

CONFORMED COPY

LOAN NUMBER 1704-IND

AMENDED AND RESTATED LOAN AGREEMENT
(Ordinary Operations)

(Karnataka Urban Development and Coastal Environmental Management Project)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 24 JULY 2002

LAO:IND 30303

**AMENDED AND RESTATED LOAN AGREEMENT
(Ordinary Operations)**

AMENDED AND RESTATED LOAN AGREEMENT dated 24 July 2002 between INDIA (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called the Bank).

WHEREAS

(A) the Borrower had applied to the Bank for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Bank had agreed to make a loan in the amount of one hundred and seventy-five million dollars (\$175,000,000) to the Borrower from the Bank's ordinary capital resources upon the terms and conditions set forth under the Loan Agreement dated 19 May 2000 between the Borrower and the Bank (hereinafter referred to as the Initial Loan Agreement), and the Project Agreement of even date therewith (hereinafter referred to as the Project Agreement) between the Bank, the State of Karnataka (hereinafter called the State) and Karnataka Urban Infrastructure Development and Finance Corporation Limited (hereinafter called KUIDFC);

(C) under the Initial Loan Agreement and this Loan Agreement, the Project is being carried out by the State acting through KUIDFC, and for this purpose the Borrower will continue to make available to the State and KUIDFC the proceeds of the Loan provided for under the Initial Loan Agreement and this Loan Agreement upon terms and conditions satisfactory to the Bank;

(D) in accordance with the Bank's policy under the *Review of the Asian Development Bank's Financial Loan Products* (R79-01, Revision 1 Final, 19 June 2001) read with the Bank's policy on *Modifying The Conditions of Transformation of Pool-Based Loan Products to LIBOR-Based Loan Terms* (R244-01, 26 November 2001), the Borrower has requested that the portion of Loan under the Initial Loan Agreement that shall remain undisbursed as of the Transformation Date (as hereinafter defined) be subjected to the terms and conditions of the LIBOR-Based lending facility of the Bank; and

(E) the parties agree that the Initial Loan Agreement is hereby amended and restated to provide for the application of different terms and conditions to (i) the portion of the Loan that shall have been disbursed as of the Transformation Date (hereinafter referred to as Pool-Based Loan); and (ii) the portion of the Loan that shall remain undisbursed as of the Transformation Date (hereinafter referred to as LIBOR-Based Loan).

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. Pool-Based Loan Regulations. All the provisions of the Ordinary Operations Loan Regulations of the Bank, dated 1 July 1986, are hereby made applicable to the Pool-Based Loan under this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Pool-Based Loan Regulations):

- (a) Section 2.01(4) is deleted and the following is substituted therefor:

The term "Loan" means the Pool-Based Loan provided for in the Loan Agreement.

- (b) Section 2.01(17) is deleted and the following is substituted therefor:

The term "dollar" or "dollars" or the sign "\$" means dollar or dollars in the currency of the United States of America.

- (c) Sections 2.01(26) and (27) are deleted and a new Section 2.01(26) is included as follows:

The term "Dollar Pool" means the pool of outstanding dollar borrowings undertaken by the Bank for the purpose of financing disbursements of dollar loans made by the Bank from the ordinary capital resources.

- (d) The last sentence of the first paragraph of Section 3.02 is deleted.

- (e) Section 3.02(b)(ii) is deleted and the following is substituted therefor:

"Qualified Borrowings" in relation to the Loan means the outstanding borrowings of the Bank in the Dollar Pool drawn down after 30 June 1992.

- (f) The last sentence of Section 3.06(a) is deleted and the words ", as of a date acceptable to the Bank," in Section 3.06(b) are deleted.

- (g) Section 4.02 is deleted and the following is substituted therefor:

Withdrawals from the Loan Account shall be made in dollars.

- (h) Section 4.03(a) is deleted and the following is substituted therefor:

- (a) The principal of the Loan shall be repayable in dollars.

- (i) Section 4.04 is deleted and the following is substituted therefor:

Interest on any portion of the Loan shall be payable in dollars.

- (j) The words “and the fee for any special commitment pursuant to Section 5.02” are deleted from Section 4.05.

- (k) Section 4.09 is deleted and the following is substituted therefor:

Notwithstanding any provisions in these Regulations to the contrary, withdrawals from the Loan Account in the case of the Loan shall be made, in the exceptional event the Bank determines that it is unable to disburse dollars for the purpose of such withdrawals, in such currency or currencies as the Bank may deem appropriate in accordance with the Bank's policy for dollar loans. The related principal amounts of the Loan shall be repayable and the interest thereon shall be payable in such currency or currencies. The interest rate to be applied to the principal amounts of the Loan disbursed in such currency or currencies shall be based on the costs to the Bank of such currency or currencies plus a spread, both as reasonably determined by the Bank from time to time.

- (l) Section 8.03 is deleted and the following is substituted therefor:

Cancellation by the Bank. If (i) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty (30) days, or (ii) at any time the Bank determines, after consultation with the Borrower, that any amount of the Loan will not be required for the purposes of the Project, or (iii) at any time the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement/consultant selection or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, or (iv) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement, or (v) by the date specified in the Loan Agreement as the closing date for withdrawals an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may by notice to the Borrower and the Guarantor, if any, terminate the right of the Borrower to make withdrawals with respect to such amount or contract. Upon the giving of such notice, the amount of the Loan or the relevant portion thereof shall be cancelled.

Section 1.02. LIBOR-Based Loan Regulations. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from the Bank's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to the LIBOR-Based Loan under this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations being hereinafter called the LIBOR-Based Loan Regulations).

(a) Section 2.01(1) is deleted and the following is substituted therefor:

1. "ADB" means the Bank under the Loan Agreement.

(b) Section 2.01(38) is deleted and the following substituted therefor:

38. "Loan" means the LIBOR-Based Loan provided for in the Loan Agreement.

(c) Sections 7.03, 7.04, 7.05, 7.06, and 7.07 are deleted.

Section 1.03. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Pool-Based Loan Regulations or the LIBOR-Based Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "CAPP" means community awareness and participation program in Part A of the Project as set forth in paragraph 4 of Schedule 1 to this Loan Agreement to be undertaken by a consortium of Non Governmental Organizations (NGOs) and other institutions engaged in monitoring and evaluation designed to promote community awareness, participation and education with respect to the design, implementation and management of Project facilities and to educate communities about the environmental, sanitation and health linkages of Subprojects;

(b) "CBO" means community-based organization;

(c) "Empowered Committee" means the committee to be established pursuant to paragraph 2 of Schedule 6 to this Loan Agreement;

(d) "CRMCP" means the coastal resource management and conservation plan in Part E of the Project as set forth in paragraph 8 of Schedule 1 to this Loan Agreement;

(e) "District Planning Committees" mean committees created by the State amongst other things for preparation of urban development plans in order to help devolve the responsibility for urban planning to the municipal level;

(f) "Imprest Account" means the account to be maintained by the Borrower in accordance with paragraph 8 of Schedule 3 of the Initial Loan Agreement and this Loan Agreement;

(g) "Initial Loan Agreement" means the loan agreement between the Borrower and the Bank dated 19 May 2000;

(h) "KUIDP" means the Karnataka Urban Infrastructure Development Project Number 1415-IND which is governed by a Loan Agreement between the Bank and the Borrower and a Project agreement between the Bank, on the one hand, and the State and KUIDFC on the other hand, both respectively dated 10 May 1996;

(i) "KUWSDB" means the Karnataka Urban Water Supply and Drainage Board of the State, established pursuant to the Karnataka Urban Water Supply and Drainage Board Act, 1973 (Karnataka Act No. 25 of 1974) of the State, or any successor;

(j) "LIBOR-Based Loan" means that portion of the Loan described in Section 2.01(a)(ii) of this Loan Agreement;

(k) "Loan" means the aggregate of the Pool-Based Loan and the LIBOR-Based Loan;

(l) "Local Steering Committee" means a ULB Steering Committee to be established in accordance with paragraph 5 of Schedule 6 to this Loan Agreement;

(m) "MUD" means the Ministry of Urban Development of the Borrower;

(n) "Onlending Agreement" means an agreement between the State and a Project Town pursuant to Section 3.01(b) of this Loan Agreement including performance of obligations by ULBs;

(o) "PIU" means a Project Implementation Unit established in accordance with paragraph 4(b) of Schedule 6 to this Loan Agreement;

(p) "PMU" means the Project Management Unit established in accordance with paragraph 4(a) of Schedule 6 to this Loan agreement;

(q) "Pool-Based Loan" means that portion of the Loan described in Section 2.01(a)(i) of this Loan Agreement;

(r) "Project" means the Karnataka Urban Development and Coastal Environmental Management Project as more fully described in Schedule 1 to this Loan Agreement;

(s) "Project Agreement" for the purposes of, and within the meaning of the Pool-Based Loan Regulations and the LIBOR-Based Loan Regulations means the agreement dated 19 May 2000 between the Bank and the State and KUIDFC under the Project;

(t) "Project Director" means the head of the PMU;

(u) "Project Executing Agency" for the purposes of, and within the meaning of, the Pool-Based Loan Regulations and the LIBOR-Based Loan Regulations means the State represented by UDD acting through KUIDFC;

(v) "Project Town" means each one of Ankola, Bhaktal, Dandeli, Karwar, Kundapura, Mangalore, Puttur, Sirsi, Udupi and Ullal;

- (w) "PWD" means the Public Works Department of the State;
- (x) "Sanction Letter" means the instrument drawn in accordance with Section 3.01 of this Loan Agreement under which the Borrower shall make the Loan proceeds available to the State;
- (y) "Steering Committee" means the steering committee to be established under the chairmanship of the Additional/Joint Secretary, MUD in accordance with paragraph 1 of Schedule 6 to this Loan Agreement;
- (z) "Shahari Rozgar Yojana" means the Borrower's urban employment generation scheme which focuses on poverty, especially poverty among women;
- (aa) "State Property Tax Law" means proposed State legislation, basing property taxes on criteria-based rationalization of existing systems for levy and collection of property taxes to modify the existing State property tax law;
- (bb) "Subprojects" mean such proposals which are prepared by the ULBs under Parts A to E of this Project as defined in Schedule 1 to this Loan Agreement, which are reviewed and selected by the State and the Bank in accordance with social and public health objectives, economic and financial analyses and a stakeholder participation approach;
- (cc) "Transformation Date" means the earliest of the following dates that succeeds the Effective Date: (1) 31 July 2002; (ii) 31 October 2002; (iii) 15 December 2002. Such Transformation Date shall be the date on or after which all withdrawals by the Borrower from the Loan Account shall be withdrawals of the LIBOR-Based Loan and shall be subject to the LIBOR-Based Loan Regulations;
- (dd) "UDD" means the Urban Development Department of the State; and
- (ee) "ULB" means the urban local body of each Project Town.

ARTICLE II

The Loan

Section 2.01. (a) The Bank has agreed to lend to the Borrower from the Bank's ordinary capital resources a Loan in the amount of one hundred seventy five million dollars (\$175,000,000) comprising:

- (i) a Pool-Based Loan, subject to the Pool-Based Loan Regulations, in an amount equal to the disbursed portion of the Loan as of the Transformation Date; and
- (ii) a LIBOR-Based Loan, subject to the LIBOR-Based Loan Regulations, in an amount equal to the undisbursed portion of the Loan as of the Transformation Date, in dollars, as such amount may be converted from time to time through a Currency

Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Bank and the Borrower agree that, as of the date hereof, (i) the amount of the Pool-Based Loan is one million four hundred seventy-six thousand six hundred eighty-seven dollars and thirty-seven cents (\$1,476,687.37), and (ii) the amount of the LIBOR-Based Loan is one hundred seventy-three million five hundred twenty-three thousand three hundred twelve dollars and sixty-three cents (\$173,523,312.63), in each case subject to subsection (c) below.

(c) The Bank and the Borrower further agree that, if any amounts shall have been withdrawn by the Borrower on or after the date hereof and prior to the Transformation Date, such amounts shall be added to the amount of the Pool-Based Loan in Section 2.01(b)(i) of this Loan Agreement and deducted from the amount of the LIBOR-Based Loan in Section 2.01(b)(ii) of this Loan Agreement so that the aggregate amount of the Loan shall equal one hundred and seventy five million dollars (\$175,000,000). The Bank shall notify the Borrower of any such adjustments under this Section 2.01 and corresponding adjustments to Schedule 2-A to this Loan Agreement, and such adjustments shall form part of this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 2.02. The Borrower shall pay to the Bank interest as determined (i) on the Pool-Based Loan as determined in accordance with Section 3.02 of the Pool-Based Loan Regulations; and (ii) on the LIBOR-Based Loan in accordance with Section 3.02 of the LIBOR-Based Loan Regulations.

Section 2.03. (a) The Borrower shall pay a commitment charge at the rate of three-fourths of one percent (0.75%) per annum. Such charge shall accrue on amounts of the Loan (less amounts withdrawn from time to time), during successive periods commencing sixty (60) days after 19 May 2000, as follows:

during the first twelve-month period, on \$26,250,000;
 during the second twelve-month period, on \$78,750,000;
 during the third twelve-month period, on \$148,750,000; and
 thereafter, on the full amount of the Loan.

(b) If any amount of the Loan is cancelled, the amount of each portion of the Loan stated in paragraph (a) of this Section shall be reduced in the same proportion as the cancellation bears to the full amount of the Loan before such cancellation.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually (i) on 1 July and 1 January in each year for the Pool-Based Loan; and (ii) on 1 July and 1 January in each year for the LIBOR-Based Loan.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in (i) Schedule 2-A to this Loan Agreement [for the Pool-Based Loan, as it may be adjusted in accordance with Section 2.01 of this Loan Agreement](#); and (ii) [Schedule 2-B to this Loan Agreement for the LIBOR-Based Loan](#).

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

- (i) a change of the Loan Currency of all or any portion of the principal amount of the LIBOR-Based Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the LIBOR-Based Loan from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the LIBOR-Based Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(6) of the LIBOR-Based Loan Regulations, and shall be effected in accordance with the provisions of Article V of the LIBOR-Based Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall make the proceeds of the Loan available to the State upon terms and conditions satisfactory to the Bank and shall cause the State to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

(b) The Borrower shall cause the State to relend the proceeds of the Loan together with other funds required for the Project, to each Project Town pursuant to an Onlending Agreement, upon terms and conditions satisfactory to the Bank.

Section 3.02. The goods, services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such goods, services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 3.03. Except as the Borrower and the Bank may otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to this Loan Agreement. The Bank may refuse to finance a contract where goods and services have not been procured under procedures substantially in accordance with those agreed between the Borrower and the Bank or where the terms and conditions of the contract are not satisfactory to the Bank.

Section 3.04. Except as the Borrower and the Bank may otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of (i) Section 8.03 of the Pool-Based Loan Regulations; and (ii) Section 9.02 of the LIBOR-Based Loan Regulations, shall be 30 June 2005 or such other date as may from time to time be agreed between the Borrower and the Bank.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the State to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, urban development and public utility practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement.

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

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

Section 4.04. The Borrower shall furnish, or cause to be furnished, to the Bank all such reports and information as the Bank shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods and services and other items of expenditure financed out of the proceeds of the Loan; (iii) the Project; (iv) the administration, operations and financial condition of the State, KUIDFC and any other agencies of the Borrower responsible for the carrying out of the Project and operation of the Project facilities, or any part thereof; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the Loan.

Section 4.05. The Borrower shall enable the Bank's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.

Section 4.06. The Borrower shall take all action which shall be necessary on its part to enable the State to perform its obligations under the Project Agreement and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.07. (a) The Borrower shall cause the State to exercise its rights under each Onlending Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

(b) The Borrower shall keep the Bank informed of any amendment or modification of the Sanction Letter.

(c) No rights or obligations under any Onlending Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of the Bank.

Section 4.08. (a) It is the mutual intention of the Borrower and the Bank that no other external debt owed a creditor other than the Bank shall have any priority over the Loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, except as the Bank may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan; and (ii) that the Borrower, in creating or permitting the creation of any such lien, will make express provision to that effect.

(b) The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) The term "assets of the Borrower" as used in paragraph (a) of this Section includes assets of any administrative subdivision or any agency of the Borrower and assets of any agency of any such administrative subdivision, including the Reserve Bank of India and any other institution performing the functions of a central bank for the Borrower.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of (i) Section 8.02(l) of the Pool-Based Loan Regulations; and (ii) Section 9.01(l) of the LIBOR-Based Loan Regulations:

(a) the Sanction Letter shall not have become effective within 90 days after 21 September 2000 or having become effective, shall have become liable for suspension or cancellation.

(b) any Onlending Agreement shall have become liable for suspension or cancellation.

Section 5.02. The following are specified as additional events for acceleration of maturity for the purposes of (i) Section 8.07(d) of the Pool-Based Loan

Regulations; and (ii) Section 9.07(a)(iv) of the LIBOR-Based Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of (i) Section 9.01(f) of the Pool-Based Loan Regulations; and (ii) Section 10.01(f) of the LIBOR-Based Loan Regulations: that the State and KUIDFC shall have acknowledged and consented, in form and substance satisfactory to the Bank, to the Borrower executing and delivering this Loan Agreement.

Section 6.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of (i) Section 9.04 of the Pool-Based Loan Regulations; and (ii) Section 10.04 of the LIBOR-Based Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Secretary, Ministry of Finance, Department of Economic Affairs, of the Borrower is designated as representative of the Borrower for the purposes of (i) Section 11.02 of the Pool-Based Loan Regulations; and (ii) Section 12.02 of the LIBOR-Based Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of (i) Section 11.01 of the Pool-Based Loan Regulations; and (ii) Section 12.01 of the LIBOR-Based Loan Regulations:

For the Borrower

The Secretary to the Government of India
Ministry of Finance
Department of Economic Affairs
New Delhi, India

Cable Address:

ECOFAIRS
NEW DELHI

Telex Number

3166175 FINE IN

Facsimile Number:

(91-11) 301-2477
(91-11) 301-7511

For the Bank

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

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

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

INDIA

By NAVREKHA SHARMA
Ambassador of India to the Philippines
(Authorized Representative)

ASIAN DEVELOPMENT BANK

By TADAO CHINO
President

SCHEDULE 1

Description of the Project

1. The objective of the Project is to optimize social and economic development in the urban areas of west Karnataka by supporting investments in urban infrastructure and services required to meet basic human needs and facilitate policy reforms intended to strengthen urban management. The investments are for measures to (i) achieve sustainable operations and maintenance for infrastructure; (ii) ensure better delivery of urban services by strengthening urban management capacities of local governments, and (iii) establish appropriate environmental planning, management and monitoring mechanisms to address the potential environmental effects associated with urban and industrial growth in the region.

2. The Project consists of the following six parts.

Part A: Capacity Building, Community Participation and Poverty Reduction

3. The capacity building component will provide training and technical assistance to local government administrations through (i) a training program for municipal personnel in the Project Towns; (ii) on-the-job training for municipal staff involved in the implementation of Subprojects; and (iii) training modules and instructional materials.

4. The component of community participation in the Project during design, implementation and operation and maintenance (O&M) phases shall be undertaken through a CAPP by a consortium including NGOs and others involved in the monitoring and evaluation program. The CAPP will promote community awareness about the Project and educate the communities about environmental, sanitation and health linkages of Subprojects.

Part B: Water Supply Rehabilitation and Expansion

5. Based on a prioritization of areas most severely affected by the lack of suitable and safe water, the use of existing assets will be maximized and supplemented by augmentation of the production and supply system, introduction of comprehensive metering of the distribution system and a water tariff structure for residential and industrial users that will promote cost recovery.

Part C: Urban Environmental Improvements

6. This component will consist of wastewater management, storm water drainage improvement, solid waste management improvement, traffic management and rehabilitation of public markets as well as construction of new markets in the Project Towns.

Part D: Street and Bridge Improvements

7. This component will consist of rehabilitation, strengthening, widening and upgrading of critical streets in the Project Towns, improvement of existing bridges in urban areas, and limited street construction.

Part E: Coastal Environmental Management

8. A CRMCP will be developed under Part E of the Project. The CRMCP shall support the preparation of a comprehensive development plan for the coastal districts of South Canara, Udupi and North Canara. The CRMCP shall determine how urban and rural development, including planning of major infrastructure, can take place with minimum adverse impact on the environment. The CRMCP shall also integrate district plans of District Planning Committees and town development plans prepared by the ULBs and operationalize the coastal regulation zone. In addition, Part E of the Project will develop an industrial pollution control and environmental monitoring program, and air and water quality monitoring stations, establish a center for cleaner technologies, and assist in preparing an urban waterfront rehabilitation plan for Mangalore.

Part F: Implementation Assistance

9. This component will include incremental administration, equipment and vehicles for implementation, design and construction supervision services and Project management services.

10. The Project is expected to be completed by 31 December 2004.

SCHEDULE 2-A

**Amortization Schedule for the Pool-Based Loan
(Karnataka Urban Development and Coastal Environmental Management Project)**

<u>Date Payment Due</u>		<u>Payment of Principal</u> (in dollars) *
01 July	2005	12,200.00
01 January	2006	12,800.00
01 July	2006	13,500.00
01 January	2007	14,100.00
01 July	2007	14,900.00
01 January	2008	15,600.00
01 July	2008	16,400.00
01 January	2009	17,200.00
01 July	2009	18,100.00
01 January	2010	19,000.00
01 July	2010	19,900.00
01 January	2011	20,900.00
01 July	2011	22,000.00
01 January	2012	23,000.00
01 July	2012	24,200.00
01 January	2013	25,400.00
01 July	2013	26,700.00
01 January	2014	28,000.00
01 July	2014	29,400.00
01 January	2015	30,900.00
01 July	2015	32,400.00
01 January	2016	34,100.00
01 July	2016	35,800.00
01 January	2017	37,500.00
01 July	2017	39,400.00
01 January	2018	41,400.00
01 July	2018	43,500.00
01 January	2019	45,600.00
01 July	2019	47,900.00
01 January	2020	50,300.00
01 July	2020	52,800.00

*The arrangements for payment of each maturity are subject to the relevant provisions of the Pool-Based Loan Regulations.

Schedule 2-A may be adjusted by the Bank in accordance with Section 2.01 of this Loan Agreement in the event that the Borrower withdraws any amounts on or after the date of this Loan Agreement and prior to the Transformation Date.

Schedule 2-A

<u>Date Payment Due</u>		<u>Payment of Principal</u> (in dollars) *
01 January	2021	55,500.00
01 July	2021	58,200.00
01 January	2022	61,200.00
01 July	2022	64,200.00
01 January	2023	67,400.00
01 July	2023	70,800.00
01 January	2024	74,300.00
01 July	2024	78,100.00
01 January	2025	<u>82,087.37</u>
Total		<u>1,476,687.37</u>

*The arrangements for payment of each maturity are subject to the relevant provisions of the Pool-Based Loan Regulations.

Schedule 2-A may be adjusted by the Bank in accordance with Section 2.01 of this Loan Agreement in the event that the Borrower withdraws any amounts on or after the date of this Loan Agreement and prior to the Transformation Date.

PREMIUMS ON PREPAYMENT FOR THE POOL-BASED LOAN

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Pool-Based Loan pursuant to Section 3.06(b) of the Pool-Based Loan Regulations.

<u>Time of Prepayment</u>	<u>Premium</u>
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Pool-Based Loan on the day of prepayment multiplied by:
Not more than 3 years before maturity	0.12
More than 3 but not more than 6 years before maturity	0.24
More than 6 but not more than 11 years before maturity	0.44
More than 11 but not more than 16 years before maturity	0.64
More than 16 but not more than 20 years before maturity	0.80
More than 20 years but not more than 23 years before maturity	0.92
More than 23 years	1.00

SCHEDULE 2-B

**Amortization Schedule for the LIBOR-Based Loan
(Karnataka Urban Development and Coastal Environmental Management Project)**

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

Period	Date Payment Due	<u>Installment Share</u> (expressed in percentage)
1	1 July 2005	0.83
2	1 January 2006	0.87
3	1 July 2006	0.91
4	1 January 2007	0.96
5	1 July 2007	1.01
6	1 January 2008	1.06
7	1 July 2008	1.11
8	1 January 2009	1.16
9	1 July 2009	1.22
10	1 January 2010	1.28
11	1 July 2010	1.35
12	1 January 2011	1.42
13	1 July 2011	1.49
14	1 January 2012	1.56
15	1 July 2012	1.64
16	1 January 2013	1.72
17	1 July 2013	1.81
18	1 January 2014	1.90
19	1 July 2014	1.99
20	1 January 2015	2.09
21	1 July 2015	2.20
22	1 January 2016	2.31
23	1 July 2016	2.42
24	1 January 2017	2.54
25	1 July 2017	2.67
26	1 January 2018	2.80
27	1 July 2018	2.94
28	1 January 2019	3.09
29	1 July 2019	3.25
30	1 January 2020	3.41
31	1 July 2020	3.58

32	1 January	2021	3.76
33	1 July	2021	3.94
34	1 January	2022	4.14
35	1 July	2022	4.35
36	1 January	2023	4.57
37	1 July	2023	4.79
38	1 January	2024	5.03
39	1 July	2024	5.29
40	1 January	2025	<u>5.54</u>
			<u>100</u>

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

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

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

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

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the LIBOR-Based Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

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

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of goods, services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Taxes

2. No withdrawals from the Loan Account shall be made in respect of any local taxes.

Percentages of Bank Financing

3. Except as the Bank may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

4. Notwithstanding paragraph 5 of this Schedule, any contract awarded to a local supplier after effective international competitive bidding or international shopping pursuant to the relevant provisions of Schedule 4 to this Loan Agreement shall be financed out of the proceeds of the Loan on the following basis:

- (a) where the goods procured from a local supplier are manufactured locally, 100% of the ex-factory price of the goods supplied (exclusive of any taxes); and
- (b) where the goods procured from a local supplier have been entirely imported, 100% of the foreign-currency component of the contract price.

Local Expenditure

5. (a) Loan proceeds up to the amount of \$81,100,000 may be withdrawn from the Loan Account in foreign currency for the purposes of financing local expenditure.

(b) Except as provided in this paragraph or as the Bank may otherwise agree, no withdrawals from the Loan Account shall be made in respect of any local expenditure on the Project.

Interest and Commitment Charge/Interest Charge

6. The amount allocated to Category 5 is for financing interest and commitment charges on the Loan during the implementation period of the Project. The Bank shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charge.

Reallocation

7. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table and subject to paragraph 5 of this Schedule,

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

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

Imprest Account; Statement of Expenditures

8. (a) Except as the Bank may otherwise agree, the Borrower may establish after 21 September 2000, an imprest account at the Reserve Bank of India. The imprest account shall be managed, replenished and liquidated in accordance with the Bank's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and the Bank. The initial amount to be deposited into the imprest account shall be determined from time to time by the Bank in consultation with the Borrower.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for the Project, in accordance with the Bank's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and the Bank. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$250,000.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Karnataka Urban Development and Environmental Management Project)				
CATEGORY			PERCENTAGE OF BANK FINANCING	
Number	Item	Amount Allocated	Percentage	Basis for Withdrawal from the Loan Account
1	Civil Works	\$100,500,000	80	percent of total expenditure
				(40% for foreign and 40% for local)
2	Equipment and Materials	\$8,000,000	100	percent of foreign expenditure
			75	percent of local expenditure
3	Consulting Services	\$7,000,000	100	percent of foreign expenditure
			80	percent of local expenditure
4	Implementation Assistance	\$500,000	100	percent of foreign expenditure
			67	percent of local expenditure
5	Interest and Commitment Charge	\$24,000,000	100	percent of amount due
6	Unallocated	\$35,000,000		
	Total	\$175,000,000		

SCHEDULE 4

Procurement

1. Except as the Bank may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of goods and services to be financed out of the proceeds of the Loan. In this Schedule and the Attachment hereto, the term "goods" includes equipment and materials; the term "services" does not include consulting services.

2. Procurement of goods and services shall be subject to the provisions of the "Guidelines for Procurement under Asian Development Bank Loans" dated February 1999 (hereinafter called the Guidelines for Procurement), as amended from time to time, which have been furnished to the Borrower.

3. Procurement of goods and services shall be made without any restriction against, or preference for, any particular supplier or contractor or any particular class of suppliers or contractors, except as otherwise provided in paragraphs 6, 7 and 8 and below.

4. (a) Each civil works contract estimated to cost the equivalent of more than \$3,000,000 and each supply contract for equipment or materials estimated to cost the equivalent of more than \$500,000 shall be awarded on the basis of international competitive bidding as described in Chapter II of the Guidelines for Procurement. Bidders for civil works contracts shall be prequalified before bidding.

(b) For contracts to be awarded on the basis of international competitive bidding, there shall be submitted to the Bank, as soon as possible, and in any event not later than 90 days before the issuance of either the first prequalification invitation or the first invitation to bid for the Project, a General Procurement Notice (which the Bank will arrange to publish separately) in such form and detail and containing such information as the Bank shall reasonably request. The Bank shall be provided the necessary information to update such General Procurement Notice annually as long as any goods and works remain to be procured on the basis of international competitive bidding.

(c) For contracts to be awarded on the basis of international competitive bidding, procurement actions shall be subject to review by the Bank in accordance with the procedures set forth in Chapter IV of the Guidelines for Procurement. Each draft prequalification invitation and each draft invitation to bid, to be submitted to the Bank for approval under such procedures, shall reach the Bank at least 42 days before it is issued and shall contain such information as the Bank shall reasonably request to enable the Bank to arrange for the separate publication of such invitation.

5. (a) Each civil works contract estimated to cost the equivalent of \$500,000 or less (other than minor items) shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement.

6. In comparing bids under international competitive bidding, a margin of preference may be provided, at the option of the Borrower and in accordance with the provisions of the Attachment to this Schedule, for

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(a) goods manufactured in the territory of the Borrower, provided that the bidder offering such goods shall have established to the satisfaction of the Borrower and the Bank that the domestic value added equals at least 20% of the ex-factory bid price of such goods; and

(b) civil works to be carried out by eligible domestic contractors, as defined by the Bank.

7. Each civil works contracts for the equivalent of \$3,000,000 or less shall be awarded on the basis of local competitive bidding among prequalified contractors in accordance with the standard procurement procedures of the Project Executing Agency and acceptable to the Bank. Prequalification, selection and engagement of contractors shall be subject to the approval of the Bank. As soon as the bids received have been evaluated, the proposal for award of contract shall be submitted to the Bank for approval. For this purpose, the Bank shall be furnished with three copies of (i) an account of the public opening of bids; (ii) a summary and evaluation of the bids; (iii) the proposal for award; and (iv) a draft contract or a draft letter of acceptance. Promptly after each contract is awarded, the Bank shall be furnished with three copies of the contract as executed.

8. Certain supply contracts and civil works for the equivalent of \$100,000 or less each may be procured in accordance with direct procurement procedures acceptable to the Bank. After award, three copies of each such contract for shall be furnished to the Bank.

9. (a) The Borrower shall ensure that all Bank-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that (i) all Bank-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) are designed to be used prior to, during, and after the calendar year 2000 AD (Year 2000), (ii) neither the performance nor the functionality of such goods and services shall be affected by dates prior to, during and after the Year 2000, and (iii) such goods and services, and the logic included therein, will operate during each such time period without error relating to date data, specifically including any error relating to, or the production of, date data which represents or references different centuries or more than one century and the correct treatment of the Year 2000 as a leap year.

(c) The Borrower shall ensure that all Bank-financed contracts for the procurement of goods and services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraphs (a) and (b) of this paragraph.

Preference for Domestically Manufactured Goods

1. In the procurement of goods through international competitive bidding, goods manufactured in the territory of the Borrower may be granted a margin of preference in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of the Borrower and the Bank that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following three categories:

Category I -- bids offering goods manufactured in the territory of the Borrower which meet the minimum domestic value added requirement;

Category II -- bids offering other goods manufactured in the territory of the Borrower; and

Category III -- bids offering imported goods.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I or Category II is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category III, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category III by adding either
- (i) the amount of customs duties and other import taxes which a nonexempt importer would have to pay for the importation of the goods offered in such Category III bid; or
 - (ii) 15 percent of the CIF bid price of such goods if the customs duties and import taxes referred to above exceed 15 percent of the CIF bid price.

If, after such further comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category III shall be selected for the award.

2. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference, including the minimum domestic value added.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Domestic Preference for Turnkey Contracts and
Supply-and-Installation Contracts

3. In single-responsibility turnkey (including design-build) contracts and supply-and-installation contracts for large and complex packages, procured through international competitive bidding and in which discrete items of goods are grouped into one contract package and where the CIF cost of goods to be used for or in the permanent works under such contracts is estimated, prior to bidding, to equal or exceed 60 percent of the total cost of such works, a margin of preference shall be applied to the domestically manufactured goods in accordance with the following provisions.

- (a) The margin of preference shall not be applied to the whole package but only to the domestically manufactured goods within the package.
- (b) Goods offered from outside the territory of the Borrower shall be quoted CIF and goods offered domestically shall be offered ex-factory or ex-works (free of sales and similar taxes).
- (c) All other cost components, such as design as well as works installation and supervision, shall be quoted separately.
- (d) In the comparison of bids (which should not be classified into Categories I, II or III as with the domestic preference for goods), only the CIF price in each bid of the goods offered from outside the territory of the Borrower shall be increased by the applicable duty and other taxes payable by a nonexempt importer or by 15 percent, whichever is less.
- (e) If duties vary from item to item within a package, the appropriate tariff for each item shall apply.
- (f) No margin of preference shall be applied to any associated services or works included in the package.
- (g) Bidders will not be permitted or required to modify the mix of domestic and foreign goods after bid opening.

4. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Preference for Domestic Contractors

5. In the selection of civil-works contractors, single-responsibility turnkey (including design-build) contractors or supply-and-installation contractors where the CIF cost of goods to be used for or in the permanent works under such contracts is less than 60 percent of the total cost of such works, eligible domestic contractors, as defined below, through international competitive bidding may be granted a margin of preference in accordance with the following provisions.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following two categories:

Category I -- bids offered by domestic contractors and joint ventures eligible for the preference in accordance with the applicable criteria as set forth in paragraph 6 below; and

Category II -- bids offered by other contractors.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category II, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category II by adding an amount equal to seven-and-one-half percent of the bid price. If, after such comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category II shall be selected.

6. (a) To be eligible for the preference set forth in paragraph 5 above, domestic contractors must meet the following criteria:

- (i) firms are registered in the territory of the Borrower;
- (ii) firms have majority ownership by nationals of the Borrower; and
- (iii) firms will not subcontract more than 50 percent of the total value of their work to foreign contractors.

(b) A joint venture between a domestic contractor and its foreign partner shall be eligible for the preference only if it meets the following criteria:

- (i) the domestic partner(s) is individually eligible for the preference according to the criteria stated above;
- (ii) the domestic partner(s) would not qualify for the contract works on technical or financial grounds without the foreign participation; and
- (iii) the domestic partner(s) will, under the arrangements proposed, carry out at least 50 percent of the contract works measured in terms of value.

(c) Contractors applying for the preference shall be required to provide, as part of the data for qualification, necessary information, including details of ownership, for determining whether, according to the applicable criteria, a particular firm or group of firms qualifies for the preference.

7. The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of firms for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above. Bidders applying for the preference shall provide such additional information in support of such eligibility as may be requested by the Borrower and the Bank.

SCHEDULE 5

Consultants

1. The services of consultants shall be utilized in the carrying out of the Project, particularly with regard to:

- (a) Project management; and
- (b) detailed design and construction supervision.

The terms of reference of the consultants shall be as determined by agreement between the Bank and the State and/or KUIDFC.

2. The selection, engagement and services of the consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers" dated April 2002, as amended from time to time, which have been furnished to the State and/or KUIDFC.

3. The international consultants required for the services referred to in paragraph 1 shall be selected and engaged by the State and/or KUIDFC in accordance with the following procedures.

(a) Invitation for proposals. The invitation to submit proposals and all related documents shall be approved by the Bank before they are issued. For this purpose, three copies of the draft invitation to submit proposals, a list of consultants to be invited, the proposed criteria for evaluation of proposals and other related documents shall be submitted to the Bank. A period of at least 60 days shall be allowed for submission of proposals. A copy of the final invitation as issued, together with all related documents, shall be furnished to the Bank for information promptly after issuance.

(b) Draft Contract. A draft contract with consultants shall be furnished to the Bank for approval sufficiently before the commencement of evaluation of proposals.

(c) Proposal for Selection. After the proposals received have been evaluated and before negotiations are started with the consultants selected for negotiations, approval of the Bank shall be obtained to the selection made. For this purpose, the Bank shall, promptly after the evaluation of proposals, be furnished with three copies of (i) an evaluation of the proposals (together with one set of each proposal not previously furnished to the Bank); and (ii) justification for the selection.

(d) Execution of Contract. After the conclusion of negotiations but before the signing of the contract, the Bank shall be furnished with (i) the contract as negotiated for approval; and (ii) the evaluation of the proposals. Promptly after the contract is signed, the Bank shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to the Bank for prior approval.

4. The services of competent domestic consultants shall be utilized for detailed design and construction supervision services, including completing detailed engineering designs and drawings, preparing supplementary technical documentation for all components in each Project Town, supervision of construction contracts, assisting Subproject managers and preparation of progress reports.

5. Domestic consultants shall be selected and engaged in accordance with procedures acceptable to the Bank, and the selection and engagement of the consultants shall be subject to the approval of the Bank with regard to their competence and experience for carrying out the assignment. As soon as the proposals received have been evaluated but before negotiations are started with the consultants selected for negotiations, the Bank shall be furnished with three copies of (i) a list of consultants invited; (ii) an evaluation of the proposals (together with one set of the first-ranked proposal); and (iii) justification for the selection. After the conclusion of negotiations but before the signing of the contract, the contract as negotiated shall be furnished to the Bank for approval. Promptly after the contract is signed, the Bank shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to the Bank for prior approval.

6. The Borrower shall ensure that all Bank-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that:

(a) the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) (i) all goods and services provided or used by the consultants (including without limitation all computer hardware, software and system) are designed to be used prior to, during, and after the calendar year 2000 AD (Year 2000), (ii) neither the performance nor the functionality of such goods and services shall be affected by dates prior to, during and after the Year 2000, and (iii) such goods and services, and the logic included therein, will operate during each such time period without error relating to date data, specifically including any error relating to, or the production of, date data which represents or references different centuries or more than one century and the correct treatment of the Year 2000 as a leap year.

SCHEDULE 6

Execution of Project and Operation of Project Facilities; Financial Matters

I. Project Implementation

Project Execution and Coordination

1. The Borrower's MUD shall cause a Steering Committee under the chairmanship of the Additional/joint Secretary MUD and including representation from the State and KUIDFC, to review and coordinate all Bank projects undertaken by KUIDFC including this Project in the context of the national policy of the Borrower in the urban sector.

2. The State shall cause the Empowered Committee for KUIDP to be the Empowered Committee for the Project and be vested with appropriate authority for efficient and effective decision making on all matters in respect of the implementation of the Project, including the engagement of consultants referred to in Schedule 5 to this Loan Agreement and award of contracts for the Project. The Empowered Committee shall be under the chairmanship of the Additional Chief Secretary of the State. The Project Director shall be member-secretary of the Empowered Committee. Other members of the Empowered Committee shall include the State's Secretaries of Finance, PWD, UDD and Environment.

3. The State shall be represented as the Project Executing Agency by KUIDFC.

4. (a) A PMU shall be established within KUIDFC in Bangalore. The PMU shall be headed by a full time Project Director who shall be responsible for the coordination and management of the Project. The PMU shall have a Deputy Director who shall be responsible for daily Project administration. The State shall ensure that an additional 14 PMU positions shall be created no later than 30 days after 21 September 2000 and that these positions shall be for a Deputy Project Director, an Internal Auditor, an Accountant, three Superintending Engineers, one Administration/Liaison Officer, three Executive Engineers (Procurement), three Community Development Officers and one Public Relations Specialist. Qualified and experienced staff who shall be appointed as required throughout the period of Project implementation shall support the PMU. All PMU staffing requirements shall be filled no later than 120 days after 21 September 2000.

(b) To support the PMU, a PIU shall be established for each of three coastal districts of the State, namely South Canara, Udupi and North Canara. The PIUs shall be established at Mangalore, Udupi and Karwar. The PIUs shall work closely with each ULB in their respective coastal districts to finalize Project designs, determine financing arrangements and cost recovery measures, assist with implementation arrangements, and define operations and maintenance responsibilities. The Mangalore PIU shall work with the ULBs of Mangalore, Ullal and Puttur. The Udupi PIU shall work with the ULBs of Udupi and Kundapura. The Karwar PIU shall work with the ULBs of Karwar, Dandeli, Ankola, Sirsi and Bhaktal. The State shall ensure that an additional 23 PIU positions shall be created no later than 30 days after 21 September 2000 and that these positions shall be for three Project Managers/Executive Engineers, three Administrative Managers, three Design and Contract

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Administration Specialists, eight Assistant Engineers, three Assistant Accounts Officers, and three Community Development Officers. Each of the three PIUs shall be headed by a Project manager. The deputy commissioner of each district shall serve as Project coordinator for each PIU and full time community development officers shall be appointed to the PMU and each PIU to undertake communication with community residents during Project implementation. All PIU staffing requirements shall be filled no later than 120 days after 21 September 2000.

5. The State shall ensure that prior to awarding the first municipal-level contract, a Local Steering Committee shall be established in each ULB to provide overall Subproject guidance. The Local Steering Committee shall be chaired by the concerned district deputy commissioner and shall include two elected representatives of the concerned Project Town, the municipal commissioner, selected elected chairpersons of relevant development committees and representatives of participating NGOs and CBOs.

6. The State shall ensure that NGOs and CBOs are promptly selected in order to encourage demand-driven approach to community-level components of the Project and a willingness to pay for improved urban infrastructure and municipal services under the Project. The State shall ensure NGOs and CBOs which are to be engaged in the implementation of the CAPP shall have (i) demonstrated experience in working on urban development and environmental needs; (ii) knowledge about the target community's needs and desires; (iii) technically or professionally trained individuals in fields related to the Project components; (iv) been active for at least three years and be financially solvent; (v) no legal restriction against the provision of such services; (vi) demonstrated skills in community-level communication and facilitating participation; (vii) capacity in women-in-development and gender issues; and (viii) a commitment to the Project for any assigned capacity for the full duration of the Project.

7. For each of the three districts of the State defined in paragraph 4(b), there shall be an establishment of NGO forums. The concerned deputy commissioner shall liaise with such NGO forums. The NGO forums shall liaise with the PMUs, the PIUs and the Local Steering Committee to review and approve NGO proposals in accordance with agreed selection criteria and monitor the performance of NGOs involved in Subproject implementation so that costs are within budgeted amounts. NGO proposals shall include NGO implementation of selected Project components with technical expertise on detailed design, engineering, tendering and contract supervision being provided by the PMU and respective PIUs.

Midterm Review

8. In addition to the regular views to be undertaken during Project implementation, the Borrower, the Bank and the State shall carry out a comprehensive midterm review about two years after 21 September 2000. The objectives of the midterm review shall be to evaluate critically (a) actual Project progress; (b) implementation procedures; (c) procurement methodology; (d) monitoring and evaluation activities; and (e) the performance of project management and design and supervision consultants. Following such review, the Borrower and the State shall ensure that appropriate corrective action satisfactory to the Bank is undertaken.

II. Other Project-Related Matters

Monitoring and Evaluation

9. The State shall cause an ME program to be undertaken for the Project which will monitor the delivery of services anticipated and measure the benefits as they accrue. A sociologist employed by the PMU, shall carry out periodic social surveys to determine changes in agreed key social indicators, including indicators pertaining to water supply improvements, public health, welfare, economic and physical conditions, changes in property values and operational efficiency in each Project Town. The PMU shall submit a detailed implementation plan for the Bank's review and concurrence within six months after 21 September 2000.

Environmental and Social Measures

10. The Borrower and the State shall carry out the following in each Project Town:
- (a) water supply work, including selection of efficient filter plants and chlorinators, maintenance of residual chlorine at the consumer end, regular monitoring of raw and treated water quality, adequacy of chlorine dosage, performance of filter media in water treatment plants, functioning of pumps and water meters and checking leaks in water supply pipes;
 - (b) sewerage and sanitation work, including improvement of environmental conditions and reduction of the risk of communicable diseases through sludge stabilization, regular monitoring of physical, chemical, biological and bacteriological parameters of treated effluent and safety measures to safeguard sewerage maintenance workers;
 - (c) solid waste management, including identification of disposal and treatment sites at locations away from populated areas and avoiding ecological, historical, cultural and religious areas, fencing-in disposal sites, regular collection and transportation activities, covering of pathological wastes and incineration in dedicated facilities and close supervision and monitoring of solid waste management operations and maintenance activities;
 - (d) drainage work reducing flooding and mosquito breeding, including desilting, regularizing sections, lining, removing constrictions from and regular cleaning of existing drains and seasonal watercourses, as well as competent maintenance and system monitoring;
 - (e) road work, including planning and engineering to mitigate traffic congestion, obstruction of access to buildings, erosion, siltation, noise and vibration; and

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- (f) management of environmental resources in the coastal areas of the State covered by the Project by supporting preparation of the CRMCP, establishment of industrial pollution control and environmental monitoring program, preparation of an urban waterfront rehabilitation plan for Mangalore as well as the execution of mangrove afforestation Subprojects.

11. The State shall address poverty alleviation and child welfare measures, including those specified in the child labor laws of the Borrower among target beneficiaries in the Project ULBs, by: (a) facilitating the formation of self-help groups among the target beneficiaries for savings and credit activities; (b) provision of employment for poor households through employment in construction activities; and (c) having each ULB reserve 30% of commercial space in new markets for women vendors.

12. The Borrower and the State shall ensure that (a) no significant relocation and resettlement is required or undertaken under the Project; and (b) if involuntary resettlement is required for the Project, that such resettlement is carried out in accordance with the State's resettlement policy and the Bank's Policy on Involuntary Resettlement. Except as the Bank may otherwise agree, the State shall ensure that notwithstanding any resettlement requirements, all land required for the Project shall be acquired no later than 18 months after 21 September 2000, failing which that Subproject shall be eliminated from the Project.

III. Policy and Institutional Reform Agenda

13. The State shall cause policy, institutional and financial reform measures to be undertaken in accordance with a policy and institutional agenda and timetable agreed upon by the Bank, the State and the Project ULBs.

Local Resource Generation and Improved Municipal Management

14. The State shall implement revenue improvement actions and devolution of intergovernmental resources to Project ULBs, including (a) adoption of financial management control systems by July 2001; (b) introduction of efficiency enhancement measures by January 2002; (c) improvement of property tax collection efficiency to 85% and introduction of regular, comprehensive property reassessments by July 2003; and (d) ensuring that all Project ULBs shall have a positive closing balance by March 2010.

15. The State and each ULB shall prepare a plan by no later than July 2000 for capacity building for each of the ULBs for implementation in accordance with a timetable to be agreed upon by the Empowered Committee and the Bank.

Improved Cost Recovery for Water Supply and Wastewater Management

16. The State and each ULB shall reduce water supply subsidies and achieve financial sustainability of the water supply system in the ULB by measures including (a) reducing nonrevenue water (NRW) to no more than 25% by no later than July 2005, through

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NRW program measures, including improvement of collection efficiencies to 85% and measures such as water supply disconnection; and (b) increasing water tariffs by 50%, averaged over all consumer categories, by no later than April 2001 and by 100% by no later than April 2005.

17. The State shall cause KUWSDB to assist each ULB to establish appropriate water tariffs, collect fees from consumers, reduce NRW and facilitate operations and maintenance.

18. The State and each ULB shall ensure that the proposed water tariffs include a drainage surcharge to cover operations and maintenance costs of the sewerage systems in the ULB.

Urban Environmental Planning

19. The State and each ULB shall prepare urban development plans in accordance with MUD's guidelines and involving CBOs and NGOs in the planning and implementation stages. The State shall support the concerned District Planning Committee and the ULB in the preparation of such plans for each of the three Project districts as defined in paragraph 4(b) of this Schedule and these plans shall be considered under the CRMCP to be prepared under the Project.

Community Participation

20. The State and each ULB shall develop and promote a policy of community participation for urban development and this shall include: (a) the holding of consultative workshops in each Project Town to define the roles and functional mechanisms for participation; (b) a system of microcredit financing for women in Project slums with the involvement of NGOs and CBOs; (c) CBO thrift and credit programs under the Project; and (d) NGO and CBO facilitation of a demand-driven approach and willingness to pay by Project beneficiaries, through NGO and CBO involvement in the CAPP and in the design and implementation of poverty reduction Subprojects.

State Property Tax Law

21. The State Property Tax Law shall have been enacted by the State by July 2003.