

**FRAMEWORK FINANCING AGREEMENT**  
**(IND: North Karnataka Urban Sector Investment Program)**

This Framework Financing Agreement (FFA) dated 27 October 2006 is made between India, acting by its President (hereinafter referred to as "India") and the Asian Development Bank (hereinafter referred to as "ADB").

**Background**

INDIA has requested the Asian Development Bank (ADB) to help finance the North Karnataka Urban Sector Investment Program described in Schedule 1 hereto. INDIA has made the request on behalf of the State of Karnataka (the State).

**Roadmap and  
Investment  
Program**

***Context***

INDIA and the State are committed to and will implement the Roadmap and Investment Program described in Schedule 1 hereto.

The Roadmap and Investment Program is based on the State's *High Power Committee Report for Redressal of Regional Imbalances* (HPC report) and aims to increase the economic growth potentials in North Karnataka and to reduce the economic imbalances between North Karnataka and the rest of the State. The Investment Program constitutes urban and related infrastructure development. The urban sector to be assisted under the Investment Program includes the following sub-sectors: sanitation; water supply; slum improvement; non-municipal services; urban transport; and institutional development. Institutional development will include urban reform programs and capacity building programs to make urban service delivery more efficient, responsive to the public needs, and financially sustainable. Private sector participation (PSP) will be planned in selected subprojects by using two PSP modalities, i.e., (i) Performance-Based Deferred Payment Structure (PBDPS) and (ii) Performance-Based Management Contract (PBMC). Tariff reforms to ensure adequate cost recovery and long-term financial sustainability of urban services will be implemented in the ULBs assisted under the Investment Program.

***Investment Program***

The Facility is intended to finance the transactions under the Investment Program described in Schedules 1 and 2, subject to the criteria set out in Schedule 4. The total cost of the State's sector investment plan in HPC report is estimated at US\$862 million equivalent, over the period from 2006 to 2015. The urban development plans in the selected 25 urban local bodies (ULBs) in the State are estimated at US\$440 million, of which ADB financing is US\$270 million equivalent under a Multitranche Financing Facility (the Facility).

The investments will include urban and related infrastructure improvements in the selected ULBs including sewerage systems, drainage, water supply systems, slum improvements, non-municipal infrastructure related to tourism, fire fighting and lake development,

and urban transport. The Investment Program will also provide assistance to urban reform programs and staff capacity building programs in the Executing Agency and the Implementing Agencies for the Investment Program.

### ***Financing Plan***

The financing plan for the Roadmap and Investment Program is summarized below. Details are set out in Schedule 1 hereto.

Sub-sectors	Total Investment Requirements	Identified Investments under ADB loans	Share
	(US\$ million)	(US\$ million)	
A Sanitation infrastructure	360	163	37%
B Water supply infrastructure	200	92	21%
C Slum improvement	27	12	3%
D Non-municipal infrastructure	67	31	7%
E Urban transport infrastructure	199	91	21%
F Institutional development	9	4	1%
G Investment Program assistance facility*	0	47	10%
<b>Total Investment Program</b>	<b>862</b>	<b>440</b>	<b>100%</b>
Financial sources			
ADB loans		270	61%
State and other agencies		170	39%

Note: For total investment requirements, the cost of component G is distributed among components A-F.

### **Facility**

As referred above, ADB's financial support will be extended through a Multitranche Financing Facility (the Facility).

The Facility will be provided in tranches as individual loans, to support batches of investments or subprojects/components, as and when they are ready for financing provided INDIA and the State are in compliance with respective representations to ADB, and the investments or subprojects/components are in line with the understandings hereunder.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, and ADB's financing policies, all prevailing at the time the tranche is documented in a legal document.

### **Amount**

The maximum financing amount available under the Facility is two hundred and seventy million dollars (\$270,000,000). It will be provided in individual loans from ADB's ordinary capital resources.<sup>1</sup>

<sup>1</sup> Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each loan, subject to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).

### ***Availability Period***

The last date on which any disbursement under any loan may be made will be 30 June 2016. The last Periodic Financing Request (PFR) is expected to be submitted no later than 31 December 2013.

### ***Terms and Conditions***

Each loan will be used to finance a range of subprojects/components identified by the State through INDIA. The subprojects eligibility and approval criteria are set out in Schedule 4 of this Agreement. INDIA will require the State to comply with all requirements and apply proceeds of each loan to the financing of expenditures of the Roadmap and Investment Program, in accordance with conditions set forth in this Agreement and the legal agreements for each loan.

### **Execution**

The Executing Agency for the Investment Program will be the State, acting through Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC). The State proposes to implement the Roadmap and Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, as supplemented with more details in the legal agreements for each loan.

### **Periodic Financing Requests**

INDIA may request, and ADB may agree, to provide loans under the Facility to finance the Investment Program and its related subprojects/components upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by INDIA. INDIA will make available to the Executing Agency, and through the Executing Agency to the Implementing Agencies under the Investment Program, the proceeds of the loan in accordance with the related PFR, and the legal agreements for the related loan.

A PFR will cover multiple discrete subprojects/components (including related consulting service packages). The first loan will be for an amount of thirty-three million dollars (\$33,000,000) equivalent. Each subsequent individual loan will be for an amount greater than or equal to fifty million dollars (\$50,000,000) equivalent. ADB will review each PFR and, if found satisfactory, prepare the related legal agreements.

PFRs for financing subprojects/components will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguards and fiduciary frameworks and other documents. ADB, INDIA and the State will agree on a Facility Administration Memorandum and a schedule to initiate these activities, as soon as possible after the date of this Financing Framework Agreement, but prior to the effective date of the legal documents for the first loan.

### **General Implementation Framework**

The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.

<b>Procedures</b>	Tranches to be provided under the Facility will be subject to following procedures and undertakings:
	<ul style="list-style-type: none"> <li>(i) INDIA will have notified ADB of a forthcoming PFR at least 15 days in advance of the submission of the PFR.</li> <li>(ii) INDIA will have submitted a PFR in the format agreed with ADB.</li> </ul>
<b>PFR information</b>	The PFR will be substantially in the form attached hereto, and will contain the following details:
	<ul style="list-style-type: none"> <li>(i) Loan amount;</li> <li>(ii) Description of subprojects/components to be financed;</li> <li>(iii) Cost estimates and financing plan;</li> <li>(iv) Implementation arrangements specific to the subprojects/components;</li> <li>(v) Confirmation of the continuing validity of and adherence to the provisions of this Agreement;</li> <li>(vi) Confirmation of compliance with the provisions under previous Loan Agreement(s) and Project Agreement(s), as appropriate; and</li> <li>(vii) Other information as may be required under the Facility Administration Memorandum, as agreed between India, the State, and ADB.</li> </ul>
<b>Safeguards</b>	All ADB safeguard policies, as amended from time to time, will apply to all the subprojects/components financed under the Facility. Schedule 5 to this Agreement sets forth the safeguard frameworks required under ADB's safeguard policies and which INDIA will require the State to comply with and implement. ADB safeguard policies include (i) <i>Involuntary Resettlement Policy</i> (1995), (ii) <i>Policy on Indigenous Peoples</i> (1998), and (iii) <i>Environment Policy</i> (2002).
<b>Procurement</b>	All goods and services to be financed under the Facility will be procured in accordance with ADB's <i>Procurement Guidelines</i> (2006), as amended from time to time.
<b>Consulting Services</b>	All consulting services to be financed under the Facility will be procured in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2006), as amended from time to time.
<b>Advance Contracting and Retroactive Financing</b>	Advance action to recruit consultants and to procure goods and civil works, and retroactive financing for each of the individual loans under the Investment Program will be allowed. Retroactive financing is up to 20% of each individual loan amount for eligible expenditures incurred during the 12 months before the signing of the corresponding loan agreement. INDIA and the State have been advised that ADB's approval of advance contracting and retroactive financing does not constitute a commitment to finance the relevant expenditures under the Investment Program.

**Disbursements**

Disbursements will be in accordance with ADB's *Loan Disbursement Handbook*, January 2001, and *Interim Guidelines for Disbursement Operations, LIBOR-based Loan Product*, July 2002, each as amended from time to time. Each loan will have its own imprest account. A second-generation imprest account (SGIA) will be also established if necessary/required for each loan by the State in a non-interest-bearing current account with a commercial bank. The amount at any given time in each of the imprest account and the SGIA shall be equivalent to 6 months' estimated expenditures or 10% of the related loan amount whichever is lower. The imprest account and SGIA will be established, managed, and liquidated in accordance with ADB's *Loan Disbursement Handbook*, January 2001, as amended from time to time. Statement of expenditures (SOE) will be used to reimburse or liquidate any individual payment not exceeding a certain amount to be determined for each PFR.

**Monitoring,  
Evaluation, and  
Reporting  
Arrangements**

The Program Management Unit (PMU) to be established within KUIDFC will be responsible for: ensuring that an Program Performance Monitoring System (PPMS), acceptable to ADB, is established within 3 months of the effectiveness of the first loan under the Facility; continuously monitoring the program performance during the implementation; coordinating with INDIA, the State, KUIDFC and Implementing Agencies; and coordinating with and reporting to ADB.

Signed in New Delhi as of the day and year first above written.

For INDIA

For ASIAN DEVELOPMENT BANK

By           (Original Signed)            
 NAVIN K CHOUDHARY  
 Deputy Secretary (ADB)  
 Department of Economic Affairs  
 Government of India  
 (Authorized Representative)

By           (Original Signed)            
 TADASHI KONDO  
 Country Director

## SCHEDULE 1

### ROADMAP AND INVESTMENT PROGRAM

1. The Roadmap and Investment Program for urban development in North Karnataka is based on the recommendations made in the State's *High Power Committee Report for Redressal of Regional Imbalances 2002* (HPC report). The HPC report analyzes the regional imbalances within the State of Karnataka (the State) and made recommendations on redressing the imbalances between North Karnataka and the rest of the State.

2. **Vision of the Investment Program.** While the substantial development has taken place in the State, the benefits of economic growth were not shared equitably among all the regions within the State. South Karnataka with Bangalore being an economic growth center has seen an increase in economic activities at a much higher rate than North Karnataka. North Karnataka, whose economy being mostly agricultural with over 36% of the workforce employed in this sector, has lagged behind the rest of the State in attracting industries and private investments. The average per-capita incomes of all the districts in North Karnataka are lower than the State's average, and the majority of *taluks*<sup>2</sup> with high poverty incidence (i.e., more than 40% of the population being below the poverty line) belong to North Karnataka. Given ongoing economic deregulation and liberalization, market force is likely to aggravate the economic inequalities among the regions, marginalizing North Karnataka further. The HPC report was prepared as the first comprehensive approach to analyze the regional imbalances and make recommendations on the strategy for moving towards balanced development of the State. The strategy recognizes that: (i) resource allocation among regions should consider the backwardness of some regions; (ii) measures should be taken to promote private investments by strengthening infrastructure and industrial base in the backward regions; and (iii) policies should be formulated to equalize the level of physical facilities and services of regions by ensuring the standard level of the State.

3. While the HPC report is comprehensive, covering multiple sectors (e.g., agriculture, rural development, irrigation, energy, industry and mining, transport, science and technology, financial services, and social services, etc.), urban and tourism sector as part of social services is given a priority with about 33% of funds allocated to the sector. Since urban areas lead the growth of each region, targeting urban development is considered a cost efficient way to promote the growth of the region. Imbalances in urban infrastructure and services between North and South Karnataka are evident; and the living conditions in slums of North Karnataka require improvements. The Investment Program for North Karnataka consists of urban development plans to increase its economic growth potentials and reduce the regional imbalances within the State. Development of urban infrastructure in the southern and coastal areas of Karnataka has continued with the assistance of ADB funding which began in 1993. The Karnataka Urban Infrastructure Development Project (KUIDP) provided \$105 million for formulating an integrated urban development strategy for the Bangalore sub-region. The Karnataka Urban Development and Coastal Environmental Management Project (KUDCEMP) provided \$145 million for urban infrastructure development and urban reform in 10 coastal ULBs of Karnataka. Hence, the Investment Program for North Karnataka is a logical progression of ADB assistance to the State.

4. **Current sector performance in North Karnataka.** There exist large inefficiencies in service delivery, inadequate investment to expand service coverage and a lack of maintenance in urban local bodies (ULBs) of North Karnataka. Water supply in the vast majority of ULBs is intermittent and is often as infrequent as once every 3 days to once a week. Only a few ULBs receive piped water every day and the service

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<sup>2</sup> A cluster of ULBs.

coverage is as low as 10%. 60% of the 25 ULBs initially selected for the Investment Program have no sewers. Where sewerage systems have been constructed, the coverage is limited to the older, or more affluent, sections of ULBs. Only 32% of the 25 ULBs have a sewage treatment plant (STP) and many of these STPs do not function well, if at all. About 50% of households have access to solid waste disposal facilities, and disposal is normally crude uncontrolled dumping. Storm water drainage facilities are inadequate, poorly maintained and are frequently misused for solid waste disposal. Roads are generally unpaved and junctions inefficient. The percentage of surfaced roads in the 25 ULBs is as low as 10% of the total road length. Slums exist in most ULBs and are served by only the most basic water supply and sanitation services. Each public standpost serves up to 390 persons and sanitation is limited to poorly constructed latrines. Under the 74<sup>th</sup> Amendment to the Constitution, the responsibilities of basic urban services are devolved from the State to the ULBs. However, the capacity of ULBs to finance and properly maintain the urban infrastructure and services is limited due to the poor financial performance and lack of adequate skills.

5. The current poor status of urban infrastructure and service delivery in the ULBs of North Karnataka is a major constraint against realizing economic development potentials and pulling the regions out of its backward status. Further investment in urban infrastructure and capacity building of the ULB staff managing the urban services is required along with reform measures to make the ULBs more efficient, accountable, and financially sustainable. Each ULB has formulated an urban development plan to identify the gaps between the current and target levels, propose the required interventions, and select subprojects in the urban sector. The targets in urban services set at the state level include: (i) 100% connections to sewerage systems, (ii) 100% drainage coverage of urban transport, and (iii) 100% piped water supply coverage with the prescribed norms of service level. However, the goals of urban development plan of each ULB may be adjusted, taking into consideration the financial and implementation capacity of each ULB and preference of the population in each ULB.

6. **Sector Investment and Financing Plan.** The Investment Program consists of urban development plans in ULBs located in the backward regions of the State, mostly in North Karnataka. Each urban development plan, in turn, includes six sub-sectors, namely: (i) sanitation (sewerage, drainage and solid waste management)<sup>3</sup>; (ii) water supply; (iii) urban transport; (iv) slum improvement; (v) non-municipal services related to tourism, fire fighting and lake development; and (vi) urban institutional development. These sub-sectors are selected based on the ULB's mandatory functions, the priority needs of ULBs, the existence of clear guidelines/policies, and the public preferences. The HPC report estimated total investment requirement for urban development plans at US\$862 million, which is summarized in Table 1. The investment requirement in each sub-sector reflects the gap between the current service level and the standard level set by the policies of the State and Government of India (GOI): (i) for water supply and sanitation, the State's policy aims to provide all residents of the urban areas, piped water supply and sanitation services at or near their dwellings and has adopted the standard levels of 70-135 lpcd of water supply; (ii) for solid waste management, the Municipal Solid Waste rules 2000 (MSM rules) of the Ministry of Environment and Forests lay out the standards of practices on collection, storage, segregation, transportation, processing and disposal of municipal solid waste; (iii) for storm water drainage, the State aims to provide drainage along all the urban transport; (iv) for urban transportation, Urban Development Plans Formulation & Implementation (UDPFI) guidelines of the Ministry of Urban Affairs and Employment provide the planning standards for various categories of roads, parking facilities, and bus/truck terminals; and (v) for institutional development,

<sup>3</sup> Solid Waste Management is an integral part of the State's investment plan. However, the State has decided to finance this from its own funds.

the State has been pursuing a plan of computerizing records and accounts and implementing the Fund-Based Accounting System (FBAS) in all the ULBs. Sequencing of actions under the Investment Program is based on the priority of the State placed on each sub-sector. The State perceives solid waste management as the most pressing problem faced by the ULBs, since (i) the gap between the current service level and the standard level has been widening at an alarmingly high speed and (ii) the clear rules of handling municipal solid waste and the implementation schedule to meet the compliance criteria were set by the GOI and the deputy commissioner and the secretary of urban development have been made responsible for enforcement of the rules. As the top priority sub-sector, the State has already secured financial resources for the solid waste management sub-sector and has been implementing activities as part of Nirmala Nagar Program (NNP). Except solid waste management, the State places higher priorities on sanitation (sewerage and drainage), water supply, and slum improvement sub-sectors, reflecting general preference of the public. Hence, these priority sectors will be implemented in the first phase, and the rest of the sub-sectors (i.e., urban transport) will be implemented in the second phase.

7. The ADB loans finance 31% (US\$270) of the Investment Program in the 6 sub-sectors over the same 8 year period, while the rest of the Investment Program will be financed by a mix of centrally-assisted lending and grant programs, the State's own resources, domestic development banks such as Housing & Urban Development Corporation, external development agencies including the World Bank, and the private sector. The World Bank's Karnataka Municipal Reform Project<sup>4</sup> (KMRP) will finance urban development plans in the ULBs which are not covered under the ADB loans. KMRP will provide a US\$96 million loan under the institutional development component and the municipal investment support component which has a sector loan approach covering about 70 ULBs outside of Bangalore in the same sub-sectors of urban services as the Investment Program. KMRP also recognizes the priority of sanitation by allocating a half of the loan (US\$35 million) under the municipal investment support component to this sub-sector. Urban governance reform and associated institutional development are one of the top agendas at the central level, as stated in the 10<sup>th</sup> Five Year Plan and reaffirmed in Jawarharlal Nehru National Urban Renewal Mission (JNNURM), and the Urban Infrastructure Development in Small and Medium Towns (UIDSMT). To achieve its objectives in urban reform, the GOI has initiated several grant and loan schemes to the states and ULBs. The State has been a signatory to one of these schemes, Urban Reform Incentive Fund (URIF), receiving grant from GOI to implement institutional development for ULBs such as computerization of ULB records and accounts. The State itself also provides funds for the Investment Program from its own resources. Allocation of funds to activities under the Investment Program is guided by the State Finance Commission's recommendation and is budgeted in the Medium Term Fiscal Plan of the State.

<sup>4</sup> KMRP is financed by a US\$250 million loan from IBRD.



**Table 1: Sector Investment and Financing Plan (2006-2014)**

(US\$ million)Sub-sectors	Total Investment Requirements <sup>1</sup>	Identified Investments under ADB loans	Share
	(US\$ million)	(US\$ million)	
A Sanitation infrastructure	360	163	37%
B Water supply infrastructure	200	92	21%
C Slum improvement	27	12	3%
D Non-municipal infrastructure	67	31	7%
E Urban transport infrastructure	199	91	21%
F Institutional development	9	4	1%
G Investment Program assistance facility <sup>2</sup>	0	47	10%
<b>Total Investment Program</b>	<b>862</b>	<b>440</b>	<b>100%</b>
Financial sources			
ADB loans		270	61%
State and other agencies		170	39%

Notes: 1. The total investment requirements are from HPC report with inflation adjustments.

2. For total investment requirements, the cost of component G is distributed among components A-F.

8. At present the provision of urban services is being taken care of by the concerned ULBs. In order to bring about better efficiency in provision of the services, option of private sector participation (PSP) is being considered. In this regard various PSP models including the Performance-Based Deferred Payment Structure (PBDPS) contracts<sup>5</sup>, and Performance-Based Management Contracts (PBMC)<sup>6</sup>, along with possible combinations will be examined and the selection of PSP option will be based on the current condition and willingness of the participating ULB, as well as the interest from the potential contractors..

9. Each ULB, having different level of urban infrastructure and service delivery, has prepared its own urban development plan or city-level infrastructure plan (CLIP) which is further divided into the same key six sub-sectors as with the Investment Program. CLIP identifies the gaps between the current and target levels, propose the required interventions to fill the gaps, and select specific subprojects to be funded under the Investment Program. Under the ADB loans, 25 ULBs<sup>7</sup> in North Karnataka are initially selected, based on the ULB's potential to become an economic growth center in the region. The total costs to implement urban development plans of the 25 ULBs are estimated at US\$440 million, which is compiled from each ULB's CLIP. The sequencing of investment will mirror that of the Investment Program. Among the six sub-sectors under the Investment Program, the Investment Program will initially focus on investments in four sub-sectors (i.e., sanitation, water supply, slum improvement and non-municipal services) as priority sub-sectors, and the other sub-sector (i.e., urban transport) will be implemented in the second phase of the Investment Program. Urban institutional development, being relevant to all the urban service improvements, will be continuously carried out throughout the implementation period. The outputs of the Investment

<sup>5</sup> Under PBDPS the private contractor will be responsible for construction, subsequent operation and maintenance and partial bridge financing.

<sup>6</sup> Under PBMC the utility/entity will be managed by a private contractor, while carrying out construction under the conventional civil works and equipment purchase procurement modality.

<sup>7</sup> 25 ULBs are (i) 4 city corporations (CCs): Belgaum, Bellary, Gulbarga and Hubli-Dharwad; (ii) 14 city municipality councils (CMCs): Bidar, Bijapur, Chamarajnagar, Davangere, Gadag-Betageri, Gangavathi, Gokak, Haveri, Hospet, Koppal, Nippani, Rabkavi-Banhatti, Raichur and Ranebennur; (iii) 6 town municipal councils (TMCs): Basvakaian, Ilkal, Jamkhandi, Shahabad, Sindhunur and Yadgir; and (iv) 1 town panchayat (TP) Badami.

Program for the 25 ULBs will be improvements of urban infrastructure service delivery in all the key sub-sectors: (i) for sanitation, at least 60% coverage of households with sewer connections; (ii) for water supply, at least 60% coverage of households with piped water supply; (iii) for storm water drainage, 100% coverage of roads identified for improvement, with drainage; (iv) for urban transportation, resurfacing of the priority roads and improvement of associated road junction alignments and traffic markings to the standards; (v) for slum improvement, provision of basic services to all the slum population; and (vi) for institutional development, implementation of NNP reforms in all the ULBs.

10. **Urban Reform and Capacity Building.** To make urban services delivery more efficient, responsive to the customer needs, and financially sustainable, urban reform and capacity building of the ULBs are an urgent necessity. The State, well recognizing the necessity, has been making continuous efforts in advancing urban reform agenda; and the ADB's previous projects have assisted the State's efforts. In particular, the State, through the Directorate of Municipal Administration (DMA), has been implementing urban reform programs including the Nirmala Nagar Program (NNP), which was funded among other sources, under the previous two ADB projects. The NNP is a six-module program addressing (i) property tax; (ii) accounting; (iii) thrift and credit; (iv) public toilets; (v) rainwater harvesting; and (vi) solid waste management. Improving the poor rates of property assessment and property tax collection has been a priority objective in the State as only about 75% of total properties are assessed and registered and, of these, only 50% actually pay property taxes. The unrealized tax revenue from properties is, therefore, in the order of \$70 million annually. DMA is currently carrying out a survey of 3 million properties in the initially-selected 63 ULBs to increase the property tax base. Since the property tax constitutes the largest receipt for most ULBs, the property tax reform is expected to raise ULBs' financial resources substantially.

11. Under KUIDP, the State developed the fund-based accounting system (FBAS), which is compatible with the international financial accounting standards (i.e., double-entry accrual accounting), using Bangalore and Tumkur as pilot cases. The system has been working reasonably well and was scaled up to several ULBs under KUDCEMP. The State aims to roll out the system to more ULBs as part of the NNP, starting with the 63 ULBs initially selected for reforms. Training programs for accounting staff are in progress by accountants sent by DMA to each ULB. Furthermore, computerization of municipal functions including accounting systems and tax records is being conducted throughout the State, and is expected to improve the efficiency, transparency and accountability of ULBs. The urban reform program is being supported by a well-prepared human resources policy designed to abolish obsolete/redundant positions and recruit well-qualified professionals through competitive selection procedures and making use of a well-thought-out management information system and geographical information system developed by the eGovernment Foundation. These reform initiatives and associated capacity building programs are included in the Investment Program and will be financed under the ADB loans.

12. Karnataka Urban Infrastructure Development Finance Corporation (KUIDFC), a wholly government owned corporation, implemented the previous two ADB urban development projects in Karnataka as an executing agency (EA). Through undertaking many externally as well as domestically funded projects, KUIDFC has now successfully evolved into an agency capable of managing large urban development projects for the State. Capacity building programs to assist KUIDFC further in realizing its business plan are included under the Investment Program as the ADB's consistent support to the EA.

13. **Cost Recovery Mechanism for Urban Services.** To sustain the improved urban infrastructure and service delivery, ULBs are required to mobilize more financial

resources (e.g., property taxes and tariffs) towards operation and maintenance (O&M) as well as repair and rehabilitation of the urban infrastructure assets created under the Investment Program. Certain urban reforms implemented by the State are aimed at increasing the ULBs' own resource generating capacity; and successfully mobilized resources can be used to financially sustain the non-revenue-generating sub-sectors such as drainage and urban transport. Furthermore, by recognizing the expanded responsibilities of ULBs, the State Finance Commission is expected to increase grant transfer to ULBs. At the same time, tariff reforms are required to financially sustain the revenue-generating sub-sectors such as water supply, sewerage and solid waste management. The required tariff reforms, as specified in subproject selection criteria, are: (i) the Investment Program ULBs have implemented an immediate increase of the current monthly flat-rate water tariffs to be followed by careful adoption of metered volumetric water tariff schedule based on the recommendation of the Bridging TA, upon completion of improvements, zone by zone or for the related town as feasible; and (ii) the Investment Program ULBs will introduce appropriate sewerage tariff, based on the recommendation of the Bridging TA, which will take effect upon related subproject's completion.

**SCHEDULE 2**  
**DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY**

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b></p> <p>Improvement of Urban Infrastructure and services resulting in overall improvement in quality of life in project towns; and related increase in economic opportunities and growth in North Karnataka and reduced imbalances between North Karnataka and the rest of the state.</p>	<p>By the end of the Investment Program implementation period (2016):</p> <ul style="list-style-type: none"> <li>Reduction in the gaps between per capita real income in assisted districts and the average state value;</li> <li>Increase in the share of employment in non-primary sectors in North Karnataka.</li> </ul>	<ul style="list-style-type: none"> <li>Census data (next due in 2011).</li> <li>Annual economic survey of Karnataka by Directorate of Economics and Statistics.</li> </ul>	<p><b>Assumptions (A):</b></p> <p>A: Parallel development will occur in other key sectors including transportation, power, industry, education, and financial.</p> <p>A: Continued political support for development in North Karnataka.</p> <p><b>Risks (R):</b></p> <p>R: Limited acceptance/ implementation of the required reforms in tariffs, taxes and rates.</p> <p>R: General perception of North Karnataka as a potential development zone in comparison to rest of Karnataka, remains poor despite infrastructure improvements.</p>
<p><b>Outcome</b></p> <p>Improved basic urban services, at least, for the 4.3 million people living in the initially-identified 25 Investment Program ULBs.</p> <p>Improved and sustainable infrastructure services within Investment Program ULBs, which will in turn benefit the agriculture, industry and tourism sectors.</p> <p>PBDPS and/or PBMC modalities implemented and interest generated in other Indian States.</p>	<p>Sanitation – by mid 2013:</p> <ul style="list-style-type: none"> <li>The sewerage coverage area is expanded to match that of the water supply;</li> <li>Reduction in the volume of wastewater discharged to storm drains;</li> <li>Wastewater treatment is practiced in all Investment Program ULBs;</li> <li>Flooding frequency reduced;</li> </ul> <p>Water supply – by early 2012:</p> <ul style="list-style-type: none"> <li>Supply system is improved and expanded to improve both access to potable water services and volume delivered;</li> <li>Number of household connections is increased and less reliance is placed on public standposts;</li> <li>Domestic customers receive, on average, 90 lpcd;</li> </ul> <p>Slum improvement – by early 2012:</p> <ul style="list-style-type: none"> <li>Increase in the slum population having access to basic water supply and sanitation services;</li> </ul> <p>Non-municipal infrastructure – by end 2013:</p> <ul style="list-style-type: none"> <li>Emergency services, and tourism improved;</li> <li>Lakes rehabilitated;</li> </ul>	<ul style="list-style-type: none"> <li>Census data (next due in 2011).</li> <li>Municipal Corporation Annual Reports.</li> <li>ULB financial records.</li> <li>PPMS reports.</li> <li>PMU reports.</li> <li>ADB Review Mission reports.</li> <li>Resettlement and environmental external monitoring reports.</li> <li>NGO reports.</li> <li>Water-related disease statistics.</li> <li>Socio-economic surveys.</li> </ul>	<p><b>Assumptions (A):</b></p> <p>A: State and Investment Program ULB commitment to implement the institutional and financial reforms required to improve service delivery.</p> <p>A: NNP reforms are implemented on schedule.</p> <p>A: Investment Program ULBs are fully staffed and have the requisite capacity to sustain the improved services.</p> <p>A: Tariffs for services set at appropriate levels and collected efficiently.</p> <p>A: Willingness of beneficiaries to pay for proper management, operation and maintenance of infrastructure facilities.</p> <p>A: Private sector interest in PBDPS and/or PBMC procurement modalities.</p> <p><b>Risks (R):</b></p> <p>R: Water resources may deteriorate due to upstream activities/pollution.</p> <p>R: Investment Program ULBs do not fulfil their obligations under the PBDPS and/or PBMC procurement modalities.</p> <p>R: Investment Program ULBs may be tempted to minimize operational costs through inappropriate operation of the facilities provided.</p>

[illegible]

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Implemented investment program for slum improvement in Investment Program ULB slums.</p> <p>Implemented investment program for non-municipal infrastructure.</p> <p>Implemented investment program for road improvement.</p> <p>Improved institutional capacity.</p>	<ul style="list-style-type: none"> <li>About 100,000 additional households are connected;</li> <li>All household connections fitted with water meters.</li> </ul> <p>By early 2012:</p> <ul style="list-style-type: none"> <li>Basic water supply and sanitation services provided to about 30,000 households in the slums of 15 Investment Program ULBs;</li> <li>The use of public standposts being minimized in favor of house connections.</li> </ul> <p>By end 2013:</p> <ul style="list-style-type: none"> <li>Fire services, identified at the mid-term review, constructed;</li> <li>Civil works related to tourism constructed;</li> <li>Lake improvement measures implemented;</li> <li>District information centers constructed.</li> </ul> <p>By early 2013:</p> <ul style="list-style-type: none"> <li>Key roads (identified at the mid-term review) resurfaced</li> <li>The associated road junction alignments and markings improved to agreed standards.</li> </ul> <p>By end 2011:</p> <ul style="list-style-type: none"> <li>NNP reforms implemented in Investment Program ULBs;</li> <li>MIS/computerization systems installed;</li> <li>New accounting procedures in place;</li> <li>Investment Program ULB staff trained to undertake the management and O&amp;M of urban infrastructure;</li> <li>Billing and collection systems in place.</li> </ul> <p>By end 2014:</p> <ul style="list-style-type: none"> <li>PBDPS and/or PBMC contracts under implementation for subprojects in the water supply, sewerage, and road sub-sectors;</li> <li>Private sector liquidity successfully tapped.</li> </ul>		
<b>Activities with Milestones</b>			<b>Inputs (\$ million)</b>
<p>1. Investment Program Preparation</p> <p>1.1 PMU to be fully operational by April 2007;</p> <p>1.2 Program Consultants to be appointed by April 2007;</p> <p>1.3 Institutional reforms in Investment Program ULBs to be completed by end 2011;</p> <p>1.4 Land acquisition to be completed as agreed under each individual project;</p> <p>1.5 Engineering design to be completed as agreed under each individual project.</p>			<p>ADB 270</p> <p>State and other agencies 170</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>2. Subproject Implementation – (dates to will be finalized under the Facility Administration Memorandum)</p> <p>2.1 Rehabilitation of existing sewers and system expansion;  2.2 Rehabilitation of existing sewage treatment plants and construction of new facilities;  2.3 Rehabilitation of drainage channels;  2.4 Commence procurement and installation of water meters;  2.5 Complete installation of water meters;  2.6 Rehabilitation of existing water treatment plants and construction of new facilities;  2.7 Rehabilitation of existing water distribution systems and construction of new facilities;  2.8 Improvement of existing urban transport and junction upgrading;  2.9 Slum improvement scheme implementation;  2.10 Construction of fire services civil works;  2.11 Construction of civil works for heritage sites;  2.12 Construction of civil works for district information centers;  2.13 Implementation of lake improvement measures.</p>			
<p>3. Institutional Development</p> <p>3.1 Procurement of computers by January 2009;  3.2 Assistance with accounting and MIS reforms completed by December 2011.</p>			

ADB = Asian Development Bank, NGO = nongovernment organization, NNP = Nirmala Nagar Program, O&M = operations and maintenance, PBDPS = performance-based deferred payment structure, PBMC = performance-based management contract, PMU = program management unit, PPMS = program performance management system, ULB = urban local body.

### SCHEDULE 3

#### IMPLEMENTATION FRAMEWORK

1. Unless modified or amended in specific loan or project agreements under the Facility, the Investment Program will be implemented as follows:

##### Implementation

2. The State through the KUIDFC will be the Executing Agency and will be responsible for overall implementation of the Investment Program.

3. The head office of KUIDFC in coordination with the regional office (based in Dharwad) shall constitute the Program Management Unit (PMU) for the Investment Program. The PMU will be headed by the Managing Director of KUIDFC as the Program Director (PD) at the 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, while the EPD, assisted by experts and officials of proper qualification and experience, will be responsible for day-to-day implementation activities of the Investment Program.

4. Under the PMU, four Divisional Offices will be established at Dharwad, Belgaum, Gulbarga and Bellary to supervise the Investment Program ULBs, and each Divisional Office will be headed by the Divisional Program Director (DPD) reporting to the EPD. The Divisional Offices will be responsible for project planning, preparation of subprojects and cost estimates, coordination, technical guidance and supervision, financial control, training, and overall subproject monitoring, assisted by the Program Consultants (PC) engaged under the Investment Program.

5. The Implementing Agencies (IAs) under the Investment Program will be as follows:

- (i) Components A, B, and E – the respective ULBs<sup>8</sup> reporting to the respective DPD. For a part (i.e., bulk water supply schemes) of Components B, the Karnataka Urban Water Supply & Drainage Board (KUWSDB), on behalf of the respective ULBs, reporting to the respective DPD.
- (ii) Component C – the Karnataka Slum Clearance Board (KSCB) reporting to the EPD.
- (iii) Component E – The Department of Information, Tourism and Youth Services (DITYS), Karnataka State Fire and Emergency Services (KSFES), Lake Development Authority (LDA)/ULB, reporting to the EPD.
- (iv) Component F – The Directorate of Municipal Administration (DMA)/KUIDFC, reporting to the PD.
- (v) Component G – KUIDFC reporting to the PD.

<sup>8</sup> The initially selected Investment Program ULBs include: (i) four city corporations—Belgaum, Bellary, Gulbarga and Hubli-Dharwad; (ii) fourteen city municipality councils—Bidar, Bijapur, Chamarajnagar,<sup>8</sup> Davangere, Gadag-Betageri, Gangavathi, Gokak, Haveri, Hospet, Koppal, Nippani, Rabkavi-Banhatti, Raichur and Ranebennur; (iii) six town municipalities—Basavakalyan, Ilkal, Jamkhandi, Shahabad, Sindhanoor and Yadgir; and (iv) one town panchayat—Badami.



6. Tender Evaluation Committee (TEC) for each contract package will be formed to evaluate the tenders, and provide recommendations on issues related to all works, which will 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.

7. A state-level empowered committee (EC) has been formed to oversee the Investment Program, and includes the Additional Chief Secretary (chair), the Principal Secretary of Urban Development Department (UDD), the Principal Secretary of Planning Department, the Secretary (M&UDA) of UDD, the Secretary (Expenditure) of Finance Department, and the Director of DMA, with the MD of KUIDFC serving as its Member Secretary. The EC will meet every quarter to review Investment Program performance, decide on major issues, such as counterpart funding, implementation bottlenecks, land disputes, special procurement, etc. Furthermore, a District-level Program Steering Committee (DPSC) has been formed at each District to monitor implementation of subprojects and institutional reforms in the Investment Program ULBs, as well as coordinate between various agencies regarding approvals and clearances. The DPSC, reporting to the EPD, comprises the Deputy Commissioner of the District (chair), the DPD from the concerned Divisional Office, Municipal Commissioners/Chief Officers of the Investment Program ULBs, and Presidents/Chairpersons of the Investment Program ULBs.

8. The State will ensure that necessary resolution shall have been passed by the relevant ULBs prior to allowing KUWSDB to undertake implementation of bulk water supply scheme of Component B under the Investment Program on behalf of the ULB.

#### On-lending and re-lending Arrangement

9. INDIA will make available to the State the proceeds of the financing provided by ADB. The State commits to bear the foreign exchange risk for such proceeds of the financing provided by INDIA.

10. The State will re-lend the loan proceeds through KUIDFC to the IAs under the appropriate re-lending arrangements as acceptable to ADB.

#### Counterpart Funds

11. The State will ensure that sufficient counterpart funds are made available from its budget for each fiscal year, in a timely manner, for the efficient implementation of the Investment Program towards (i) its contribution and (ii) of the IAs, for the subprojects under component A, B, C, D, and E.

12. The State will ensure adequate funds towards operations and maintenance of project facilities created under individual Projects, through budgetary allocations or other means, to be provided to appropriate implementing agencies, during and after Projects' completions.

#### Implementation of the Components and Subproject Selection Criteria

13. The State will ensure that all subprojects meet, to the satisfaction of ADB, the criteria described in Schedule 4 to this FFA.

#### PBDPS and PBMC contracts

14. The State will ensure that the contractual documents under the performance-based deferred payment structure (PBDPS) and/or performance-based management contracts (PBMC) are provided to ADB for prior review and approval in order to be used under the individual Projects.

15. The State will ensure that necessary provisions are made for each performance-based deferred payment structure (PBDPS) and/or performance-based management contracts (PBMC) contractor to meet their contractual obligations.

16. The State will operationalize the PSP Fund established to ensure the payments under private sector participation (PSP) contracts, in particular PBDPS and PBMC contracts. Sufficient funds will be made available in a timely manner and maintained for the payments to the contractors by the ULBs during the implementation of the Investment Program.

17. For each PSP contract, three Program Consultant teams not directly involved in the geographical area concerned will be proposed by KUIDFC as candidates for the Independent Auditor. The PSP contractor concerned will be allowed to select a preferred candidate from the list of the three as his Independent Auditor, to be employed by KUIDFC.

### Reforms

18. The State will conduct surveys under the Bridging TA referred in paragraph 21 of this Schedule, to determine the real volumetric water tariff by measuring the actual amounts of water supplied to 3 ULBs to be selected by the KUIDFC.

19. The State will ensure that for each of the ULBs receiving funds under the loan the (nominal) base volumetric water tariff will be increased to the real current volumetric tariff per m<sup>3</sup> and the tariff schedule will be changed zone by zone or for the related town, as feasible, upon completion of the related water supply subproject, from the current (un-metered) monthly flat-rate to volumetric metered tariff with the lifeline block set at 8 m<sup>3</sup> 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 will be reviewed and revised based on recommendations of these studies. Related recommendations to the ULBs will be firmed up by the mid-term review of the Investment Program.

20. For subprojects consisting of sewerage provision, sewerage tariffs will be introduced by the State. The appropriate levels of sewerage tariffs will be agreed with the State and ADB upon completion of studies currently being carried out by consultants under the World Bank supported Karnataka Urban Water Sector Improvement Project, and subsequently upon completion of studies by technical assistance (TA) consultants to recommend the appropriate sewerage tariffs for the ULBs. Such sewerage tariffs will take effect upon related subproject's completion.

21. The State will ensure that measures are taken to improve bill collection efficiency 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 Investment Program ULBs will be agreed between the State and ADB upon completion of the studies currently being carried out by consultants under the World Bank-supported KUWASIP project, and the studies by the Bridging TA consultants.

22. The State will ensure that the ULBs will by not later than 31 December 2011, (a) take measures to significantly improve bill collection efficiency including the enforcement of existing provisions for service cut-off due to non payment, and (b) introduce self assessment system/capital value system for property tax.

### Program Performance Monitoring and Progress Reports

23. The State will ensure that within 3 months of the effective date of the first loan, the PMU will establish a Program Performance Monitoring System (PPMS) in a form and substance acceptable to ADB. The PPMS will track Investment Program 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 will aim to detect any deficiency and discrepancy between the plan and the execution of the Investment Program in using the resources efficiently in order to ensure that timely corrections can be made to adjust the design of the Investment Program. The IAs will undertake periodic Investment Program and subproject performance reviews to evaluate the scope, implementation arrangements, progress and achievements of objectives of the Investment Program. For subprojects under PBDPS and/or PBMC modalities, performance indicators, acceptable to ADB, will be developed during the preparation of the request for proposal (RFP) and draft contract documents for the respective subprojects.

24. The State through KUIDFC will prepare and provide ADB with quarterly progress reports on implementation of each individual project. Such progress reports will 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 will 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.

#### Review

25. (a) 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 under each loan and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving overall objectives of the specific Project and the overall Investment Program.

(b) In addition to regular reviews including a midterm review for each loan, a detailed mid-term review of the Investment Program will be undertaken, within such period from the effective date as agreed under the first loan agreement, by ADB and the State. The mid-term review will include a detailed evaluation of the 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.

#### Accounts

26. The State will ensure that proper accounts and records are maintained and audited in a timely manner, for the Projects (including each subprojects/components therein) and the Investment Program to adequately identify use of the loan proceeds in such manner and detail as may be specified under each loan agreement and project agreement.

#### Others

27. The State will ensure that the Projects under the Investment Program will 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)*.

28. The State will promptly notify ADB of any proposal to amend/cancel or repeal any of the provisions of KUIDFC's Memorandum of Association and Articles of Incorporation, and will give ADB an adequate opportunity to comment on such proposal before taking any action.

## SCHEDULE 4

### SELECTION CRITERIA AND APPROVAL PROCEDURE FOR SUBPROJECTS

#### General Components

Unless modified or amended in loan or project agreements, the Investment Program will include the following components:

- (i) Component A: Sanitation infrastructure;
- (ii) Component B: Water supply infrastructure;
- (iii) Component C: Slum improvement;
- (iv) Component D: Non-municipal infrastructure;
- (v) Component E: Urban transport infrastructure.

#### Subproject Selection Criteria General

Selection and preparation of subprojects in each Implementing Agency (IA) will be the responsibility of the State, acting through KUIDFC. The State will ensure that preparation and selection of each subproject meet, to the satisfaction of ADB, the following general criteria as applicable:

- (i) Each ULB will undertake a City-Level Infrastructure Plan (CLIP), which may include all or some of the five basic urban services components. The CLIP will be based on the current level of services, the needs and preference of the stakeholders, the financial and institutional capacity of the ULB, and the norms and standards prescribed by the State, acceptable to ADB;
- (ii) The proposed investment plans under the CLIP of the ULB shows reasonable financial improvements in accordance with criteria agreed between State and the ULB;
- (iii) All subprojects under components B and E should demonstrate an EIRR of at least 12%. Other subprojects should demonstrate cost effectiveness in comparison to alternative schemes;
- (iv) All subprojects will have prepared the resettlement plans, if required, in accordance with the Resettlement Framework of the Investment Program;
- (v) All subprojects will meet environmental subproject selection criteria and will have prepared the Initial Environmental Examinations (IEEs) including environmental monitoring plans (EMPs) in accordance with environmental assessment and review procedures (EARP)<sup>9</sup> of the Investment Program; and
- (vi) All subprojects will have prepared the indigenous peoples development plans, if required, in accordance with the Indigenous Peoples Development Framework of the Investment Program.

#### Subproject

<sup>9</sup> The environmental subproject selection criteria and EARP are in supplementary appendix N of the Report of Recommendation to the President (RRP).

## **Selection Criteria Specific**

The State, acting through KUIDFC, will ensure that for each component in each ULB, the subproject selection criteria include the following:

### **Component A: Sanitation Infrastructure**

- (i) The ULB will introduce and make effective upon subproject completion an appropriate sewerage tariff, as agreed between ADB and the State, at no less than Rs10 per month;
- (ii) Sewerage subprojects are limited to the areas where the per capita water supply is sufficient to ensure that self-cleansing velocities can be achieved on a regular basis without frequent system flushing;
- (iii) Sewerage subprojects will only commence once sample surveys show a willingness of consumers to connect; and
- (iv) Drainage subprojects are limited to areas where there is a tendency for flooding related incidents that have resulted in socio-economic problems. Downstream rehabilitation/expansion works should also be considered for inclusion as appropriate. ULBs must prepare a comprehensive drainage master plan in advance of commencing any work.

### **Component B: Water Supply Infrastructure**

- (i) The ULB passes a relevant council resolution for the water tariff structure proposed under the Investment Program;
- (ii) Work on the water supply component will only commence once it is certain that the raw water source can be made secure under the Investment Program;
- (iii) The norms for net per capita demand for water are fixed at a minimum of 90 lpcd for all the ULBs;
- (iv) Water supply subprojects will only commence once sample surveys show a willingness of consumers to pay;
- (v) Water supply subprojects must include provision for the slum areas and the poor in general covered by the subproject;
- (vi) The ULB passes a relevant council resolution, to achieve majority customer metering within 2 years after the completion of construction work;
- (vii) The ULB passes a relevant council resolution to increase the base volumetric water tariff to the real current volumetric tariff per m<sup>3</sup> and to change the tariff schedule from the current (un-metered) monthly flat-rate to volumetric metered tariff with the lifeline block set at 8 m<sup>3</sup> for Rs55 per month, to be effected zone by zone or for the related town, as feasible, upon completion of the related subproject;
- (viii) The un-metered monthly tariff for domestic water use has been increased from Rs45 to, at least, Rs55 per month; and
- (ix) The ULB passes a relevant council resolution to set up separate accounting systems for water supply and sewerage within the ULB.

**Component C:  
Slum Improvement**

- (i) Subprojects are limited to water supply, sanitation infrastructure, initiation/ formation of self-help groups, health and environmental sanitation awareness campaigns, footpaths, and pavements within notified slums; and
- (ii) Subprojects in slums will be conducted in coordination with neighborhood groups (NHGs) and ULB-level nongovernment organizations (NGOs).

**Component D:  
Non-Municipal  
Infrastructure**

- (i) Fire fighting service subprojects should be in accordance with the State Accelerated Fire and Emergency Services Improvement Plan;
- (ii) Tourism infrastructure support will be provided only for the ULBs identified in the State Tourism Policy (i.e. a maximum of 6 ULBs out of 25);
- (iii) District Information Centers will focus on attracting industrial investment and promoting tourism; and
- (iv) Only the lakes in the ULBs which suffer from significant degradation and/or solid waste deposit will be included in clean-up programs.

**Component E:  
Urban Transport  
Infrastructure**

- (i) The relevant ULB shall have progressed in completing subprojects under Component A, B and C to the satisfaction of the State, KUIDFC and ADB, so that the subprojects under this component are ready to be tendered upon approval;
- (ii) Work is limited to the rehabilitation of the existing roads and upgrading of junctions;
- (iii) Widening of existing roads involving land acquisition and or resettlement are not included under the Investment Program, except as otherwise accepted by ADB and KUIDFC and subject to compliance requirements under ADB's Involuntary Resettlement Policy (1995) and related frameworks; and
- (iv) Work is limited to roads within the municipal jurisdiction of related project town.

**Approval  
Procedures for  
Subprojects**

The approval procedures will be as follows:

- (i) Each eligible ULB, with the assistance of KUIDFC, will prepare the City-level Infrastructure Report (CLIP) which identifies the gaps between the current and target levels of urban infrastructure, estimates the required interventions to fill the gaps, and proposes subprojects in component A-E to be funded under the Investment Program. All the subprojects should meet the subproject selection criteria;
- (ii) The ULB will send the CLIP through KUIDFC (i) to the EC for approval; and (ii) to ADB for review to ensure the compliance of the CLIP with the provisions in the FFA;
- (iii) KUIDFC will undertake detailed appraisal of the subprojects with the assistance of the Program Consultants, and prepare a summary subproject appraisal report based on the CLIP, including rationale; scope and components; technical

description and analysis; cost estimates and financing plan; environment assessment as required; resettlement plan as required; indigenous people development plan as required; implementation arrangements; and financial, economic and institutional analysis;

- (iv) KUIDFC will send all the summary appraisal reports based on CLIPs to ADB for review and approval in a format agreed between the State and ADB. ADB may advise KUIDFC to modify the reports if necessary;
- (v) Based on ADB's approval, and subject to any modifications and measures required by ADB, KUIDFC and the State will prepare PFRs for ADB financing; and
- (vi) PFRs will be formally submitted to ADB through INDIA for further processing.

#### **Monitoring during Implementation**

The State, acting through KUIDFC, will be responsible for monitoring of implementation of all subprojects.

#### **Selection of ULBs**

The selection of ULBs should be based on their potential to become an engine of growth in its *taluk* and district. ULBs located in North Karnataka or in backward *taluks* or districts are selected for assistance. The further operational criteria used for ULB selection is as follows:

- (i) The ULB contributes to the subproject at no less than 10% of the related cost;
- (ii) The ULB is the district headquarter of newly created districts;
- (iii) The ULB is for a town with a population above 50,000, unless otherwise acceptable to the State and ADB;
- (iv) The ULB is for a town with tourism importance and identified by the State Tourism Policy as such;
- (v) The ULB has passed the necessary council resolutions to implement the NNP reforms; and
- (vi) The ULB is not supported by the World Bank assisted Karnataka Municipal Reform Project (KMRP).

Based on the above criteria, 25 ULBs are initially selected for support, which include 4 city corporations (CCs), 14 city municipality councils (CMCs), 6 town municipal councils (TMCs) and 1 town panchayat (TP). Other ULBs that meet the above selection criteria may be subsequently included in the Investment Program, if additional financial resources become available through budget savings, or one or more of the initially selected ULBs dropping out due to their failure to meet the criteria set out in this Agreement.

## SCHEDULE 5

### SAFEGUARD FRAMEWORKS

#### Environmental Considerations

1. The safeguard requirements for each financing tranche, as well as the categorization of each tranche for environmental assessment purposes, will follow the approach and procedure defined in ADB Safeguard Policies as amended from time to time. If any of the investments or subprojects in the first tranche requires compliance with the 120-day advance disclosure rule under ADB's Environment Policy and Public Communication Policy, the SEIA or SIEE for such investment or subproject must be circulated to the ADB Board and made available to the general public 120 days before the ADB Board considers the MFF. If any of the investments or subprojects in any subsequent tranche requires compliance with the same 120-day advance disclosure rule, the SEIA or SIEE must be circulated to the ADB Board and made available to the general public 120 days before a PFR is submitted to ADB.
2. The State will ensure that the design, construction, operation and implementation of all subproject facilities are carried out in accordance with the environmental assessment and review procedures as attached to the RRP (Attachment 1) and initial environmental examinations (IEEs) for core subprojects agreed upon between the State and ADB, and comply with INDIA's environmental laws and regulations and ADB's *Environment Policy* (2002). Any adverse environmental impacts arising from the construction, operation and implementation of the subproject facilities will be minimized by implementing the environmental mitigation and management measures and other recommendations specified in IEE or environmental impact assessment (EIA) reports. The State will ensure environmental requirements will be incorporated in bidding documents and civil contracts.

#### Resettlement

3. The State will ensure 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 resettlement framework (Attachment 2) and resettlement plans (RPs) agreed upon between the State and ADB, INDIA's *National Policy on Resettlement and Rehabilitation*, and ADB's *Policy on Involuntary Resettlement* (1995). An RP will be prepared for each subproject involving land acquisition or resettlement, including relocation, and will be submitted to ADB for review and approval prior to award of any related civil works contracts. For sample subprojects, updated RPs will be provided for ADB for review and approval following detailed engineering design and prior to award of civil works contracts. Similarly revised RPs based on detailed designs for all subprojects will also be provided for ADB approval prior to award of related civil works contracts.

#### Indigenous Peoples

4. The State will ensure as possible minimal impact on indigenous peoples in the Projects. 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 indigenous people development framework (Attachment 3) agreed upon between the State and ADB and comply with ADB's *Policy on Indigenous Peoples* (1998).