
LOAN NUMBER 3172-IND

LOAN AGREEMENT
(Ordinary Operations)

(Karnataka Integrated and Sustainable Water Resources Management
Investment Program – Project 1)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 7 MAY 2015

IND 43253

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 7 May 2015 between INDIA, acting by its President (“Borrower”), and ASIAN DEVELOPMENT BANK (“ADB”).

WHEREAS

(A) by a framework financing agreement dated 28 July 2014 between the Borrower and ADB (“FFA”), ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Karnataka Integrated and Sustainable Water Resources Management Investment Program (“Investment Program”);

(B) by a periodic financing request dated 28 July 2014 (“PFR”), the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) the Project will be carried out by the State through KNNL, and for this purpose the Borrower shall make available to the State the proceeds of the Loan provided for herein upon terms and conditions mutually agreed between ADB and the Borrower; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB, the State, KNNL and AC-IWRM;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 (“Loan Regulations”), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit; Maturity Premium.

(a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall

remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.

(c) The Borrower shall pay a maturity premium at the rate specified in the Loan Agreement, which maturity premium shall remain fixed for the term of the Loan. ADB shall add the maturity premium to the interest payable by the Borrower.

(b) Section 3.06 is deleted and the following is substituted therefor:

Rebate. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

Surcharge. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which

the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "AC-IWRM" means the State's Advanced Centre for Integrated Water Resources Management, or any successor thereto, which shall be the implementing agency for Part A as described in Schedule 1 to this Loan Agreement;

(b) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(c) "Consulting Services" means the services to be financed out of the proceeds of the Loan as referred to in paragraph 3 of Schedule 1 to this Loan Agreement;

(d) "EA" or "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the State acting through KNNL, or any successors thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(e) "Environmental Assessment and Review Framework" or "EARF" means the environmental assessment and review framework for the Investment Program, including any update thereto, prepared and submitted by the Borrower through the EA and cleared by ADB and incorporated by reference in the FFA;

(f) "Environmental Management Plan" or "EMP" means an environmental management plan for a Subproject, including any update thereto, incorporated in the IEE;

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

(h) “Facility” means the multitranche financing facility provided by ADB to the Borrower for the purposes of financing projects under the Investment Program;

(i) “FAM” means the Facility administration manual dated July 2014 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(j) “FFA” means the framework financing agreement dated 28 July 2014 between ADB and the Borrower with respect to the Facility;

(k) “Financing Arrangements” means the arrangements between the Borrower and the State as per current policy of the Borrower, and acceptable to ADB;

(l) “Gender Action Plan” or “GAP” means a gender action plan prepared for the Project in consultation with the Borrower and approved by ADB;

(m) “Goods” means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(n) “Indigenous Peoples Safeguards” means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(o) “Initial Environmental Examination” or “IEE” means an initial environmental examination for a Subproject, including any update thereto, prepared and submitted by the Borrower through the EA pursuant to the requirements set forth in the EARF and cleared by ADB;

(p) “Investment Program” means the Karnataka Integrated and Sustainable Water Resources Management Investment Program;

(q) “Involuntary Resettlement Safeguards” means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(r) “IWRM” means integrated water resources management;

(s) “KNNL” means Karnataka Neeravari Nigam Limited, or any successor thereto acceptable to ADB;

(t) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2012, as amended from time to time);

(u) “PFR” means the periodic financing request submitted or to be submitted by the Borrower, for the purposes of each loan under the Facility, and for the purpose of this Loan Agreement means the periodic financing request dated 28 July 2014;

(v) “PIO” means a Project Implementation Office;

(w) "PMU" means the Program Management Unit established within KNNL;

(x) "PPMS" means the Project Performance Monitoring System referred to in paragraph 18 of Schedule 5 of this Loan Agreement;

(y) "Procurement Guidelines" means ADB's Procurement Guidelines (2013, as amended from time to time);

(z) "Procurement Plan" means the Procurement Plan for the Project dated July 2014 included in the FAM as agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(aa) "Project facilities" means the facilities to be improved, rehabilitated, modernized, constructed, and/or maintained, and the equipment to be installed and maintained under the Project;

(bb) "Resettlement Framework" or "RF" means the Resettlement Framework for the Investment Program, including any update thereto, prepared and submitted by the Borrower through the EA and cleared by ADB, and incorporated by reference in the FFA;

(cc) "Resettlement Plan" or "RP" means a Resettlement Plan for a Subproject, including any update thereto, prepared and submitted by the Borrower through the EA pursuant to the requirements set forth in the RF and cleared by ADB;

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

(ee) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower through the EA to ADB that describes progress with implementation of, and compliance with the EMP, any RP and indigenous peoples' plan (as applicable), including any corrective and preventative actions;

(ff) "State" means the State of Karnataka;

(gg) "Subproject" means a subproject under the Project that meets the subproject eligibility criteria set forth in paragraphs 4 and 5 of Schedule 5 to this Loan Agreement;

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

(ii) "WUCS" means water user cooperative society(ies).

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of thirty one million Dollars (\$31,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

- (a) LIBOR;
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 April and 1 October in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;

- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
 - (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.
- (b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall make the proceeds of the Loan available to the State upon terms and condition mutually agreeable to ADB and the Borrower, and shall cause the State to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 March 2019 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the State to carry out the Project with due diligence and efficiency and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed by the State, all obligations set forth in Schedule 5 to this Loan Agreement and the Project Agreement.

Section 4.02. The Borrower shall make available, or cause to be made available by the State, promptly as needed, the funds, facilities, services, land and other resources, as required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.03. The Borrower shall cause the State to ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.05. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

Section 4.06. In so far as it relates to the Project, the Borrower shall take all actions which shall be necessary on its part to enable the EA to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.07. (a) In so far as it relates to the Project, the Borrower shall exercise its rights under the Financing Arrangements in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) In so far as it relates to the Project, no rights or obligations under the Financing Arrangements shall be assigned, amended, abrogated or waived without the prior notice to ADB.

ARTICLE V

Effectiveness

Section 5.01 A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Secretary, Additional Secretary, Joint Secretary, Director, or Deputy Secretary, in the Department of Economic Affairs of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

The Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
North Block
New Delhi – 110001
India

Facsimile Number:

+91 11 2309-2511.

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

+63 2 636-2444

+63 2 636-2391.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

INDIA

By  7/5/2015
RAJ KUMAR
Joint Secretary (MI)
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By 
M. TERESA KHO
Country Director

SCHEDULE 1**Description of the Project**

1. The objective of the Investment Program is to implement IWRM in selected river basins in Karnataka.
2. As a part of the Investment Program, the Project aims to implement the river basin plan for Krishna-8 (K-8) sub-basin.
3. The Project shall consist of:
 - (a) Part A: Provision of support and capacity development to strengthen State and basin institutions for IWRM;
 - (b) Part B: Modernization of irrigation system infrastructure and management through the provision of support for:
 - (i) Modernization of Gondi irrigation canal (Gondi Subproject) and implementation of command area development activities;
 - (ii) Installation and operation of telemetry systems at selected locations;
 - (iii) Strengthening asset management and main system operation and maintenance (O&M); and
 - (iv) Capacity building of selected WUCS; and
 - (c) Part C: Operationalization of Project implementation and management systems, including establishment of a PMU within KNNL as well as appropriate PIOs;

as more fully described in the PFR. The Project also includes Consulting Services for each of the components above.

4. The Project is expected to be completed by 30 September 2018.

SCHEDULE 2

Amortization Schedule

(Karnataka Integrated and Sustainable Water Resources Management Investment Program - Project 1)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Date Payment Due	Installment Share (Expressed as a %)
1 April 2020	2.500000
1 October 2020	2.500000
1 April 2021	2.500000
1 October 2021	2.500000
1 April 2022	2.500000
1 October 2022	2.500000
1 April 2023	2.500000
1 October 2023	2.500000
1 April 2024	2.500000
1 October 2024	2.500000
1 April 2025	2.500000
1 October 2025	2.500000
1 April 2026	2.500000
1 October 2026	2.500000
1 April 2027	2.500000
1 October 2027	2.500000
1 April 2028	2.500000
1 October 2028	2.500000
1 April 2029	2.500000
1 October 2029	2.500000
1 April 2030	2.500000
1 October 2030	2.500000
1 April 2031	2.500000
1 October 2031	2.500000
1 April 2032	2.500000
1 October 2032	2.500000
1 April 2033	2.500000

Date Payment Due	Installment Share (Expressed as a %)
1 October 2033	2.500000
1 April 2034	2.500000
1 October 2034	2.500000
1 April 2035	2.500000
1 October 2035	2.500000
1 April 2036	2.500000
1 October 2036	2.500000
1 April 2037	2.500000
1 October 2037	2.500000
1 April 2038	2.500000
1 October 2038	2.500000
1 April 2039	2.500000
1 October 2039	2.500000
Total	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within 2 calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal

in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category of the Table).

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

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

(b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with and by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB.

Retroactive Financing

5. Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with items to be retroactively financed, subject to a maximum amount equivalent to 20% of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Karnataka Integrated and Sustainable Water Resources Management Investment Program – Project 1)				
Number	Item	Total Amount Allocated for ADB Financing (\$)		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Civil Works	18,479,000		74% total expenditure claimed
2	Equipment & Supplies	165,000		80% total expenditure claimed
3	Training	1,533,000		90% total expenditure claimed
4	Support Services Team for WUCS	673,000		95% total expenditure claimed
5	Surveys and Studies	4,568,000		
5A	Monitoring and Evaluation		571,000	90% total expenditure claimed
5B	Survey, Design and Studies		3,997,000	64% total expenditure claimed
6	Support Consultants	3,438,000		
6A	International Consultants		1,307,000	100% total expenditure claimed
6B	National Consultants		1,745,000	88% total expenditure claimed
6C	Consultancy Support		386,000	77% total expenditure claimed
7	Unallocated	2,144,000		
		31,000,000		

SCHEDULE 4

Procurement of Goods, Works and Consulting Services

General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding; and
 - (c) Shopping.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

National Competitive Bidding

5. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB.

Community Participation in Procurement

6. The EA may use community participation in procurement of Works contracts for command area development in accordance with the agreed procedures set out in the Procurement Plan.

Conditions for Award of Contract

7. The Borrower shall ensure, or cause the EA to ensure that:
 - (a) no Works contract is awarded for a Subproject which involves environmental impacts until the EA has incorporated the relevant provisions from the EMP into the Works contract;

- (b) no Works contract is awarded for a Subproject which involves involuntary resettlement impacts until Borrower through the EA has prepared and submitted to ADB the final RP for such Subproject based on the Subproject's detailed design, and obtained ADB's clearance of such RP; and
- (c) no commencement of Works is allowed under any Works contract which involves environmental impacts and requires environmental clearances, until the EA has obtained the final approval of (i) the IEE from ADB, and (ii) environmental clearance, including approval of the IEE and any other environmental assessment report, from the appropriate environmental authority of the Borrower and/or State.

Consulting Services

8. Except as ADB may otherwise agree, the EA shall apply quality- and cost-based selection for selecting and engaging Consulting Services.
9. The EA shall recruit individual consultants in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

10. (a) The EA shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.
- (b) The EA shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.
11. The EA shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

12. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project; Financial Matters

Implementation Arrangements

1. (a) The Borrower, the State, KNNL and AC-IWRM shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the Borrower, the State and ADB. In the event of any discrepancy between the FAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

(b) The EA shall ensure that towards smooth implementation of the Project, grievances if any from stakeholders, relating to any Subproject implementation or use of funds are addressed effectively and efficiently.

Loan Proceeds; Counterpart Support

2. The State shall make available the Loan proceeds to KNNL and AC-IWRM, under appropriate arrangements acceptable to ADB. Furthermore, the State shall ensure (a) sufficient counterpart funds from its budget for each fiscal year, in a timely manner, for the efficient implementation of the Project; and (b) adequate funds towards the O&M of the Project facilities, through budgetary allocations or other means, are provided during and after completion of Subprojects. The State shall also ensure that (i) the WUCS make a 10% upfront contribution in regards to command area development activities undertaken in their respective areas; (ii) any financing gap created by a failure on the part of the WUCS or any other implementing agency to provide relevant counterpart funds for the Project is filled by funds from its own resources; (iii) any shortfall between cost and revenues for the O&M of the facilities created or rehabilitated under the Project are met; (iv) any unforeseen environmental and social impacts are mitigated; and (v) additional costs arising from design changes, price escalation in construction costs and/or unforeseen circumstances are met.

Coordination among the Borrower's and the State's Agencies

3. The Borrower, the State, KNNL and AC-IWRM are fully committed to the Investment Program and the Project, and shall ensure that all ministries, agencies, and divisions involved in the implementation of the Project give their full cooperation to ensure smooth implementation of the Project. Specifically, the EA shall cause AC-IWRM, to give full, timely and efficient cooperation, including (a) providing relevant counterpart funds or other support for the Project; (b) carrying out their respective roles and responsibilities, and fulfilling their obligations, in accordance with the FAM; and (c) issuing any licenses, permits or approvals required in connection with any Works within their respective area.

Subproject Selection and Implementation

4. The EA shall ensure that all Subprojects are selected and approved in accordance with the provisions of Schedule 4 to the FFA.

5. The EA shall ensure that all documents forming the basis for screening, selection, processing, and implementation of Subprojects are made available to ADB upon request and are kept for such purposes for a minimum of 5 years from the date of the project completion report of the Project.

Project Website

6. Within 6 months after the Effective Date, the EA shall create a Project website to disclose information about various matters on the Project, including procurement. With regard to procurement, the website shall include information on the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded, and the list of goods/services procured.

Environment

7. The Borrower shall ensure, or cause the EA to ensure, that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower and the State relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

8. The Borrower shall ensure, or cause the EA to ensure, that all land and all rights-of-way required for the Project and all Project facilities are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower and the State relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; (c) the RF; and (d) all measures and requirements set forth in the relevant RP, if applicable, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

9. Without limiting the application of the Involuntary Resettlement Safeguards, the RF or any RP, the Borrower shall ensure, or cause the EA to ensure, that no physical or economic displacement takes place in connection with the Project until:

- (a) compensation and other entitlements have been provided to affected people in accordance with any RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP, if applicable.

Indigenous Peoples

10. The Borrower shall ensure, or cause EA to ensure, that the Project does not have any indigenous peoples impacts within the meaning of Safeguard Policy Statement. In the event that the Project does have any such impact, the Borrower and the EA shall take all steps required to ensure that the preparation, design, construction, implementation and

operation of the Project comply with (a) all applicable laws and regulations of the Borrower and the State relating to indigenous peoples; and (b) the Indigenous Peoples Safeguards.

Human and Financial Resources to Implement Safeguards Requirements

11. The Borrower shall ensure, or cause the EA to ensure, that all necessary budgetary and human resources to fully implement the EMP, any RP, if applicable, are made available.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

12. The Borrower shall ensure, or cause the EA to ensure, that all bidding documents and contracts for Works contain provisions that require contractors to:

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

Safeguard Monitoring and Reporting

13. The Borrower shall do, or cause the EA to do, the following:

- (a) submit semiannual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, or the RP, as applicable, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and

- (c) report any breach of compliance with the measures and requirements set forth in the EMP or the RP promptly after becoming aware of the breach.

Prohibited List of Investments

14. The Borrower shall ensure, or cause the EA to ensure, that no proceeds of the Loan under the Project are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the Safeguard Policy Statement.

Gender Action Plan

15. The EA shall ensure that the GAP is adopted and implemented in a timely manner, and that adequate resources are allocated for this purpose. The Borrower shall cause the EA to conduct training on GAP implementation for all staff involved in the Project. The Borrower and the EA shall ensure that the implementation of the GAP will be closely monitored, and the progress shall be reported to ADB.

Labor Standards

16. The EA shall ensure that Works contracts under the Project follow all applicable labor laws of the Borrower and the State and that these further include provisions to the effect that contractors: (a) carry out HIV/AIDS awareness programs for labor and disseminate information at worksites on risks of sexually transmitted diseases and HIV/AIDS as part of health and safety measures for those employed during construction; and (b) follow and implement all statutory provisions on labor (including not employing or using children as labor, equal pay for equal work), health, safety, welfare, sanitation, and working conditions. Such contracts shall also include clauses for termination in case of any breach of the stated provisions by the contractors.

Operation and Maintenance

17. The EA shall ensure that the Project facilities are adequately maintained and that proper technical supervision and adequate funds for this purpose are provided. The funds required for the O&M shall be allocated annually and released on a timely basis. The State shall prepare and maintain, or cause KNNL to prepare and maintain, an asset management plan and O&M management system throughout Project implementation and beyond. Furthermore, the EA shall ensure that all equipment and spare parts financed under the Project shall exclusively be used for the O&M of the Project.

Project Performance Monitoring System

18. Within 6 months after the Effective Date, the EA shall establish through the PMU a PPMS acceptable to ADB in line with the targets, indicators and procedures agreed between the Borrower and ADB. The Borrower shall cause the State to monitor the indicators according to the agreed framework on a quarterly basis to determine the efficiency and effectiveness of the Project, and will provide ADB with quarterly reports until project completion.

Communication and Participation

19. The EA shall ensure that the Project is undertaken in conformity with the communication strategy as agreed between ADB, the Borrower, the State and KNNL, and referred in the FAM.

Governance and Anticorruption

20. The Borrower, the State, KNNL and AC-IWRM, shall comply with ADB's Anticorruption Policy (1998, as amended to date) and shall (a) ensure that the anticorruption provisions acceptable to ADB, the Borrower, the State and KNNL are included in all bidding documents and contracts financed by ADB in connection with the Project, including provisions specifying the right of ADB to review and examine the records and accounts of the State, KNNL, AC-IWRM, and all contractors, suppliers, consultants, and other service providers as they relate to the Project, and as included in the FAM; (b) allow and assist ADB's representatives to carry out random spot checks on the work in progress and utilization of funds for the Project; (c) acknowledge that ADB reserves the right to investigate directly or through its agents any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (d) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation, and as included in the FAM.