial reporting, etc.

NMMU will submit consolidated Financial Management Indicators on a half yearly basis to World Bank within 45 days of completion of each six month to monitor Financial Management arrangements for NRLP. Please refer to **Annex 6** for **FMI**s.

TABLE: Reports to be submitted by SMMU to NPIU

Sl. No.	Report Type	Format	Periodicity	Timeline
1.	Consolidated IUFR of state	Annex 4	Quarterly	Within 30 days of end of each quarter
2.	Utilization Certificate	Annex 13	As and when due for tranches as per MORD's guidelines	As and when due for tranches as per MORD's guidelines
3.	Consolidated Audit Report of state	Annex 20	Annually	31 st July of every Financial Year for previous financial year
4.	FM Indicators for States	Annex 7	Six-monthly	Within 30 days of end of each period of six months

IUFR of SMMU: SMMU prepare quarterly IUFR for its expenditure, which will be signed by the Head of the SMMU.

Consolidated IUFR of State:

- SMMU will further prepare one consolidated quarterly IUFR for the entire State which will be signed by the Head of SMMU and send it to NMMU within 30 days of completion of each quarter.
- The SRLM financial reports will reflect all sources (Gol and State) and uses of funds (NRLM, NRLP and ongoing Bank financed State Livelihood Project, where applicable) with detailed statement of NRLP related expenditures.

Please refer to format of IUFR in **Annex 4**.

Table: Description of Consolidated IUFs

IUF Number	IUF Title	Description of IUFs
2	Sources and Uses of Funds - States	<p>The IUF provides the following information for state:</p> <p>A Opening Balances</p> <p>B Receipts include:</p> <ul style="list-style-type: none"> ○ Grants received from MoRD and states for NRLP, NRLM, Others) ○ Other Receipts <p>C Uses of Funds</p> <ul style="list-style-type: none"> ○ NRLP by components ○ NRLM (summary only) ○ Other projects (summary only) <p>D Closing Balances</p> <ul style="list-style-type: none"> ○ Cash and Bank Balance ○ Advances
3A	Expenditures against Annual Work Plans	<p>Detailed information for state against sub-components of B2 for:</p> <ul style="list-style-type: none"> ○ Approved annual Work Plan ○ Actual Expenditure Reported -for quarter -cumulative to date
4	Forecast of expenditures for two six-months period ending.....and	Forecast for next 2 six-monthly periods of expenditure at state by sub-components
5	Summary of Payments of Prior Review Contracts	Summary of Payments of Prior review Contracts for state

Utilization Certificate: is to be submitted to NMMU for release of funds to state. Please refer to chapter on Flow of Funds for more information on tranches and **Annex 13** for **Format of UC**.

FMs of SMMU: SMMU will update its Financial Management Indicators on six monthly basis and send it to NMMU within 30 days of completion of every six months. Please refer to **Format of FM Indicators** in **Annex 7**.

CHAPTER 8

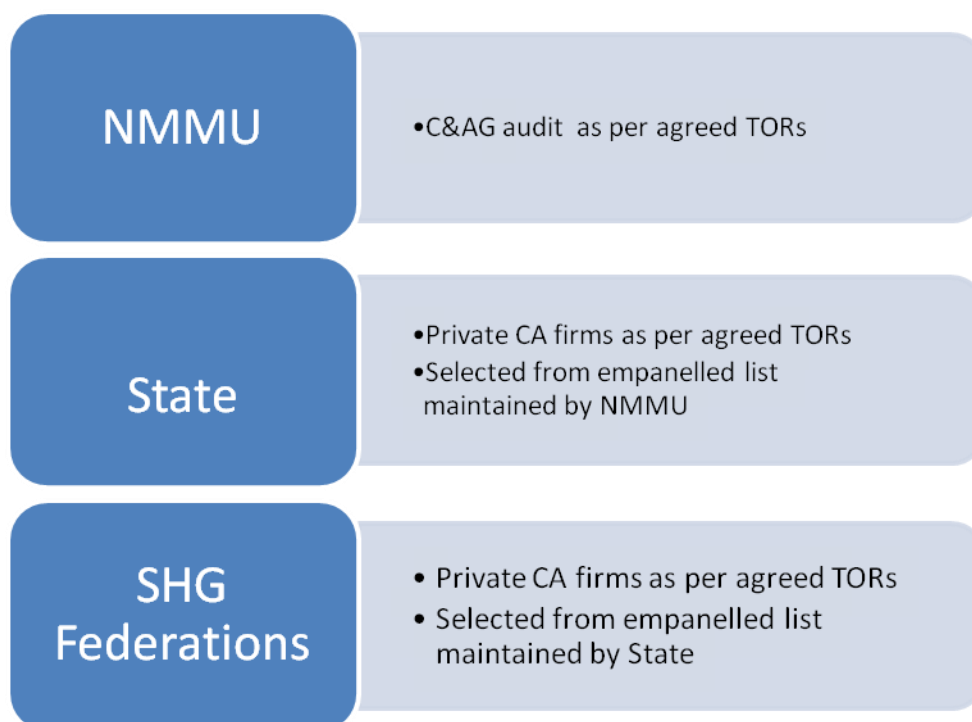
AUDIT

A OVERVIEW OF EXTERNAL AUDIT OF NRLP

Objective of External Audit

The objective of the audit would be to provide confirmation to various stakeholders (Government of India, World Bank etc.) on the accuracy of project financial statements, compliance with credit agreements and legal obligations and overall effectiveness of financial management system of the NRLP.

Summary of External Audit Process of NRLP



Central Level

Audit of NMMU (MORD) will be conducted by the Comptroller and Auditor General (C&AG) of India as per terms of reference agreed with the World Bank. Please refer to **Annex 8** for **Terms of Reference of Audit by the C&AG**.

State Level

Audit of SRLMs (SMMU and districts) will be conducted by Chartered Accountant firms as per terms of reference agreed with the World Bank. A 'draw down' list of CA firms, based on agreed criteria, will be made available for the states for procuring their services. However, the accounts of the SRLMs shall be open to audit both by C&AG of India as well as by the Principal Accounts Office of MoRD.

-
- SMMUs will submit consolidated annual audit report for state to NMMU, MORD.

SHG Federations

- The SHG Federation/s annual accounts will be subject to statutory audits as required by state laws. The SRLMs will enter into draw down contracts with select CA firms at State and district levels and agree on fixed price budgets as well as the audit ToRs and templates for the annual financial statements.
- ts.
- SHG Federation audit reports will be monitored at the state level and will not be considered a part of NRLP's audit requirements.

Submission of Annual Audit Reports to the World Bank

The audit reports of NMMU and each of the SRLMs will be submitted to the World Bank by 30th of September every year for previous financial year.

Each annual audit report will consist of:

- (i) Audit opinion
- (ii) Annual financial statements and
- (iii) Management Letter highlighting significant issues to be reported to the management.

Summary of Audit Reports: NMMU will also prepare a Summary of Audit Reports of NMMU and State reports will be prepared by NMMU and submitted to the Bank along with individual audit reports. Please refer to **Annex 5** for **Format of Summary of Audit Reports**.

Monitoring of Audit Process by NMMU

NMMU will implement a regular system of review of audit process, including quality of audit at state level, audit observations and monitoring compliance of the observations by implementing units. Please refer to chapter on FM Monitoring for details.

Suspension of Disbursement

Bank remedies for delays or non submission of acceptable audit reports will be applied on MoRD and each defaulting state separately.

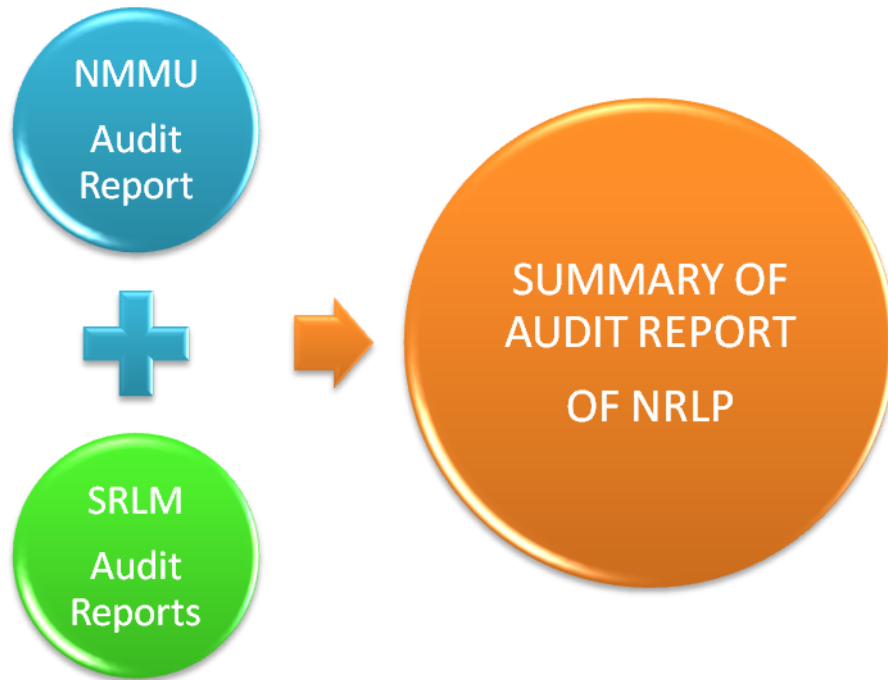


Diagram: Audit Reports of NRLP

External Audit Calendar of NRLP

TABLE: External Audit Calendar

Activity	Deadline
Completion of Audit of NMMU, MORD	31 th July
Submission of Consolidated Audit Report of NRLP for State to NMMU	31 st July
Review and Analysis of State Audit Reports by NMMU and preparation of Summary of Audit Reports of Project	August-September
Submission of Summary of Audit Reports of the Project to World Bank and individual audit reports of NMMU, MoRD and states	30 th September

CHAPTER 9

FINANCIAL MANAGEMENT DISCLOSURE

This chapter summarises Financial Management aspects of the Framework for NRLP.

Disclosure Management Framework

NRLP will have a framework for disclosing key information about project performance on project websites to demonstrate transparency and accountability towards stakeholders and the general public.

Disclosure Management Framework of the NRLP will be followed by all levels of the project to which this framework is applicable.

Please refer to **PIP** for more details of Disclosure Management Framework of NRLP.

Scope

NMMU, SMMU and DMMUs will be responsible for ensuring adherence to disclosure management policy of NRLP. The Project progress in all areas, including financial progress, will be made available to the public through project websites at national/state/district level.

Please refer to **Table** on next page which summarises financial management information which should be displayed on the websites of the project at national/state/district level.

TABLE: Financial Management Disclosure for NRLP

S. No.	Document	Frequency	Deadline
NATIONAL MISSION MANAGEMENT UNIT			
1.	Financial Management Manual (FMM)	Start of project	
2.	Project Implementation Plan (PIP)	Start of project	
3.	<ul style="list-style-type: none"> o Circulars issued by NMMU regarding FM issues o Any amendments to FMM o Minutes of FM Meetings with States 	As and when issued	
4.	<ul style="list-style-type: none"> o FM Training Material o Other Information related to FM Training 	As and when issued	
5.	Annual Budget for Project	Annual	30 April
6.	Release of Funds to: <ul style="list-style-type: none"> o SMMUs o Other Implementing Agencies 	As and When	Within 5 days of release
7.	Consolidated IUFR for the project	Quarterly	Within 45 days of end of each quarter
8.	Statutory Audit of Project <ul style="list-style-type: none"> o Summary of Annual Audit Reports of project o Individual Audit reports of NMMU And SMMUs o Status of Compliance of Audit Observations by NMMU and SMMUs 	Annual Annual	Within 15 days of submission of Consolidated Audit Report to the Bank
		As and when	As and when
9.	FM Indicators <ul style="list-style-type: none"> o Summary for Project o Summary for NMMU 	Six-monthly	15 November and 15 May
STATE MISSION MANAGEMENT UNITS			
1.	Financial Management Manual (FMM) of the State	Start of project	
2.	<ul style="list-style-type: none"> o Circulars issued by SMMU regarding FM issues o Any amendments to FMM of State 	As and when issued	
3.	<ul style="list-style-type: none"> o FM Guidelines o FM Training Material and Other Information about FM Training 	As and when issued	
4.	Annual Approved Estimates for project in the state: <ul style="list-style-type: none"> a) Original Estimates b) Revised estimates 	Annual	30 April
		Annual	As and When
5.	Releases to SMMU <ul style="list-style-type: none"> o By MORD 	As and when	Within 5 days of receipt of Funds
6.	Releases of Funds by SMMU to <ul style="list-style-type: none"> o Districts o Other Implementing Agencies 	Quarterly	Within 5 days of release
7.	Consolidated IUFR for the State	Quarterly	Within 45 days of end of each quarter
8.	Annual Statutory Audit Report for the State	Annual	Within 15 days of submission of Audit Report to NMMU
9.	FM Indicators Summary for State (SMMU+districts)	Six-monthly	15 November and 15 May
DISTRICT MISSION MANAGEMENT UNITS			
1.	Annual Budget	Annual	30 April
2.	Funds Received by District <ul style="list-style-type: none"> o From SMMU o From NMMU 	As and when	Within 10 days of receipt of funds
3.	Releases by Districts to Community Organizations		Within 5 days of release
4.	Quarterly IUFR	Quarterly	Within 45 days of end of each quarter
5.	FM Indicators Summary for District	Six-monthly	15 November and 15 May

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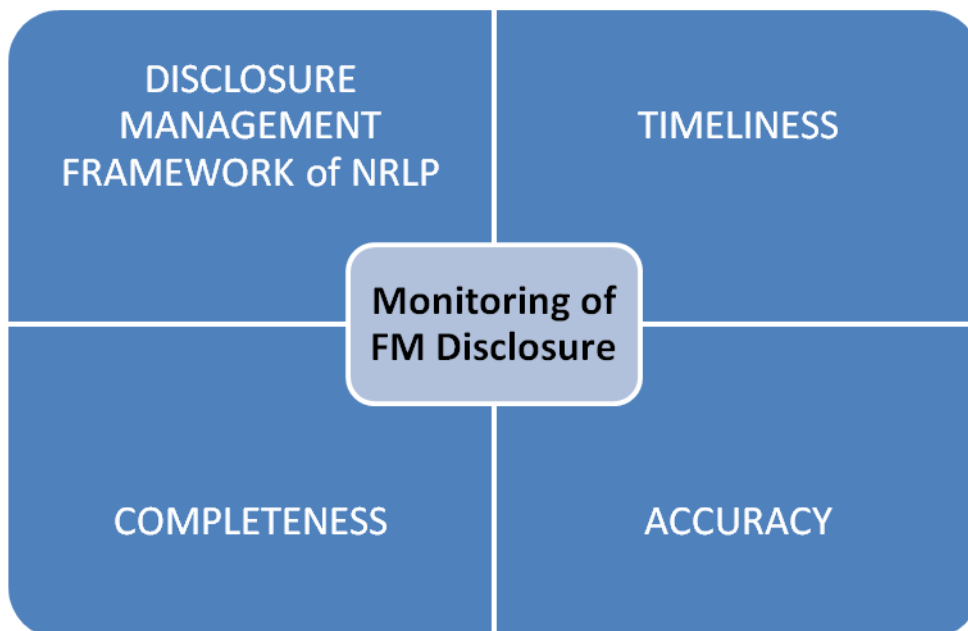
Monitoring of FM Disclosure

NMMU, MORD is responsible for monitoring disclosure of FM information by SMMUs.

SMMUs are responsible for monitoring disclosure of FM information by DMMUs.

Key Aspects to be Monitored

An indicative list of aspects of FM disclosure which should be monitored by NMMU and SMMU is mentioned below:



Adherence to Framework

Providing information as per requirements of the Framework.

Timeliness

Adhering to frequency and deadlines of information to be displayed as per the Framework.

Completeness

- Information is disclosed for all FM areas covered in the Framework e.g., budget, flow of funds, audit etc.
- For each individual area (e.g., budget), complete information as per agreed format is displayed.

Accuracy

Accurate information is displayed as per project records.

CHAPTER 10

REIMBURSEMENT FROM THE WORLD BANK

A OVERVIEW OF REIMBURSEMENT PROCESS

Disbursements from the IDA Credit will be based on consolidated project financial reports (Consolidated IUFRs) and may be made at six-monthly intervals. An initial advance with a fixed ceiling (to be determined by negotiation) would be deposited into the segregated designated account maintained in US dollars at Reserve of Bank of India, Mumbai by CAA&A, GOI.

Interim Unaudited Financial Reports (IUFRs)

Withdrawals from the Designated Account will be on receipt of periodic withdrawal applications (IUFRs) from MORD, GoI and to the extent of reported expenditures during the period.

The bi-annual consolidated project IUFRs will be submitted to the Bank within 45 days of end of each period for the purpose of disbursement from the World Bank. Please refer to formats of IUFRs in Annex 3.

Audit

The expenditure reported in IUFR will be subject to confirmation / certification as per the Annual Audit Reports submitted for the Project. NMMU will be responsible for consolidation and submission of IUFR to World Bank/CAAA.

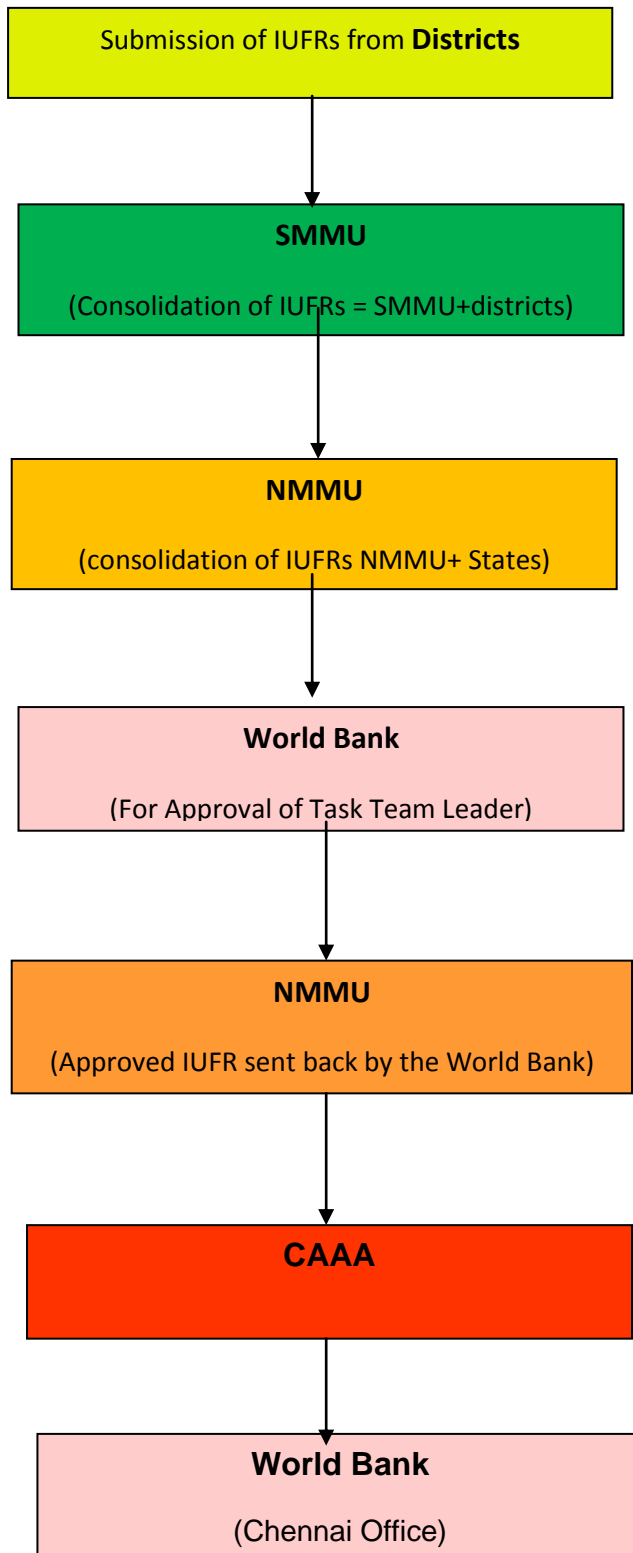
Suspension of Disbursement

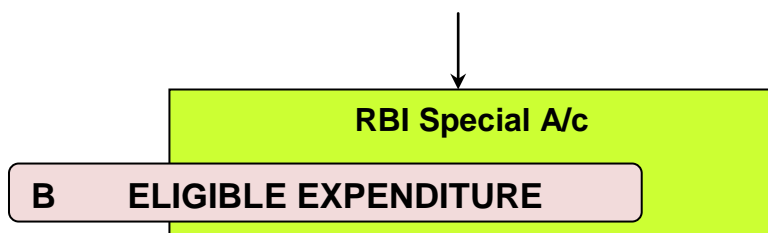
Disbursement would be subject to receipt of Consolidated Report on Audit, which is due by September 30th of each year. As per the Bank Policies, if this report is not received by end January of the following year, further disbursements will have to be suspended till receipt of the report. GOI would, however, continue to submit the six-monthly IUFRs as per schedule. Please refer to **diagram** on the next page depicting disbursement.

Retroactive Financing

Retroactive Finance of up to **US\$10 million equivalent (i.e. 1 percent of the total credit)** will be available for financing eligible project expenditures incurred before credit/financing agreement signing, but **on or after March 2, 2011**.

This will help the project in hiring of various services such as setting of the staff recruitment systems, project website, monitoring systems & MIS, field level testing of various manuals and various other similar initial activities. This will help the project save critical time and be ready to start implementation of core project activities immediately after the project is declared effective.





- As per the standard Centre-State mechanism for Central Sponsored Schemes, GoI funds to the States for Components 2 (b) and (c) will be on a grant basis with 25% counterpart funding by the States (10% in the case of North East and hill States).
- However, the fund releases to the States and accounted for at MoRD level as 'Grants in Aid' will not be considered as eligible expenditures for purposes of disbursement under the project.
- *Eligible expenditures for Community Investment Support:* All fund releases to SHG Federations made in accordance with Federation Grant Agreement will be considered as eligible expenditures for the purposes of the project and accounted for as grants (expenditures) in the books of accounts of the SRLM. Such fund releases will be based on achievement of certain defined milestones/ triggers as defined in the description of Component 2 in PAD.

Categories of Expenditure

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 SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services, operating costs under Parts A, B1, B4, C and D of the Project		____%
(2) Goods, non-consulting services, consultants' services, operating costs and Investment Support under Part B2 and B3 of the Project		____%
TOTAL AMOUNT		

(a) the term “**training**” means non-consultant expenditures incurred in connection with the provision of training, including training institution fees, logistics, materials, and the cost of travel and per diem of trainers and trainees; and

(b) the term “**operating costs**” means incremental costs incurred for the purposes of carrying out the Project, including dissemination of Project-related information, office rent and utilities, office and equipment insurance, office maintenance and repair, vehicle maintenance and repair, communication, and other administrative costs directly associated with, and necessary under, the Project.

C FM COVENANTS IN LEGAL AGREEMENT OF PROJECT

Legal agreement of World Bank funded projects may include the financial covenants covering the following aspects:

Financial Management, Financial Reports and Audits

The Recipient, through MORD, shall maintain, or cause the Participating State to be maintained, a **financial management system** in accordance with the provisions of Section 4.09 of the General Conditions. (“General Conditions” means The International Development Association general Conditions for Credits and Grants dated July 31, 2010)

Without limitation on the provisions of Part A of Section II of Financing Agreement, the Recipient, through MORD, shall, or cause the Participating State, to prepare and furnish to the Association not later than forty five (45) days after the end of each quarter, **Interim Unaudited Financial Reports (IUFR)** for the Project covering the quarter, in form and substance satisfactory to the Association.

The Recipient, through MORD, shall, or shall cause the Participating State to, have its **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 financial year of the Recipient, commencing with the financial year in which the first withdrawal under the Project was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Institutional Arrangements

At the Central Level

1. Without limitation upon the provisions of Section 3.01 of this Agreement, the Recipient, through **MORD, shall, and shall cause each Participating State to:**

(a) **carry out the Project in accordance with** the PIP, the **Financial Management Manual**, the Procurement Manual, the Procurement Plan, the SPIP, the EMF and the SMF; and

(b) **not amend or waive any provision** of the PIP, the **Financial Management Manual**, the Procurement Manual, the Procurement Plan, the SPIP, the EMF and the

SMF, except as the Association shall otherwise agree. In the event of a conflict between the provisions of the PIP and those of this Financing Agreement, the provisions of the latter shall prevail.

2. The Recipient shall protect the interests of the Association to accomplish the purposes of the Financing.
3. The Recipient, through MORD, shall:
 - (a) maintain, at all times during Project implementation, a **National Mission Management Unit**, with functions and responsibilities acceptable to the Association, including, inter alia, the responsibility to coordinate and monitor the carrying out of the Project;
 - (b) ensure that the NMMU is led, at all times during Project implementation, by a mission director and a chief operations officer, assisted by **adequate professional and administrative staff** (including procurement, **financial management**, technical, environmental and social development specialists), in numbers and with experience and qualifications, and operating under terms of reference satisfactory to the Association;

At the State Level

4. The Recipient, through **MORD shall, and shall cause each Participating State** to:
 - (a) maintain, at all times during Project implementation, a **State Mission Management Unit**, with functions and responsibilities acceptable to the Association, including, inter alia, the responsibility to coordinate and monitor the carrying out of the Project at the State level;
 - (b) ensure that the **SMMU is led, at all times during Project implementation**, by a state mission director, assisted by adequate professional and administrative staff (including procurement, **financial management**, technical, environmental and social development specialists), in numbers and with experience and qualifications, and operating under terms of reference satisfactory to the Association;
 - (c) maintain, at all times during Project implementation, the SPIP;
 - (d) not amend, delete or waive any provision of the SPIP without the prior written agreement of the Association

Terms and Conditions Governing Investment Support

1. **The Recipient, through MORD, shall cause each Participating State to make an Investment Support to a Beneficiary Institution** in accordance with terms and conditions approved by the Association set forth in the respective **Federation Grant Agreement, including those set forth in the SPIP**, which shall include, *inter alia*, the obligation of each Participating State to:
 - (a) obtain rights adequate to protect its interests and those of the Recipient, the Association and the respective Participating State, including the right to (i) suspend or terminate the right of the Beneficiary Institution to use Investment Support

proceeds, and (ii) obtain a refund of all or any part of the amount of Investment Support proceeds then withdrawn, upon the Beneficiary Institution's failure to perform any of its obligations under the Federation Grant Agreement;

- (b) take all necessary steps to ensure that the Beneficiary Institution shall carry out its obligations under its Federation Grant Agreement with due diligence and efficiency and pursuant to the criteria and procedures set forth in the SPIP, and in accordance with the provisions of the EMF, the SMF, the Procurement Guidelines, the Consultant Guidelines, the Anti-Corruption Guidelines and the GAAP;
- (c) promptly release the Investment Support to the Beneficiary Institutions upon approval of a Federation Livelihood Plan.

2. The Recipient, through MORD, shall cause each Participating State to take all necessary steps to ensure that **each Beneficiary Institution** shall be obligated, under its respective Federation Grant Agreement, to:

- (a) **maintain a financial management system and prepare financial statements** in accordance with the procedures set forth in the SPIP, so as to adequately reflect the operations carried out with the proceeds of the Investment Support;
- (b) enable the Recipient, through MORD, the Association and the respective Participating State **to inspect** the activities, facilities and/or operations financed out of the Investment Support proceeds, and **any relevant records and documents**; and
- (c) prepare and furnish to the Recipient, through MORD, the Association and the respective Participating State such **information** as the Recipient, through MORD, the Association or the respective Participating State shall reasonably request.