

Public Disclosure Authorized

**OFFICIAL
DOCUMENTS**

LOAN NUMBER 8601-IN

Project Agreement

(Karnataka Urban Water Supply Modernization Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE OF KARNATAKA

Dated MAY 24 , 2016

PROJECT AGREEMENT

Agreement dated MAY 24, 2016, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and the STATE OF KARNATAKA ("Karnataka" or the "Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") of same date between India ("Borrower") and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. Karnataka declares its commitment to the objectives of the Project. To this end, Karnataka shall carry out the Project, through KUIDFC, in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, Karnataka shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. Karnataka's Representative is its Chief Secretary or such other person or persons as he or she shall designate in writing.
- 3.02. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Chief Secretary
Government of Karnataka
Vidhana Soudha
Bangalore 560001

Facsimile:

91 8022258913

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



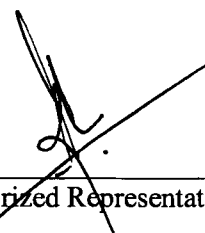
Authorized Representative

Name: MICHAEL HANEY

Title: ACTING COUNTRY DIRECTOR, INDIA

STATE OF KARNATAKA

By



Authorized Representative

Name: V. PONNURAJ

Title: MANAGING DIRECTOR

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Karnataka shall ensure that its government departments and agencies, including KUIDFC, its ULBs, SPVs, and the Project Operators carry out the Project in accordance with the Operations Manual, Dam Operations and Maintenance and Dam Emergency Preparedness Plans, the Environmental Code, Environmental Management Plans, the Financial Management Manual, the Procurement Plan, the Resettlement Policy Framework, and each Safeguard Assessment or Plan; and Karnataka shall ensure that no provision of these documents is amended or waived except as the Bank shall otherwise agree.
2. Karnataka shall make available the Loan proceeds and adequate resources from its own funds to KUIDFC in accordance with the Operations Manual.
3. Karnataka shall issue government orders and take other necessary legal steps to constitute a city water utility in the form of an SPV owned by a ULB in the Eligible City in accordance with a schedule agreed with the Bank and delegate all necessary water-supply and regulatory functions to the SPV.
4. Karnataka shall ensure that KUIDFC is adequately capitalized and operates with such resources, powers, functions, staffing, and expertise acceptable to the Bank, as required to carry out the Project and shall cause Karnataka to exercise the general oversight of the implementation of Project activities. Karnataka shall ensure or shall cause KUIDFC or the ULB to ensure that suitable powers are delegated to ULBs, KUIDFC, SPVs and the Project Operator within six months from the commencement of the start-up period of the relevant Operator Contract, as such period is defined in such contract.
5. Karnataka shall ensure that KUIDFC constitutes a project management unit to carry out the Project with resources, powers, functions, staffing, and expertise acceptable to the Bank.
6. Karnataka shall, or shall cause KUIDFC to, ensure that the ULB for an Eligible City constitutes and maintains a project implementation unit with qualified sector, financial management, procurement, environment, social, technical, and monitoring and evaluation professionals to carry out their activities under the Project.
7. Karnataka shall maintain the Empowered Committee constituted for the Project under terms of reference acceptable to the Bank and outlined in the Operations Manual.
8. Karnataka shall cause KUIDFC and the ULB of the Eligible City to: (i) enter into an Operator Contract with the Project Operator for carrying out activities under the Project on terms and conditions satisfactory to the Bank; and (ii) thereafter implement the

Project in accordance with the terms of such Operator Contract. Karnataka shall cause KUIDFC and the ULB not to amend, obviate or waive an Operator Contract, in any material way, without the prior written agreement of the Bank.

9. Karnataka shall issue a relevant government order for the purpose of: (i) facilitating the financial contribution by or on behalf of the Eligible City in Part A of the Project; and (ii) the creation of a debt-service escrow account and operations escrow account for the Eligible City and the transfer of an adequate amount of untied grants from the State Finance Commission to the debt-service escrow account.

B. Anti-Corruption

Karnataka shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. Karnataka shall ensure that its government departments and agencies, including KUIDFC, the ULB, and the Project Operator:
 - (a) carry out the Project in accordance with the Operations Manual, Dam Operations and Maintenance and Dam Emergency Preparedness Plans, the Environmental Management Plans, the Resettlement Policy Framework, the Rehabilitation Policy Framework, each additional Safeguards Assessment or Plan, and the Environmental Code, collectively referred to as the Safeguards Documents, in each case in a manner and in substance satisfactory to the Bank; and
 - (b) refrain from taking any action which would prevent or interfere with the implementation of the Safeguard Documents, including any amendment, suspension, waiver, and/or avoidance of any provision of the Safeguard Documents, whether in whole or in part, without the prior written concurrence of the Bank.
2. Karnataka shall ensure that, prior to tendering any bids for civil works under Part A of the Project, KUIDFC, the ULB, or the Project Operator, as the case may be, shall have:
 - (a) carried out a screening assessment in accordance with the principles, standards and procedures set forth in the RPF and the relevant Environmental Code;
 - (b) taken all necessary actions to: (i) avoid giving rise to, or minimize the number of, Displaced Persons; and (ii) limit and/or mitigate, to the extent possible, any negative environmental impacts of Project activities;
 - (c) whenever required under the RPF pursuant to screening process set forth in subparagraph 2.(a) above: (i) prepared and adopted a resettlement action plan, in a manner and substance satisfactory to the Bank; and (ii) submitted such plan to the Bank for review, and the Bank shall have notified Karnataka in writing of its no-objection thereto; and

- (d) publicly disclosed the foregoing Safeguard Documents, in local language(s) at the relevant Project's sites.
- 3. Karnataka shall ensure and shall cause KUIDFC, the ULB and the Project Operator to ensure that each contract for civil works under the Project includes the obligation of the relevant contractor to comply with the relevant Safeguard Documents applicable to such civil works commissioned/awarded pursuant to said contract.
- 4. Karnataka shall:
 - (a) update or prepare Dam Operations and Maintenance Plans and Dam Emergency Preparedness Plans under Part C.3 of the Project as required by the Operations Manual, in a manner satisfactory to the Bank, by no later than one year from the Effective Date;
 - (b) submit such plans for the Bank's approval; and
 - (c) carry out any civil or remedial works on the dams in a manner satisfactory and acceptable to the Bank by no later than two years from the Effective Date.
- 5. Karnataka shall establish and/or strengthen, and thereafter maintain and operate throughout the period of Project implementation, a grievance redress mechanism (the "GRM") at all levels of Project implementation for the handling of any stakeholder complaints arising out of the implementation of Project activities. The operation and procedures of the GRM shall be subject to guidelines agreed between the Bank and Karnataka, as set forth in the Operations Manual.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. Karnataka shall monitor and evaluate, in a manner acceptable to the Bank, the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of the indicators agreed with the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower and the Bank not later than forty-five (45) days after the end of the period covered by such report.
- 2. The Project Implementing Entity shall: (a) prepare the Project execution/completion report referred to in Section 5.08 (c) of the General Conditions; and (b) furnish it to the Borrower and the Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

- 1. Karnataka shall maintain a financial management system and prepare Project financial statements in accordance with consistently applied accounting standards acceptable to the

Bank, both in a manner adequate to reflect the operations and financial condition of the Project, including the operations, resources and expenditures related to the Project.

2. Karnataka shall cause KUIDFC to prepare and furnish to the Bank not later than 60 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. Karnataka shall have its financial statements for the Project referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of Karnataka. Karnataka shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than nine months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

Section III. Procurement

All goods, works, and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.