



Periodic Financing Request Report

Project Number: 38254
November 2013

India: North Karnataka Urban Sector Investment Program – Project 4

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 October 2013)

Currency Unit	–	Indian rupees (Re/Rs)
\$ 1.00	=	Rs 61.3260
Re1.00	=	\$ 0.01631

ABBREVIATIONS

ADB	–	Asian Development Bank
EARP	–	Environmental Assessment and Review Procedures
EMP	–	environment management plan
FFA	–	Framework Financing Agreement
GOK	–	Government of Karnataka
IEE	–	initial environmental examination
JNNURM	–	Jawaharlal Nehru National Urban Renewal Mission
KUIDFC	–	Karnataka Urban Infrastructure Development and Finance Corporation Limited
MFF	–	multitranchise financing facility
NKUSIP	–	North Karnataka Urban Sector Investment Program
NGO	–	nongovernment organization
O&M	–	operation and maintenance
PIU	–	program implementation unit
PMU	–	program management unit
SPS	–	Safeguards Policy Statement
ULBs	–	urban local body

WEIGHTS AND MEASURES

km	–	kilometer
lpcd	–	liters per capita per day
MLD	–	million liters per day

NOTES

- (i) The fiscal year (FY) of the Governments of India and Karnataka and their agencies ends on 31 March. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 31 March 2008.
- (ii) In this report, "\$" refers to US.

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CONTENTS

	Page
TRANCHE AT A GLANCE	
I. BACKGROUND	1
II. ASSESSMENT OF MFF IMPLEMENTATION	1
III. PERIODIC FINANCING REQUEST	3
A. Impact and Outcome	3
B. Outputs	3
C. Investment and Financing Plans	4
D. Implementation Arrangements	5
E. Project Readiness	6
F. Advance Contracting and Retroactive Financing	6
IV. DUE DILIGENCE	7
A. Technical	7
B. Economic and Financial	7
C. Governance	8
D. Poverty, Social and Gender Dimensions	8
E. Safeguards	9
F. Risks and Mitigating Measures	9
G. Risk Categorization	9
V. ASSURANCES AND CONDITIONS	10
VI. RECOMMENDATION	10
APPENDIXES	
1. PFR from the Government	
2. Review of Compliance with Loan Covenants	
3. Status of Safeguards Compliance for Projects 1 to 3	
4. Design and Monitoring Framework for Project 4	
5. Contribution of Project 4 to the ADB Results Framework	
6. Project Administration Manual for Project 4	
7. Economic Analysis	
8. Financial Analysis	
9. Updated Summary of Poverty Reduction and Social Strategy	
10. Gender Action Plan for Project 4	
11. Initial Environmental Examinations for Project 4	
12. Loan and Project Agreements for Project 4	

TRANCHE AT A GLANCE

Project Name	North Karnataka Urban Sector Investment Program	Tranche No.	4		
		Project No:	38254-063		
Country	India	Department:	South Asia Department		
Date of Receipt by ADB of PFR	23 October 2013	Division:	Urban Development and Water Division		
Project Data Sheet	http://www.adb.org/projects/38254-063/main				
Project Summary					
ADB approved a multitranche financing facility (MFF) for the North Karnataka Urban Sector Investment Program for an aggregate amount not exceeding US\$270 million in 6 December 2006.					
Impact and Outcome. The impact of the proposed Project 4 is improved quality of life in 14 urban local bodies (ULBs) in North Karnataka. The expected outcome will be improved urban service delivery in 14 ULBs in North Karnataka.					
Outputs. Project 4 will have five outputs: (i) upgraded water supply network; (ii) expanded sewerage infrastructure, (iii) improved roads and lake development infrastructure, (iv) strengthened service delivery management capacity, and (v) enhanced project management and implementation capacity. Output 1 will upgrade and expand potable water systems to provide continuous water supply (24/7) in 12 ULBs. Output 2 will complete sewerage schemes in three ULBs. Output 3 will improve the urban road network (6 km) in 2 ULBs and an urban water body in one ULB. Output 4 will provide capacity development programs on public-private partnership and performance based contracting; and output 5 will provide investment program assistance.					
Implementation Arrangements. As in previous tranches, the Government of the State of Karnataka, through the Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC), will be the executing agency for Project 4. ULBs in the towns of Basavakalyan, Badami, Bellary, Bidar, Gadag-Betegeri, Gokak, Haveri, Hospet, Ilkal, Nippani, Raichur, Shahabad, Sindhanur and Yadgir will implement infrastructure subprojects with the assistance of the program management unit and its divisional offices. The State Institute for Urban Development will implement the training component. KUIDFC will facilitate project management activities.					
Project Readiness. Project readiness is advanced. Two sewerage subprojects are under implementation, two packages for water supply in 4 ULBs and one further sewerage subproject have been tendered, and ADB has reviewed and cleared for tendering detailed designs for all other subprojects. Project 4 is classified as category B for involuntary resettlement. A resettlement plan has been prepared and disclosed for Hospet sewerage to address acquisition of private agricultural land (15.28 acres) affecting 11 landowners (60 affected persons). All initial environmental examinations have been prepared and environmental management plan provisions are incorporated in contracts.					
Tranche Sector Classification		Sector:	Water supply and other municipal infrastructure and services		
		Subsectors:	Water supply and sanitation (primary), other municipal services		
Tranche Thematic Classification		Theme:	Environmental sustainability (primary), capacity development, private sector development		
		Subthemes:	Urban environmental improvement (primary), institutional development, develop public sector goods and services essential for private sector development over time		
Climate Change Impact		Adaptation	√ Medium	Mitigation	√ Low
Gender Mainstreaming		Gender equity theme			
		Effective gender mainstreaming			√

	Some gender benefits			
	No gender elements			
Targeting Classification	General Intervention			
	Targeted Intervention		√	
	(i) Geographic dimensions of inclusive growth			
	(ii) Millennium Development Goals		√ MDG7	
	(iii) Income poverty at household level			
Location Impact	Rural		National	
	Urban	√ High	Regional	
Tranche Risk Categorization	Low Risk	√	Complex	
Safeguard Categorization				
	Category	Required Document		Disclosure
(i) Environment	B	Initial Environmental Examinations for 15 subprojects		Oct 2013
Weblink:	http://www.adb.org/projects/38254-063/documents			
(ii) Involuntary resettlement	B	Resettlement Plan for Hospet Sewerage		Aug 2013
Weblink:	http://www.adb.org/projects/documents/mff-nkusip-tranche-4-hospet-sewerage-treatment-rp			
(iii) Indigenous peoples	C	None required		
Financing Requested from ADB	Modality	Source	Amount (\$ million)	
	MFF Tranche (Loan)	OCR	63.3	
	Total:		63.3	
Counterpart Financing	Source		Amount (\$ million)	
	State Government of Karnataka and ULBs		27.8	
Aid Effectiveness	Parallel project implementation unit			No
	Program-based approach			Yes
Significant Developments in the MFF and Previous Tranches				
<p>Three tranches have been previously approved. ADB approved Project 1 (L2312) for \$33 million on 26 January 2007, Project 2 (L2638) for \$123 million on 14 June 2010, and Project 3 (L2882) for \$60 million on 22 August 2012. As of 21 November 2013, all contracts under L2312 have been awarded, in excess of 96% of the loan amount; while cumulative disbursements amount to \$19.12 million (81% of the net amount after partial cancellation of \$9.3 million). Under L2638, 44 out of 45 procurement contracts have been awarded, cumulative contract awards amount to \$98.07 million (80%), and cumulative disbursements to \$47.31 million (38%). Under L2882, cumulative contract awards amount to about \$15.03 million (25%) with disbursements to follow shortly. Loans 2312 and 2638 are 'on track'. Despite good performance in terms of technical, contract awards, financial management and safeguards indicators, Project 1 had formerly suffered from slow disbursements on account of poor contractor performance for three sewerage subprojects. Loan 2882, recently declared effective (11 October 2013), is satisfactory in respect of all indicators other than disbursements, which are being processed. Based on this, Loan 2882 is expected to be on track by end 2013.</p> <p>KUIDFC has generally complied satisfactorily with covenants associated with Projects 1 to 3. Reform elements captured in the framework financing agreement also show good progress. The area needing further attention concerns improvements to ULB bill collection efficiencies, which are being addressed through targeted assistance. The road map and policy frameworks remain relevant and appropriate.</p>				
CPS/COBP	http://www.adb.org/documents/india-country-operations-business-plan-2013-2015?ref=countries/india/strategy			

I. BACKGROUND

1. On 6 December 2006, the Asian Development Bank (ADB) approved the provision of loans under a multitranche financing facility (MFF) for the North Karnataka Urban Sector Investment Program (NKUSIP) for an aggregate amount not to exceed \$270 million.¹ NKUSIP was designed to assist the Government of Karnataka (GOK) rehabilitate and expand urban infrastructure facilities, and in particular provide investment for water supply systems; sewerage and drainage; slum improvement; non-municipal infrastructure (tourism, lake development); urban road resurfacing and junction improvements; and institutional development.² GOK's urban sector roadmap estimated that about \$862 million would be required between 2006 and 2015 to meet the national service standards in 25 selected Karnataka ULBs. Investment requirements under the MFF were estimated at \$440 million equivalent. NKUSIP emphasized the importance of conducting comprehensive institutional reforms and testing private sector participation in service delivery.

2. Under Projects 1 to 3, approvals have been obtained for subprojects for improvements to water supply services in 15 ULBs, sewerage and drainage in 19 ULBs, slum improvements in 15 ULBs, fire services in 23 ULBs, and tourism in four ULBs. Loans have been sequenced to optimize sector results and ensure implementation readiness. The executing agency for the investment program and previous projects is the Government of the State of Karnataka, through the Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC). KUIDFC, through DEA, submitted to ADB a periodic financing request (PFR) for Project 4 on 22 October 2013 (Appendix 1). Based on the draft PFR, ADB fielded a due diligence mission from 22 to 31 July 2013. This report assesses the facility implementation and summarizes due diligence for the proposed investment proposal. The country operations business plan, 2013-2015 for India includes a firm provision for Project 4 in 2013.³

II. ASSESSMENT OF MFF IMPLEMENTATION

3. **Physical Progress.** Three tranches have been approved to date. The President approved the first project loan (Project 1) for \$33 million on 26 January 2007, the second project loan (Project 2) for \$123 million on 14 June 2010 and the third project (Project 3) on 22 August 2012.⁴ Physical progress for subprojects under Project 1, 2 and 3 is estimated to average around 90%, 45% and 10%, respectively.

4. **Contract Awards and Disbursement.** As of 21 November 2013, all contracts under Project 1 have been awarded for around 96% of the net loan amount and cumulative disbursements amount to \$19.10 million (81%).⁵ Under Project 2, 44 out of 45 projected procurement contracts, and consultancy packages (24 nongovernment organization [NGO]

¹ The impact of NKUSIP is improved urban infrastructure and services resulting in overall improvement of quality of life in program urban local bodies (ULBs), related increase in economic opportunities and growth in North Karnataka, and reduced imbalances between North Karnataka and the rest of the state.

² NKUSIP was conceived, following the recommendations of the High Power Committee on Regional Imbalances, in a bid to boost economic growth in a region that has traditionally lagged behind. Twenty five of such towns were selected for infrastructure provision based on the following criteria: (i) district headquarters of newly created districts, (ii) towns having a population in excess of 50,000, and (iii) towns with tourism importance.

³ ADB. 2013. *Country Operations Business Plan: India, 2013-2015*. Manila.

⁴ The loan agreement for Project 1 was signed on 23 January 2008 and declared effective on 25 April 2008. The loan agreement for Project 2 was signed on 16 December 2010 and declared effective on 1 March 2011. The loan agreement for Project 3 was signed on 19 July 2013 and declared effective on 11 October 2013.

⁵ KUIDFC through the Department of Economic Affairs requested ADB to partially cancel \$9,302,264 under Loan 2312, which took effect on 19 August 2013. The overall facility was replenished by an amount equivalent to the cancellation and will be utilized under Project 4 to finance sewerage schemes in Haveri, Hospet and Raichur, formerly financed by Project 1.

packages) have been awarded; cumulative contract awards amount to \$98.07 million (80%), and cumulative disbursements to \$47.31 million (38%). Projects 1 and 2 are 'on track'. Despite good performance in terms of technical, contract awards, financial management and safeguards indicators, Project 1 had formerly suffered from slow disbursements on account of poor contractor performance for three sewerage subprojects. Under Project 3, recently declared effective, cumulative contract awards amount to about \$15.03 million (25%) with disbursements to follow shortly.

5. Compliance with Legal Agreements and Framework Financing Agreement Undertakings. KUIDFC has generally complied with covenants in previous Projects and undertakings captured in the framework financing agreement (FFA), as shown in Table 1:⁶

Table 1: MFF Reform Objectives

Reform Element	Status
Water volumetric metering and water tariffs	The average tariff for 22 program towns is Rs117/month. GOK first directed ULBs to adopt volumetric tariffs in 1996. NKUSIP has since provided both technical and community education support to enhance acceptance of tariffs among citizens. Effective 20 July 2011, GOK issued a revised tariff order making metering compulsory. ULBs receiving water subprojects have passed resolutions ahead of subproject implementation; however this cannot be effected without the actual installation of household meters. Tranche 4 will provide household connections, including meters, in 12 project towns. Water tariff bill collection efficiency improvements remain to be realized in most ULBs. KUIDFC, through its reform cell, will assist ULBs in the preparation of collection efficiency improvement programs.
Introduction of sewerage tariffs at ULB level upon subproject completion	Effective 20 July 2011, GOK issued a revised tariff order requiring the introduction of sewerage tariffs. In most NKUSIP ULBs, sewerage services are being introduced for the first time. Tariff collection for sewerage is applied in around 50% of the ULBs where service is provided, but covers only a small section of the town.
Implementation of property tax as amended in the Karnataka Municipal Act 1964 with 75% coverage	Self-assessment system/capital value system for property tax has been undertaken in all 25 project towns; and collection levels are improving, averaging nearly 90% in March 2013. To secure further improvements, base and property mapping is underway in all towns but 5, some financed under project 3.
Application of the Fund-Based Accounting System	Achieved in all 25 ULBs.

Source: Asian Development Bank Due Diligence Aide Memoire (dated 31 July 2013).

6. KUIDFC has complied with most covenants associated with Projects 1 to 3. Safeguards implementation in previous tranches is generally satisfactory with issues addressed through time-bound corrective actions and close monitoring.⁷ The following need further attention:

- (i) improvements to bill collection efficiencies were due no later than 31 December 2013. Despite improvements, performance is not improving at the necessary pace (42% average in March 2013). Introduction of performance-based management water contracts with collection responsibilities and assistance from dedicated municipal finance specialists is expected to accelerate progress.
- (ii) compliance with social safeguards: out of 12 approved resettlement plans (RPs), four corrective action plans (CAPs) and one updated RP were required, which have been substantially completed and disclosed.⁸

⁶ See Appendix 3 for detailed reporting on compliance with loan covenants.

⁷ A detailed assessment of environmental and social safeguards compliance is provided in Appendix 4. Environmental safeguards compliance was generally good, including timely preparation and disclosure of initial environmental examinations, environmental management plans (EMPs, incorporated to contracts) and semi-annual monitoring reports. ADB and KUISFC have agreed additional means to improve EMP implementation.

⁸ CAPs and an updated RP were required to address: (i) compensation for damaged crops on adjacent lands from poor spoil management during laying of trunk mains, and (ii) additional land for STP approach road. As of 21 November 2013, ADB had reviewed and endorsed three CAPs and one updated RP. The remaining CAP is expected to be approved before end 2013. In Rabennur, a site restoration plan was necessary and a new RP may be required, if the selected alignment is to be in private land to be acquired.

7. **Status of Roadmap, Policy Framework and Investment Program.** NKUSIP's Roadmap was framed within the Government's 10th Five-Year Plan (FYP 2002-2007), which sought to achieve high and equitable growth, human development, and reforms. The Roadmap remained consistent with the 11th Five-Year Plan (FYP 2007-2012), and with the recently approved 12th Five-Year-Plan (FYP 2012-2017).⁹ The reforms under NKUSIP continue to support GOK's Nirmala Nagar municipal governance program, including computerization and property taxes, as well as other State reform initiatives linked to private sector participation and heritage integration and planning. NKUSIP's Roadmap is also consistent with the objectives of the national government's Jawaharlal Nehru National Urban Renewal Mission (JNNURM), a comprehensive city modernization scheme launched in 2006 (and extended to 2014) which emphasizes the importance of achieving improved urban service delivery through reform, capacity building, and improved cost recovery mechanisms; and considers private sector participation as an important tool in service delivery. As a sector-type MFF, sector-level allocations for each of the 25 ULBs under the program were made by GOK at program approval based on city-level infrastructure plans prepared in 2005. Partial reprioritization of physical interventions to: (i) secure full water and sewerage service provision, and (ii) reflect subprojects (urban roads) built with State grants since project approval, has been necessary.¹⁰

8. **Lessons Learned.** Further to lessons identified in earlier reviews,¹¹ which remain pertinent for implementation under Project 4, the following recommendations should be considered: (i) continuous contractor supervision is essential, as it may otherwise lead to unforeseen temporary impacts and associated costs; (ii) repackaging into larger contracts may result in more competitive awards to better qualified contractors; and (iii) project readiness needs to be pursued early in the project, and maintained after loan processing.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

9. The impact of the proposed Project 4 is improved quality of life in 14 ULBs in North Karnataka. The expected outcome will be improved urban service delivery in 14 ULBs in North Karnataka.¹²

B. Outputs

10. Project 4 will have five outputs:¹³ (1) upgraded water supply network; (2) expanded sewerage infrastructure, (3) improved roads and lake development infrastructure, (4) strengthened service delivery management capacity, and (5) enhanced project management and implementation capacity.

⁹ The 12th Five Year Plan [Planning Commission. 2011. *Faster, Sustainable and More Inclusive Growth: An Approach to the 12th Five Year Plan*. Delhi] calls for strategies that improve India's investment climate in industry, address India's infrastructure deficit and growing water scarcity, and actively manage urbanization

¹⁰ A minor change of MFF was approved by The President on 17 September 2013 to extend the MFF availability period to 5 December 2016 and revise NKUSIP's investment plan.

¹¹ Including the following: (i) Resettlement Plans and land acquisition should be conducted early in the project and may be undertaken during implementation of earlier tranches, (ii) materials and methods utilized need to consider lifecycle costs and speed of implementation; (iii) business opportunities seminars with contractors have increased competition and lowered bidder's premiums; and (iv) appropriate construction schedules must be prepared.

¹² Project 4 Design and Monitoring Framework is in Appendix 4. A summary of the project's contribution to the ADB results framework is in Appendix 5.

¹³ For the purpose of the loan agreement, Project 4 will be concerned with outputs financed by ADB, financially closed on or before 5 December 2016.

11. Project 4 will support the following
- (i) Output 1: will upgrade and expand 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).¹⁴ The scope includes rehabilitated and new reservoirs (29 ML capacity), 1800 km of new/rehabilitated water network, 128,000 connections and the installation of 289,000 new household meters.
 - (ii) Output 2: will complete sewerage schemes initiated under Project 1 (including treatment) in three ULBs (Haveri, Hospet and Raichur). The scope of sewerage works includes the construction of three sewage treatment plants with a total treatment capacity of 51 MLDs,¹⁵ and 295 kilometers (km) sewerage network.
 - (iii) Output 3: will (a) provide improvements to one urban water body in one ULB (Raichur), consisting of 1.6 km of cleaning/improvements to intercepting drains; and (b) rehabilitate urban roads in Badami and Ilkal (6 km) through surface improvements and addition of road drains.
 - (iv) Output 4: will provide capacity development programs on public-private partnership and performance based contracting, for ULB and project staff, consultants and contractors; as well as practical training for plumbers to provide sewerage connections.
 - (v) Output 5: will (a) continue consultancy assistance to the program management unit (PMU) and program implementation units (PIUs) throughout Project 4, and (b) provide training to strengthen safeguards implementation.

C. Investment and Financing Plans

12. The total cost of the Project 4 is estimated at \$ 91.1 million, inclusive taxes, duties, contingencies and interest and other charges on the loan during construction (Table 2).

Table 2: Project 4 Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Water Supply Infrastructure	54.5
2. Sanitation Infrastructure	17.1
3. Road and Lake Development Infrastructure	2.0
4. Strengthened Service Delivery Management Capacity	0.2
5. Enhanced Project Management and Implementation Capacity	1.1
Subtotal (A)	74.9
B. Contingencies^c	12.2
C. Financing Charges During Implementation^d	4.0
Total (A+B+C)	91.1

^a Includes taxes and duties of \$9.3 million to be financed from government resources and ADB loan resources.

^b In mid-2013 prices. Exchange rate computed as the average rate for the preceding 12 months (Rs55=1USD).

^c Physical contingencies computed at 8.0% for civil works. Price contingencies computed at 6.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest, commitment charges, and maturity based premium. Interest during construction for ADB loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.4%. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Sources: Asian Development Bank estimates

¹⁴ 24/7 service in Basavakalyan and Hospet will be limited to selected zones due to water availability and financing restrictions. In all other towns, service will be provided to the entire of the town.

¹⁵ Construction will include one sewage treatment plant in each town. Partial construction was conducted in Project 1.

13. The government has requested a loan of \$63.3 million¹⁶ from ADB's ordinary capital resources to finance 69.5% of the project cost. The financing plan for the Project is summarized in Table 3. The loan will have a 25-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions to be set forth in the draft loan and project agreements. The government will make the loan proceeds available to the state government, promptly and on terms and conditions acceptable to ADB, for the implementation of the investment program. Based on the above loan terms, for a straight-line repayment option, the average loan maturity is 15.25 years and the maturity premium payable to ADB is 0.1% per annum. The government has provided ADB with: (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility based on these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB.

Table 3: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	63.3	69.5
State Government of Karnataka and ULBs	27.8	30.5
Total	91.1	100.0

14. The ADB loan will finance civil works, including duties and taxes, as applicable.¹⁷ The government will make the loan available to GOK on the same terms and conditions applicable to the government.¹⁸ GOK will finance consulting services, incremental administration, institutional development and a fraction of the civil works.

15. **Disbursement.** Considering MFF availability period limitations,¹⁹ the State's commitment to delivering Project outputs and its excellent fiscal condition, Project 4 funds will be disbursed following a front-loading option. ADB will finance eligible expenditures up to 100% of every claim it receives, as long as a sufficient undisbursed loan amount remains. Balance funds required to complete contracts under Project 4 will be financed by GOK upon exhaustion of ADB's loan.²⁰ KUIDFC will continue to provide ADB project-related audited financial statements until closing of the last contract financed under Project 4. KUIDFC and ADB will continue to hold annual reviews of Project 4 up to the stage of physical completion of the last subproject under this tranche. India, KUIDFC and ADB will continue to review the performance of the loan up to closing of the last contract as part of its quarterly portfolio review meetings. KUIDFC will prepare a Project Completion Report (PCR) upon completion of the last subproject under Project 4, on or before 31 December 2017. ADB will complete a separate PCR within 6 months of receipt of the government's PCR.

D. Implementation Arrangements

16. The implementation arrangements are summarized in Table 4 and described in the project administration manual (PAM) in Appendix 6.

¹⁶ This amount includes \$9.3 million cancelled from Loan 2312 (see footnote 5).

¹⁷ Taxes and duties financed within the project (i) do not represent an excessive share of the project investment plan, (ii) apply only to ADB-financed expenditures, and (iii) their financing is material and relevant to the success and timely completion of the project.

¹⁸ GOK on-lends the loan proceeds to ULBs as follows: (i) for water supply, 50% of the subproject value is on-lent with an annual interest rate of 8.50%; 40% of the value is provided as a grant, and 10% is contributed as equity by ULBs; and (ii) for other subprojects 90% of the project cost is provided as grant with 10% equity raised by ULBs.

¹⁹ The last date in which any disbursement under any loan may be made under NKUSIP is 5 December 2016.

²⁰ This is consistent with provisions in paragraph 9(ii) and 10 of OMJ6/OP.

Table 4: Implementation Arrangements

Aspects	Arrangements
Implementation period	November 2013–October 2016
Completion Date	5 October 2016 (project completion)
	5 December 2016 (financial closing)
Management	
(i) Oversight body	Empowered committee, state government of Karnataka, including (i) Additional Chief Secretary (chair); (ii) Principal secretary of the Urban Development Department; (iii) Principal secretary, Planning Department; (iv) Secretary for Municipalities and Urban Development Authorities; (v) Principal Secretary for expenditure of the Finance Department; (vi) Director, Directorate of Municipal Administration; (vii) Managing Director, KUIDFC; (viii) Managing Director, KWSDB
(ii) Executing agency	The State of Karnataka acting through KUIDFC
(iii) Key implementing agencies	Urban local bodies for the towns of Basavakalyan, Badami, Bellary, Bidar, Gadag-Betegeri, Gokak, Haveri, Hospet, Ilkal, Nippani, Raichur, Shahabad, Sindhanur and Yadgir for infrastructure components. The State Institute for Urban Development will implement training under the Institutional Development component.
(iv) Implementation unit	No additional staff is proposed to be recruited for Project 4, as work can be absorbed by staff already engaged in the implementation of Project 1 to 3.
Procurement ^a	NCB
	Shopping
Consulting services	13 Contracts
	To be determined
Retroactive financing and/or advance contracting	QCBS (under Project 1)
	397 person-months
Disbursement	\$ 73.6 million ^b
	> \$100,000
Disbursement	\$ 1.1 million
	Eligible expenditures incurred on advance contracting for civil works in sewerage, water, lake development and urban roads, up to 12 months before the loan signing date, and not exceeding 20% of the relevant loan amount
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

ADB = Asian Development Bank, KUIDFC = Karnataka Urban Infrastructure Development and Finance Corporation, KWSDB = Karnataka Water Supply and Drainage Board; NCB = national competitive bidding; QCBS = quality and cost based selection.

Notes: ^a KUIDFC has requested to conduct eProcurement under Project 4.

^b Base costs (inclusive of taxes).

Source: Asian Development Bank estimates.

E. Project Readiness

17. Project readiness for tranche implementation is advanced. Two sewerage subprojects are under implementation, two packages for water supply in 4 ULBs and one further sewerage subproject have been tendered, and ADB has reviewed and cleared for tendering detailed designs for all other subprojects. Initial environmental examinations (IEEs) for all subprojects, one RP, and environmental management plans (EMPs) have been approved and disclosed. GOK has successfully implemented NKUSIP subprojects under Projects 1 to 3, demonstrating sufficient capacity to implement subprojects proposed under Project 4.

F. Advance Contracting and Retroactive Financing

18. On 5 June 2013, ADB Management approved, through a memo, the government's request for advance action to procure services, goods and civil works, and retroactive financing for an amount not exceeding 20% of the loan amount for eligible expenditures incurred prior to loan effectiveness and during the period of 12 months before the signing of the loan agreement. Detailed due diligence was conducted on retroactive financing for sewerage subprojects awarded under Project 1 which will be completed under Project 4, and expenditures were found

to be eligible.²¹ KUIDFC has been advised that ADB's approval of advance contracting and retroactive financing does not constitute a commitment to finance the loan.

IV. DUE DILIGENCE

A. Technical

19. The proposed 18 infrastructure subprojects have been selected in accordance with subproject selection criteria provided in Schedule 4 of the FFA. Technology selected for water and sewage treatment is adequate for the size, conditions and capacity of implementing ULBs. Water supply schemes comprehensively address distribution and connection to households therefore addressing key sustainability elements. The Mission recommended (i) best practice design for district metered areas, (ii) provision of protection boxes for household meters, (iii) provision of dedicated facilities to dry/treat sludge in all water treatment plants, and (iv) fencing and/or review of designs of elevated reservoirs to prevent accidents.

20. The completion of sewerage subprojects initiated under Project 1 will improve sanitary and environmental conditions in three project towns. All sewerage subprojects are being constructed in towns where sufficient water is available to operate the schemes. All sewerage subprojects include the construction of sewage treatment plants and extension of sewerage networks in towns. Designs were reviewed with technical experts and recommendations for improvement made to secure: (i) improvements to discharge, (ii) provision of coarse and thin screens at sewage treatment plants, (iii) provision of adequate buffer and greenbelts, and (vi) exploring opportunities for reuse and recycling of treated effluent. For road subprojects, the Mission requested KUIDFC to confirm that road drains had been included in all designs and sufficient capacity was available within the ULB for operation and maintenance (O&M).

B. Economic and Financial

21. **Economic Analysis.** Since the Program is formulated as sector lending, the economic analysis focuses on rationale for government involvement, government plan and approach, economic policies and government capacity. The infrastructure to be developed under the Program is to meet basic needs of citizens and often public goods in nature. The government's goals and approach are sound. Recognizing that urban development is a driving force of economic growth, GOK has adopted measures to advance priority projects and governance reforms.

22. The economic analysis of subprojects has been conducted for the subprojects: water supply in 12 towns, sewerage in 3 towns and roads in 2 towns. The estimated economic internal rates of return of these subprojects range from 13.0% to 21.3% in case of water supply subprojects, 15.2% to 25.5% in case of sewerage subprojects, 12.2% to 20.5% in case of road subprojects, indicating sufficiently high economic return compared with opportunity cost of capital. The result is robust against most of downside risks, such as increase of capital cost, increase of O&M cost, decrease of benefits, and delay in completion. These results are most

²¹ For these expenditures, the earliest possible date of eligibility will coincide with the date of partial cancellation of funds allocated to sewerage under Project 1 (19 August 2013). Prior to this date, expenditures for sewerage subprojects will have been deemed to be covered under Project 1. This is consistent with para. 4, OM J4/BP, which determines that expenditures must have been incurred before effectiveness, but, generally, no earlier than 12 months before the signing date of such agreement. The Mission confirmed that (a) the expenditures incurred would be genuine, reasonable, and material to getting the project off the ground; and (b) they would be incurred for proper reasons, in a transparent manner over a reasonable period of time.

likely underestimated, since the subprojects have benefits which are not easily quantifiable and not accounted in the analysis. The detailed analysis is in Appendix 7.

23. **Financial Analysis.** The financial analysis has appraised the sustainability and viability of the subprojects proposed under the Investment Program, according to ADB's Financial Management and Analysis of Projects, 2005. For revenue-generating sectors—water supply and sewerage, incremental revenue and cost due to the subprojects were estimated on a with-and without- project basis. Tariff revisions for water supply and sewerage are proposed to meet the full O&M cost recovery which is in accordance with the mandatory reforms under India's JNNURM, signed in 2006. The financial internal rate of return (FIRR) for water supply subprojects in twelve towns ranges from 2.8% to 6.3%. The FIRR for water supply subprojects compare favorably to weighted average cost of capital (WACC) of 2.69%. Sewerage subprojects' FIRR was less than the WACC, however the combined water supply and sewerage FIRR for the three towns exceeded the WACC. For water supply and sewerage subprojects, average tariff in the ULBs are higher than Average Incremental Financial Cost for O&M. Sensitivity analysis shows FIRRs are generally robust and relatively sensitive to changes in revenues. For water supply and sewerage subprojects in the program towns, the ULBs total projections demonstrate that they are sustainable as the revenue account will be in surplus.

24. For non-revenue-generating sectors—roads and lake development—the analysis focused on the capacity of the Investment Program ULBs to sustain the assets created under the program by providing financial resources for maintenance and debt service, if any. Financial projections of cash flow were made over a 20-year period for the Investment Program ULBs, incorporating the impact of the subprojects as well as the proposed reform. For the three project ULBs, the financial projections show that the ULBs can absorb the investment in appraised subprojects, as they are expected to have a revenue account surplus and a positive cash balance for the revenue account. The financial analysis is in Appendix 8, and the financial management assessment of the executing agency and sample ULBs²² is in the PAM.

C. Governance

25. The Mission confirmed that governance arrangements under the MFF, including the function of the Empowered Committee (charged with deciding on subproject priorities, and major issues, such as counterpart funding, implementation bottlenecks, land disputes, etc.), and the District-level Program Steering Committee (responsible to monitor implementation of subprojects and institutional reforms in the ULBs, as well as coordinate between various agencies regarding approvals and clearances) are generally working well. GOK will need to closely monitor compliance with reform targets over the next 2 years. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and KUIDFC. The specific policy requirements and supplementary measures are described in the facility/project administration manual.

D. Poverty, Social and Gender Dimensions

26. Project 4 will implement socially inclusive and gender-focused interventions.²³ Key initiatives include: (i) additional new and improved connections to water supply facilities for poor, other socially-disadvantaged and female-headed households; (ii) capacity development initiatives to sensitize government staff on social inclusion and gender; and (iii) capacity and skills development. The Gender Action Plan (Appendix 10) proposed for Project 4 focuses

²² Financial management assessments for other program ULBs were presented in Due Diligence assessments for previous tranches.

²³ See Appendix 9 to for the Updated Summary Poverty Reduction and Social Strategy.

primarily on maximizing project impacts for women, enhancing institutional awareness within KUIDFC and ULBs, and providing capacity building opportunities for both women and men. It will also result in health benefits arising out of increased access to water supply and improved living conditions and long term institutional capacity to promote inclusive development within KUIDFC and project towns. Monitoring and evaluation systems will generate sex-disaggregated information to enable tracking of gender impacts envisaged under Project 4. Project 4 gender-focused activities complement on-going activities under previous projects, particularly under Project 2, where user groups have been established with assistance from local and an apex NGO in all project towns with high levels of women participation.

E. Safeguards

27. **Social.** Project 4 is classified as category B for involuntary resettlement. An RP was prepared and disclosed for the Hospet sewerage subproject to address acquisition of private agricultural land (15.28 acres) affecting 11 landowners (60 affected persons). Temporary impacts to mobile vendors and hawkers and shops along roads with linear works will be avoided through careful EMP implementation (i.e., planks for continued access, traffic management, night works, and assistance for shifting mobile vendors). Implementation of RPs will be monitored by the PMU and PIUs with assistance from the supervision consultants and NGOs. Safeguards reporting from the PMU to ADB will be done on a semi-annual basis. The executing agency has dedicated staff overseeing safeguards implementation, and receives capacity support from consultants to implement and monitor safeguards compliance. Project 4 is category C for indigenous peoples as the project is working in urban areas.

28. **Environment.** Project 4 is classified as category B for environment. Fifteen IEEs were prepared and disclosed for this project (see Appendix 11). IEEs show that no significant impacts are envisioned and project locations are outside sensitive areas. Any impacts during construction and operation will be avoided and/or mitigated through measures identified in the EMP which will form part of the bidding and contract documents. Implementation of IEEs will be monitored by the PMU and PIUs with assistance from the supervision consultants. Safeguards reporting from the PMU to ADB will be done on a semi-annual basis.

F. Risks and Mitigating Measures

29. The design and monitoring framework identifies three risks, for all of which KUIDFC has agreed to specific mitigation measures (see also Table 5). Most risks identified under previous PFR reports have been adequately addressed by KUIDFC through design and implementation.

Table 5: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Insufficient water and sewerage tariff collection.	(i) Recruitment and mobilization of FM specialists under Project 3; (ii) covenanted tariff reforms; and (iii) loan repayment incentive mechanisms.
Insufficient sewerage network coverage in densely populated project towns.	On-site solutions in the short term. GOK to progressively step up its investment in network sewerage in secondary towns through annual budgetary allocations.
Insufficient uptake of connections by households to the sewerage network (connection chambers).	KUIDFC comprehensive strategy that encompasses (i) professional service provision, (ii) ULB controls to prevent sewage discharge onto drains, (iii) plumber trainings and (iv) a concerted effort by ULB councils to utilize a fraction of their budget to promote pro-poor latrine construction assistance and sewerage connections for the poor.

FM = financial management, GOK = Government of Karnataka, KUIDFC = Karnataka Urban Infrastructure Development and Finance Corporation Limited, ULB = urban local bodies.

Source: ADB's Project 4 Due Diligence Aide Memoire, dated 31 July 2013.

G. Risk Categorization

30. The risk categorization of the requested project is “low risk” as it fulfills all of the required features.²⁴

V. ASSURANCES AND CONDITIONS

31. The Borrower, the State, and KUIDFC have assured ADB that implementation of the Project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

32. In addition to the general procedural implementation of the project as per ongoing projects under the MFF, the Borrower, the State and KUIDFC have agreed with ADB on certain covenants for the Project, which will be set forth in the loan agreement and project agreement (Appendix 12).

VI. RECOMMENDATION

33. The project team is satisfied that the proposed Project 4 would comply with the FFA signed between India and the Asian Development Bank on 27 October 2006, and recommends to Management that, in accordance with OM Section D14/OP Para 34, the President approves the loan of \$63,300,000 to India for Project 4 under the North Karnataka Urban Sector Investment Program from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate based lending facility; for a term of 25 years, including a grace period of five years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the President.

²⁴ With reference to OM Section D11/OP Para. 6 Project 4 features include: (i) a loan amount for a project not exceeding \$200 million; (ii) a sound record of ADB's previous experience in the sector in Karnataka; (iii) reasonable executing agency capacity; and (iv) safeguard categorization other than A.

APPENDIX 2 – REVIEW OF COMPLIANCE WITH LOAN COVENANTS

LOAN COVENANTS - Loan 2312	
Project Specific Covenants	Status/Issues
Sector	
1. The State shall ensure that necessary resolution shall have been passed by the relevant ULBs prior to allowing KUWSDB to undertake implementation of bulk water supply part of Component B on behalf of the ULB, as referred in clause (a) of this paragraph. [LA, Schedule 5, para.4(b)]	Not applicable. Under Tranche 1, there are no components of bulk water supply delegated to KUWSDB.
2. The State shall ensure (a) that all Subprojects meet and are implemented, to the satisfaction of ADB, in accordance with the provisions set forth in Schedule 4 to the FFA; and (b) that necessary council resolutions to implement the Resolution for NNP reforms are passed in each ULB before Subprojects for that ULB are implemented. [LA, Schedule 5, para.9 (a)&(b)]	Completed. Subprojects selected according to the agreed selection criteria for Tranche 1. NNP reform became mandatory for all ULBs through the Government Order. The ULB passed the relevant resolutions.
3. The State shall ensure that by 31 December 2007 surveys are conducted under the Bridging TA, to determine the real volumetric tariff by measuring the actual amounts of water supplied to three (3) ULBs to be selected by KUIDFC. [LA, Schedule 5, para. 15(a)]	Surveys conducted. Information may need periodic updating.
4. The State shall ensure that for each of the ULBs receiving funds under the loan the (nominal) base volumetric water tariff shall be increased to the real current volumetric tariff per m3 and the tariff schedule shall be changed zone by zone or for the related town, as feasible <u>upon completion of the related water supply subproject</u> , from the current (un-metered) monthly flat-rate to volumetric metered tariff with the lifeline block set at 8 m3 for which the rate shall not be less than the current flat rate. Upon completion of the studies currently being carried out by consultants under the World Bank supported Karnataka Urban Water Sector Improvement (KUWASIP) Project, and by Bridging TA consultants, the water tariffs of the Project towns shall be reviewed and revised based on recommendations of these studies. Related recommendations to the ULBs shall be firmed up by the mid-term review of the Investment Program. [LA, Schedule 5, para. 15(b)]	Based on studies, GOK issued a Government Order to reconfirm the state policy to introduce volume metric tariff, and provided to manual to set the tariff rates through Government Circular UDD 64 PRJ 2009 on 20 June 2009. ULBs under the Investment Program passed resolution to introduce volume metric water tariff, and increased the monthly fixed rate to minimum 55 Rupee. Real volumetric tariff not established yet due to absence of meters and/or water in the systems. Tranche 4 will selectively provide these.
5. The State shall ensure that for Subprojects consisting of sewerage, sewerage tariffs shall be introduced by the State. The appropriate levels of sewerage tariffs shall be agreed with the State and ADB upon completion of ongoing studies under the World Bank supported Karnataka Urban Water Sector Improvement (KUWASIP) Project, and subsequently upon completion of studies by the Bridging TA consultants to recommend the appropriate sewerage tariffs for the ULBs. Such sewerage tariffs will take effect upon related Subproject's completion. [LA, Schedule 5, para. 15(c)]	Circulars have been issued on the sewerage tariff to the ULBs. From Jan 2012 Deputy Project Directors have been instructed to monitor the implementation of the reforms, including this covenant. GOK will facilitate the introduction of sewerage tariff, including provision of model resolution. To be carried out before mid term review (scheduled Q3 2012)
6. The State shall ensure that the ULBs shall by not later than 31 December 2011 (i) take measures to significantly improve bill collection efficiency including the enforcement of existing provisions for service cut-off due to non payment, and (ii) introduce self assessment system/capital value system for property tax. [LA, Schedule 5, para. 16(b)]	Partly Complied with. Self assessment system/capital value system for property tax introduced but performance remains weak in some ULBs. Measures to improve bill collection efficiency have been slower than initially envisaged. Provision for financial/ commercial advisors made under Tranche 3 but not yet recruited.
7. The State shall ensure that measures are taken to improve bill collection	Monitoring undertaken, showing

LOAN COVENANTS - Loan 2312	
Project Specific Covenants	Status/Issues
efficiency for water and sewerage infrastructure services including the enforcement of existing provisions for service cut-off due to non-payment. The appropriate levels of bill collection efficiency improvement targets for the ULBs shall be agreed between the State and ADB upon completion of the ongoing studies under the KUWASIP Project, and the studies of the Bridging TA consultants. [LA, Schedule 5, para. 16(a)]	low collection efficiency of water tariff (average among ULBs less than 40%). Provision for financial/commercial advisors made under Tranche 3 but not yet recruited.
Environmental	
8. The State shall undertake the Project in accordance with the applicable environmental laws and regulations of the Borrower and ADB's Environment Policy, 2002 and the EARP. In this regard the State shall ensure the following: (a) that the design, construction, operation and implementation of all Subprojects are carried out in accordance with the EARP, and related initial environmental examinations (IEEs) or Environmental Impact Assessment (EIA) reports, including any Environment Management Plan (EMP). Any adverse environmental impacts arising from the construction, operation and implementation of the subproject facilities shall be minimized by implementing the EMP measures and other recommendations specified in the IEE or EIA reports as applicable. The State shall ensure that all environmental requirements are incorporated in bidding documents and civil contracts under the Project. (b) that if any of the Components/Subprojects requires compliance with the 120-day advance disclosure under ADB's Environment Policy, 2002, the summary EIA or IEE for such Components/subprojects shall be circulated to the ADB Board and made available to the general public 120 days before the ADB Board considers the same for inclusion in the Project. [LA, Schedule 5, para. 10(a)&(b)]	(a) Complied. All IEEs prepared in accordance with EARP. EMPs are included in bidding and contract documents. Environmental monitoring of civil works ongoing. Monitoring reports submitted. (b) Not applicable for subprojects under the Tranche 1.
Social	
9. The State shall undertake the Project in accordance with the Borrower's laws and regulations, including its policy on Resettlement and Rehabilitation, ADB's Policy on Involuntary Resettlement, 1995, and the RF. The State shall ensure following: (a) that all land and right-of-way required for any of the Subprojects are made available in a timely manner, compensations at replacement values are provided prior to the signing of relevant civil works contracts, and involuntary resettlement including relocation, is carried out in accordance with the RF, and related resettlement plans (RPs) agreed upon between the State and ADB. (b) that a RP will be prepared for each Subproject involving land acquisition or resettlement including relocation, and submitted to ADB for review and approval prior to award of any related civil works contracts. Similarly, revised RPs based on detailed designs for all Subproject shall also be provided for ADB approval prior to award of related civil works contracts. [LA, Schedule 5, para. 11(a)&(b)]	(a) Complied. Resettlement impacts only in Hospet. RP approved by ADB and disclosed. All land and right-of-way were made available in a timely manner, and compensations at replacement values determined. Issues and corrective actions being identified during implementation. (b) Complied. RPs prepared based on detailed design and approved by ADB prior to award of civil works contracts.
10. The State shall ensure as possible, minimal impact on indigenous peoples in the Project. In the event of involvement of indigenous peoples in any of the subprojects, the State will ensure that the subprojects are carried out in accordance with the IPDF in accordance with ADB's Policy on Indigenous Peoples, 1998. (LA, Schedule 5, para. 12)	Not applicable.
11. The State shall ensure that the Projects shall be carried out in accordance with Gender Action Plan attached as Appendix 12 to the RRP, and ADB's Policy on Gender and Development, 1998. (LA, Schedule 5, para. 13)	Ongoing.
Financial	
12. The State shall 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) of the IAs, for the subprojects under relevant Components. [LA, Schedule 5, para. 8(a)]	Ongoing. Adequate budgetary provision has been made to date. GoK is making allocations in every year budget. IAs are also making contribution and same is monitored regularly
13. The State shall ensure sufficient funds in a timely manner for the payments to the contractors under the private sector participation contracts, by the ULBs during the implementation of the Project. [LA, Schedule 5, para. 8(c)]	Not applicable to Tranche 1.
14. The State shall ensure adequate funds towards operations and maintenance	Not yet due

LOAN COVENANTS - Loan 2312	
Project Specific Covenants	Status/Issues
of Project facilities, through budgetary allocations or other means, to be provided to appropriate IAs, during and after Subprojects' completion. [LA, Schedule 5, para. 8(b)]	ULBs have been provided with sufficient grants.
15. The State shall relend the Loan proceeds through KUIDFC to the IAs under appropriate re-lending arrangements as acceptable to ADB. [LA, Schedule 5, para. 8(d)]	Ongoing. On-lending agreements are signed.
Economic	
16. The PPMS shall track the Investment Program and Project implementation activities, corresponding target dates, expected outcomes, and assigned responsibilities under a monitoring mechanism that can be used to track progress on specific activities. The PPMS shall aim to detect any deficiency and discrepancy between the plan and the execution of the Investment Program and Project in using the resources efficiently in order to ensure that timely corrections can be made to adjust the design of the Investment Program and Project. [LA, Schedule 5, para. 17(a)] Within 3 months of the Effective Date, the State through the PMU shall establish the PPMS in a form and substance acceptable to ADB. [LA, Schedule 5, para. 17(a)]	PPMS established and indicators are reported in QPR. QPRs are however submitted late. PPMS submitted tracked in parallel for TPRM purposes. PPMS indicators have been finalized and submitted to ADB. Baseline values have been collected. Targets are finalized.
Others	
17. The State through the KUIDFC shall be the Executing Agency and shall be responsible for overall implementation of the Project including detailed appraisal of Subprojects under the Project. (LA, Schedule 5, para. 1) GoK, will, in so far as it relates to the related projects, promptly notify ADB of any proposal to amend, cancel or repeal any of the provisions of the KUIDFC's memorandum of association or articles of incorporation and will give ADB an adequate opportunity to comment on such proposals before taking any action. [PA Section 2.15]	Complied. Not required so far.
18. Established, Staffed, and Operating PMU/PIU. The head office of KUIDFC in coordination with the regional office (based in Dharwad) shall constitute the PMU within three months of the approval of the Facility by ADB. The PMU shall be headed by the Managing Director of KUIDFC as PD at head office and by the Executive Program Director (EPD) at the regional office. The PD will be responsible for overall management and implementation of the Investment Program and the Project, while the EPD, assisted by experts and officials of proper qualification and experience, shall be responsible for day-to-day implementation activities of the Project. Within not later than six months of the approval of the Facility by ADB, the State shall establish, four Divisional Offices under the PMU, in the cities of Dharwad, Belgaum, Gulbarga and Bellary in the State, to supervise the ULBs. Each Divisional Office shall be headed by the DPD reporting to the EPD. The Divisional Offices shall be responsible for coordination of Project planning, preparation of Subprojects and cost estimates, technical guidance and supervision, financial control, training, and overall subproject monitoring, assisted by the PCs; as also to assist the ULBs in this regard for respective Components. (LA, Schedule 5, para. 2&3)	Complied with. The PMU & PIJ are adequately staffed. Divisional Offices established with Divisional Project Directors.
19. Fielding of Consultants	Complied. Four Programme Consultant teams mobilized in Dec 2007, remain in place.
20. The IAs under the Project shall be as follows: (i) Components A and B -- the respective ULBs of Haveri, Hospet and Raichur reporting to the respective DPD. For a part (i.e., bulk water supply schemes) of Component B, the Karnataka Urban Water Supply & Drainage Board (KUWSDB), on behalf of the respective ULBs, reports to respective DPD; (ii) Component C -- KSFES, and the DITYS, both reporting to the EPD; (iii) Component D -- DMA/KUIDFC, reporting to the PD; (iv) Component E -- KUIDFC reporting to the PD. (LA, Schedule 5, para. 4)	Established accordingly. There are no bulk water supply schemes dissociated from the distribution system. Component D is being carried out by KUIDFC with assistance from the Dept of Town Planning.
21. A Tender Evaluation Committee (TEC) for each contract package under the	Tender Evaluation Committees

LOAN COVENANTS - Loan 2312	
Project Specific Covenants	Status/Issues
Subprojects shall be formed by the State before the related tender is called to evaluate the tenders, and provide recommendations on issues related to all works, which shall subsequently be forwarded for approval to the ULB Commissioner. The TEC will consist of an engineer of the ULB, a representative of KUIDFC, and a concerned expert of the PC. (LA, Schedule 5, para. 5)	established in accordance with the covenant.
22. The EC shall meet every quarter to review the Investment Program performance, and the Project, decide on major issues, such as counterpart funding, implementation bottlenecks, land disputes, special procurement, etc. (LA, Schedule 5, para. 6)--	Ongoing. Empowered Committee meets regularly
23. The DPSC, reporting to the EPD shall be responsible to monitor implementation of Subprojects and institutional reforms in the ULBs, as well as coordinate between various agencies regarding approvals and clearances. (LA, Schedule 5, para. 7)	District-level Program Steering Committee established and functioning.
24. Information disclosure: The State shall disclose information on the Investment Program 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 websites shall disclose list of participating bidders, name of winning bidder, basic details of bidding procedures adopted, contract value, and the list of goods/services procured. [LA, Schedule 5, para. 14(d)]	Ongoing. Information on the project, including procurement-related information, physical and financial progress, is disclosed on the KUIDFC's website. http://www.kuidfc.com/WEBSITE/WebPage.nsf/lookupAllCat/Projects-N%20K%20U%20S%20I%20P
25. The State shall ensure that the contractual documents under the performance-based payment structure (PBDPS) and/or performance-based management contracts (PBMC) are provided for prior review and approval in order to be used under the Project. The State shall ensure that necessary provisions are made for each PBDPS and/or PBMC contractor to meet the State/ULB contractual obligations. In this regard, the State shall operationally the PSP Fund, to ensure timely payments under private sector participation contracts, in particular the PBDPS and PBMC contracts under the Project. All PSP contracts shall be subject to technical auditing by independent auditors. For each contract involving PSP, a list of three (3) PCs not directly involved in the geographical area concerned shall be proposed by KUIDFC as candidates for the independent auditor and the PSP contractor shall be allowed to select a preferred candidate from the list, to be employed by KUIDFC. [LA, Schedule 5, Para. 14(a),(b)&(c)]	Not applicable to tranche 1. The model contract and RFP for PBDPS and PBMC were drafted. PSP fund has been established by State Government Order No. UDD 40 PRJ 2006 in May 2006. KUIDFC to confirm continuation. Not yet due.
26. Without limiting the generality of Section 2.08 of the Project Agreement, the State through KUIDFC shall prepare and provide ADB with quarterly progress reports on implementation of the Project and the Investment Program, that shall include report on progress made during the period of review, changes if any on implementation schedule, problems or difficulties encountered and remedial actions taken, work to be undertaken and Subprojects/Components to be proposed for financing in the coming quarter. The reports shall also include a summary financial account for each IA, expenditures to date, and report on benefit monitoring undertaken pursuant to previous paragraph of this Schedule. (LA, Schedule 5, Para. 18)	Summary quarterly reports being submitted to ADB. Submission delivery time has improved, though should in all cases be within 45 days of closing of quarter.
27. In addition to regular review including a midterm review for the Project in January 2010, a detailed mid-term review of the Investment Program shall be undertaken, in June 2011 by ADB, the Borrower and the State. The mid-term review shall include a detailed evaluation of the respective Project and Investment Program scope, implementation arrangement, any outstanding issues, environment, resettlement and other safeguard issues, achievement of scheduled targets, progress on PBDPS contracts, and other issues, as appropriate. [LA, Schedule 5, Para. 19(b)]	A mid term review was fielded from 21 to 25 May 2012.
28. Based on a review of quarterly progress reports submitted in accordance with the preceding paragraph, ADB and the State as required, will meet to discuss progress of the Investment Program and the Project, any changes to implementation arrangements or remedial measures required to be undertaken towards achieving overall objectives of the Project and the overall	Ongoing semiannually or more frequently.

LOAN COVENANTS - Loan 2312	
Project Specific Covenants	Status/Issues
Investment Program [LA, Schedule 5, para 19(a)]	
29. Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, the State through KUIDFC shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by the State and KUIDFC, of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan. [PA, Sec. 2.08(c)]	Not yet due
30. The State and KUIDFC each shall (i) maintain separate accounts for the Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualification, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than nine (9) months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for imprest account, SGIA, and statement of expenditures), all in the English language. The State and KUIDFC shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request. [PA, Sec. 2.09(a)]	(i) Separate books of account maintained. (ii) The audit for FY 08/09 was submitted in October 2009. (iii) The audit for FY 09/10 was submitted in September 2010, in advance of the due date. (iv) The audit for FY 10/11 was submitted in October 2011. (v) Audit for FY11/12 was sent to ADB on 30 Sept 2012.
31. The State and KUIDFC as appropriate, shall each take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of Project facilities, to such extent and against such risks and in such amounts as shall be consistent with sound practice. Without limiting the generality of the foregoing, the State and KUIDFC as appropriate, each undertake, to insure, or cause to be insured, the Goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods. [PA, Sec. 2.05(a)&(b)]	Not yet due

LOAN COVENANTS - Loan 2638	
Project Specific Covenants	Status/Issues
Sector	
1. The State shall ensure that necessary resolution shall have been passed by the relevant ULBs prior to allowing KUWSDB to undertake implementation of bulk water supply part of component B on behalf of the ULB, which shall subsequently be forwarded for approval to the ULB Commissioner. [LA, Schedule 5, para 4(b)]	Under Tranche 2, there are no components of bulk water supply delegated to KUWSDB.
2. The State shall ensure (a) that all Subprojects meet and are implemented, to the satisfaction of ADB, in accordance with the provisions set forth in Schedule 4 to the FFA; and (b) that necessary council resolutions to implement the Resolution for NNP reforms, are passed in each ULB before Subprojects for that ULB are implemented. [LA, Schedule 5, para 9(a) and (b)]	Subprojects selected according to the agreed selection criteria. NNP reform became mandatory for all ULBs through a Government Order. ULBs passed relevant resolutions. Resolutions to achieve majority customer metering within 2 years after the completion of construction work pending.
Environmental	
3. The State shall undertake the Project in accordance with applicable environmental laws and regulations of the Borrower, the State, ADB's	(a) Complied. All IEEs prepared in accordance with EARP. EMPs are

LOAN COVENANTS - Loan 2638	
Project Specific Covenants	Status/Issues
<p>Environment Policy, 2002, and the EARP. In this regard, the State shall ensure the following: (a) that the design, construction, operation and implementation of all Subprojects are carried out in accordance with the EARP, and related initial environmental examinations (IEEs) or Environmental Impact Assessment (EIA) reports, and the Environment Management Plan (EMP). The IEE or EIA as applicable, including an EMP, shall be submitted to ADB for review and clearance prior to award of relevant contract, and the EMP is updated and made site-specific for each contract during the detailed engineering design. Any adverse environmental impacts arising from the construction, operation and implementation of the subproject facilities shall be minimized by implementing the EMP measures and other recommendations specified in the IEE or EIA reports as applicable. The State shall ensure that all the environmental requirements are incorporated in the bidding documents and civil works contracts under the Project. If there are changes in specific locations or major changes in alignments outside the Subproject area of influence, update the EMP. Environmental monitoring is to be undertaken by the PMU, and the results reflected in the Subproject progress reports and project completion report; and (b) that if any of the Components/Subprojects requires compliance with the 120-day advance disclosure rule under ADB's Environment Policy 2002, the summary EIA or IEE for such Components/Subprojects shall be circulated to ADB Board and made available to the general public 120 days before the ADB Board considers the same for inclusion in the Project.</p>	<p>included in bidding and contract documents. Environmental monitoring of civil works ongoing. Monitoring reports being submitted.</p> <p>(b) Not relevant for subprojects under the Tranche 2.</p>
Social	
<p>4. The State shall undertake the Project in accordance with the Borrower's laws and regulations, State's policy/law on Resettlement and Rehabilitation, ADB's Policy on Involuntary Resettlement, 1995, and the RF. The State shall ensure as possible those Subprojects that avoid and/or minimize land acquisition or involuntary resettlement. The State shall also ensure that: (a) all land and right-of-way required for any of the Subprojects are made available in a timely manner, compensations at replacement values are provided prior to the commencement of relevant civil works contracts, and involuntary resettlement including relocation, is carried out in accordance with the RF, and related resettlement plans (RPs) agreed upon between the State and ADB; (b) a RP will be prepared for each Subproject involving land acquisition or resettlement including relocation, and submitted to ADB for review and approval prior to award of any related civil works contracts. Similarly, revised RPs based on detailed designs for all Subprojects shall also be provided for ADB approval prior to award of related civil works contracts; (c) RP (and revised RP based on detailed designs as the case may be) shall be disclosed to the public in accordance with RF; and (d) quarterly progress reports, on the implementation of the RPs are submitted to ADB in accordance with the RF. (LA, Schedule 5, para 11 (a) to (d))</p>	<p>(a) Complied. (b) Complied (b) Complied. (c) Complied. Monitoring reports submitted.</p>
<p>5. The State shall ensure as possible, minimal impact on indigenous peoples in the Project. In the event of involvement of indigenous peoples in any of the subprojects, the State will ensure that the subprojects are carried out in accordance with related laws and regulations of the Borrower, the State, ADB's Policy on Indigenous Peoples, 1998 and the IPDF. (LA, Schedule 5, para 12)</p>	<p>Not applicable to tranche 2 subprojects.</p>
<p>6. The State shall ensure that civil works contracts under the Project follow all applicable 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 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 shall also include clauses for termination in case of any breach of the stated provisions by the contractors. (LA, Schedule 5, para13)</p>	<p>Partly compliant only. Efforts need to be intensified to be secured for (i) and (ii), as contractors do not always provide adequate facilities.</p>

LOAN COVENANTS - Loan 2638	
Project Specific Covenants	Status/Issues
7. The State shall ensure that the Projects shall be carried out in accordance with Gender Action Plan attached as Appendix 12 to the RRP, and ADB's Policy on Gender and Development, 1998. (LA, Schedule 5, para 14)	Ongoing. Gender action plans implemented as part of Community Development Program (Component C).
Financial	
8. 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) of the IAs, for the subprojects under relevant Components; (b) ensure adequate funds towards operations and maintenance of Project facilities, through budgetary allocations or other means, to be provided to appropriate IAs, during and after Subprojects' completion; (c) ensure sufficient funds in a timely manner for the payments to the contractors under the private sector participation contracts, by the ULBs during the implementation of the Project; and (d) relend the Loan proceeds through KUIDFC to the IAs under appropriate re-lending arrangements as acceptable to ADB. (LA, Schedule 5 para 8 (a) to (d).	Ongoing. (a) Adequate budgetary provision has been made. GoK is making allocations in every year budget. IAs are also making contribution and same is monitored regularly (b) Not yet due ULBs have been provided with sufficient grants. (c) Not yet due. Ongoing. (d) On-lending agreements are signed.
9. The State shall ensure (a) that each ULB receiving funds for sewerage Subproject shall introduce sewerage tariff and such tariff shall take effect no later than completion of related Subproject; and (b) that for each ULB receiving funds for water supply subproject, will introduce volume metric tariff in accordance with the guideline issued in the State circular UDD 64 PRJ 2009, and such tariff will take effect no later than completion of the Related Subproject. (LA, Schedule 5, para 16 (a) and (b)	(a) introduction not yet due, however, resolutions should be all passed. (b) Volumetric tariff not established yet due to absence of HH meters. Tranche 4 will selectively provide these.
10. The State shall ensure that the ULBs shall by no later than 31 December 2011, (i) take measures to significantly improve bill collection efficiency including the enforcement of existing provisions for service cut-off due to non-payment, and (ii) self assessment system or capital value system for property tax. (LA, Schedule 5, para 17)	Partly Complied with. Self assessment system/capital value system for property tax introduced but performance remains weak in some ULBs. Measures to improve bill collection efficiency have been slower than initially envisaged. Provision for financial/ commercial advisors made under Tranche 3 but not yet recruited.
11. The State and KUIDFC shall maintain records and accounts adequate to identify the Goods, Works and consulting services financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the project and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition. (PA, Section 2.06)	Complied with as per submission of financial statements.
12. Except as ADB may otherwise agree, the State and KUIDFC shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the provisions of the Loan Agreement and Project Agreement, and shall ensure that all Goods, Works and Consulting Services financed out of such proceeds are used exclusively in the carrying out of the Project. (PA Section 2.13)	Ongoing. So far compliant
13. The State and KUIDFC shall each (i) maintain separate accounts for the Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by de independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six (6) months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditor's opinion on the use of the Loan proceeds and compliance with covenants of the Loan	Complied with as per submission of financial statements. Generally compliant for FY10/11 and FY 11/12.

LOAN COVENANTS - Loan 2638	
Project Specific Covenants	Status/Issues
Agreement as well as on the use of the procedures for imprest account and statement of expenditures), all in the English language. The State and KUIDFC shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request. (PA Section 2.09(a))	
14. The State and KUIDFC shall each enable ADB, upon ADB's request, to discuss the Project related financial statements and its financial affairs from time to time with the auditors appointed by the State and KUIDFC pursuant to PA, Section 2.09(a) and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the State or KUIDFC unless the State or KUIDFC shall otherwise agree. (PA Section 2.09(b))	Ongoing
Economic	
15. The PPMS shall track the Investment Program and Project implementation activities, corresponding target dates, expected outcomes, and assigned responsibilities under a monitoring mechanism that can be used to track progress on specific activities. The PPMS shall aim to detect any deficiency and discrepancy between the plan and the execution of the Investment Program and Project in using the resources efficiently in order to ensure that timely corrections can be made to adjust the design of the Investment Program and Project. (LA Schedule 5, para 19(a)) Within 3 months of the Effective Date, the State through the PMU shall establish the PPMS in a form and substance acceptable to ADB. (LA Schedule 5, para. 19)	PPMS established and indicators are reported in QPR. PPMS submitted tracked in parallel for TPRM purposes. Baseline values have been collected. Targets are finalized.
Others	
16. Established, Staffed, and Operating PMU/PIU. The PMU as headed by the Managing Director of KUIDFC as PD at head office and by EPD at the regional office shall continue to function for the Project. The PD will continue to be responsible for overall management and implementation of the Investment Program and the Project, while the EPD, assisted by experts and officials of proper qualification and experience, shall continue to be responsible for day-to-day implementation activities of the Project. (LA, Sched 5, para 2)	Ongoing. The PMU & PIUs are adequately staffed.
17. Established, Staffed, and Operating PMU/PIU. The four Divisional Offices under the PMU, in the cities of Dharwad, Belgaum, Gulbarga and Bellary in the State, shall continue to supervise the ULBs. Each Divisional Office shall be headed by the DPD reporting to the EPD. The Divisional Offices shall be responsible for coordination of Project planning, preparation of Subprojects and cost estimates, technical guidance and supervision, financial control, training, and overall subproject monitoring, assisted by the PCs; as also to assist the ULBs in this regard for respective Components. (LA, Sched 5, para 3)	Divisional Offices established with Divisional Project Directors.
18. The IAs under the Project shall be as follows: (i) Components A and B - the respective ULBs, and for bulk water supply schemes of Component B, if any and necessary, the KUWSDB, reporting to respective DPD. (ii) Component C - KSCB, reporting to the EPD. (iii) Component D - KSFES and DITYs, reporting to the EPD. (iv) Component E - KUIDFC reporting to the PD. (LA, Schedule 5, para 4(a))	Complied. Established accordingly
19. The State shall ensure that necessary resolution shall have been passed by the relevant ULBs prior to allowing KUWSDB to undertake implementation of bulk water supply part of Component B on behalf of the ULB, as referred in clause (a) above. (LA, Sched 5, para 4(b))	KUWSDB is not an IA for tranche 2.
20. The TEC for each contract package under the Subprojects shall provide recommendations on issues related to all works, which shall subsequently be forwarded for approval to the ULB Commissioner. (LA, Schedule 5, para 5)	Tender Evaluation Committees established in accordance with the covenant.

LOAN COVENANTS - Loan 2638	
Project Specific Covenants	Status/Issues
21. The EC shall meet every quarter to review the Investment Program performance, and the Project, decide on major issues, such as counterpart funding, implementation bottlenecks, land disputes, special procurement, etc. (LA, Schedule 5, para. 6)--	Ongoing. Empowered Committee meets regularly
22. The DPSC, reporting to the EPD shall be responsible to monitor implementation of Subprojects and institutional reforms in the ULBs, as well as coordinate between various agencies regarding approvals and clearances. (LA, Schedule 5, para. 7)	District-level Program Steering Committee established and functioning.
23. Fielding of Consultants. The State and KUIDFC respectively, shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB. (PA, Section 2.03(a))	Complied with, though some difficulties some been encountered in some packages.

LOAN COVENANTS - Loan 2882	
Project Specific Covenants	Status/Issues
Sector	
1. The State shall ensure (a) that all Subprojects meet and are implemented, to the satisfaction of ADB, in accordance with the provisions set forth in Schedule 4 to the FFA; and (b) that necessary council resolutions to implement the Resolution for NNP reforms are passed in each ULB before Subprojects for that ULB are implemented. [LA, Schedule 5, para.4 (a)&(b)]	Completed. Subprojects selected according to the agreed selection criteria for Tranche 1. NNP reform became mandatory for all ULBs through the Government Order. The ULB passed the relevant resolutions.
2. 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. [LA, Schedule 5, para.4 (c)]	On-going. In the case of Yadgir, effective and rapid redressal should be secured.
3. The State shall cause KUIDFC to ensure that rehabilitation of existing distribution network is undertaken before completion of each water supply Subproject. [LA, Schedule 5, para.4 (d)]	Not yet due. Improvements will be secured through Tranche 4 in Sindhanur and Gadag.
4. The State shall ensure that timely compliance with following reform undertakings included under the Schedule 3 to the FFA are completed 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 an all Project towns. [LA, Schedule 5, para.16]	Partly Complied with. Self assessment system/capital value system for property tax introduced but performance remains weak in some ULBs
5. The EA shall take steps to ensure efficient asset management and asset replacement for all the Subproject assets under water and sewerage schemes in the ULBs. [LA, Schedule 5, para.17]	Not yet due.
6. The State shall ensure (a) that each ULB receiving funds for sewerage Subproject will introduce sewerage tariff, and such tariff shall take effect no later than completion of related Subproject; and(b) that for each ULB receiving funds for water supply subproject, will introduce volume metric tariff in accordance with the guideline issued in the State circular UDD 64 PRJ 2009, and such tariff will take effect no later than completion of the related Subproject. [LA, Schedule 5, para.18]	Partly Complied with. Self assessment system/capital value system for property tax introduced but performance remains weak in some ULBs. Measures to improve bill collection efficiency have been slower than initially envisaged. Provision for financial/ commercial advisors made under Tranche 3 but not yet recruited. Tranche 4 to provide partial coverage for metering. Balance should be provided by GOK/ULBs. Resolutions to achieve majority customer metering within 2 years after the completion of construction work must be passed.
7. The State shall ensure that the ULBs shall by no later than 31 December 2013 take measures to significantly improve bill collection efficiency including the enforcement of existing provisions for service cut-off due to non-payment.	Partly Complied with. Measures to improve bill collection efficiency have been slower than initially

LOAN COVENANTS - Loan 2882	
Project Specific Covenants	Status/Issues
[LA, Schedule 5, para.19]	envisaged. Provision for financial/commercial advisors made under Tranche 3 but not yet recruited.
8. The State shall ensure that the ULB staff shall be trained by the contractors and gradually take over the Subproject facilities. In this regard, KUIDFC shall ensure that the operations and maintenance plan shall be developed for each ULB. The plan shall also assess additional human and financial resources required by each ULB for smooth handover of Subproject facilities to the ULB. To this effect the current vacancies for the all positions including accountants in the ULBs shall be filled up at the earliest on a timely basis by the State.[LA, Schedule 5, para.20]	Not yet due.
9. Towards conservation of heritage sites, the State shall ensure that the Heritage Planning Cell undertakes preparation of a State Heritage Policy that would form part of guiding principles in the preparation of overall city master plans.[LA, Schedule 5, para.22]	The heritage Planning Cell has only just been established. The policy is to follow.
Environmental	
10. The Borrower shall ensure or cause the EA to ensure that the preparation, design, construction, implementation, operation and decommissioning of each Subproject 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 relevant IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report. [LA, Schedule 5, para. 5]	Complied with to date.
Social	
10 The Borrower shall ensure or cause the EA to ensure that all land and all rights-of-way required for a Subproject 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. [LA, Schedule 5, para. 6]	Complied with to date.
11. Without limiting the application of the Involuntary Resettlement Safeguards, the RF or the relevant RP, the Borrower shall ensure or cause the EA to ensure that no physical or economic displacement takes place in connection with the Subprojects 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. (LA, Schedule 5, para. 7)	Complied with to date.
12. With regard to the Gadag-Batageri water supply Subproject, the Borrower shall cause the EA to ensure that (a) all resettlement activities for the stretch of Gadag-Mundargi will follow the approved RP under ongoing ADB Project under Loan 2705; and (b) all resettlement activities are completed well in time to ensure for uninterrupted completion of the Subproject. (LA, Schedule 5, para. 8)	Communication between NKUSIP and KSHIP staff on-going. KUIDFC has indicated that KHSIP PIU has issued a letter consenting to lay pipes. Please provide ADB with a copy. Please also obtain written confirmation that all resettlement activities under the Gadag-Mundargi stretch have been completed in relation to stretches where the pipe is to be laid. Contract award has been agreed to conditional to the above submission prior to the start of any civil work activities. Permission to commence works is to be sought from ADB.
13. The Borrower shall ensure or cause the EA to ensure that the Project does not have any impact on indigenous peoples within the meaning of ADB's	Not applicable

LOAN COVENANTS - Loan 2882	
Project Specific Covenants	Status/Issues
Safeguard Policy Statement (2009). In the event that the Project does have any such impact, the Borrower shall ensure or cause the EA to ensure that the preparation, design, construction, implementation and operation of the relevant Subproject(s) comply with (a) all applicable laws and regulations of the Borrower 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. (LA, Schedule 5, para. 9)	
14. The Borrower shall make available or cause the EA to make available necessary budgetary and human resources to fully implement the EMPs, the RPs and any IPP. (LA, Schedule 5, para. 10)	Resources available, though vacancies noted in some subprojects
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 IEEs, the EMPs, 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 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.	Complied
16. The Borrower shall, or shall 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 IEEs, 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. (LA, Schedule 5, para. 12)	On-going
17. The Borrower shall ensure or cause the EA to ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the ADB's Safeguard Policy Statement (2009). (LA, Schedule 5, para. 13)	On-going
18. The EA shall ensure that Works contracts 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 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; (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 shall also include clauses for termination in case of any breach of the stated provisions by the contractors. (LA, Schedule 5, para. 14(a))	On-going
19. The EA shall ensure that the non-government organizations engaged under Project 2 shall assist in undertaking user behavioral change programs and public toilet management programs, both towards behavioral changes against open defecation in the Project towns. (LA, Schedule 5, para. 14(b))	On-going. NGOs are assisting the project
20. The EA shall ensure that the Project is carried out in accordance with the Gender Action Plan and the Consultation and Participation Plan for the Facility agreed upon between the Borrower, the State, KUIDFC, and ADB and	On-going. NGOs are assisting the implementation of the GAP.

LOAN COVENANTS - Loan 2882	
Project Specific Covenants	Status/Issues
included in the PAM. (LA, Schedule 5, para. 15)	
Financial	
21. The State shall 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) of relevant implementing agencies for the subprojects; [LA, Schedule 5, para. 2(a)]	Ongoing. Adequate budgetary provision has been made. GoK is making allocations in every year budget. IAs are also making contribution and same is monitored regularly
22. The State shall ensure adequate funds towards operations and maintenance of Project facilities, through budgetary allocations or other means, to be provided to appropriate implementing agencies, during and after Subprojects' completion;. [LA, Schedule 5, para. 2(b)]	Not yet due.
23. The State shall ensure sufficient funds in a timely manner for the payments to the contractors under the private sector participation contracts, by the ULBs during the implementation of the Project; [LA, Schedule 5, para. 2(c)]	Reportedly complied with under advance action.
24. The State shall relend the Loan proceeds through KUIDFC to the IAs under appropriate re-lending arrangements as acceptable to ADB. [LA, Schedule 5, para. 2(d)]	Ongoing. On-lending agreements are signed.
Economic	
25. Within 3 months of the Effective Date, the EA through the PMU shall establish the PPMS in a form and substance acceptable to ADB. The PPMS shall track the Investment Program and Project Implementation activities, corresponding target dates, expected outcomes, and assigned responsibilities under a monitoring mechanism that can be used to track progress on specific activities. The PPMS shall aim to detect any deficiency and discrepancy between the plan and the execution of the Investment Program and Project in using the resources efficiently in order to ensure that timely corrections can be made to adjust the design of the Investment Program and Project [LA, Schedule 5, para. 21(a)]	PPMS established and indicators. QPRs for Tranche 3 not yet due. PPMS indicators and baseline values yet to be submitted to ADB for review.
26. The IAs shall undertake periodic Investment Program and Subproject/ Component performance reviews to evaluate the scope, implementation arrangements, progress and achievements of objectives of the Project and the Investment Program. For Subprojects under PBDPS, PBMC, and/or other PSP modalities, performance indicators, acceptable to ADB, will be developed during the preparation of the request for proposal and draft contract documents for the respective Subprojects. [LA, Schedule 5, para. 21(b)]	On-going.
Others	
27. 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 will prevail. [LA, Schedule 5, para. 1]	On-going.
28. The Borrower, 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. [LA, Schedule 5, para. 23(a)]	On-going.
29. The Borrower, the State and KUIDFC shall ensure that the anticorruption provisions acceptable to ADB, the Borrower, 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 State and KUIDFC and all contractors, suppliers, consultants, and other service providers as they relate to the Project. [LA, Schedule 5, para. 23(b)]	On-going.

APPENDIX 3: STATUS OF SAFEGUARDS COMPLIANCE FOR PROJECTS 1, 2, AND 3 BY CONTRACT PACKAGE

A. Social Safeguards Compliance

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
Tranche 1					
1HVR1	Haveri	Water Supply	Improvements to Water Supply System - Supply & Laying DI Pumping Main from Karjagi to Heggere, construction of intake works, strengthening of distribution systems & providing & fixing bulk flow meters.	NA	NA
1HVR2	Haveri	Sewerage	Supply & Laying of New Gravity System, Constructing FAL type STP & Secondary Drainage Link.	NA	NA
01RCR01	Raichur	Water Supply	Improvements to Water Supply System at Rampur & Krishna water works.	NA	NA
01RCR02	Raichur	Sewerage	Improvements to Sewerage system & construction of 20 MLD FAL type STP and allied works for Ekhaspur zone.	NA	NA
01HPT01	Hospet	Water Supply	Improvements to Water Supply System.	NA	NA
01HPT02A	Hospet	Sewerage	Providing & laying 176 km sewer network including construction of manholes & secondary drains of length 1.75km.	NA	NA
01HPT02B	Hospet	Sewerage	Construction of 27 MLD ASP type STP including construction of 2 wet wells, pumping machineries & pumping main.	RP prepared and being implemented in line with RF for acquisition of 15.28 acres of private agricultural land at Belagodu Village. All affected landowners/people (APs) (11 landowners, 60 APs) received the land/crop compensation and subsistence allowance while provision of assistance for income restoration is under progress. Construction of two wet wells were undertaken in government lands free of encumbrances (crops, structures, trees etc.). Laying of trunk main work	Corrective Action Plan (CAP) submitted, approved and being disclosed by ADB during pipe laying.

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
				at a few locations was stopped by the adjacent landowners as construction activities damaged standing crops. A survey was carried out to estimate the losses and some of the landowners received compensation for the damage. A corrective action plan (CAP) is being prepared.	
Tranche 2					
2SCB1	Haveri & Ranebennur	Slums	Providing basic infrastructure to Islampur slum in Ranebennur & Nagendramati slum in Haveri.	NA	NA
2RNR2	Ranebennur	Sewerage	Supply & Laying of Sewerage Network & Constructing FAL type STP	A 160m stretch of trunk main was originally to be laid in an existing drain but due to technical reasons the alignment was shifted to adjacent private land. However, the pipes were subsequently taken out and the alignment is now (again) relocated on public lands. A site restoration plan is to be prepared to restore land to original condition at no cost to landowner/tenant.	A site restoration plan is under preparation to restore land to original condition at no cost to landowner/tenant.
2FES01	Dharwad and Ranebennur	Fire Fighting	Construction of 5 bay fire station, 2 twin fire officer's quarters and 20 person firemen quarters at Dharwad District and 1 twin fire officer quarters and 12 person firemen quarters at Ranebennur in Haveri District	NA	NA
2BJR2	Bijapur	Sewerage	Rehabilitation of existing Sewerage system & Interception & extension of Sewerage system to new areas (District 1A) and rehabilitation of primary storm water.	NA	NA
2BJR2A	Bijapur	Sewerage	Improvement of Sewerage system in District 2B & Construction of FAL type STP.	NA	NA
2HUB2B	Hubli Dharwad	Sewerage	Design, supply, installation, commissioning & O&M of 40 MLD STP using (SBR/CASP) process plant at Gabbur in Hubli.	RP approved by ADB and being implemented in line with RF for mitigating impacts on encroachers a total of 8 identified landowners (64 APs) were provided with subsistence allowance and land-for-land at Hireharekuni village. A total of 26 acres land (Survey	Expedite survey for identifying income restoration needs and complete RP implementation.

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
				Nos. 185/1, 56/2, 221/2) was equally distributed among 13 affected landowners. Assistance for income restoration is under progress.	
2HUB2A	Hubli Dharwad	Sewerage	Providing Sewer Trunk mains, sub mains & interceptors in sewer zone 1 & 3, sub main and force main in sewer zone-4 and construction of storm water drain.	NA	NA
2HUB2	Hubli Dharwad	Sewerage	Providing Sewer Trunk mains, sub mains & interceptors in sewer zone 2	This RP was approved by the ADB in October 2010. Impacts on all APs were addressed in line with the RP. The sewerage network is laid/being laid on the edge of the road below surface within the existing RoW however, spillover impacts occurred to adjacent landowners (crop loss, land degradation, pumping stations etc.) while laying trunk main alignment of total 1.8 km. from STP site to NH-4 bypass (from (i) existing right of way of STP approach road till old Gabbur village; and (ii) from old Gabbur village to NH-4 bypass along the natural drain). In addition, as indicated by local officials, adjacent landowner of sewage chamber claims the project land is his while local officials claim it is public land. A landowner is also asking for compensation for old pump house which is located in his land. Agricultural department office recently undertook surveys for estimating the losses.	CAP submitted and approved by ADB and being disclosed, to address impacts: (i) to adjacent lands to trunk mains affected by construction spillover, (ii) to landowner at old pump house, and (iii) clarify land ownership for sewage chamber site.
2DG01	Davangere	Water Supply	Providing & laying of Raw Water Pumping Main from Rajanahalli Head Works to Kundawada Lake, Installation of New Vertical Turbine, centrifugal pump sets, construction of 15 LL clear water storage reservoir, 20 MLD filter house and supplying & installation of bulk flow meters for water supply scheme	NA	NA
02SCB02	Gokak, Nippani, Ilkal,	Slums	Improvements to basic amenities in the 11 Slums in 6 ULBs.	NA	NA

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
	Jamkhandi, Rabkavi-Banhatti & Badami Slums				
01NPN01	Nippani	Water Supply	Improvement to Water Supply system. Rehabilitation & strengthening of electro-mechanical works, supplying & laying of DI pumping mains, providing & installation of new pumping machineries. Construction of RCC elevated service reservoirs, construction of WTP of 3.4 MLD capacity, supplying & laying distribution system using PE/DI pipes & fixing bulk flow meters.	NA	NA
02ILK01	Illikal	Water Supply	PQ for Design, supply equipment & materials and carryout civil works to improve overall water supply.	NA	NA
02IKL02	Illikal	Sewerage	Supply & Laying of Sewerage Network & Constructing STP of 8 MLD capacity & improvement of Urban Drainage system.	NA	NA
02JKD02	Jamkhandi	Sewerage	Construction of Sewerage network & FAL type STP of 7.60 MLD capacity.	NA	NA
02BDM02	Badami	Drainage	Improvements to Urban Drainage System and flood control system, constructing RCC protection walls for Nala no.1, RCC covered drain for Nala no.2, constructing RCC draian for Nala no.3 and territory drains.	No LA and R&R impacts	NA
2GKK01	Gokak	Water Supply	Improvement to Water Supply system for providing &	NA	NA

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
			installation of new pumping machineries, 399 KVA DG set, construction of DG set room, supplying & laying distribution system using PE/DI pipes, fixing bulk flow meters & rehabilitation works.		
02GKK02	Gokak	Sewerage	Construction of Sewerage network & FAL type STP of 8.70 MLD capacity.	NA	NA
2RBK02	Rabkavi Banahatti	Sewerage	Construction of Sewerage Network and FAL type STP of 9.20 MLD capacity	RP was prepared for STP site which was approved by the ADB. The proposed private land acquisition of 8.18 acres (1.5 Km from the Rabkkavi town on Asangi Road) belonged to one landowner (13 APs). Impacts on all APs were addressed in line with RF. Landowner was against land acquisition in the public interest and hence had approached Court. However, the case is dismissed. Landowner yet to take the total compensation amount that is already deposited in an ESCROW account. STP site will require additional land for approach road to be developed.	CAP submitted and approved by ADB and being disclosed to address impacts for additional land for approach road.
1GLB04	Gulbarga	Sanitation	Construction of toilet block in Buddha Vihar.	NA	NA
2GLB02	Gulbarga	Sewerage	Rehabilitation of existing sewerage system, extension of sewerage system to new areas, new STP/ASP	RP prepared for STP site which was approved by the ADB in March 2012. A total of 11 landowners (69 APs) were affected due to proposed land acquisition of 30.25 acres in Nandikur village. All APs received compensation and subsistence allowance. Implementing NGO conducted survey for identifying needs for income restoration activities.	NA
2YGR01	Yadgir	Water Supply	Rehabilitation of existing rising main and distribution system.	NA	NA
2SCB03	Basavakalya, Yadgir & Shahabad Slums	Slums	Improvements to basic amenities in the 11 Slums in 6 ULBs. (drains, roads, toilets, dust bins).	NA	NA
2FES03	Yadgir	Fire Fighting	Construction of one twin fire officer's quarters and 12 person	NA	NA

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
			firemen quarters.		
2SBD01	Shahabad	Water Supply	Construction of new Bulk Water Supply System, Rehabilitation of distribution system & new WTP	RP was prepared during the project preparation stage for WTP. However, later it was confirmed that, part of the land required for WTP site belonged to ULB. Landowner is in process of transferring old ownership records (some ownership issues, related to death etc.) and will accept the payment after ownership records are clarified with ULB. Funds deposited in escrow account.	Pay compensation once ownership issues resolved.
2BDR01	Bidar	Water Supply	New Bulk Water Supply & New WTP	RP prepared for Water Treatment Plant (WTP) site for acquisition of 10 acres of private land in Halahalli village. This RP documented impacts on total 10 landowners and 94 APs. However Landowners/APs were revised based on verification of land records. A revised RP was submitted and approved by ADB in July 2013. Revised RP indicate impact on four landowners and 18 APs. Impacts on all APs were addressed in line with ADB's safeguard policies and NKUSIP Resettlement Framework. All APs have received compensation and subsistence allowance while recently implementing NGO is currently undertaking survey for identifying needs for income restoration activities.	NA
2BDR01A	Bidar	Water Supply	Rehabilitation of distribution system.	NA	NA
2BDR02	Bidar	Sewerage	New sewerage system, new STP(FAL)	RP approved for STP site for acquisition of 53.55 acres of private land in Gournahalli village. This RP documented impacts on total of 10 landowners and 75 APs. Land owners objected to developing the land for STP purpose. They were of opinion that the land had higher potential for residential development. A case was filed in the court which was subsequently dismissed by the court in September 2010. STP construction was initiated in February 2012 but was put on hold as landowners approached KSPCB (pollution control board). KSPCB advised to stop the work and set up panel to resolve the matter. None of the landowners took the compensation which is available in an ESCROW account.	Resolve issue with KSPCB and inform ADB of outcome. Pay compensation once issues resolved.
2DIC01	Bidar	Municipal	Construction of district	NA	NA

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
		Services	information center.		
2BSK01	Basavakalyan	Water Supply	New Bulk Water Supply system, rehabilitation and distribution system.	RP approved for Jack Well and Break Pressure Tank sites for acquisition of total 1.44 acres. (For Break Pressure tank: 0.62 acres in Survey No. 63 of Gudigound Gaon Village; and For Jack Well: 0.82 acres in Survey No. 398 of Hulsur Village). The RP documented impacts on total 2 landowners and 11 APs. Both the landowners received land compensation (April 2012) and subsistence allowance (March 13). Laying of bulk water supply line from jack well to break pressure tank resulted in spill over of construction activities and vehicle movement into adjacent private agricultural lands leading to crop damage. Currently, these losses are paid but a CAP to be prepared.	Submit draft CAP to ADB for review to address additional impacts to agricultural lands during pipe laying works on or before 31 December 2013.
1BSK04	Basavakalyan	Tourism	Tourism infrastructure works (food court, bollard line, mantapa, toilet block, open air theater, landscaping).	NA	NA
2FES3(A)	Basavakalyan	Fire Fighting	Construction of one twin fire officer's quarters and 12 person firemen quarters.	NA	NA
2GTI01	Gangavati	Drainage	Construction of Storm Water Drains - construction of secondary drains linking to primary drain for length 8.4 km of different sizes and sections, construction of RCC box culvert.	NA	NA
2SCB04	Gangavati	Slums	Slum improvement works.	NA	NA
02FES04	Gangavati	Fire Fighting	Construction of one twin fire officers qtrs & 12 person fireman qtrs.	NA	NA
02SCB06	Chamarajana gar	Slums	Slum Improvement works	NA	NA
02CRN01	Chamarajana gar	Water Supply	Improvements to Water Supply System including rehabilitation of raw water rising main and WTP, construction of RCC ELSR &	NA	NA

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
			distribution system for 58 KM.		
02DIC03	Chamarajana gar	Municipal Services	Construction of district information center.	NA	NA
02CRN02	Chamarajana gar	Sewerage	Providing sewerage collection system & construction of 9.0 MLD FAL type STP & allied works & construction of storm water drains.	RP prepared for acquisition of around 16.40 acres land for STP. The RP documented impacts on total 9 landowners and 63 APs. Two landowners experiencing difficulty in proving ownership with ULB. Once these issues are resolved, these APs can take compensation which is available in escrow account. NGOs are currently conducting survey for identifying income restoration needs of 7 vulnerable households.	Pay compensation once ownership of land is clear.
02SCB05	Koppal & Sindhanu	Slums	Slum Improvement works in 2 ULBs.	NA	NA
02KPL02	Koppal	Sewerage	Improvement of sewerage system including STP.	NA	NA
02FES04	Sindhanur	Fire Fighting	Construction of one twin fire officers qtrs & 12 person fireman qtrs.	NA	NA
02BLY01A	Bellary	Water Supply	Construction of Head Works at moka consisting of intake well, connecting conduit, jack well cum pump house including electrical & mechanical works, providing rising mains of 1219 mm MS pipe of 11000 mts length from moka jack well to new WTP site at Sanganakal & 700 mm DI pipe of 3300 mts from Sanganakal WTP pere water sump to MBR-2 at Narayana Rao Park in Bellary including supply & erection of flow meters.	NA	NA
02BLY01B	Bellary	Water Supply	Construction of new 20 MLD WTP at Sanganakal and 15 MLD WTP at Allipur including all allied electro-mechanical equipments, providing pumping machinaries	NA	NA

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
			for pumping to Narayana Rao Park, providing 1067 mm MS rising main of 9300 mts from junction point at Sanganakal to Allipur WTP, rising main of 1067 mm MS pipe from Allipur WTP to MBR -1 at Karimarammana Gudi, pumping machineries t new clear water sump at Allipur, etc including supply & erection of flow meters.		
02BLY01C	Bellary	Water Supply	Providing feeder mains of 22.62 kms of sizes 711mm, 762mm, and 1219 mm MS pipe length 3715 mts and 150 mm to 600 mm DI pipes - 18900 mts from MBR 1 and MBR 2 to the various ELSRs, providing 169 kms distribution system for Moka cluster, Sanganakal cluster and Allipur cluster of sizes 150mm to 350 mm DI and 90 mm to 200 mm HDPE, construction of one elevated MBR-2 of 1.5 ML & 2 ELSRs of 1.0 ML and one of 1.5 ML and inter linking gravity main at Allipur impounding reservoir with 400 mts of MS 900 mm pipe, supply, erection of bulk flow meters etc.	NA	NA
02RCH02	Raichur	Sanitation Infrastructure	Additional Sewage Treatment Plant (STP) at Hosur under Tranche-2	RP prepared for Sewage Treatment Plant (STP) site during project preparation stage of Tranche 1 for acquisition of around 18.31 acres at Hosur; however construction of this STP was subsequently cancelled due to lack of financing, but will now be taken up again under savings of Tranche 2. Considering the need for an additional STP, Raichur ULB acquired the proposed land (around 10 acres in September 2010) and an	Updated RP approved by ADB and disclosed. Implementation completed.

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
				update RP is required.	
Tranche 3					
03BDR02	Bidar	Sanitation Infrastructure	Extension of Sewerage System in New Area.	NA	NA
03BDR02A	Bidar	Sanitation Infrastructure	Improvement to Khandak in Bidar	NA	NA
03DR03	Bidar	Non-Municipal Infrastructure	Tourism works in Bidar	NA	NA
03DVG02	Davangere	Sanitation Infrastructure	Laying of Trunk Mains, Sub Mains & Interceptors in Drainage District-1.	NA	NA
03DVG02A	Davangere	Sanitation Infrastructure	Design, Supply Installation, Commissioning and O&M of STP & Rehabilitation of existing STP in Drainage District – 1.	NA	NA
03DW02	Dharwad	Sanitation Infrastructure	Improving Sewerage System in district 6 & 10 of Dharwad.	NA	NA
03DW02A	Dharwad	Sanitation Infrastructure	Design, Supply, Installation, Commissioning and O&M of 20 MLD STP	NA	NA
03GDG01	Gadag Betageri	Water supply	Bulk water supply works in Gadag Betageri	NA	NA
03GDG01A	Gadag Betageri	Water supply	Construction of Water treatment plant in Gadag Betageri.	NA	NA
03GUB02	Gulbarga	Sanitation Infrastructure	Sewerage System for Gulbarga.	NA	NA
03JKD03	Jamkhandi	Non-Municipal Infrastructure	Lake Development in Jamkhandi	NA	NA
03SND02	Sindhanur	Sanitation Infrastructure	Providing sewerage collection system in core area (Zone-2) and construction of 12 MLD FAL type STP and allied works.	Government lands free of encumbrances (crops, structures, etc.) are identified for construction of wet wells while Sewage Treatment Plant (STP) site was directly negotiated with landowners in March 2011 (20.16 acres; 5 landowners). Negotiation confirmed to be agreeable to all parties.	NA
03SND01	Sindhanur	Water supply	Improvements to Water Supply	Construction of OHTs (5 nos.) will be undertaken in	NA

Package No.	ULB	Sector	Package Description	Social Safeguards Compliance	Actions
			consisting of construction of Impounding Reservoir. Head works @ Turvihal village, Raw Water Gravity Main, Feeder Main, Distribution Network, 10 MLD WTP with allied works including construction of ELSRs and installation of Bulk Flow Meters.	government lands free of encumbrances (crops, structures, etc.), improvements to water treatment plant will be carried out within existing premises while gravity main will be laid along state highway within the existing available RoW. Private land was required for construction of Impounding Reservoir and was directly negotiated with landowners in May 2011. Negotiation confirmed to be agreeable to all parties.	
03YGR02	Yadgir	Sanitation Infrastructure	Sewerage System and STP for Yadgir	RP prepared for Wet Well and Sewage Treatment Plant (STP) sites for acquisition of total 22.25 acres at M. Hosalli Village. (For Wet Well: 0.25 acres and for STP: 22.0 acres). The RP documented impacts on total 7 landowners and 37 APs. Impacts on all APs were addressed in line with ADB's safeguard policies and NKUSIP Resettlement Framework (RF). Landowners had approached the Court against the land acquisition process however the case was dismissed. None of the landowners still have accepted any compensation amount which is deposited in ESCROW account.	NA

B. Environmental Safeguards Compliance

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
Tranche 1					
01HVR1	Haveri	Water Supply	Improvements to water supply System - Supply & Laying DI Pumping Main from Karjagi to Heggere, construction of intake works, strengthening of distribution systems & providing & fixing bulk flow meters.	Consent for Establishment (CFE) not required. IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. Forest Clearance obtained. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	Include in next semi-annual report the status of post-construction clean-up.
01HVR2	Haveri	Sewerage	Supply & Laying of New Gravity System, Constructing FAL type STP & Secondary Drainage Link	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. Request for renewal of CFE submitted to Karnataka State Pollution Control Board (KSPCB). EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. While no visible structures around the STP site, except for construction campsite, the design layout does not include green belt around STP as per CFEs requirements. Design currently is for discharge to the Nalla. This is not consistent with the CFE. CFE requires treated sewage to be used for irrigation. 500 mt zone required. Planning Department issued notification to ULB. Non workers observed onsite who should be kept off. UGD works all completed and roads and infrastructure reinstated to original status.	Renew expired permits. Keep non-workers away from site.
01RCR01	Raichur	Water Supply	Improvements to Water Supply System at Rampur & Krishna water works.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
01RCR02	Raichur	Sewerage	Improvements to Sewerage system & construction of 20 MLD FAL type STP and	CFE expired. Request for renewal submitted to KSPCB. IEE approved by ADB and included in bidding and contract documents. Posted on ADB	Renew expired permits. Close supervision of EMP during construction to avoid

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
			allied works for Eklaspur zone.	and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Currently, STP site can be approached through a narrow road and there is a possibility of spilling over of construction activities into private lands leading to crop loss. Careful supervision of construction is required. No LA impacts or temporary impacts are envisaged while laying trunk main.	spillover into private lands
01HPT01	Hospet	Water Supply	Improvements to Water Supply System	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
01HPT02A	Hospet	Sewerage	Providing & laying 176 km sewer network including construction of manholes & secondary drains of length 1.75km.	CFE not required. IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
01HPT02B	Hospet	Sewerage	Construction of 27 MLD ASP type STP including construction of 2 wet wells, pumping machinaries & pumping main.	CFE valid until 10-Dec-2014. IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
Tranche 2					
2SCB1	Haveri & Ranebennur	Slums	Providing basic infrastructure to Islampur slum in Ranebenur & Nagendramati slum in Haveri.	Works completed.	NA
2RNR2	Ranebennur	Sewerage	Supply & Laying of Sewerage Network & Constructing FAL type STP	CFE expired. Request for renewal submitted to KSPCB. IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. PMU submitted to ADB	Renew expired permits. Improve OHS on site amongst workers. Sensitize all contractors and enforce

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
				semi-annual environmental monitoring report on EMP compliance. EMP being implemented and monitored but room for improvement. Excavated materials are left uncovered. No signs or barricades around the construction area. Excess construction materials were observed to be scattered on STP site. OHS to be improved.	zero tolerance for non-compliance of core labor practices. Post safety guidance at visible locations at construction sites.
2FES01	Dharwad and Ranebennur	Fire Fighting	Construction of 5 bay fire station, 2 twin fire officer's quarters and 20 person firemen quarters at Dharwad District and 1 twin fire officer quarters and 12 person firemen quarters at Ranebennur in Haveri District	Works completed.	NA
2BJR2	Bijapur	Sewerage	Rehabilitation of existing Sewerage system & Interception & extension of Sewerage system to new areas (District 1A) and rehabilitation of primary storm water.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. OHS to be improved.	Improve OHS on site amongst workers. Sensitize all contractors and enforce zero tolerance for non-compliance of core labor practices. Post safety guidance at visible locations at construction sites.
2BJR2A	Bijapur	Sewerage	Improvement of Sewerage system in District 2B & Construction of FAL type STP.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Buffer distance needs to be enforced for future development. Path appears to be slippery and muddy which could be a slip hazard for the workers.	Improve OHS on site amongst workers.
2HUB2B	Hubli Dharwad	Sewerage	Design, supply, installation, commissioning & O&M of 40 MLD STP using (SBR/CASP) process plant	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual	Improve OHS on site amongst workers.

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
			at Gabbur in Hubli.	environmental monitoring report on EMP compliance. Improve OHS amongst workers.	
2HUB2A	Hubli Dharwad	Sewerage	Providing Sewer Trunk mains, sub mains & interceptors in sewer zone 1 & 3, sub main and force main in sewer zone-4 and construction of storm water drain	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Improve OHS amongst workers.	Improve OHS on site amongst workers. Sensitize all contractors and enforce zero tolerance for non-compliance of core labor practices. Post safety guidance at visible locations at construction sites.
2HUB2	Hubli Dharwad	Sewerage	Providing Sewer Trunk mains, sub mains & interceptors in sewer zone 2	CFE not required. IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2DG01	Davangere	Water Supply	Providing & laying of Raw Water Pumping Main from Rajanahalli Head Works to Kundawada Lake, Installation of New Vertical Turbine, centrifugal pump sets, construction of 15 LL clear water storage reservoir, 20 MLD filter house and supplying & installation of bulk flow meters for water supply scheme	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02SCB02	Gokak, Nippani, Ilkal, Jamkhandi, Rabkavi-Banhatti & Badami Slums	Slums	Improvements to basic amenities in the 11 Slums in 6 ULBs.	Works completed.	NA
01NPN01	Nippani	Water Supply	Improvement to Water Supply system.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and	Fence off construction site to keep non-workers away.

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
			Rehabilitation & strengthening of electro-mechanical works, supplying & laying of DI pumping mains, providing & installation of new pumping machineries. Construction of RCC elevated service reservoirs, construction of WTP of 3.4 MLD capacity, supplying & laying distribution system using PE/DI pipes & fixing bulk flow meters.	KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Non workers observed near the construction site creates hazards. Fencing required.	
02ILK01	Illkal	Water Supply	PQ for Design, supply equipment & materials and carryout civil works to improve overall water supply	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Trench left open at pipe laying site for 10 days with stockpile at the edge of the road with no cover, no signs and affecting school access (no temporary slabs provided and path is muddy and slippery).	Contractor to put up signs, clean excess spoil blocking access to school gate and provide temporary planks for safe access.
02IKL02	Illkal	Sewerage	Supply & Laying of Sewerage Network & Constructing STP of 8 MLD capacity & improvement of Urban Drainage system.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Works currently stopped due to contractor issues.	NA
02JKD02	Jamkhandi	Sewerage	Construction of Sewerage network & FAL type STP of 7.60 MLD capacity.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. No sanitation facilities on site for the laborers. 100m buffer needs to maintained for	Provide toilet facilities to laborers. Enforce buffer zone. Close supervision of EMP during construction to avoid spillover into private lands

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
				future development activities. Laying of trunk/sub mains needs to close supervision to avoid spillover of spoil onto adjacent lands.	
02BDM02	Badami	Drainage	Improvements to Urban Drainage System and flood control system, constructing RCC protection walls for Nala no.1, RCC covered drain for Nala no.2, constructing RCC drain for Nala no.3 and territory drains.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Solid waste and sludge present in the drain already (after 1 year of completion)	The ULB advised that desilting will begin shortly. NGO advised to include behavioral change campaign on solid waste management for residents adjacent to the drains.
02GKK01	Gokak	Water Supply	Improvement to Water Supply system for providing & installation of new pumping machineries, 399 KVA DG set, construction of DG set room, supplying & laying distribution system using PE/DI pipes, fixing bulk flow meters & rehabilitation works.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	NA
02GKK02	Gokak	Sewerage	Sewerage and sanitation	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2RBK02	Rabkavi Banahatti	Sewerage	Supplying and laying of sewerage network and construction of FAL type (9.2 MLD)	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. No fence established to secure the STP site. New approach road identified and not in IEE. RP being updated. Close supervision of EMP during construction to avoid spillover into private lands.	ULB agreed to fence off STP site to secure the land. Update IEE to include new approach road. RP being updated. Close supervision of EMP during construction to avoid spillover into private lands.

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
1GLB04	Gulbarga	Sanitation	Construction of toilet block in Buddha Vihar	Works completed.	NA
2GLB02	Gulbarga	Sewerage	Rehabilitation of existing sewerage system, extension of sewerage system to new areas, new STP/ASP	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance. Fencing of acquired land to avoid possibility of encroachment.	Fencing of acquired land to avoid possibility of encroachment.
2YGR01	Yadgir	Water Supply	Rehabilitation of existing rising main and distribution system	CFE not required. IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2SCB03	Basavakalya, Yadgir & Shahabad Slums	Slums	Improvements to basic amenities in the 11 Slums in 6 ULBs. (drains, roads, toilets, dust bins)	Works completed.	NA
2FES03	Yadgir	Fire Fighting	Construction of one twin fire officer's quarters and 12 person firemen quarters	Works completed.	NA
2SBD01	Shahabad	Water Supply	Construction of new Bulk Water Supply System, Rehabilitation of distribution system & new WTP	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2BDR01	Bidar	Water Supply	New Bulk Water Supply & New WTP	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2BDR01A	Bidar	Water Supply	Rehabilitation of distribution system	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual	

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
				environmental monitoring report on EMP compliance.	
2BDR02	Bidar	Sewerage	New sewerage system, new STP(FAL)	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2DIC01	Bidar	Municipal Services	Construction of district information center	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2BSK01	Basavakalyan	Water Supply	New Bulk Water Supply system, rehabilitation and distribution system	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
1BSK04	Basavkalyan	Tourism	Tourism infrastructure works (food court, bollard line, mantapa, toilet block, open air theater, landscaping)	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2FES3(A)	Basavakalyan	Fire Fighting	Construction of one twin fire officer's quarters and 12 person firemen quarters	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
2GTI01	Gangavati	Drainage	Construction of Storm Water Drains - construction of secondary drains linking to primary drain for length 8.4 km of different sizes and sections, construction of	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
			RCC box culvert.		
2SCB04	Gangavati	Slums	Slum improvement works	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02FES04	Gangavati	Fire Fighting	Construction of one twin fire officers qtrs & 12 person fireman qtrs.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02SCB06	Chamarajana gar	Slums	Slum Improvement works	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02CRN01	Chamarajana gar	Water Supply	Improvements to Water Supply System including rehabilitation of raw water rising main and WTP, construction of RCC ELSR & distribution system for 58 KM.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02DIC03	Chamarajana gar	Municipal Services	Construction of district information center	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02CRN02	Chamarajana gar	Sewerage	Providing sewerage collection system & construction of 9.0 MLD FAL type STP & allied works & construction of storm water drains.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	KUIDFC to confirm if land ownership for trunk main alignment is private land, if so, then KUIDFC to submit a CAP to ADB for review and approval to address

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
					private land acquisition.
02SCB05	Koppal & Sindhanu	Slums	Slum Improvement works in 2 ULBs	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02KPL02	Koppal	Sewerage	Improvement of sewerage system including STP	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02FES04	Sindhanur	Fire Fighting	Construction of one twin fire officers qtrs & 12 person fireman qtrs.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02BLY01A	Bellary	Water Supply	Construction of Head Works at moka consisting of intake well, connecting conduit, jack well cum pump house including electrical & mechanical works, providing rising mains of 1219 mm MS pipe of 11000 mts length from moka jack well to new WTP site at Sanganakal & 700 mm DI pipe of 3300 mts from Sanganakal WTP pere water sump to MBR-2 at Narayana Rao Park in Bellary including supply & erection of flow meters.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02BLY01B	Bellary	Water Supply	Construction of new 20 MLD WTP at Sanganakal and 15 MLD WTP at Allipur	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and	

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
			including all allied electro-mechanical equipments, providing pumping machineries for pumping to Narayana Rao Park, providing 1067 mm MS rising main of 9300 mts from junction point at Sanganakal to Allipur WTP, rising main of 1067 mm MS pipe from Allipur WTP to MBR -1 at Karimarammana Gudi, pumping machineries to new clear water sump at Allipur, etc including supply & erection of flow meters.	monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	
02BLY01C	Bellary	Water Supply	Providing feeder mains of 22.62 kms of sizes 711mm, 762mm, and 1219 mm MS pipe length 3715 mts and 150 mm to 600 mm DI pipes - 18900 mts from MBR 1 and MBR 2 to the various ELSRs, providing 169 kms distribution system for Moka cluster, Sanganakal cluster and Allipur cluster of sizes 150mm to 350 mm DI and 90 mm to 200 mm HDPE, construction of one elevated MBR-2 of 1.5 ML & 2 ELSRs of 1.0 ML and one of 1.5 ML and inter linking gravity main at Allipur impounding reservoir with 400 mts of MS 900 mm pipe, supply, erection of bulk flow meters etc.	IEE approved by ADB and included in bidding and contract documents. Posted on ADB and KUIDFC websites. EMP being implemented and monitored. PMU submitted to ADB semi-annual environmental monitoring report on EMP compliance.	

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
Tranche 3					
03BDR02	Bidar	Sanitation Infrastructure	Sewerage System for Bidar	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03BDR02A	Bidar	Sanitation Infrastructure	Improvement to Khandak in Bidar	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03DR03	Bidar	Non-Municipal Infrastructure	Tourism works in Bidar	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03DVG02	Davangere	Sanitation Infrastructure	Laying of trunk mains, sub-mains, and interceptors in drainage District-1	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03DVG02A	Davangere	Sanitation Infrastructure	Design, supply, installation, commissioning and O&M of 20 MLD STP (SBR)	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03DWD02	Dharwad	Sanitation Infrastructure	Improving sewerage system in Districts 6 and 10 of Dharwad City	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03DWD02 A	Dharwad	Sanitation Infrastructure	Design, supply, installation, commissioning and operation and maintenance of 20 MLD STP using SBR technology at Madhihal	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03GDG01	Gadag Betageri	Water supply	Design, supply, installation, testing and commissioning of headworks and rising main; and O&M for 3 years	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03GDG01A	Gadag Betageri	Water supply	Design, supply, installation, testing and commissioning of 26.30 MLD WTP at Singataryanake, gravity main from WTP to Point "A" and distribution network for HUDCO colony Zone-2; and O&M for 3 years	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03GUB02	Gulbarga	Sanitation Infrastructure	Sewerage System for Gulbarga	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.

Package No.	ULB	Sector	Package Description	Environmental Safeguards Compliance	Actions
				websites. No on-going construction works yet.	
03JKD03	Jamkhandi	Non-Municipal Infrastructure	Lake improvement	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03SND02	Sindhanur	Sanitation Infrastructure	Sewerage and water System for Sindhanur	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet. STP site is approached through a small narrow road and there is a possibility of spilling over of construction activities into private lands.	Include IEE in contract documents. Close supervision of EMP during construction to avoid spillover into private lands.
03SND01	Sindhanur	Water supply	Water supply impounding reservoir and headworks.	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.
03YGR02	Yadgir	Sanitation Infrastructure	Construction of 5.50 MLD STP (FAL), truck, sub-trunk, and laterals (72.6 km), and proposed house connections (10,167 numbers)	IEE approved by ADB and referenced in bidding documents. Posted on ADB and KUIDFC websites. No on-going construction works yet.	Include IEE in contract documents.

APPENDIX 4: DESIGN AND MONITORING FRAMEWORK
NORTH KARNATAKA URBAN SECTOR INVESTMENT PROGRAM PROJECT 4

Design Summary	Performance targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved quality of life in 14 ULBs in North Karnataka	By 2020 Access to water increased from less than 2 hours daily (2013) to continuous (24/7) supply in 12 target ULBs	KUIDFC PPMS and ULB reports	Assumption Political support for investments in North Karnataka will continue
Outcome Improved urban service delivery in 14 ULBs in North Karnataka	Water Supply, by 2017 Household coverage for improved water supply (from 64% average in 2013 to 91% in 2017 on average) for 12 target ULBs, to include poor and FHHs Supply volume per capita per day increased (Target: 100 lpcd, from average 60 lpcd in 2013) Water supplied to GOI water quality standards (baseline: non-compliant) Sanitation, by 2017 Household coverage of improved sewerage (from 20% in 2013 to 60% in 2017 on average) for 3 target ULBs, to include poor and FHHs Sewerage discharge meets KSPCB standards (baseline: non-compliant) Reforms, by 2017 Mainstreaming 24/7 PBMC in the water delivery (baseline = 0; target = 12 ULBs)	ULB Statistics ULB and SPCB reports ULB and SPCB reports KUIDFC PPMS and reports, ULB Statistics KUIDFC PPMS and reports	Assumptions ULB committed to timely implementation of the institutional and financial reforms required to improve service delivery Risks Insufficient water and sewerage tariff collection
Outputs 1. Upgraded water supply network	By 2017: 128,000 additional HHs connected to water network, including poor and FHHs (3-15%) Water supply pipes installed or rehabilitated (Target: 1800 km) Reservoirs rehabilitated and new (Target: 29 ML) New HH meters installed (289,000) PBMCs in ULBs (baseline: 0 ULB, target: 12 ULBs)	KUIDFC PPMS and reports KUIDFC PPMS and reports KUIDFC PPMS and reports KUIDFC PPMS and reports KUIDFC PPMS and reports	
2. Expanded sewerage infrastructure	By 2017: 45,000 additional HHs served with sewers in 3 ULBs, including poor and FHHs (8-15%) Wastewater treatment capacity increased (Target: 51 MLD) New sewers constructed (Target: 295 km)	KUIDFC PPMS and reports KUIDFC PPMS and reports KUIDFC PPMS and reports	Risks Insufficient uptake of connections by households to the sewerage network
3. Improved roads and lake development infrastructure	By 2017: Urban roads upgraded in program ULBs (Target: 6 km) Drains/interceptors improved (Target: 1.6 km)	KUIDFC PPMS and reports KUIDFC PPMS and reports	
4. Strengthened service delivery	By end 2017 Capacity development program in PPP	KUIDFC PPMS and	Assumptions Staff who receive training

Design Summary	Performance targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
management capacity	and performance based contracting delivered to project staff, consultants and contractors (Target: >150; F:M at least 25:75). Skills development training towards plumbing certification developed and delivered to contractors (Target: >120; F:M at least 10:90).	SIUD Reports KUIDFC PPMS and SIUD Reports	continue on the project.
5. Enhanced project management and implementation capacity	By 2017 Project implementation training on safeguards delivered to project staff, consultants and contractors (Target: >150; F:M 25:75). The project is implemented on time and within budget	KUIDFC PPMS TPRM statistics	
Activities with Milestones 1. Activities for Outputs 1, 2 and 3 1.1 Issue bidding documents by November 2013 1.2 Obtain statutory clearances by December 2013 1.3 Award all contracts by May 2014 1.4 Construct and commission water, sanitation and other municipal infrastructure by September 2016 2. Activities for Output 4 2.1. Assign additional municipal staff to strengthen water supply contract management by December 2013. 2.2. Conduct capacity development training in PPP and performance based contract management) to 150 PMU and PIU, consultant and contract staff from December 2014 to September 2016 2.3. Conduct skills development training in plumbing and contractors to achieve certification from December 2014 to September 2016 3. Activities for Output 5 3.1 Conduct project implementation training in safeguards to 150 PMU and PIU, consultant and contract staff from December 2014 to September 2016		Inputs ADB OCR Loan: \$63.3 million Government of Karnataka: \$27.8 million and ULBs	

ADB = Asian Development Bank, FHH = female-headed household, F:M = female-male ratio, GOI = Government of India, HH = household, KSPCB = Karnataka State Pollution Control Board Standards, KUIDFC = Karnataka Urban Infrastructure Development and Finance Corporation Limited, km = kilometer, lpcd = liters per capita per day, MLD = million liters per day, PBMC = performance-based management contract, PIU = project implementation unit, PMU = project management unit, PPMS = KUIDFC's project performance monitoring system, PPP = public-private partnership, SIUD = State Institute for Urban development, SPCB = State Pollution Control Board, TPRM = tripartite portfolio review meeting, ULB = urban local body.

APPENDIX 5: CONTRIBUTION TO THE ADB RESULTS FRAMEWORK

Level 2 Results Framework Indicators			
No.	(Key Outputs and Beneficiaries)	Targets	Methods / Comments
1	Water supply pipes installed or upgraded (length of network in kilometers)	1,800	
2	Households with new or improved water supply (number)	40,000	Project 4 will provide 128,000 new connections. As there is overlap with coverage provided in previous tranches, the target shown here is the net value after subtracting household coverage in previous tranches in the 12 targeted ULBs. As packages for sewerage and wastewater treatment in Haveri, Hospet and Raichur will be financed from both Project 1 and Project 4, target values have been retained here, given that Project 1 will close in December 2013, but the outputs will be delivered post completion through Project 4.
3	Wastewater treatment capacity added or improved (cubic meters per day)	51,000	
4	Households with new or improved sanitation (number)	45,000	

ADB = Asian Development Bank.

Sources: Asian Development Bank estimates.

APPENDIX 6: PROJECT ADMINISTRATION MANUAL
P38254-NORTH KARNATAKA URBAN SECTOR INVESTMENT PROGRAM PROJECT 4
(on a separate volume)

APPENDIX 7: ECONOMIC ANALYSIS

A. Introduction

1. **Karnataka.** Karnataka is the fourth most urbanized state in India, with 34% of the State's 52.7 million people living in urban areas. The state is also one of the top ten states by GDP and has experienced a compound annual growth rate of over 7% per annual¹ since FY2007-2008.

2. The state's rapid growth in economic activities, in particular, in the tertiary sector has centred around Bangalore in the Southern part of Karnataka and resulted in uneven economic development within the state. North Karnataka lags behind in economic growth, urban infrastructure development, and poverty reduction. Recognizing the importance of urbanization to economic growth, the Government of Karnataka (GoK) has emphasized on urban development in North Karnataka through various national as well foreign aided programs.

B. Economic Analysis of Project 4

3. The Investment Program in the macroeconomic context was explained in the economic analysis in the Report and Recommendations of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for North Karnataka Urban Sector Development Investment Program. (Manila 2006). This economic analysis is designated for Project 4, which will commence in FY2013 with expected completion in FY2016.

4. A detailed economic analysis of the subprojects under Project 4 was conducted and the salient features of the analysis are summarized below in this Appendix. As Project 4 is formulated as sector lending, the economic analysis follows ADB's Technical Note Series No.14 (2005), Assessing Aid for a Sector Development Plan: Economic Analysis of a Sector Loan.

5. **Rationale for Government Involvement.** The government intervention under Project 4 is limited to basic urban services where (i) there is natural monopoly in the sector; (ii) the services provided are public good; and (iii) integrated and coordinated management by the government is required due to externality and interdependence of these sectors. The government involvement in basic urban services is also in line with the urban sector development plans and programs that the government is pursuing. Private sector participation in water supply subprojects will be undertaken in Project 4, through performance-based management contracts. Operational and managerial efficiency gains are expected to result from this initiative.

6. **Goals of the Project.** The goals of Project 4 are to increase economic potential through development of basic urban infrastructure in the selected Urban Local Bodies (ULBs) of the state. Under Project 4, 14 ULBs were strategically selected to maximize the Project's contribution to balanced economic growth potential. The 14 selected ULBs are medium sized cities and towns and are either major tourism centers or primary markets for the respective hinterland.

7. **Sector Development Plan.** Project 4 will cover part of the 10-year period financing requirements in the selected 14 ULBs. Each ULB has prepared a city level infrastructure plan (CLIP) which identifies infrastructure gaps, develops and prioritizes options to close the gaps,

¹ Estimated based on Net State GDP at factor cost. Source : Economic Review of GoK 2011-12.

proposes subprojects in each urban sub-sector, and recommends an institutional and financial mechanism to sustain the improved service delivery.

8. **Associated Economic Policies.** Promoting urban development is a national policy of India, as spearheaded by Jawaharlal Nehru Urban Renewal Mission (JNNRUM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT). The state has already taken up initiatives under State Urban Agenda for Karnataka (SUARAJ) to advance priority projects and governance reforms. Tariff and user charge reform is part of Project 4 and the Investment Program. The state has also issued Government Order No. NAE o7 UWS 2011, Bangalore dated 21st July 2011, to provide guidance on implementing volumetric water tariff and flat sewer tariff by the ULBs. All of the 14 selected ULBs excepting Gadag, have adopted the water tariff rates endorsed by the state. This is a critical step towards financial sustainability.

9. **Government Capacity.** The state government, through its nodal agency KUIDFC acting as the executing agency, is fully capable of executing Project 4. KUIDFC has implemented and is still handling several externally aided projects, such as two ADB-assisted projects and two World Bank-assisted projects in urban development in addition to centrally sponsored schemes. KUIDFC has developed adequate capacity in managing projects, having learned from experiences in implementing Karnataka Urban Infrastructure Development Project, Karnataka Urban Development and Coastal Environment Management Project and subprojects under Project 1, Project 2 and Project 3 of NKUSIP.

10. **Government Commitment.** The government commitment to support urban development is firm, as demonstrated by increased budgetary allocation to the sector. From FY2006-07 to FY2011-12, state development expenditures on water, sanitation and urban development have more than doubled. When combined, water and urban development comprised almost 9% of total development expenditures of the state for FY2011-12, rising from 2.9% in FY2008-09. Refer to Annexes 1 and 2, Financial Analysis (Appendix 8).

C. Economic Analysis of Subprojects

11. Economic analyses has been conducted for all 12 water supply subprojects, 3 sewerage subprojects and 2 roads subprojects under Project 4 in accordance with the ADB's Guidelines, including *Guidelines for the Economic Analysis of the Projects* and *Guidelines for the Economic Analysis of Water Supply Projects*. In order to keep comparability across the subprojects, the methodologies and parameters followed are in principle those utilized in the analysis of Project 1, Project 2 and Project 3 subprojects with updates. All subprojects in Project 4 are analyzed in a similar manner during Project 4 preparatory stages. The subproject life is assumed to be 20 years with salvage values. The analysis is based on domestic numeraire in 2013 constant prices. The shadow wage factor of 0.75 and the shadow exchange factor of 1.03 are applied to convert financial values to economic values. The population growth in each town is projected based on historical trend. Parameters assumed are drawn from socio-economic surveys², public statistics, field surveys, and discussions with experts.

12. For subprojects with quantifiable economic benefits and costs, the economic internal rate of return (EIRR) was calculated and then compared to the economic opportunity cost of capital estimated at 12%. A summary of the EIRR as well as the financial internal rate of return is included in Table 1 below.

² The socio-economic survey was conducted in June 2011.

Table 1: Summary of Subprojects and EIRR/FIRR

Subprojects	Beneficiaries		Connections		User Charge (Rs.)		Project IRR (%)	
	Current	2016	Current	2016	Current ¹	2016 ²	FIRR	EIRR
Water Supply								
Bellary	206,000	410,000	43,500	82,500	100/mth	7/KL	6.3	19.4
Bidar	55,000	175,000	11,000	35,000	100/mth	7/KL	3.6	21.3
Basavakalyan	15,000	55,000	2,850	10,500	85/mth	7/KL	2.8	18.8
Gadag-Betagari	85,000	160,000	16,000	31,500	55/mth	7/KL	2.8	14.7
Gokak	40,000	55,000	8,000	10,500	120/mth	7/KL	2.8	13.8
Hospet	45,000	200,000	9,000	40,000	120/mth	7/KL	3.4	19.9
Haveri	37,500	65,000	7,500	13,000	120/mth	7/KL	3.5	13.3
Nippani	40,500	57,500	8,100	10,500	120/mth	7/KL	3.2	13.0
Raichur	100,000	200,000	20,000	40,000	120/mth	7/KL	3.2	16.7
Shahbad	9,000	42,000	1,500	7,000	85/mth	7/KL	3.2	16.5
Sindhanur	25,000	57,500	6,000	11,500	120/mth	7/KL	2.8	15.4
Yadgir	28,000	65,000	5,600	13,000	55/mth	7/KL	4.0	19.0
Sewerage								
Raichur		145,000		29,000	0	60	2.5	25.5
Hospet		120,000		24,000	0	70	2.3	20.7
Haveri		37,500		7,500	0	100	1.3	15.2
Roads								
Ilkal								20.5
Badami								12.2

Mth = month; KL = kiloliter; Na = not available.

Source: consultant estimates.

¹ Existing user charges prior to the issuance of Government Order No. NAE o7 UWS 2011.

² Proposed water charges based on government order (Bangalore. 2011).

13. Detailed subproject economic analysis for sample water supply as well as sewerage subprojects are presented below. A table summarizing the EIRRs and the sensitivity analysis is included following the sample subproject analysis.

1. Water Supply in all towns

14. **Demand and Rationale.** Due to limited supply and distribution capacity, the service coverage of piped water supply remains at an average of 45%. The distribution network is old and the estimated system loss is as high as 40%, except in towns where the distribution network had been covered under earlier tranches of NKUSIP. The average per capita supply at 60 lpcd is lower than the national standard at 135 lpcd³. In most areas of the city, water supply is limited to 2 hours per day, and households have to resort to alternative water sources such as public stand posts, tanker supply, and bottled water. Without the project, water consumption would be reduced to 55 lpcd within the next five years, and to 45 lpcd within the next 20 years, as the cities experience rapid population growth. With the project, the coverage will reach 90% and the consumption will increase to 100 lpcd for the connected households. In 11 out of 12 towns, subproject proposals envisage continuous 24x7 water supply for the entire town. As a result of these subprojects, physical losses will be reduced from an estimated average of 40% to less than 20%. A reduction in water losses will enable local and State governments to address supply shortage (as reflected in low coverage levels) and subsequently, upon completion of works, to optimally phase capital investments.

³ Central Public Health and Environmental Engineering Organization.

15. **Willingness-to-pay.** According to the socioeconomic survey, most households prefer house connections and the mean willingness to pay for improved water supply services is at Rs 7 per kiloliter⁴ across the 12 cities. The proposed volumetric water tariff is set at Rs 7 upon project completion in 2016 and is in line with the government order on water tariff issued in July 2011.⁵

16. **Valuation of Benefits.** The subprojects will increase the water available for distribution, sufficient to fill the current demand gap up to 100 lpcd and to allow for additional household connections in towns. The accounted economic benefits are from resource cost savings on the non-incremental water consumption by switching from alternative sources to piped water. The resource cost savings include labor costs to fetch water from public stand posts,⁶ cost to install storage tank,⁷ cost to boil water for drinking purpose⁸, and cost of water purchased from private vendor⁹. The net present value of economic benefits of the subprojects across twelve towns, capital costs and the operation and maintenance costs are summarized in Table 2.

17. The estimated EIRRs for all sub-projects are above opportunity cost of capital at 12% (Table 3). The result is acceptable against downside risks, including 10% increase in capital expenditure, 10% increase in operation cost, 10% decrease in benefit, and one year delay in completion. In case of Gokak and Nippani the worst case scenario result of about 8 percent is unlikely as both of these towns have shown commitment in implementing water tariff reforms and have highest collection efficiencies at more than 90 percent.

Table 2: Economic Costs and Benefits – Water Supply subprojects

Program Towns	Economic Cost	Savings in income - collection time	Net Present Value in Rs. Million			Total Benefits	Net Benefits
			Cost of Storage tank saved	Saved purchase cost	Saved purification Cost		
Bellary	665.6	1538.5	8.8	209.8	246.8	2003.9	1338.3
Bidar	362.7	546.7	101.7	268.4	75.9	992.8	630.0
Basavakalyan	328.3	223.7	26.8	205.9	47.3	503.6	175.4
Gadag	810.4	491.7	16.3	448.9	111.2	1068.2	257.8
Gokak	193.2	93.8	9.6	69.1	49.2	221.7	28.5
Hospet	281.1	410.2	5.7	111.9	193.5	721.3	440.2
Haveri	197.8	54.4	10.0	39.2	136.9	240.6	42.8
Nippani	210.6	71.8	8.7	33.3	114.5	228.3	17.7
Raichur	492.7	423.5	2.6	207.9	90.9	725.0	232.3
Shahabad	250.8	247.1	11.5	60.7	40.5	359.7	108.9
Sindhnanur	277.3	211.0	11.9	155.4	46.0	424.3	147.0
Yadgir	166.0	134.2	14.7	65.9	45.9	260.7	94.7

⁴ Source: Socioeconomic survey conducted in 2011.

⁵ The average tariff for 22 program towns is Rs117/month. Twenty two out of the twenty five towns of NKUSIP have implemented the revised minimum monthly tariff (Rs120) as per the Government Order dated 20th July 2011. Shahabad and Badami have raised tariffs to Rs80, whereas Gadag, where service levels are very low (in summer months water is provided one day in twelve for a few hours), the revision is to follow. The previous tariff increase occurred in 2006, when the minimum monthly tariff was set at Rs55,

⁶ Assumed a household spend, on average 50minutes per day, for fetching water. The time spent is valued at wage rate of unskilled labor at an average of Rs. 140 per day.

⁷ The cost of storage tank is assumed at an average of Rs. 2,400 including maintenance cost based on field surveys.

⁸ Assuming average 10 minutes work of unskilled labour per day among other costs.

⁹ The cost of water purchased from private vender is assumed at an average Rs. 75/ m³. Source: socioeconomic survey.

2. Sewerage in three towns

18. **Demand and Rationale.** Works initiated in three towns (Haveri, Hospet and Raichur) under Tranche 1 cannot be completed by 31 December 2013. It is therefore proposed that the balance works be completed in Tranche 4. The subprojects will benefit the population of these three towns through (i) the provision of access to public services; and (ii) the improved quality of public services which has positive impacts on overall public health and the well being of the beneficiaries. Scope and components of this subproject include the construction of a sewerage treatment plant and intermediate pumping stations, laying of sewer networks, including primary, secondary and tertiary networks, as well as provision of household connections.

19. **Willingness-to-pay.** According to the socioeconomic survey, most of the households prefer house connection and the mean willingness to pay for improved sanitation services is at Rs.100¹⁰ per month.

20. **Valuation of Benefits.** The sewage management subprojects will provide the sanitation services necessary to address projected increases in effluent discharge, which are to result from increased availability and consumption in water supply in the same towns. The economic benefits include (i) resource cost savings by switching from septic tank facilities to the sewer network¹¹; (ii) savings from income loss¹² due to water-borne diseases; and (iii) savings from medical costs¹³ to treat water-borne diseases. The estimated EIRR in base case is 15.6%, above opportunity cost of capital at 12%. The result is acceptable against downside risks, including 10% increase in capital expenditure, 10% increase in operation cost, 10% decrease in benefit, and one year delay in completion.

3. Roads in Ilkal and Badami

21. **Demand and Rationale.** The road network capacity has not expanded commensurately to the increased traffic demand, resulting in frequent traffic congestion. The roads pass through densely populated areas and congestion has worsened due to poor road conditions coupled with the absence of any effective traffic management and enforcement measures. Traffic carrying capacity of the roads and streets has further reduced due to on-street parking at shops and other commercial areas.

22. **Valuation of Benefits.** The direct benefits of the road widening include volatile organic compounds (VOC) savings to vehicular traffic due to wider road and hence better speeds and also savings in time to vehicle passengers and goods in transit. The unit VOC by vehicle type under “without project” and “with project” situations are based on Updation of Road User Cost Data, CRRI, 2001 and updated to 2013. The VOC for passenger and goods vehicles are based on Updation of Road User Cost Data, CRRI, 2001 and updated to 2013 price levels. For the average car passenger VOT has been taken as Rs. 75 per hour, for 2-wheeler passenger as Rs. 31 per hour and for bus passenger and goods vehicle as Rs. 21 per hour.

¹⁰ Source: socioeconomic survey conducted in 2011.

¹¹ Estimated at Rs. 10,000 per septic tank. Source: Socio-economic survey.

¹² Estimated at Rs. 450 per month per household. Source: Socio-economic survey.

¹³ Estimated at Rs. 33 per month per household. Source: Socio-economic survey.

4. Estimated EIRRs and Sensitivity Analysis of Sample Subprojects

23. All the subprojects EIRR is above the economic opportunity cost of capital i.e. 12% and viable. The analysis results and sensitivity analysis results for all water supply and roads subprojects are given in Table 7.3.

5. Others

24. Lake Development Subproject. While a quantitative analysis of benefits arising from this subprojects could not be prepared, benefits will arise from improved environmental and living condition and public health in and around Aam Talab lake in Raichur. Such benefits will be achieved as a result of improved drainage and the effective removal of sewage and stagnant water from areas surrounding the lake. In addition, aesthetic improvements and a reduction in odors is expected to improve the value of land and properties in the vicinity of the Aam Talab lake.

Table 3: Base EIRRs and Sensitivity Analysis results (in percentage)

Table 3: Base EIRRs and Sensitivity Analysis Results (in percentage)									
	EIRR	Cap + 10%	OM +10%	Rev - 15%	worst	1 year delay	Switching Value		
Water Supply Subprojects									
Bellary	19.4	18.5	19.4	17.9	17.6	18.9	262.2	7395.7	146.9
Bidar	21.3	20.6	21.1	19.3	17.0	21.0	357.3	1619.5	115.3
Basavakalyan	18.8	15.8	18.4	16.0	12.1	18.2	64.0	722.3	70.9
Gadag	14.7	13.8	14.7	13.1	10.2	13.4	168.2	5290.3	93.0
Gokak	13.8	12.7	13.6	11.7	8.4	13.5	136.8	1056.4	66.3
Hospet	19.9	19.0	19.7	18.1	17.7	19.7	248.3	1265.6	119.6
Haveri	13.6	12.8	13.5	12.2	12.0	13.5	187.9	13947.3	103.5
Nippani	13.0	12.0	12.8	11.0	8.0	12.7	138.7	1031.6	67.5
Raichur	16.7	16.1	16.0	14.5	12.0	16.4	359.3	313.8	81.4
Shahbad	16.5	15.4	16.4	14.4	11.3	16.0	157.9	1959.9	81.3
Sindhanur	15.4	14.6	15.4	14.0	11.4	13.7	221.4	2466.9	116.9
Yadgir	19.0	17.6	18.8	16.3	12.2	18.3	146.6	1197.3	72.2
Sewerage Subprojects									
Raichur (incl Lake Dev)	25.5	23.7	25.4	22.4	18.4	24.4	160.2	2419.6	85.2
Hospet	20.7	19.3	20.3	17.8	14.2	19.4	170.3	608.3	74.3
Haveri	15.2	14.1	14.9	12.8	9.7	13.7	143.6	590.2	63.4
Roads Subprojects									
Badami Road	12.2	11.4	12.2	10.8	10.5	11.6	169.2	6400.4	92.5
Ilkal Road	20.5	19.4	20.5	18.6	18.2	20.0	207.7	7232.2	115.0

APPENDIX 8: FINANCIAL ANALYSIS

A. Introduction and Methodology

1. The Investment Program finances basic urban services improvement in the selected 25 Investment Program ULBs in North Karnataka. This financial analysis appraises the financial sustainability and viability of Project 4. The financial analysis was prepared in accordance with Asian Development Bank (ADB) *Guidelines for the Financial Governance and Management of Investment Projects Financed by ADB (July 2005)*.

2. Financial sustainability and viability analysis assesses the ability of a project to meet future costs including capital expenditure, operation & maintenance (O&M), debt services, depreciation and re-investment margins if appropriate on a present value basis. For Project 4, financial sustainability and viability analysis focused on whether current and proposed tariffs can meet full cost recovery for revenue generating subprojects. A discounted cash flow analysis was conducted in real terms to determine the financial internal rate of return (FIRR) and the financial net present value. The FIRR was then compared to the weighted average cost of capital to determine whether sufficient financial returns could be achieved. For the non-revenue generating subprojects, the analysis focused on whether sufficient resources from the government are available to support the operating and maintenance requirements of such subprojects. Financial projections for the selected 14 ULBs were conducted to assess the municipality's overall financial capacity to meet their responsibilities in providing urban services including those assisted under Project 4.

B. User Charges and Affordability Analysis

3. **Existing User Charges and Cost Recovery.** GoK increased water supply charges from Rs45 to approximately Rs55 for domestic connections coinciding with the approval of the MFF. However, the existing user charges were not sufficient to cover O&M costs at the ULBs which currently charge for water supply services and sanitation services.¹ On 20 July 2011, GOK issued a revised tariff order to (i) increase minimum water charges, (ii) introduce flat sewerage tariffs² and (ii) provide guidance on formulating volumetric water tariff. Ten ULBs revised the water tariff in 2012, whereas the 2 remaining (Shahabad and Gadag) are in the process of adopting the tariff rates endorsed by the state. The present average tariff after revision in Project 4 towns is Rs112.5 per month per household.

4. **Proposed User Charges and Cost Recovery.** The proposed volumetric water tariffs for all 12 ULBs will be Rs 7 per kiloliter for the initial four years of operation. Thereafter, an approximately 20% tariff increase every 4 years is proposed for all users. The one-time water connection fee will be Rs 2,000 for new domestic users and Rs 4,000 for commercial and industrial users, respectively. Collection of user charges for each ULB will remain at the current level, which ranges from 30% in Shahabad to about 95% in Gokak, and gradually increase to and stabilize at 85% by the end of FY2016. In the case of sewerage the three Project 4 towns are not currently levying any sewerage tariff. Proposed user charges, in line with the Government Order of July 2011 to recover operation and maintenance costs, range from Rs. 60 to Rs. 100 per month per household.

¹ To date, only Gulbarga (Rs. 150 per month), Ranebennur, Jamkhandi, Ilkal (all Rs. 15 per month) and Bellary (Rs. 20 per month) are charging for sewer services.

² Government order No. NAE o7 UWS 2011, Bangalore, dated 20th July 2011

5. **Affordability Analysis.** The proposed water and sewerage user charges are assessed for beneficiary affordability. In all the towns, the water and sewerage charges to household incomes range from 4.5% for poor households to 2.3% for other households and are below 5% which is considered the affordability threshold.

C. Discounted Cash Flow Analysis and Subproject Viability

6. **Weighted Average Cost of Capital.** The WACC is estimated at 2.69% and illustrated in Table 1.

Table 1: Estimated Weighted Average Cost of Capital
(in Percentage)

Item	GoI / GoK Onlending	GoK	ULB	WACC
Weighting	50.0	40.0	10.0	
Nominal Cost ^{a), b)}	8.5	9.0	10.0	
Tax Rate	0	0	0	
Tax-Adjusted Nominal Cost	8.5	9.0	10.0	
Inflation Rate	6.0	6.0	6.0	
Real Cost	2.36	2.83	3.77	
Weighted Component of WACC	1.18	1.13	0.38	2.69

Source: ADB estimates.

a) Based on on-lending agreement between KUIDFC and ULBs.

b) Based on the average of last 12 month month-end yield of central government securities for various residual maturities.

7. **Discounted Cash Flow Analysis.** Discounted cash flow (DCF) analysis was undertaken in real terms using constant 2013 prices, to compute FIRR and FNPV. The analysis was conducted on a with-project and without-project basis by estimating incremental costs and revenues over a 20-year period. The subproject capital costs and O&M costs were derived from the engineer's estimates, including, (i) capital expenditures under Project 4; (ii) O&M expenditures, including power, staffing, chemical, parts and other expenditures; and (iii) additional capital expenditures to repair and rehabilitate the assets created under Project 4. The revenue projections are based on project completion progress, new user connection schedule as well as current and proposed tariff schedules. The revenue stream included (i) user charges from domestic and non-domestic customers; and (ii) connection fees from new customers for water supply services.

8. **Financial Internal Rate of Return (FIRR).** Under the above mentioned major assumptions, FIRRs for all water supply subprojects are computed and the results shown in the Table 2. Results show that the FIRR is higher than WACC at 2.69%. The FIRR for water supply subprojects compare favorably to weighted average cost of capital (WACC) of 2.69%. Sewerage sub-projects FIRR were less than the WACC, however the combined water supply and sewerage FIRR for the three towns exceeded the WACC. The results for all subprojects are acceptable against downside risks, including (i) capital costs increased by 10%; (ii) O&M costs increased by 10%; and (iii) revenue reduced by 10%. The FIRRs are relatively sensitive to changes in revenues. Continued commitment from the ULBs to implement water tariffs based on concept of cost recovery as well as to improve collection efficiencies are crucial to the financial viability and sustainability of the subprojects. Table 2 provides a summary of the FIRRs of the water supply subprojects.

Table 2: FIRR of Subprojects
(in Percentage)

(in Percentage)									
FIRR	Cap 10%	+ OM +10%	Rev 10%	- worst	1 yr delay	Switching Value			
Water									
Bellary	6.3	5.7	6.3	5.5	4.8	5.8	82.1	967.6	66.5
Bidar	3.6	3.0	3.4	2.8	2.0	3.1	53.4	175.5	33.2
Basavakalyan	2.8	2.3	2.5	1.9	2.8	2.8	0.0	0.0	0.0
Gadag	2.8	2.2	2.7	2.0	1.3	2.5	36.3	285.9	26.4
Gokak	2.8	2.3	2.7	2.1	1.4	2.6	45.5	137.7	26.9
Hospet	3.4	2.8	3.0	2.3	1.3	2.8	46.6	68.3	20.2
Haveri	3.5	3.0	3.4	2.8	2.2	3.0	56.3	340.3	40.8
Nippani	3.2	2.7	3.0	2.4	1.7	3.0	47.1	162.9	29.2
Raichur	3.2	2.7	2.6	2.0	0.9	2.6	56.4	41.1	16.7
Shahbad	3.2	2.6	3.0	2.4	1.7	2.9	214.2	51.5	327.7
Sindhaur	2.8	2.2	2.6	2.0	1.4	2.3	42.7	197.0	28.3
Yadgir	4.0	3.2	3.7	2.8	1.7	2.6	37.7	128.9	22.5
Combined Water and Sewerage									
Raichur	2.8	2.4	2.4	1.8	0.9	2.4	48.1	54.1	18.1
Hospet	2.8	2.3	2.3	1.7	-ve	2.4	44.3	43.5	14.9
Haveri	2.7	2.2	2.5	2.0	1.3	2.4	46.6	116.8	25.9

D. Financial performance of State and ULBs

9. For the subprojects which do not generate sufficient revenues, the analysis focused on the capacity of the state and the selected ULBs to sustain the assets created under Project 4 by providing financial resources for operating and maintenance.

10. **State of Karnataka.** The gross revenue receipt of the state was Rs.663 billion in FY2012, out of which 82% was tax revenues and the remaining balance came from non-tax revenues at approximately 5.4% and grants from the Government of India at approximately 12.6%. Tax revenues consist of own tax revenues and share of the central tax revenues. The main source of the state's own tax revenue is taxes on commodities and services, which represents substantial portion of total tax revenue for the last 3 years. From FY2008 to FY2011, the state's own tax revenue grew at an estimated CAGR of 17%, demonstrating sustained ability to raise tax revenues. The total expenditure for FY2011 was Rs. 651 billion, including development, non-development expenditures and grant contributions. On the last 3 years, the state achieved positive revenue account surplus in all the years. Refer to Annex 1 of Appendix 8, Financial Analysis.

11. **KUIDFC.** Karnataka Urban Infrastructure Development Finance Corporation Limited (KUIDFCL) is a state owned financial corporation and incorporated under the Companies Act 1956 in the year 1993. It is a public limited government company. The authorized share capital of the Company is Rs.100 million divided into one million equity shares of Rs.100/- each. The shareholders of the Company comprise the Governor of Karnataka, Principal Officers of the

Government of Karnataka and the Chief Executive officers of developmental authorities established by the Government of Karnataka.

12. KUIDFC's Annual Report submitted to the Legislature & Registrar of Companies. A Summary of its Statements is in Annex 2. The Company, as a nodal agency for implementation, monitoring and management of funds received from the government and other external agencies, has adopted and structured its accounting of funds both inwards and outwards on actual receipt and payments basis. The operational expenses/cost and connected revenue receipts/ accretions are charged to project concerned or taken to the appropriate revolving funds, where beneficial holding rests with Government of Karnataka (GoK). The corporate expenses are charged and set off against the budgetary grants to be allocated by the GoK, leaving "no Profit no Loss" status in its statement of Profit & Loss. The short term and long term assets and liabilities, except corporate held assets, are held on behalf of the government pending set-off assets and liabilities on completion of Projects. The 2012 audit of KUIDFC found (i) adequate controls over fixed assets (ii) internal controls commensurate with their scope and size and (iii) an adequate Internal Audit department.

13. **Financial Performance of Selected ULBs.** An analysis of financial performance of the selected ULBs for FY2010 to FY 2013 has demonstrated the following features.

- (i) Grant constitutes a significant portion of revenue income in ULBs, ranging from 54.8% in Basavakalyan to 86.4% in Shahabad;
- (ii) Increase in revenue expenditures has outpaced growth of revenue incomes, excluding grants;
- (iii) Property tax was the largest source of revenue receipt;
- (iv) Most ULBs have not separately recorded for revenues and expenditures related to sewerage management as sewer charges were not introduced, except in Gulbarga and Ranebennur; and
- (v) Cost recovery for water supply services ranges from approximately 30% in Shahabad to approximately 90% in Gokak.

14. **Financial Projections of Selected ULBs.** Financial projections for the 12 selected ULBs were conducted over 10 years based on (i) historic trends and (ii) potential impacts that may arise during the implementation of subprojects under Project 4. For all ULBs implementing water supply and sewerage subprojects, financial projections have shown that with the introduction of user charges upon subproject completion, balances of the operating accounts have improved. The proposed user charges are sufficient to cover incremental O&M expenditures. For Badami and Ilkal which will implement non-revenue generating road subprojects, financial projections have shown that the selected ULBs will have sufficient operating surplus to sustain the non-revenue generating subprojects. Refer to Annex 2 to Appendix 8, Financial Analysis.

Annex 1

Summarised Budget of Government of Karnataka									Rs. Million	
Particulars	Actuals								RE	BE
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Opening Balance	-33.33	705.57	129.17	225.97	521.77	2318.87	899.27	-3584.23	-1076.43	885.07
A. REVENUE ACCOUNT										
I. RECEIPTS										
State Taxes	104440.6	125701.3	160720.6	186313	233007.5	259866.5	276455.5	305786	380486.7	438171
Share of Central Taxes	27818.5	32448.1	38787	42136.7	53746.1	67793.4	71538.8	73599.8	93100.9	104189.9
Grants from Central Govt	16651.8	19865.7	21465.6	36323.7	48131.7	50274.9	53322.6	78833.2	69063.4	84023.8
Non Tax Revenue	12776.7	29583.8	44723.4	38747.1	40984.1	33576.6	31589.9	33338	35194.8	36747.9
Total (A-I)	161687.6	207598.9	265696.6	303520.5	375869.4	411511.4	432906.8	491557	577845.8	663132.6
II. EXPENDITURE										
Social Services	63262.5	69650.4	77227.5	88987.9	109367.1	131236.7	158729.9	191188.6	230341.3	248787.5
Economic Services	48024.1	46517	65105.2	79473.2	104402.4	114533.1	111366.4	131817.1	158563.8	172993.5
General Services	71121.2	90391.3	99002.4	100358.2	104194.2	108717.8	122755.7	127623.4	146135.8	185128.8
GIA & Contribution	5737.1	6288.5	7983.4	11589.6	16390.6	19260	23740.9	24740.1	26851.4	43433.6
Total (A-II)	188144.9	212847.2	249318.5	280408.9	334354.3	373747.6	416592.9	475369.2	561892.3	650343.4
Revenue Acc Surplus/Deficit	-26457.3	-5248.3	16378.1	23111.6	41515.1	37763.8	16313.9	16187.8	15953.5	12789.2
B. CAPITAL ACCOUNT										
I. RECEIPTS										
Loans form Gol	15442.2	19570	15557.5	6686.5	6544.6	8060	5961.6	6808.5	15387.2	17388
Open Market Loans (net)	15097.1	26028.5	21161.4	1655	-2325.4	2874.8	65834.1	49538.3	10281.8	81997.5
Loans from LIC, RBI, GIC, NABARD & NCI	3001.1	10193.8	2687.4	2528.7	2987.2	3342.9	4653.9	6485.9	6050	7650
Loans from NSSF	19778.4	27330.5	43862.6	43272.5	25927.6	3882.7	1137.3	6614.7	30000	20000
Recoveries of Loans and Advances	9280	642.9	468.5	1235.5	599.7	520.7	566.5	5553.6	1595	617.2
Public Account (net) et	16105.2	-628.9	-8715.2	-11751.9	30847.5	41483	14719.4	54404.8	72153.6	18847.5
Contingency Fund (Net)	78.9	-405.2	16.1	389.1	-132.8	132.8	-21	21	0	0
Total (B-I)	78782.9	82731.6	75038.3	44015.4	64448.4	60296.9	92851.8	129426.8	135467.6	146500.2
II Disbursements										
Capital Outlay (net)	29360	30293.9	46736.8	58219.3	85425.7	84031.6	96891.5	120668.9	118174.2	117544.4
Repayment of Central Loans	14091.9	31610.1	34075.9	4175	7370.3	4485.6	4614.3	4704.6	5349.3	5905.1
Repayment of Loans to LIC..	1859.1	6043.7	4392.7	1440.9	7798.1	3395.7	4830	7917.5	9562.5	12213.5
Disbursement of Loans and Advances	6275.7	10112	6114.2	2996	3572.3	7567.4	7313.4	9815.8	16373.6	20678.8
Total (B-II)	51586.7	78059.7	91319.6	66831.2	104166.4	99480.3	113649.2	143106.8	149459.6	156341.8
Capital Account Surplus/ Deficit	27196.2	4671.9	-16281.3	-22815.8	-39718	-39183.4	-20797.4	-13680	-13992	-9841.6
OVERALL SURPLUS / DEFICIT FOR THE YEAR	738.9	-576.4	96.8	295.8	1797.1	-1419.6	-4483.5	2507.8	1961.5	2947.6
Closing Balance	705.57	129.17	225.97	521.77	2318.87	899.27	-3584.23	-1076.43	885.07	3832.67

Summary of Financial Statements of KUIDFC

KUIDFC Summarized Balance Sheet					Rs. Million
	31-Mar-13	31-Mar-12	31-Mar-11	31-Mar-10	31-Mar-09
Shareholders' Funds					
Share Capital	80.6	80.6	80.6	80.6	80.6
Reserves and Surplus	348.4	343.0	469.8	463.4	452.8
Revolving Fund				5602.6	4563.9
Non-Current Liabilities					
Other Long Term Liabilities	22113.1	21193.3	19440.2		
Long Term Provisions	1.7	1.6	3.8		
Current Liabilities					
Other Current Liabilities	13259.0	12417.0	12077.5	21375.1	18814.2
Short Term Provisions	0.1	0.1	0.4		
Total of Equity and Liabilities	35802.9	34035.8	32072.3	27521.8	23911.6
Assets					
Non-Current Assets					
Fixed Assets					
Tangible Assets	131.9	127.7	127.4	136.9	125.3
Intangible Assets	12.2	12.0	10.7		
Capital work in progress	2.3	7.4	5.8		
Deferred Tax Assets (Net)	0.9	1.2	1.1	0.7	0.5
Long Term Loans and Advances	13760.4	13894.3	12953.7		
Current Assets					
Cash and Bank Balances	11864.8	11932.7	11766.4	8534.4	6694.1
Short Term Loans and Advances	9028.8	6969.2	5578.5	18640.7	16986.9
Other Current Assets	1001.6	1091.2	1628.8	209.1	104.8
Total of Assets	35802.9	34035.8	32072.3	27521.8	23911.6

Source: KUIDFC audited financial statements

Financial Projections for selected ULBs

1. Yadgir Municipal Council											Rs. Million
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	46.0	57.1	71.7	85.0	117.3	140.8	164.5	183.7	195.8	202.7	203.5
Operation Surplus	21.5	20.2	19.2	18.5	16.9	15.2	8.8	2.0	-4.8	-11.0	-17.7
Overall Surplus without the Project	21.5	20.2	19.2	18.5	16.9	15.2	8.8	2.0	-4.8	-11.0	-17.7
Equity Contribution for the Project	10.3	5.6	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	5.1	7.0	7.3	7.7	8.1	8.5	8.9	9.4
Tariff and connection fees, user charges	0.0	0.0	0.0	18.9	13.6	15.8	18.1	18.2	20.2	20.7	20.9
Overall Surplus with the Project	11.2	14.6	13.2	32.3	23.5	23.7	19.2	12.1	6.9	0.8	-6.2
Closing Balance	57.1	71.7	85.0	117.3	140.8	164.5	183.7	195.8	202.7	203.5	197.3
2. Gadag Municipal Council											
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	43.6	63.0	61.3	68.2	128.3	204.4	281.1	358.2	432.4	522.1	604.6
Operation Surplus	65.3	56.4	47.7	34.6	48.4	46.9	42.4	36.6	39.6	32.5	23.8
Overall Surplus without the Project	65.3	56.4	47.7	34.6	48.4	46.9	42.4	36.6	39.6	32.5	23.8
Equity Contribution for the Project	45.8	58.1	40.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	12.2	16.4	17.2	17.9	18.7	19.4	20.2	21.0
Tariff and connection fees, user charges	0.0	0.0	0.0	37.7	44.1	47.0	52.6	56.2	69.5	70.2	71.8
Overall Surplus with the Project	19.4	-1.7	6.9	60.1	76.1	76.7	77.1	74.2	89.7	82.5	74.6
Closing Balance	63.0	61.3	68.2	128.3	204.4	281.1	358.2	432.4	522.1	604.6	679.2
3. Bidar Municipal Council											
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	132.8	373.2	583.7	759.3	923.6	1077.8	1203.4	1326.4	1443.8	1559.9	1665.6
Operation Surplus	239.3	221.1	192.3	184.6	130.8	115.2	103.0	90.1	84.5	69.5	51.2
Overall Surplus without the Project	239.3	221.1	192.3	184.6	130.8	115.2	103.0	90.1	84.5	69.5	51.2
Equity Contribution for the Project	0.0	11.8	20.4	21.6	18.8	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	14.8	26.0	27.3	28.7	30.1	31.6	33.1
Tariff and connection fees, user charges	1.2	1.2	3.7	1.3	56.9	36.4	47.3	56.0	61.8	67.8	75.9
Overall Surplus with the Project	240.4	210.5	175.6	164.3	154.2	125.6	123.0	117.4	116.1	105.7	94.1
Closing Balance	373.2	583.7	759.3	923.6	1077.8	1203.4	1326.4	1443.8	1559.9	1665.6	1759.6

Financial Projections for selected ULBs

4. Sindhanur Municipal Council	Rs. Million										
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	16.7	35.5	56.6	58.9	62.6	102.4	127.4	150.2	184.6	219.1	261.8
Operation Surplus	23.5	25.8	7.3	8.4	10.4	12.8	16.6	20.2	20.9	25.5	-3.0
Overall Surplus without the Project	23.5	25.8	7.3	8.4	10.4	12.8	16.6	20.2	20.9	25.5	-3.0
Equity Contribution for the Project	4.7	4.7	5.0	4.8	4.9	4.9	4.9	5.9	4.9	4.9	4.9
O&M due to the Project	0.0	0.0	0.0	0.0	0.0	0.0	9.0	9.5	10.0	10.5	11.0
Tariff and connection fees, user charges	0.0	0.0	0.0	0.0	34.3	17.2	20.1	29.5	28.5	32.5	28.5
Overall Surplus with the Project	18.8	21.2	2.3	3.7	39.8	25.1	22.8	34.3	34.6	42.7	9.6
Closing Balance	35.5	56.6	58.9	62.6	102.4	127.4	150.2	184.6	219.1	261.8	271.4

5. Bellary Municipal Corporation

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	0.0	-28.7	-2.9	17.8	34.1	60.6	147.9	152.6	149.0	174.7	154.4
Operation Surplus	-28.7	-2.9	9.7	17.6	22.8	24.3	25.2	28.5	61.2	29.4	-45.2
Overall Surplus without the Project	-28.7	-2.9	9.7	17.6	22.8	24.3	25.2	28.5	61.2	29.4	-45.2
Equity Contribution for the Project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	12.5	17.0	17.9	18.8	19.7	20.7	21.7
Tariff and connection fees, user charges	0.0	0.0	8.1	16.5	50.2	140.6	145.2	139.3	133.3	145.6	145.4
Overall Surplus with the Project	-28.7	-2.9	17.8	34.1	60.6	147.9	152.6	149.0	174.7	154.4	78.5
Closing Balance	-28.7	-31.6	14.8	51.9	94.7	208.4	300.4	301.5	323.7	329.0	232.9

6. Raichur Municipal Corporation - Summarised Financial Performance (Rs. Million)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	44.1	268.3	222.1	271.4	134.8	8.7	2.5	53.5	155.6	235.8	314.3
Operation Surplus	224.2	-46.2	-61.9	-75.9	-76.9	43.8	108.0	146.3	113.0	117.4	128.5
Overall Surplus without the Project	224.2	-46.2	-61.9	-75.9	-76.9	43.8	108.0	146.3	113.0	117.4	128.5
Equity Contribution for the Project	47.7	42.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	11.2	16.7	19.2	22.0	25.2	28.3	31.7	34.1	36.5
Tariff and connection fees, user charges	0.0	0.0	150.0	56.7	72.4	75.9	73.9	91.7	108.5	106.8	110.0
Overall Surplus with the Project	47.7	42.1	138.8	40.0	53.2	53.9	48.7	63.4	76.7	72.7	73.5
Closing Balance	91.9	310.4	360.9	311.4	187.9	62.6	51.2	116.9	232.4	308.5	387.8

Financial Projections for selected ULBs

7. Haveri Municipal Council											Rs. Million
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	0.0	44.4	35.8	44.5	46.9	58.0	41.9	42.6	44.3	46.7	48.1
Operation Surplus	39.9	40.1	41.8	42.0	38.3	36.6	34.8	34.9	32.6	29.4	25.5
Overall Surplus without the Project	39.9	40.1	41.8	42.0	38.3	36.6	34.8	34.9	32.6	29.4	25.5
Equity Contribution for the Project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	16.0	16.9	17.9	19.0	20.1	21.2	22.5
Tariff and connection fees, user charges	4.5	6.5	2.7	4.9	35.6	22.2	25.7	28.4	34.2	39.9	38.4
Overall Surplus with the Project	44.4	46.6	44.5	46.9	58.0	41.9	42.6	44.3	46.7	48.1	41.4
Closing Balance	44.4	91.1	80.4	91.5	104.9	99.8	84.4	86.9	91.1	94.8	89.5

8. Basavakalyan Municipal Council

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	63.4	11.8	-2.6	39.9	52.6	25.6	52.1	49.4	74.5	70.6	66.4
Operation Surplus	62.2	62.5	61.9	61.2	60.6	59.3	58.0	57.0	55.4	53.5	52.0
Overall Surplus without the Project	62.2	62.5	61.9	61.2	60.6	59.3	58.0	57.0	55.4	53.5	52.0
Equity Contribution for the Project	56.1	70.8	27.4	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.1	0.1	34.9	15.1	16.4	17.8	19.3	20.8	22.4
Tariff and connection fees, user charges	5.8	5.7	5.5	5.4	0.0	7.8	7.9	35.4	34.5	33.7	32.8
Overall Surplus with the Project	11.8	-2.6	39.9	52.6	25.6	52.1	49.4	74.5	70.6	66.4	62.4
Closing Balance	75.3	9.2	37.3	92.6	78.3	77.7	101.5	123.9	145.1	137.0	128.8

9. Shahabad Municipal Council

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	25.2	49.1	54.0	64.2	79.5	106.1	127.9	148.2	167.7	185.7	202.0
Operation Surplus	23.9	23.4	22.2	20.9	19.4	17.4	15.1	12.8	9.9	6.6	3.2
Overall Surplus without the Project	23.9	23.4	22.2	20.9	19.4	17.4	15.1	12.8	9.9	6.6	3.2
Equity Contribution for the Project	0.0	18.5	12.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	6.1	6.4	6.8	7.1	7.5	7.8	8.2
Tariff and connection fees, user charges	0.0	0.0	0.0	0.0	13.3	10.9	12.0	13.8	15.5	17.5	19.8
Overall Surplus with the Project	23.9	4.9	10.2	15.3	26.6	21.8	20.3	19.5	18.0	16.3	14.8
Closing Balance	49.1	54.0	64.2	79.5	106.1	127.9	148.2	167.7	185.7	202.0	216.8

Financial Projections for selected ULBs

10. Nippani Municipal Council											Rs. Million
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	59.1	73.9	82.5	94.0	120.2	134.6	146.2	156.0	160.2	161.9	158.5
Operation Surplus	25.0	21.7	18.7	16.3	11.8	7.3	3.6	-1.7	-7.7	-12.9	-20.0
Overall Surplus without the Project	25.0	21.7	18.7	16.3	11.8	7.3	3.6	-1.7	-7.7	-12.9	-20.0
Equity Contribution for the Project	10.2	13.1	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	-1.2	6.8	7.2	7.5	7.9	8.3	8.7	9.1
Tariff and connection fees, user charges	0.0	0.0	0.0	8.7	9.4	11.5	13.7	13.8	17.7	18.2	18.4
Overall Surplus with the Project	14.8	8.6	11.5	26.2	14.4	11.6	9.7	4.2	1.7	-3.4	-10.7
Closing Balance	73.9	82.5	94.0	120.2	134.6	146.2	156.0	160.2	161.9	158.5	147.8

11. Gokak Municipal Council											
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	0.0	81.9	157.6	228.3	292.9	371.6	442.3	509.9	574.2	636.2	692.7
Operation Surplus	81.9	75.7	78.8	76.5	74.1	72.3	66.9	61.3	57.8	51.1	43.0
Overall Surplus without the Project	81.9	75.7	78.8	76.5	74.1	72.3	66.9	61.3	57.8	51.1	43.0
Equity Contribution for the Project	0.0	0.0	8.1	12.4	7.5	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	0.0	6.2	6.4	6.7	7.1	7.4	7.8
Tariff and connection fees, user charges	0.0	0.0	0.0	0.5	12.2	4.5	7.0	9.7	11.2	12.8	13.5
Overall Surplus with the Project	81.9	75.7	70.7	64.6	78.7	70.7	67.6	64.3	62.0	56.5	48.7
Closing Balance	81.9	157.6	228.3	292.9	371.6	442.3	509.9	574.2	636.2	692.7	741.4

12. Hospet Municipal Council											
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	0.0	41.6	51.1	60.3	67.1	98.8	49.5	45.2	40.8	31.6	45.7
Operation Surplus	41.6	47.6	51.8	52.0	44.9	39.4	33.3	30.5	22.8	26.9	31.9
Overall Surplus without the Project	41.6	47.6	51.8	52.0	44.9	39.4	33.3	30.5	22.8	26.9	31.9
Equity Contribution for the Project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	52.6	61.9	65.4	69.1	73.0	77.0	81.3
Tariff and connection fees, user charges	0.0	3.4	8.5	15.2	106.5	72.0	77.3	79.4	81.8	95.8	91.1
Overall Surplus with the Project	41.6	51.1	60.3	67.1	98.8	49.5	45.2	40.8	31.6	45.7	41.7
Closing Balance	41.6	92.7	111.4	127.5	165.9	148.3	94.7	86.0	72.4	77.3	87.4

Financial Projections for selected ULBs

13. Badami Municipal Council											Rs. Million
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	44.8	95.2	140.4	181.9	219.7	258.7	294.7	328.2	359.4	387.7	412.5
Operation Surplus	50.4	45.2	42.0	40.1	39.2	36.4	33.8	31.6	28.6	25.2	22.0
Overall Surplus without the Project	50.4	45.2	42.0	40.1	39.2	36.4	33.8	31.6	28.6	25.2	22.0
Equity Contribution for the Project	0.0	0.0	0.6	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Tariff and connection fees, user charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Surplus with the Project	50.4	45.2	41.5	37.9	39.0	36.0	33.5	31.3	28.2	24.8	21.6
Closing Balance	95.2	140.4	181.9	219.7	258.7	294.7	328.2	359.4	387.7	412.5	434.0
14. Ilkal Municipal Council											
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Opening Balance	0.0	42.7	87.3	127.8	161.5	197.7	249.1	298.5	343.6	385.6	423.1
Operation Surplus	42.7	44.7	41.7	38.6	36.2	34.7	30.6	26.5	23.1	18.1	12.2
Overall Surplus without the Project	42.7	44.7	41.7	38.6	36.2	34.7	30.6	26.5	23.1	18.1	12.2
Equity Contribution for the Project	0.0	0.0	1.3	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M due to the Project	0.0	0.0	0.0	0.0	0.0	1.7	1.8	1.9	2.0	2.1	2.2
Tariff and connection fees, user charges	0.0	0.0	0.0	0.1	0.1	18.3	20.7	20.4	20.9	21.5	22.1
Overall Surplus with the Project	42.7	44.7	40.4	33.7	36.3	51.3	49.5	45.0	42.0	37.4	32.0
Closing Balance	42.7	87.3	127.8	161.5	197.7	249.1	298.5	343.6	385.6	423.1	455.1

APPENDIX 9: UPDATED SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	India	Project Title:	IND: North Karnataka Urban Sector Investment Program (NKUISP) – Project 4 ¹
Lending/Financing Modality:	Multitranche Financing Facility	Department/ Division:	SARD/SAUW

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY	
Targeting classification: GI and TI-MDG7	
A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy	
<p>The Government of India's 12th Five-Year Plan (12FYP) calls for an inclusive approach to development and stresses the need to improve infrastructure and reduce poverty in India's cities and towns. It does so by implementing integrated development schemes. The ADB country partnership strategy (CPS), 2013–2017 is closely aligned with India's 12FYP. The CPS aims to improve infrastructure and provide increased access to water supply and sanitation in underserved and weak capacity areas, including Karnataka. The North Karnataka Urban Sector Investment Program (NKUISP) Project 4 links to both the Government's and ADB's poverty reduction strategies mainly because it aims to provide underserved populations and socially excluded communities, including women, scheduled castes and other backward castes with increased water supply and drainage and sanitation. The program includes community participation components which target the poor and women under on-going Projects 2 and 3, as well as this Project, and promote positive behavior and attitudinal changes related to health, hygiene, and sanitation.</p>	
B. Results from the Poverty and Social Analysis during PPTA or Due Diligence	
<p>1. Key poverty and social issues.</p> <p>Karnataka is the eighth largest state in the country in terms of its area and ninth largest in terms of its population. It falls in the medium category of Human Development Index (HDI) with 0.519, against India's average of 0.467 (India Human Development Report, 2011). However, the urban poverty rate is higher than the overall state poverty rate of 19%. The Government of Karnataka has, to an extent, succeeded in reducing poverty. Yet, significant regional disparities persist. Differences are however noted State-wide. A district-wise analysis of poverty undertaken in 2009, using the National Sample Survey Organization's consumer expenditure survey conducted in 2004/2005 as the basis for analysis, suggests that urban areas in North Karnataka districts are more impoverished than most coastal and southern Karnataka districts. Worse still, one of the northern districts of Karnataka, Raichur has the second highest urban poverty rate in the country. The Economic Survey of Karnataka 2010-2011 (Human Development Report) ranks NKUSIP's 12 districts between the positions 8 (for Belgaum) and 27 (for Raichur) out of 27, with 7 of the 12 districts falling in position 20 or beyond. Project 4 directly addresses the MDG Goal 7, Target 10 of reducing by half the proportion of people without sustainable access to safe drinking water and sanitation. Ninety two percent of Karnataka's urban population has access to piped water supply. In the program areas, however, there are issues regarding the quality and quantity of water supply. The North Karnataka region of India lags behind other regions in relation to infrastructure development. A baseline study conducted in 2004 indicates that less than 30% of households have access to water connections. In slums, the figure is less than 10%. More than 75% of slum dwellers in north Karnataka towns such as Bellary, Gadag-Betageri, Gulbarga, Koppal, and Rabkavi-Banhatti and 45% to 60% in Badami, Basavakalyan, Davangere, Gokak, Raichur, and Yadgir depend on stand-posts (public taps). More than 85% of slum households lack access to safe sanitation. 30-50% of beneficiaries for the water supply component comprise of the core and intermediate poor. The proportion varies between 25-40% for sewerage, and 80-100% for drainage. Limited access to underground drainage facilities was reported by a majority of households in 16 out of the initially identified 25 urban local bodies.</p>	
<p>2. Beneficiaries. The project will seek to provide full coverage, including notified and un-notified slums within the municipal boundaries of the ULB program areas. Targeted populations will include the poor, disadvantaged, female-headed, and SC/ST populations.</p>	
<p>3. Impact channels. The program will provide improved access to water supply, sanitation and wastewater disposal to all, including poor and non-poor residents of program areas. The water supply and sewerage components will benefit unconnected as well as connected households and the sanitation component will benefit all households.</p>	
<p>4. Other social and poverty issues.</p> <p>The project will address vulnerability and poverty indirectly through the delivery of improved water supply and sanitation services, which will lead to social, economic, health and environmental benefits. Access to housing and municipal services other than water supply and sanitation will be addressed by the central governments.</p>	
<p>5. Design features. The Program contains pro-poor elements in its design and targets declared slum communities.</p>	

¹ Towns that will be covered under each of the 3 program components in Project 4 are as follows: (i) Water Supply– Basavakalyan, Bellary, Bidar, Gadag-Betageri, Gokak, Haveri, Hospet, Nipanni, Raichur, Shahabad, Sindhanur and Yadgir; (ii) Sewerage– Haveri, Hospet and Raichur; (iii) Lake Development– Raichur; and (iv) Urban Roads– Badami and Ilkal.

<p>Pro-poor design elements include subsidizing connection costs for water supply and sewerage, and community development programs already underway in previous tranches in poor communities, implemented through local NGOs in coordination with urban local bodies (ULBs). All programs are hinged on community participation.</p>
<p align="center">II. PARTICIPATION AND EMPOWERING THE POOR</p> <p>1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation. The project is implementing participatory programs with the assistance of a Social Development officer at the Regional PMU, an Apex NGO and Local NGOs.</p> <p>2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation. Consultations were carried out with various counterparts, including the Government of Karnataka and partner NGOs to identify and finalize design features. Implementation of activities will also be carried out in a consultative manner. Public participation is one of the on-going key features of the design, implementation, and monitoring process. Community level participation methodologies have been adopted and community-driven monitoring exercises will help ensure that Project 4 activities meet the needs and expectations of communities. An apex NGO, hired under the program, will continue to be involved in monitoring community participation and ensuring that there is constant interface between the community and project implementing agencies.</p> <p>3. Explain how the project ensures adequate participation of civil society organizations in project implementation. The project will continue to promote water conservation and improved health, hygiene, and sanitation interventions through community and NGO-led awareness programs. Civil society organizations will continue to work with KUIDFC and the municipalities to take forward this agenda.</p> <p>4. What forms of civil society organization participation is envisaged during project implementation? The primary task of the partner NGOs is to implement participatory development processes and raise awareness on health, hygiene, and sanitation. The NGO will also help in implementing activities related to social leadership, community participation and community asset management and will support monitoring activities. <input checked="" type="checkbox"/> (High) Information gathering and sharing <input checked="" type="checkbox"/> (High) Consultation <input checked="" type="checkbox"/> (High) Collaboration <input type="checkbox"/> (High) Partnership</p> <p>5. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable? <input checked="" type="checkbox"/> Yes. <input type="checkbox"/> No.</p> <p>C&P plans are being implemented at the subproject level by social development and social safeguards consultants recruited by the PMU. Local NGOs working on community participation and resettlement will help these consultants to ensure the effective implementation of the plan at the grassroots. C&P plans will focus on the following: i) getting wider public input and suggestions from stakeholders, especially the poor and vulnerable, on the program, particularly their needs; ii) assessing the current role and functions of local populations and other project stakeholders; and iii) community mobilization campaigns focused on water conservation, health, hygiene, sanitation and social safeguards; and iv) promoting the involvement of poor women, youth and socially excluded groups in participatory planning and monitoring; capacity development; social leadership; and community assets management.</p>
<p align="center">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: EGM (Effective Gender Mainstreaming)</p> <p>A. Key issues Karnataka's performance in promoting gender equality has been commendable. In 2009, the Gender Development Index (GDI) of Karnataka was 0.611 as against India's average of 0.590. Baseline data collected during the preparation of the MFF (2005) indicates that FHHs in Tranche 4 towns range from 5% (Bidar) to 30% (Gokak slum population). The average monthly income of non-slum woman-headed households is around Rs 2,333 in Hospet and Rs. 11,000 in Bidar. The baseline survey shows that water collection is a primary role of women for a majority of non-slum and slum households across project towns. The need for mainstreaming of gender perspective into any subproject becomes evident from the gender development indicators for the region, in which the North Karnataka region and its towns lag far behind the rest of the state. A Gender Action Plan (GAP) focused on providing access to FHHs, women's employment, and institutional awareness and capacity building has been prepared. Impact of 24X7 water supply will reduce the burden in collection of water, and provide health benefits to family. Monitoring and evaluation systems will generate gender disaggregated information to enable tracking of gender implications / impact of the Project. Implementation of Gender Action Plans under previous tranches is on-going. On-going activities facilitated by NGOs include gender sensitization; water, health and sanitation programs; women empowerment with seed financing.</p> <p>B. Key actions. <input checked="" type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p>

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement	Safeguard Category: <input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. The Project is classified as category B for involuntary resettlement and category C for indigenous peoples. A RP was prepared and disclosed for the Hospet sewerage subproject to address acquisition of private agricultural land (15.28 acres) affecting 11 landowners (60 affected persons). Temporary impacts to mobile vendors and hawkers and shops along roads with linear works will be avoided through careful EMP implementation (i.e., planks for continued access, traffic management, night works, and assistance for shifting mobile vendors).	
2. Strategy to address the impacts.	
3. Plan or other Actions.	
<input checked="" type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan ¹
<input checked="" type="checkbox"/> Resettlement framework (under MFF)	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix <input type="checkbox"/> No action
B. Indigenous Peoples	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. There are no IPs in sample subproject areas. Any IPs within urban areas are mainstreamed into their localities. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No (Not applicable)	
2. Strategy to address the impacts.	
3. Plan or other actions.	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input checked="" type="checkbox"/> No action	
V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	
1. Relevance of the project for the country's or region's or sector's labor market	
<input type="checkbox"/> unemployment (L) <input type="checkbox"/> underemployment (L) <input type="checkbox"/> retrenchment (L) <input type="checkbox"/> core labor standards (H)	
2. Labor market impact. Agreements with contractors will in-build clauses on core labour standards and will consider opportunities for local communities, including the poor and other vulnerable sections in project-related construction work (skilled and unskilled) community.	
B. Affordability The potential negative impact of water tariff increases on the poor is considered to be acceptable, at less than 4% of household income, and given that the poor pay a higher than average proportion of their incomes on water at present. Options for subsidizing connection costs for water supply and/or providing long-term payment plans for poor household being considered by the Government of Karnataka (GOK) at policy-level.	
C. Communicable Diseases and Other Social Risks	
1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA):	
<input type="checkbox"/> Communicable diseases (L) <input type="checkbox"/> Human trafficking (NA)	
<input type="checkbox"/> Others (please specify) _____	
2. Describe the related risks of the project on people in project area. Construction workers will be made aware on communicable diseases like HIV/AIDS. PMU/PIUs in collaboration with program counterparts concerned will raise awareness amongst contractors about the risk of such diseases. Employment of child labour is prohibited and a clause to this effect will be in-built into contract agreements.	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. See the Design and Monitoring Framework and the Gender and Social Inclusion Action Plan for key targets and indicators.	
2. Required human resources. Social Development Officers are recruited and mobilized. Similarly, apex and local NGOs are actively involved in the monitoring of any land acquisition and physical displacement activities, monitoring of conditions in labor camps etc.	
3. Monitoring tools. Baseline data (disaggregated by sex, ethnicity, social and economic status) for output and outcome indicators will be updated and reported on a quarterly basis. Activities under the gender and social inclusion action plan will be implemented by the local NGO partners. The PIUs through the PMU will be responsible for submitting periodic (semi-annual) progress reports on the GAP. The PMU will be responsible for preparing compliance and safeguards monitoring reports on a quarterly basis. A mid-term review will be undertaken 18 months after loan approval. The mid-term review will evaluate the scope of the loan, implementation arrangements, safeguard issues, achievement of targets, contract management progress and other issues, including mid-course corrections. An evaluation will be undertaken one year after the closure of the project. Findings of the completion report will be shared and disseminated within ADB and with key government officials at the national and state level.	

APPENDIX 10: GENDER ACTION PLAN
NORTH KARNATAKA URBAN SECTOR INVESTMENT PROGRAM PROJECT 4

Activity	Indicators/Targets	Responsibility	Time Schedule
Output 1. Upgraded water supply network			
Provide poor and female headed households (FHHs) with access to upgraded 24X7 water supply	<ul style="list-style-type: none"> - In 7 project towns/cities, expanded water systems improve additional access to water amongst the poor and Female HHs. Town/city-wise targets for water:* Haveri: 67,000 HHs, including poor and FHHs (10,050 [15%]) Yadgir: 12,600HHs, including poor and FHHs (1,764[14%]). Bidar: 9,700HHs, including poor and FHHs (485 [5%]). Basavakalyan 137,708 HHs, including poor and FHH (4,131 [3%]) Hospet: 25,552 HHs, including poor and FHH (2,044 [8%]) Raichur: 37,064 HHs, including poor and FHH (5,188 [14%]) 	CMC/ULBs with support of Project Consultants, NGOs	3 years
Output 4. Strengthened service delivery management capacity			
	<ul style="list-style-type: none"> - As per Karnataka state policy, each ULB has 50% women counselors - Capacity development (Target: >150, F:M 25:75) and plumbing skills development (Target: >120, F:M 10:90) programs 	SIUD, KUIDFC	3 years
Output 5. Enhanced project management and implementation capacity			
Institutional awareness building in KUIDFC and ULBs	<ul style="list-style-type: none"> - Develop institutional gender strategies for both operational work and human resources development policies in NKUSIP - 1 sensitization program on gender inclusive development for KUIDFC (Target audience > 100) - Establish sex-disaggregated monitoring, reporting and evaluation system in NKUSIP - 1 training for KUIDFC and project implementing units to collect, analyze and use sex- disaggregated information and data, and 1 for each ULB (Target audience > 50) - 1 gender awareness training for EAs/IAs and 1 for each ULB (Target: >150, F:M 25:75) 	ULB, UDD, KUIDFC NGO	3 years

*Note: Towns with only baseline data for FHHs available, and where no water supply interventions occurred in previous tranches to avoid double counting.

APPENDIX 11: INITIAL ENVIRONMENTAL EXAMINATION
(<http://www.adb.org/projects/38254-063/documents>)