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LOAN NUMBER 3148-IND

LOAN AGREEMENT  
(Ordinary Operations)

(Karnataka Integrated Urban Water Management Investment Program – Project 1)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 30 December 2014

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IND 43253

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 30 December 2014 between INDIA, acting by its President ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 18 February 2014 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Karnataka Integrated Urban Water Management Investment Program;

(B) by a periodic financing request dated 18 February 2014, 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 Borrower has also applied for UFPF (as defined in Section 1.02 (ii) of this Loan Agreement), for a grant in an amount of one million eight hundred thousand Dollars equivalent (\$1,800,000) for the purposes of financing Part A (ii) of the Project;

(D) the Project shall be carried out by the State (as defined in Section 1.02 (gg) of this Loan Agreement) through KUIDFC (as defined in Section 1.02 (s) of this Loan Agreement), 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 agreeable to ADB and Borrower; and

(E) 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 and the State;

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

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

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

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

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

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

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

(h) "FAM" means the Facility administration manual dated February 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;

(i) "FFA" means the framework financing agreement dated 18 February 2014 between ADB and the Borrower with respect to the Facility;

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

(k) "GAP" means the gender action plan for the Project prepared in consultation with the Borrower and approved by ADB;

(l) "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;

(m) "Indigenous Peoples Planning Framework" or "IPPF" means the indigenous peoples planning framework for the Investment Program, including any update thereto, agreed between the Borrower through the EA, and ADB, and incorporated by reference in the FFA;

(n) "Indigenous Peoples Plan" or "IPP" means each indigenous peoples 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 IPPF and cleared by ADB;

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

(p) "Initial Environmental Examination" or "IEE" means each 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;

(q) "Investment Program" means the Karnataka Integrated Urban Water Management Investment Program, as more fully described in Schedule 1 to the FFA;

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

(s) "IPPF" means the indigenous peoples planning framework for the Investment Program, including any update thereto, agreed between the Borrower and ADB and incorporated by reference in the FFA;

(t) "IWRM" means integrated water resources management;

(u) "KMRC" means Karnataka Municipal Reform Cell;

(v) "KUIDFC" means Karnataka Urban Infrastructure Development and Finance Corporation Limited, or any successor thereto;

(w) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2012, as amended from time to time);

(x) "NRW" means non-revenue water;

(y) "O&M" means operation and maintenance;

(z) "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 18 February 2014;

(aa) "PPP" means a public-private partnership;

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

(cc) "Procurement Plan" means the procurement plan for the Project dated 18 February 2014 as included in the FAM and 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;

(dd) "Resettlement Framework" or "RF" means the resettlement framework for the Investment Program, including any update thereto, agreed between the Borrower through the EA, and ADB, and incorporated by reference in the FFA;

(ee) "Resettlement Plan" or "RP" means each resettlement plan 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;

(ff) "Rupee(s)" means the currency of the Borrower;

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

(hh) "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, the RP and the IPP (as applicable), including any corrective and preventative actions;

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

(jj) "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;

(kk) "UEIF" means the Urban Environment Infrastructure Facility;

(ll) "UFPF" means the Urban Financing Partnership Facility, a multidonor trust fund administered by ADB;

(mm) "UIF" means ULB incentive fund;

(nn) "ULB" means urban local body;

(oo) "UWSS" means urban water supply and sanitation; and

(pp) "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.

## ARTICLE II

### The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of seventy-five million Dollars (\$75,000,000), 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 15 September and 15 March 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 under the Financing Arrangements, 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 and Borrower 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 30 September 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 Project to be carried out 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, all obligations set forth in Schedule 5 to this Loan Agreement and Project Agreement.

Section 4.02. The Borrower shall make available to the State, promptly as needed, the funds, facilities, services, 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 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. The Borrower shall take all actions which shall be necessary on its part to enable the State 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 relation 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 relation to the Project, no rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, abrogated or waived without the prior notice to ADB.

## **ARTICLE V**

### **Suspension; Acceleration of Maturity**

Section 5.01. The following is specified as additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: the State shall have failed to perform any of its obligations under the Project Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. 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 VII**

### **Miscellaneous**

Section 7.01. 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 7.02. 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  
Ministry of Finance  
Department of Economic Affairs  
North Block  
New Delhi – 110 001  
India

Facsimile Numbers:

91 11 23092477  
91 11 23092511

For ADB

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

Facsimile Numbers:

(632) 636-2444  
(632) 636-2305.

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 \_\_\_\_\_

TARUN BAJAJ  
Joint Secretary (MI)  
Department of Economic Affairs

ASIAN DEVELOPMENT BANK



By \_\_\_\_\_

RAJEEV P. SINGH  
Officer-in-Charge  
India Resident Mission

**SCHEDULE 1****Description of the Project**

1. The objective of the Investment Program is to improve water resources management in urban areas in selected river subbasins in Karnataka.
2. As a part of the Investment Program, the Project aims to improve water resources planning, monitoring and service delivery in 3 towns of the upper Tunga Bhadra subbasin.
3. The Project shall consist of:
  - A.
    - (i) Expansion and Upgrade of UWSS infrastructure in 3 towns, namely Byadagi, Davangere, and Harihar;
    - (ii) Support for the output based toilet program.
  - B. Improvement of Water resources planning monitoring and service delivery in Karnataka, through the provision of support for:
    - (i) the establishment of UIF;
    - (ii) the preparation of guidelines for management of standposts;
    - (iii) the preparation and implementation of IT-based modules;
    - (iv) promoting utility based professional management models, including private sector participation in the contracts;
    - (v) developing and delivering a communication and awareness campaign.
  - C. KUIDFC and ULB capacity development.
4. The Project is expected to be completed by 31 March 2019.

## SCHEDULE 2

### Amortization Schedule

#### (Karnataka Integrated Urban Water 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.

<u>Date Payment Due</u>	<u>Installment Share (Expressed as a %)</u>
15 September 2019	2.500000
15 March 2020	2.500000
15 September 2020	2.500000
15 March 2021	2.500000
15 September 2021	2.500000
15 March 2022	2.500000
15 September 2022	2.500000
15 March 2023	2.500000
15 September 2023	2.500000
15 March 2024	2.500000
15 September 2024	2.500000
15 March 2025	2.500000
15 September 2025	2.500000
15 March 2026	2.500000
15 September 2026	2.500000
15 March 2027	2.500000
15 September 2027	2.500000
15 March 2028	2.500000
15 September 2028	2.500000
15 March 2029	2.500000
15 September 2029	2.500000
15 March 2030	2.500000
15 September 2030	2.500000
15 March 2031	2.500000
15 September 2031	2.500000
15 March 2032	2.500000
15 September 2032	2.500000
15 March 2033	2.500000

<u>Date Payment Due</u>	<u>Installment Share (Expressed as a %)</u>
15 September 2033	2.500000
15 March 2034	2.500000
15 September 2034	2.500000
15 March 2035	2.500000
15 September 2035	2.500000
15 March 2036	2.500000
15 September 2036	2.500000
15 March 2037	2.500000
15 September 2037	2.500000
15 March 2038	2.500000
15 September 2038	2.500000
15 March 2039	2.500000
<b>Total</b>	<b>100.000000</b>

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 two 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 or Subcategory 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, by notice to and in consultation with 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, by notice to and in consultation with 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.

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

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Karnataka Integrated Urban Water Management Investment Program – Project 1)</b>			
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing (\$) Category</b>	<b>Basis for Withdrawal from the Loan Account</b>
1	Works	59,407,000	79% of total expenditure claimed
2	Equipment	513,000	89% of total expenditure claimed*
3	Unallocated	15,080,000	
	Total	75,000,000	

\*Exclusive of taxes and duties imposed within the territory of the Borrower.

## 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 and Borrower 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.

#### Domestic Preference

5. The State may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.

#### National Competitive Bidding

6. The Borrower, EA, 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, EA, 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, EA, and ADB.

#### Industrial or Intellectual Property Rights

7. (a) The State 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 State 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.

#### ADB's Review of Procurement Decisions

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

#### Conditions for Award of the Contract

9. The Borrower shall ensure or cause the EA to not award any Works contract for a Subproject which involves environmental impacts until the EA has:

- (a) obtained the final approval of the IEE from the relevant environment authority of the Borrower and the State, and ADB; and
- (b) incorporated the relevant provisions from the EMP into the Works contract.

10. The Borrower shall ensure or cause the EA to not award any Works contract involving involuntary resettlement impacts for a Subproject until the 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.

11. The Borrower shall ensure or cause the EA to not award any Works contract for a Subproject which involves impacts on indigenous peoples until the Borrower through the EA has prepared and submitted to ADB the final IPP and obtained ADB's clearance of such IPP.

## SCHEDULE 5

### Execution of Project; Financial Matters

#### Implementation Arrangements

1. The Borrower, the State and KUIDFC 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 and ADB. In the event of any discrepancy between the FAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

#### Counterpart Funds

2. The Borrower shall cause the State to provide all counterpart funds, land and facilities required for timely and effective implementation of the Project, including without limitation, any funds required (a) to meet any shortfall between cost and revenues for the operation and maintenance of the facilities created or rehabilitated under Project, (b) to mitigate any unforeseen environmental and social impacts, and (c) to meet additional costs arising from design changes, price escalation in construction costs and/or unforeseen circumstances. The Borrower shall cause the State to make the resources thus required available on an annual basis for each fiscal year.

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

3. The Borrower, the State and KUIDFC are fully committed to the Investment Program and the Project shall ensure that all its ministries, agencies and divisions involved in the implementation of the Project, including the ULBs, give their full cooperation to ensure smooth implementation of the Project. Specifically, the Borrower shall cause the State, KUIDFC and the ULBs to give full, timely and efficient cooperation in issuing any licenses, permits or approvals required in connection with UWSS infrastructure work within their respective area.

#### Subproject Selection Criteria

4. The EA shall ensure that the Subproject(s) are evaluated and selected in accordance with the criteria set out in the Schedule 4 to the FFA and implemented in accordance with the procedures set out under the FFA and the FAM as the case may be. All documents forming the basis for screening, selection and processing of subprojects shall be made available to ADB upon request and will be kept available for such purposes for a minimum period of five years from the date of the Project completion report for the Project.

#### Facility Website

5. Within 6 months after the Effective Date, the EA shall create a Facility webpage to disclose information about various matters on the Facility and the Project on its official website, 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.

### Grievance Redress Mechanism

6. Towards smooth implementation of the Project, the Borrower shall cause the EA to ensure that grievance(s) if any from stakeholders, relating to Subproject implementation or use of funds are addressed effectively and efficiently.

### Private Sector Participation

7. The EA shall ensure that contractual documents prepared for private sector participation (PSP) packages to be used under the individual projects, as described under Output 2.3 of the FAM, or otherwise, are provided to ADB for prior review and approval.

### ULB Incentive Fund

8. The EA shall ensure that within 6 months of the Effective Date, it develop and submit to ADB for approval, a proposal on the design of the UIF, acceptable to ADB, for the establishment of the UIF. The design of the UIF shall include, among others, (a) the objective, scope and structure of the UIF; (b) required initial amount; (c) subprojects eligibility criteria and approval process, (d) financing mechanisms to sustainability; and (e) fiduciary oversight, audit and reporting mechanism. KUIDFC shall have established the UIF within 12 months of the Effective Date.

### Targets under Key Reform Areas

9. The State shall ensure that, within 12 months of the Subproject completion, each of the 3 ULBs under Project 1 have implemented and achieved the targets agreed under each of the key reforms areas, i.e., water planning, water use efficiency, commercial and cost recovery demand management and transparency, at the time of the Subproject approval.

### Safeguards and Social

#### Environment

10. The Borrower shall ensure or cause the EA to ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project, and all projects' facilities comply with (i) all applicable laws and regulations of the Borrower and the State relating to environment, health, and safety; (ii) the Environmental Safeguards; (iii) the EARF; and (iv) 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

11. 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 (i) all applicable laws and regulations of the Borrower and the State relating to land acquisition and involuntary resettlement; (ii) the Involuntary Resettlement Safeguards; (iii) the RF; and (iv) all measures and requirements set forth in the respective RP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

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

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

### Indigenous Peoples

13. The Borrower shall ensure, or cause the EA to ensure, that in the preparation, design, construction, implementation and operation of the Project, each Subproject and all Project facilities comply with (a) all applicable laws and regulations of the Borrower and the State relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; (c) the IPPF; and (d) all measures and requirements set forth in the respective IPP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

### Human and Financial Resources to Implement Safeguards Requirements

14. The Borrower shall make available, or cause the EA to make available, all necessary budgetary and human resources to fully implement the EMP, the RP and the IPP as required.

### Safeguards – Related Provisions in Bidding Documents and Works Contracts

15. 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 IEE, the EMP, the RP and the IPP (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 IEE, the EMP, the RP or the IPP;
- (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.

#### Safeguards Monitoring and Reporting

16. The Borrower shall do or cause the EA to do the following:
- (a) submit semi-annual 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, the RP or the IPP 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, the RP or the IPP promptly after becoming aware of the breach.

#### Prohibited List of Investments

17. 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 ADB's Safeguard Policy Statement (2009).

#### Other Social Measures

18. The EA shall ensure that civil 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: (i) carry out HIV/AIDS awareness programs through the implementing non-government organizations, 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 (ii) 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 will also



include clauses for termination in case of any breach of the stated provisions by the contractors.

#### Gender

19. The Borrower shall cause the EA to ensure that it adopts and implements the GAP in a timely manner over the entire Investment Program period, and that adequate resources are allocated for this purpose. In particular The Borrower and the EA shall ensure that the targets stated in the GAP shall be achieved. The EA shall conduct training on GAP implementation for all staff involved in the Investment Program. The EA shall ensure that the implementation of the GAP shall be closely monitored, and the progress shall be reported to ADB.

#### O&M

20. The Borrower shall cause the EA to ensure that it shall maintain the Subproject facilities and that proper technical supervision and adequate routine funds for this purpose are provided. The funds required for the O&M shall be allocated annually and released on a timely basis. The EA shall prepare O&M management system prepared throughout the Investment Program period. Furthermore, The Borrower shall cause the EA to ensure that all equipment and spare parts financed under the Subproject shall exclusively be used for the maintenance and operation of the Subproject.

#### Project Performance Monitoring System

21. Within 6 months after the Effective Date, the EA shall establish a project performance monitoring system in line with the targets, indicators set in the DMF. The baseline data corresponding to indicators and targets set out in the project status report shall be disaggregated by income levels and sex as required. After the initial baseline survey, the EA with support of the consultants shall conduct annual survey and quarterly monitoring of indicators and submit quarterly report to ADB throughout Project implementation. Provided however, that the data disaggregated by sex and poverty levels will be collected at the beginning and at the end of the Subprojects.

#### Governance and Corruption

22. The Borrower, the State, KUIDFC and the ULBs shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to Investment Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

23. The Borrower shall cause the EA to ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Subprojects.

