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LOAN NUMBER 3726 - IND

LOAN AGREEMENT  
(Ordinary Operations)

(Karnataka Integrated Urban Water Management Investment Program - Project 2)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 27 November 2018

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IND 43253

## **LOAN AGREEMENT (Ordinary Operations)**

LOAN AGREEMENT dated 27 November 2018 between India acting by its President ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

### **WHEREAS**

(A) by a framework financing agreement dated 18 February 2014 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Karnataka Integrated Urban Water Management Investment Program;

(B) by a periodic financing request dated 18 May 2018, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) the Project will be carried out by the State of Karnataka (the "State") acting through the Karnataka Urban Infrastructure Development and Finance Corporation Limited ("KUIDFC"), and for this purpose the Borrower will make the proceeds of the loan provided for herein available to the State, and the State will make the proceeds of the Loan available to KUIDFC, upon terms and conditions mutually acceptable to ADB and the Borrower; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB, the State and KUIDFC;

NOW THEREFORE the parties hereto agree as follows:

## **ARTICLE I**

### **Loan Regulations; Definitions**

Section 1.01. All the provisions of ADB's Ordinary Operations Loan Regulations, dated 1 January 2017 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

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

(b) "Environmental Assessment and Review Framework" or "EARF" means the environmental assessment and review framework for the Investment Program, including any update thereto, prepared and submitted by the Borrower through the EA and cleared by ADB, and incorporated by reference in the FFA;

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

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

(e) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(f) "FFA" means the framework financing agreement dated 18 February 2014 between ADB and the Borrower with respect to the Facility;

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

(h) "GESI" means the gender equality and social inclusion action plan prepared for the Project, including any update thereto, and agreed to between the Borrower, EA and ADB;

(i) "Goods" means equipment and materials, to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance;

(j) "Indigenous Peoples Plan" or "IPP" means an indigenous peoples plan for a Subproject, including any update thereto, prepared and submitted by the Borrower through the EA pursuant to the requirements set forth in the IPPF, and cleared by ADB;

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

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

(m) "Initial Environmental Examination" or "IEE" means the initial environmental examination for a Subproject, including any update thereto, prepared and submitted by the Borrower through the EA pursuant to the requirements set forth in the EARF, and cleared by ADB;

(n) "Investment Program" means the Karnataka Integrated Urban Water Management Investment Program;

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

(p) "KUIDFC" means the Karnataka Urban Infrastructure Development and Finance Corporation Limited, or any successor thereto;

(q) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);

(r) "O&M" means operation and maintenance;

(s) "PAM" means the project administration manual for the Project dated September 2018 and agreed between the Borrower, ADB, and the EA, as updated from time to time in accordance with the respective administrative procedures of the Borrower, EA and ADB;

(t) "PFR" means the periodic financing request submitted by the Borrower for the purposes of each loan under the Facility, and for this Loan Agreement means the periodic financing request dated 18 May 2018;

(u) "PMU" means the Project management unit established within KUIDFC at central level for the purposes of the Investment Program;

(v) "PIU" means each of the Project implementation units set up in the project ULBs as described in the PAM;

(w) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(x) "Procurement Plan" means the procurement plan for the Project as agreed between the Borrower through the EA, and ADB, and included in the PAM, including as updated from time to time in accordance with the Procurement Guidelines, and other arrangements agreed with ADB;

(y) "Project 1" means the ongoing first project under the Facility under Loan No. 3148-IND;

(z) "Project facilities" means the facilities to be rehabilitated or created under the Project;

(aa) "Resettlement Framework" or "RF" means the resettlement framework for the Investment Program, including any update thereto, prepared and submitted by the Borrower through the EA and cleared by ADB, and incorporated by reference in the FFA;

(bb) "Resettlement Plan" or "RP" means the resettlement plan for the Project, including any update thereto, prepared and submitted by the Borrower through the EA pursuant to the requirements set forth in the RF, and cleared by ADB;

(cc) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower through the EA to ADB that describes progress with implementation of, and compliance with, the EMP, the RP and an IPP (as applicable), including any corrective and preventative actions;

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

- (ee) "State" means the State of Karnataka;
- (ff) "Subproject" means each and any of the subprojects found eligible for financing under the Project in accordance with Schedule 4 of the FFA;
- (gg) "UIF" means ULB incentive fund;
- (hh) "ULB" means urban local body; and
- (ii) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including project related services such as auxiliary services rendered under the contracts to perform works such as survey and investigation, that are provided as part of a single responsibility or turnkey contract.

## **ARTICLE II**

### **The Loan**

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of seventy-five million Dollars (\$75,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

- (a) LIBOR;
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 April and 15 October in each year.



Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

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

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

(b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(f) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall make the proceeds of the Loan available to the EA upon terms and conditions mutually agreeable to ADB and the Borrower, and shall cause the EA to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall ensure, or cause the EA to ensure, that the items of expenditure to be financed out of the proceeds of the Loan are procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 15 March 2024 or such other date as may from time to time be agreed between the Borrower and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed by the EA, all obligations set forth in this Loan Agreement and the Project Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.03. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

Section 4.04. In so far as it relates to the Project, the Borrower shall ensure or cause the State to ensure to take all actions which shall be necessary on its part to enable the EA 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 4.05. (a) In so far as it relates to the Project, the Borrower shall exercise its rights under the Financing Arrangements in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) In so far as it relates to the Project, no rights or obligations under the Financing Arrangements shall be assigned, amended, abrogated or waived without prior notice to ADB.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

## **ARTICLE VI**

### **Miscellaneous**

Section 6.01. The Secretary, Additional Secretary, Joint Secretary, Director or Deputy Secretary in the Department of the Economic Affairs, Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

The Secretary to the Government of India  
Department of Economic Affairs  
Ministry of Finance  
North Block  
New Delhi – 110001  
India

Facsimile Number:

(91)11- 23094075

For ADB

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

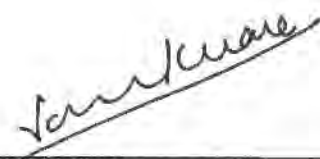
Facsimile Numbers:

(632) 636-2444  
(632) 636-2293

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

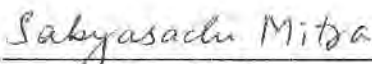
INDIA

By

  
Sameer Kumar Khare  
Additional Secretary (FB & ADB)  
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By

  
Sabyasachi Mitra  
Officer-in-Charge  
India Resident Mission



**SCHEDULE 1****Description of the Project**

1. The objective of the Project is to improve urban water resource management in four coastal towns of the State i.e., Kundapura, Mangalore, Puttur, and Udupi.
2. The Project shall comprise following outputs as detailed in the PFR:
  - Output 1: **Urban water supply and sanitation infrastructure expanded and upgraded.**
    - (a) Water supply systems upgraded in the four coastal towns as listed in paragraph 1 of this Schedule.
    - (b) Sewerage systems rehabilitated in coastal town of Mangalore.
  - Output 2: **Water resource planning, monitoring, and service delivery improved.**
    - (a) Operational capacity strengthened through policy and institutional reform actions.
    - (b) Gender-responsive and inclusive service delivery systems institutionalized.
    - (c) Climate resilient policy actions implemented.
  - Output 3: **Institutional capacity of EA and ULBs strengthened.**
3. The Project is expected to be completed by 15 September 2023.

## SCHEDULE 2

### Amortization Schedule

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

Sequence	Date Payment Due	Installment Share (Expressed as a %)
1	15 April 2024	2.500000
2	15 October 2024	2.500000
3	15 April 2025	2.500000
4	15 October 2025	2.500000
5	15 April 2026	2.500000
6	15 October 2026	2.500000
7	15 April 2027	2.500000
8	15 October 2027	2.500000
9	15 April 2028	2.500000
10	15 October 2028	2.500000
11	15 April 2029	2.500000
12	15 October 2029	2.500000
13	15 April 2030	2.500000
14	15 October 2030	2.500000
15	15 April 2031	2.500000
16	15 October 2031	2.500000
17	15 April 2032	2.500000
18	15 October 2032	2.500000
19	15 April 2033	2.500000
20	15 October 2033	2.500000
21	15 April 2034	2.500000
22	15 October 2034	2.500000
23	15 April 2035	2.500000
24	15 October 2035	2.500000
25	15 April 2036	2.500000
26	15 October 2036	2.500000
27	15 April 2037	2.500000
28	15 October 2037	2.500000
29	15 April 2038	2.500000
30	15 October 2038	2.500000
31	15 April 2039	2.500000

Schedule 2

Sequence	Date Payment Due	Installment Share (Expressed as a %)
32	15 October 2039	2.500000
33	15 April 2040	2.500000
34	15 October 2040	2.500000
35	15 April 2041	2.500000
36	15 October 2041	2.500000
37	15 April 2042	2.500000
38	15 October 2042	2.500000
39	15 April 2043	2.500000
40	15 October 2043	2.500000
	Total	100.000000

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

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

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

3. Withdrawals made within 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 Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

Schedule 2

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

### **SCHEDULE 3**

#### **Allocation and Withdrawal of Loan Proceeds**

##### General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category of the Table).

##### Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

##### Reallocation

3. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with and notice to the Borrower and the EA, (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 ADB, 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 allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with and notice to the Borrower and the EA, reallocate such excess amount to any other Category.

##### Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook and detailed agreements agreed between ADB and the Borrower.

##### Retroactive Financing

5. Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with items to be retroactively financed, subject to a maximum amount equivalent to 20% of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Loan Account
1	Works and Equipment	68,705,000	82% of total expenditure claimed
2	Unallocated	6,295,000	
	<b>TOTAL</b>	75,000,000	



## **SCHEDULE 4**

### **Procurement of Goods, Works**

#### General

1. The procurement of Goods and Works shall be subject to and governed by the Procurement Guidelines.
2. Except as ADB may otherwise agree, Goods and Works shall be procured only on the basis of the procurement methods and the selection methods set forth below. These methods are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower through the EA may only modify the procurement methods and the selection methods or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.
3. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines.

#### Goods and Works

4. Goods and Works shall be procured on the basis of the procurement method of procurement set forth below:
  - (a) International Competitive Bidding; and
  - (b) National Competitive Bidding.

#### Domestic Preference

5. The Borrower may allow the EA to grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.

#### National Competitive Bidding

6. The EA's standard bidding documents and procurement procedures under ongoing Project 1 as in use by the EA were reviewed by ADB. These were found consistent with ADB's requirements, and shall apply to the Project. Modifications if any to such bidding documents shall be subject to agreement between the Borrower, the EA and ADB.

#### Conditions for Commencement of Works

7. The Borrower shall ensure or cause the EA to ensure that no Works contract for a Subproject that involves involuntary resettlement impacts for a Subproject shall be commenced until the EA has prepared and submitted to ADB the final RP based on the Subproject's detailed design, and obtained ADB's clearance of such RP.

8. The Borrower shall ensure or cause the EA to ensure that no Works contract for a Subproject that involves environmental impacts shall be commenced until the EA has (i) prepared and submitted to ADB the final IEE and EMP based on the Subproject's detailed design, (ii) obtained ADB's clearance of such IEE and EMP, and (iii) has incorporated the relevant provisions from the EMP into the Works contract.

9. The Borrower shall ensure or cause the EA to ensure that no Works contract for a Subproject that involves indigenous peoples impact for a Subproject shall be commenced until the EA has prepared and submitted to ADB the final IPP based on the Subproject's detailed design, and obtained ADB's clearance of such IPP.

#### Industrial or Intellectual Property Rights

10. (a) The Borrower shall ensure or cause the EA to ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure or cause the EA to ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

#### ADB's Review of Procurement Decisions

11. Contracts procured under international competitive bidding procedures shall be subject to prior review by ADB, unless otherwise agreed between the Borrower, EA, and ADB and set forth in the Procurement Plan.

## **SCHEDULE 5**

### **Execution of Project**

#### Implementation Arrangements

1. The Borrower shall ensure and cause the State, and KUIDFC to ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower, the EA and ADB. In the event of any discrepancy between the PAM, this Loan Agreement, and the Project Agreement, the provisions of this Loan Agreement shall prevail.
2. The Borrower shall ensure or cause the EA to ensure towards smooth implementation of the Project, that grievances if any from stakeholders, relating to Project implementation or use of funds under the Project are addressed effectively and efficiently.
3. The Borrower shall ensure or cause the EA to ensure compliance with all the requirements and obligations in its part as included in this Loan Agreement and Project Agreement to meet the objectives of the Project in a timely and efficient manner.

#### Counterpart Support; Funds

4. The Borrower shall cause the State to make available the Loan proceeds to the EA under appropriate arrangements acceptable to ADB, and ensure:
  - (a) sufficient counterpart funds from its budget for each fiscal year, in a timely manner, for the efficient implementation of the Project; and
  - (b) adequate funds towards operations and maintenance of Project facilities, through budgetary allocations or other means, to be provided to the EA, during and after Project completion.

#### Selection Criteria and Approval Process for Subprojects

5. The Borrower shall ensure or cause the EA to ensure that:
  - (a) all Subprojects are selected and approved in accordance with the selection criteria and approval process set out in Schedule 4 to the FFA, as applicable; and
  - (b) all documents forming the basis for screening, selection, and processing of Subprojects shall be made available to ADB upon request and will be kept available for such purposes for a minimum period of 5 years from the date of the completion report for the Subproject.

SafeguardsEnvironment

6. The Borrower shall ensure or cause the EA to ensure that the preparation, design, construction, implementation, operation and decommissioning of Project facilities and each Subproject comply with (a) all applicable laws and regulations of the Borrower and the State relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

7. The Borrower shall ensure or cause the EA to ensure that all land and all rights-of-way required for each Subproject are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower and the State relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; (c) the RF; and (d) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

8. Without limiting the application of the Involuntary Resettlement Safeguards, the RF or the RP, the Borrower shall ensure or cause the EA to ensure that no physical or economic displacement takes place in connection with the Subprojects until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

Indigenous Peoples

9. The Borrower shall ensure or cause the EA to ensure that the preparation, design, construction, implementation and operation of the relevant Subproject(s) comply with (a) all applicable laws and regulations of the Borrower and the State relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; (c) the IPPF; and (d) all measures and requirements set forth in the relevant IPP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

10. The Borrower shall ensure or cause the EA to ensure that all necessary budgetary and human resources to fully implement the EMP, the RP and any IPP as required are made available on a timely basis.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

11. The Borrower shall ensure or cause the EA to ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures and requirements relevant to the contractor set forth in the IEE, the EMP, the RP and any IPP (as applicable), and any corrective or preventative actions set out in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the EA with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, the RP or any IPP;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

12. The Borrower shall ensure or cause the EA to ensure the following:

- (a) submit semiannual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, the RP or any IPP (as applicable), promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any breach of compliance with the measures and requirements set forth in the EMP, the RP or any IPP (as applicable) promptly after becoming aware of the breach.

Prohibited List of Investments

13. The Borrower shall ensure or cause the EA to ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.



Safeguards – Existing State-funded Dam as a Water Source for Mangalore Water Supply Subproject

14. The Borrower shall ensure or cause the EA to ensure that before raising the water storage level of the reservoir from the current level in the existing State-funded dam as a water source for Mangalore water supply Subproject, in case of any involuntary land acquisition, the related resettlement and rehabilitation plan is prepared, and all the affected land owners are paid as per applicable policies of the Borrower and/or the State, prior to displacement. In this regard, in case of negotiated settlement, the Borrower shall ensure or cause the EA to ensure that the agreed land price is fully paid to the landowners prior to their displacement as per applicable policies of the Borrower and/or the State, and that all related records shall be submitted to ADB. The Borrower shall also ensure or cause the EA to ensure that the preparation, design, construction, implementation, operation and decommissioning of the existing State-funded dam comply with the applicable laws and regulations of the Borrower and the State relating to environment, health, and safety.

Gender

15. The Borrower shall ensure or cause the EA to ensure that (i) the GESI Action Plan and a consultation and participation plan for the Project as included in the PAM is implemented in accordance with its terms; (ii) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GESI Action Plan; and (iii) adequate resources are allocated for implementation of the GESI Action Plan; and (iv) progress on implementation of the GESI Action Plan, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Labor Standards

16. The Borrower shall ensure or cause the EA to ensure that Works contracts under the Project follow all applicable labor laws of the Borrower and the State and that these further include provisions to the effect that contractors (i) carry out HIV/AIDS awareness programs for labor and disseminate information at worksites on risks of sexually transmitted diseases and HIV/AIDS as part of health and safety measures for those employed during construction; and (ii) follow and implement all statutory provisions on labor (including not employing or using children as labor, equal pay for equal work), health, safety, welfare, sanitation, and working conditions. Such contracts shall also include clauses for termination in case of any breach of the stated provisions by the contractors.

Procurement

17. The Borrower shall ensure or cause the EA to announce the Project and business opportunities (i.e., invitation of potential bids) associated with the Project on its website. The website shall disclose the following information in relation to goods and services procured for the Project and Subprojects: (i) the list of participating bidders; (ii) the name of the selected bidder; (iii) the amount of the contracts awarded; and (iv) the goods and services procured



Governance and Anticorruption

18. The Borrower shall ensure and cause the EA to ensure that it shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date), (b) shall ensure that the anticorruption provisions acceptable to ADB, the Borrower, and the EA are included in all bidding documents and contracts financed by ADB in connection with the Project, including provisions specifying the right of ADB to review and examine the records and accounts of the EA and all contractors, suppliers, consultants, and other service providers as they relate to the Project and Subprojects, and as included in the PAM; (c) shall allow and assist ADB's representatives to carry out random spot checks on the work in progress and utilization of funds for the Project; (d) acknowledge that ADB reserves the right to investigate directly or through its agents any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (e) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation, and as included in the PAM.

O&M

19. Notwithstanding the generality of paragraph 4 of this Schedule, the Borrower shall ensure or cause the EA to ensure that it shall (i) maintain the Subproject facilities under proper technical supervision and adequate routine funds; (ii) ensure that the funds required for the O&M shall be allocated annually and released on a timely basis; (iii) prepare O&M management system throughout the Investment Program period; and (iv) ensure that all equipment and spare parts financed under the Subproject shall exclusively be used for the O&M of the Subproject.

Communications and Participation

20. The Borrower shall ensure or cause the EA to ensure that the Project is undertaken in conformity with the stakeholder communication strategy as agreed between ADB, the Borrower, and the EA and referred in the PAM.

Coordination among State Agencies

21. The Borrower shall ensure or cause the EA to ensure timely cooperation in issuing any licenses, permits or approvals required in connection with urban water and supply sanitation infrastructure work within their respective areas.

UIF

22. The Borrower shall ensure or cause the EA to ensure that the UIF guidelines for ULBs under the Project are developed after the necessary amendments of the guidelines for ULBs under Project 1 are provided to ADB for approval; and that the EA shall implement the UIF for ULBs of the Project within 24 months of the Effective Date.

Targets under Key Operational Capacity Strengthening through Policy and Institutional Reform

23. The Borrower shall ensure or cause the State to ensure that the key operational capacity strengthening measures, i.e., periodic water audits, volumetric tariff determination models, dynamic asset management system and ring-fencing of water operation accounts in Project ULBs are achieved before Project completion.