

LOAN AGREEMENT
(Ordinary Operations)

(North Karnataka Urban Sector Investment Program – Project 4)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 16 SEPTEMBER 2014

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 16 September 2014 between INDIA acting by its President ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 27 October 2006 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the North Karnataka Urban Sector Investment Program;

(B) by a periodic financing request dated 22 October 2013, 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 of Karnataka ("State") acting through Karnataka Urban Infrastructure Development and Finance Corporation Limited ("KUIDFC"), and for this purpose the Borrower will make available to the State the proceeds of the loan provided for herein upon terms and conditions mutually agreeable to 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 on the one part and the State and KUIDFC on the other part;

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) "Component" means each of the components, as the context may require, as provided under Schedule 1 to this Loan Agreement;

(b) "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;

(c) "Environmental Management Plan" or "EMP" means each environmental management plan for a Subproject, including any update thereto, prepared and submitted by the Borrower through the EA, and cleared by ADB ;

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

(e) "FFA" means the framework financing agreement dated 27 October 2006 between ADB and India;

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

(g) "Gender Action Plan" or "GAP" means the gender action plan for the Project prepared in consultation with the Borrower and the State, and approved by ADB;

(h) "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;

(i) "IA" means the agency(ies) responsible for implementing the respective Outputs under the Project, as described in the PAM;

(j) "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;

(k) "Indigenous Peoples Planning Framework" or "IPPF" means the indigenous peoples planning framework for the Investment Program, including any update thereto, prepared and submitted by the Borrower through the EA, and cleared by ADB;

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

(m) "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;

(n) "Investment Program" means the North Karnataka Urban Sector Investment Program described in Schedule 1 of the FFA;

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

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

(q) "NNP" means Nirmala Nagar Program of the State;

(r) "PAM" means the project administration manual dated November 2013 and agreed between the Borrower, State, KUIDFC and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower, the State, and ADB;

(s) "PBDPS" means the performance-based deferred payment structure;

(t) "PBMC" means performance-based management contracts;

(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 22 October 2013;

(v) "PIU" means each Project Implementation Unit as already established under Project 1, as detailed in the PAM;

(w) "PMU" means the Program Management Unit for the Investment Program as already established under Project 1, as detailed in the PAM;

(x) "PPMS" means the project performance management system referred to in paragraph 21 of Schedule 5 to 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 as included in the PAM 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;

(aa) "Project 1" means the project under the Investment Program financed by ADB Loan No. 2312;

(bb) "Project 2" means the project under the Investment Program financed by ADB Loan No. 2638;

(cc) "Project 3" means the project under the Investment Program financed by ADB Loan No. 2882;

(dd) "Project Executing Agency" or "EA" for the purposes of and within the meaning of the Loan Regulations means the State acting through KUIDFC;

(ee) "PSP" means private sector participation;

(ff) "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;

(gg) "Resettlement Plan" or "RP" means each 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;

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

(jj) "Subproject" means such proposals that are prepared by the IAs under related Components of the Project as defined in Schedule 1 to this Loan Agreement, that are in compliance with the selection criteria and approval procedure for Subprojects attached as Schedule 4 to the FFA;

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

(ll) "ULB" means an urban local body situated within the State and selected in accordance with Schedule 4 to the FFA; and

(mm) "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.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of sixty three million three hundred thousand Dollars (\$63,300,000), 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; and
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.20% 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 June and 1 December 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 conditions 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 5 December 2016 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, 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. 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 4.06. (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 Financing Arrangements shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

ARTICLE V**Suspension; Acceleration of Maturity**

Section 5.01. The following are specified as additional events 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:

(a) there has been a change in the constitutional documents of KUIDFC that has a material adverse impact on the Project; and

(b) any change in the financing arrangement in so far as it relates to the Project between the State and KUIDFC or an IA that has an adverse impact on the Project.

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: any of the events 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
Department of Economic Affairs
Ministry of Finance

North Block
New Delhi – 110001
India

Facsimile Numbers:

(91 11) 2309-2477
(91 11) 2309-2511.

For ADB

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

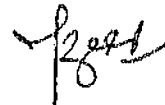
Facsimile Numbers:

(63 2) 636-2444
(63 2) 636-2305.

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



M. TERESA KHO
Country Director

SCHEDULE 1**Description of the Project**

1. The objective of the Project is improved urban service delivery in 14 ULBs under the Investment Program.
2. The Project shall comprise:
 - (a) Component 1 : Upgraded Water Supply Network - Upgrading and expansion of potable water systems to provide continuous water supply (24/7) in 12 ULBs (Basavakalyan, Bellary, Bidar, Gadag-Betegeri, Gokak, Haveri, Hospet, Nipanni, Raichur, Shahabad, Sindhanur and Yadgir);
 - (b) Component 2: Expanded Sewerage Infrastructure - Completion of sewerage schemes initiated under Project 1 in 3 ULBs (Haveri, Hospet and Raichur); and
 - (c) Component 3: Improved Road and Lake Development Infrastructure – (i) Improvements to 1 urban water body in 1 ULB (Raichur), consisting of cleaning/improvements to intercepting drains, and (ii) rehabilitation of urban roads in Badami and Ilkal through improvements in surface and drains;
 - (d) Component 4: Strengthened Service Delivery Management Capacity – Provision of capacity development programs on public-private partnership and performance-based contracting to ULBs, staff, consultants and contractors, and practical training to plumbers on sewerage connections; and
 - (e) Component 5: Enhanced Project Management and Implementation Capacity - Provision of continued assistance to the PMU and PIUs for Project implementation, and training to strengthen safeguards implementation.
3. The Project is expected to be completed by 5 October 2016.

SCHEDULE 2**Amortization Schedule****(North Karnataka Urban Sector Investment Program – Project 4)**

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 June 2019	2.500000
1 December 2019	2.500000
1 June 2020	2.500000
1 December 2020	2.500000
1 June 2021	2.500000
1 December 2021	2.500000
1 June 2022	2.500000
1 December 2022	2.500000
1 June 2023	2.500000
1 December 2023	2.500000
1 June 2024	2.500000
1 December 2024	2.500000
1 June 2025	2.500000
1 December 2025	2.500000
1 June 2026	2.500000
1 December 2026	2.500000
1 June 2027	2.500000
1 December 2027	2.500000
1 June 2028	2.500000
1 December 2028	2.500000
1 June 2029	2.500000
1 December 2029	2.500000
1 June 2030	2.500000
1 December 2030	2.500000
1 June 2031	2.500000
1 December 2031	2.500000
1 June 2032	2.500000
1 December 2032	2.500000

Date Payment Due	Installment Share (Expressed as a %)
1 June 2033	2.500000
1 December 2033	2.500000
1 June 2034	2.500000
1 December 2034	2.500000
1 June 2035	2.500000
1 December 2035	2.500000
1 June 2036	2.500000
1 December 2036	2.500000
1 June 2037	2.500000
1 December 2037	2.500000
1 June 2038	2.500000
1 December 2038	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.

Disbursement Procedures

3. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

4. 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 (North Karnataka Urban Sector Investment Program – Project 4)			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Loan Account
1	Works	63,300,000	100% of total expenditure claimed up to the Loan amount
	Total	63,300,000	

SCHEDULE 4

Procurement of Goods, Works and Consulting Services

General

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

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the method of procurement set forth below:
 - (a) National Competitive Bidding.
4. The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the method 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, the State and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's and the State's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower, the State 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, the State and ADB.

Conditions for Award of Contract

6. The Borrower shall cause the EA to ensure that no Works contract is awarded for a Subproject which involves environmental impacts until KUIDFC has:
 - (a) obtained approval (i.e., consent to establish) wherever required from the State Pollution Control Board, and the IEE from ADB; and
 - (b) incorporated the relevant provisions of the EMP into the Works contract.
7. The Borrower shall cause the EA to ensure that no Works contract is awarded for a Subproject which involves involuntary resettlement impacts until the KUIDFC 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.
8. Where applicable, the Borrower shall cause the EA to ensure that no Works contracts is awarded for a Subproject which involves impacts on indigenous peoples until

KUIDFC has prepared and submitted to ADB the final IPP and obtained ADB's clearance of such IPP.

Industrial or Intellectual Property Rights

9. (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.

10. 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.

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 PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower, the State, KUIDFC, and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Counterpart Funds: Re-lending Arrangements

2. The State shall

- (a) ensure sufficient counterpart funds from its budget for each fiscal year, in a timely manner, for the efficient implementation of the Project towards (i) its contribution; and (ii) the relevant IAs for the Subprojects, until completion of the Investment Program;
- (b) ensure adequate funds through budgetary allocations or other means are provided to appropriate IAs, during and after Subprojects' completion towards (i) operation and maintenance (O&M) of Project facilities; (ii) mitigation of any unforeseen environmental and social impacts; and (iii) meeting additional costs arising from design changes, price escalation in construction costs and/or unforeseen circumstances;
- (c) ensure sufficient funds in a timely manner for payments to the contractors under the PSP contracts, by the ULBs during the implementation of the Project; and
- (d) relend the Loan proceeds through KUIDFC to the IAs under appropriate relending arrangements as mutually agreeable to ADB and the Borrower.

Procurement

3. (a) The State shall ensure that the contractual documents under the PBDPS, PBMC, and/or other forms of contracts with PSP, are provided to ADB for prior review and approval before their use for individual Subprojects, in accordance with the Procurement Plan.

(b) The State shall ensure that for each PSP contract, an independent auditor is engaged in accordance with terms and procedures as mutually agreeable to ADB, the State and KUIDFC.

(c) The State shall disclose information about various matters concerning the Project on the KUIDFC website and the respective ULB websites as appropriate,

including procurement-related information, financial statements, and physical progress. With regard to procurement, the website shall disclose a list of participating bidders, name of the winning bidder, basic details of bidding procedures adopted, contract value, and the list of goods/services procured.

Subprojects Implementation

4. The State shall cause KUIDFC to ensure that all Subprojects are selected, approved and implemented in accordance with the provisions set forth in Schedule 4 to the FFA.

5. The State shall cause KUIDFC to ensure that necessary council resolutions to implement the resolution of NNP reforms are passed in each ULB before Subprojects for that ULB are implemented.

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

Environment

7. The Borrower shall 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 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, 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 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 the relevant RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the relevant RP.

Indigenous Peoples

10. The Borrower shall cause the EA to ensure that the Project does not have any indigenous peoples impacts within the meaning of ADB's Safeguard Policy Statement. In the event that the Project does have any such impact, the Borrower shall cause the EA 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; (b) the Indigenous Peoples Safeguards; (c) the IPPF; and (d) all measures and requirements set forth in the relevant IPP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

11. The Borrower shall cause the EA to ensure that all necessary budgetary and human resources to fully implement the EMPs, the RPs, and any IPP, are made available.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

12. The Borrower shall 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 and any 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 PMU 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, the RPs or any IPP; and
- (d) 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

13. The Borrower shall cause the EA to ensure 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 EMPs, the RPs, or any IPP, 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 EMPs, the RPs, or any IPP promptly after becoming aware of the breach.

Prohibited List of Investments

14. The Borrower shall 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).

Labor Standards and other Social Measures

15. 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 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 (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.

16. The EA shall ensure that the non-government organizations engaged under the Project as well as under Project 2 will assist in undertaking behavioral change programs in ULBs towards improving (a) water utilization and conservation; (b) hygiene and sanitation, including awareness against open defecation in the Project towns; and (c) cost of water and recovery through tariffs, and (d) awareness against dumping of wastes in storm water drains.

Gender Action Plan

17. 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 EA shall conduct training on GAP implementation for all staff involved in the Project. The EA shall ensure that the implementation of the GAP will be closely monitored, and the progress shall be reported to ADB.

Reforms

18. The State shall ensure timely compliance with the undertakings for reform included under Schedule 3 to the FFA, particularly those in relation to water volumetric metering and tariffs, sewerage tariffs, bill collection efficiency improvements, and self-assessment system/capital value system for property tax on all Project towns.

19. The EA shall take steps to ensure efficient asset management and asset replacement for all the Project assets under water and sewerage schemes in the ULBs.
20. The State shall ensure that,
- (a) each ULB receiving funds for a sewerage Subproject shall introduce and approve sewerage tariff no later than 31 December 2015, and such tariff will take effect immediately upon Project completion;
 - (b) each ULB receiving funds for a water supply Subproject shall (i) introduce volume metric tariff in accordance with the guideline issued in the Government Order No. NAE o7 UWS 2011, dated 20 July 2011, and such tariff shall take effect and be implemented (as reflected in bills) no later than six months after the commissioning of the relevant Subproject; and (ii) pass council resolution and/or take other appropriate steps to achieve majority customer connection and metering no later than 30 November 2016;
 - (c) once a sewerage network is provided, ULBs shall take necessary steps to (i) increase household connections to sewerage networks and (ii) prohibit the discharge of wastewater onto drains in the area concerned; and;
 - (d) the ULBs shall, by no later than 31 July 2014, prepare appropriate programs with measures to significantly improve tariff/bill collection efficiency including the enforcement of existing provisions for service cut-off due to non-payment.

Project Performance Monitoring

21. Within 6 months after the Effective Date, the EA through PMU shall establish, a project performance monitoring system (PPMS) acceptable to ADB in line with the targets, indicators and procedures agreed between the Borrower and ADB. The EA shall 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.

22. The EA shall cause the IAs to undertake periodic Project and Subproject performance reviews to evaluate the scope, implementation arrangements, progress and achievements of objectives. For Subprojects under PBDPS, PBMC, and/or other PSP modalities, performance indicators acceptable to ADB developed during the preparation and included in the contract documents for the respective Subprojects shall be monitored and reported to ADB.

23. Up until closing of the last contract under the Investment Program, (a) KUIDFC shall continue to provide ADB with audited financial statements relating to the Project, (b) the State, KUIDFC and ADB shall continue to hold annual Project reviews, and (c) the Borrower, the State, KUIDFC and ADB shall continue to review the performance of the Loan as part of their quarterly portfolio review meetings.

24. The Borrower, the State and KUIDFC shall ensure that the Project is undertaken in conformity with the communication strategy as agreed between ADB, the Borrower, and the State and referred in the PAM.

Governance and Anticorruption

25. The Borrower, the State, and KUIDFC shall comply with ADB's Anticorruption Policy (1998, as amended to date) and shall allow and assist ADB's representatives to carry out random spot checks on the work in progress and utilization of funds for the Project.

26. The Borrower, the State, and KUIDFC shall ensure that the anticorruption provisions acceptable to ADB, the Borrower, the State and KUIDFC 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 and KUIDFC and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

Amendments to Loan Agreements under ADB Loan 2312, Loan 2638 and Loan 2882

27. Paragraph 16(b)(i) of Schedule 5 to the Loan Agreement under Loan 2312, paragraph 17 of Schedule 5 to the Loan Agreement under Loan 2638, and paragraph 19 of Schedule 5 to the Loan Agreement under Loan 2882 shall be substituted with paragraph 20(d) above stated.