Loan Agreement

(Karnataka Urban Water Sector Improvement Project)

between

INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 18, 2005
ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement:

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective
meanings therein set forth, and the following additional terms have the following meanings:

(a) “Demonstration Zones” means the Demonstration Zones referred to under Part B.3 of the Project;

(b) “Eligible Categories” means categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(d) “EMP” means an environmental management plan, dated November 29, 2003, describing a program of environmental actions, measures and policies, including Environmental Codes of Practice, designed to maximize the benefits of the Project and manage the potential adverse impacts identified in the LEA;

(e) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 of the Project Agreement;

(f) “First Karnataka Government Order” means the First Karnataka Government Order referred to in the Preamble to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the First Karnataka Government Order;

(g) “Fiscal Year” or “FY” means the Borrower’s and Karnataka’s fiscal year, beginning on April 1 of any calendar year and ending on March 31 of the following calendar year;

(h) “Karnataka” means the State of Karnataka, a state of India, or any successor thereto;

(i) “Karnataka State Urban Water Supply Council” means the Karnataka State Urban Water Supply Council referred to under Part A.1 (a) of the Project;

(j) “KUIDFC” means Karnataka Urban Infrastructure Development Finance Corporation, a state-owned corporation registered and operating under the Borrower’s Companies Act;

(k) “KUWSDB” means Karnataka Urban Water Supply and Drainage Board established and operating under the Karnataka Urban Water Supply and Drainage Board Act, 1974;

(l) “LEA” means a limited environmental impact assessment, dated November 29, 2003, issued by Karnataka, providing an analysis of the environmental
aspects of proposed works under the Project, including potential environmental impacts, measures to protect cultural property, air and water quality and noise pollution standards, proposed management and mitigation measures, and institutional arrangements required or appropriate to manage environmental issues;

(m) “NGO” means non-governmental organization;

(n) “Operator Consultant” or “OC” means the operator consultant referred to in paragraph 5 of Schedule 2 to the Project Agreement;

(o) “OC Agreement” means the agreement referred to in paragraph 5 of Schedule 2 to the Project Agreement, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the OC Agreement;

(p) “Participating ULBs” means any one or more of the ULBs participating in the Project, namely: Belgaum, Gulbarga and Hubli-Dharwad;

(q) “PPP” means public-private partnership;

(r) “Project Agreement” means the agreement between the Bank and Karnataka of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement;

(s) “Project Implementation Plan” means the Project Implementation Plan referred to in paragraph 4 (a) of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Plan;

(t) “Project Management Unit” or “PMU” means the Project Management Unit referred to in paragraph 2 (a) of Schedule 2 to the Project Agreement;

(u) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(v) “Resettlement Framework” or “RF” means the Resettlement Framework, dated October 15, 2003, issued by Karnataka, giving details of principles and objectives governing any resettlement arising under the Project, criteria to be used to define eligibility and determine the quantum of compensation, organizational procedures for the delivery of entitlements, grievance redress mechanism and consultation procedures;

(w) “Resettlement Plan” or “RP” means a resettlement plan referred to in paragraph 10 of Schedule 2 to the Project Agreement, and issued pursuant to the RF;
“Second Karnataka Government Order” means the Second Karnataka Government Order referred to in Section 2.05 of the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the Second Karnataka Government Order;

“Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

“UDD” means the Urban Development Department of Karnataka;

“ULB” means urban local body, an administrative subdivision of Karnataka, established pursuant to the Karnataka Municipal Corporations Act, 1976; and

“UWS” means urban water sector.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to thirty nine million five hundred thousand Dollars ($39,500,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be December 31, 2008, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.
(b) For the purposes of this Section:

(i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.

(iii) “LIBOR Base Rate” means, for each Interest Period, the London Interbank Offered Rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on June 15 and December 15 in each year.
Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Karnataka to perform in accordance with the provisions of the Project Agreement all the obligations of Karnataka therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Karnataka to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Loan available to Karnataka in accordance with the Borrower’s standard arrangements for developmental assistance to the states of India.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Karnataka pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were Report-based Disbursements or were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained
until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank’s representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such Fiscal Year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) the First Karnataka Government Order or the Second Karnataka Government Order shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Karnataka to perform any of its obligations under the Project Agreement;

(c) as a result of events that have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that Karnataka will be able to perform its obligations under the Project Agreement;

(d) Karnataka shall have failed to perform any of its obligations under the Project Agreement;
(e) any one or more of the parties to the OC Agreement shall have failed to perform any of their obligations under the OC Agreement; and

(f) the OC Agreement shall have been terminated, repudiated by any of the parties thereto, or declared null and void.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that an event specified in paragraph (d) or (e) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Project Agreement has been duly authorized or ratified by Karnataka, and is legally binding upon Karnataka in accordance with its terms;

(b) the Second Karnataka Government Order has been issued pursuant to Section 2.05 of the Project Agreement; and

(c) the Project Implementation Plan has been adopted pursuant to paragraph 4 (a) of Schedule 2 to the Project Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Project Agreement has been duly authorized or ratified by Karnataka, and is legally binding upon Karnataka in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.
Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address: ECOFAIRS  
Telex: 953-31-66175 FINE IN  
Facsimile: 91-11-2309-2511

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 202-477-6391
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INDIA

By /s/ Ranjit Bannerji
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Michael Carter
Country Director, India
### SCHEDULE 1

**Withdrawal of the Proceeds of the Loan**

**Part A: General**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>29,340,000</td>
<td>80%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>2,910,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3)(a) Consultants’ services</td>
<td>5,900,000</td>
<td>90%</td>
</tr>
<tr>
<td>(other than services provided by tax-exempt providers)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Services provided by tax-exempt providers, and training</td>
<td>150,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Operating costs</td>
<td>805,000</td>
<td>80% until December 31, 2006, and 60% thereafter</td>
</tr>
<tr>
<td>(5) Front End Fee</td>
<td>395,000</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>39,500,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule:

   (a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

   (b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

   (c) the term “tax-exempt providers” means NGOs, training providers and other educational and research institutions, which are tax exempt under the laws of the Borrower; and

   (d) the term “operating costs” means the incremental costs of operation and maintenance of buildings, equipment and vehicles, office rental and expenses, hiring of vehicles, salaries of additional staff other than public officials, and travel and other allowances, incurred for the purposes of carrying out the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding $500,000 may be made in respect of Categories 3 (a) and 4 of the table in paragraph 1 of this Part on account of payments made for expenditures before that date but after May 31, 2003.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than $500,000 equivalent each; (b) consultants’ services under contracts costing less than $100,000 equivalent each, in the case of consulting firms, and $50,000 equivalent each, in the case of individual consultants; (c) operating costs; and (d) training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the Financial Monitoring Report and any other relevant information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit, or shall cause Karnataka to submit, to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.
Part B: Special Account

1. The Borrower may open and maintain in dollars a special deposit account in the Reserve Bank of India, on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

   (a) if the Bank determines at any time that it is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

   (c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.
5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.
Annex A to SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not Report-based Disbursements

For the purposes of this Annex:

1. The term “Authorized Allocation” means an amount of $4,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $2,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed $10,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Special Account’s Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts that in the aggregate do not exceed the said Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the said Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Special Account’s Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify...
by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Report-based Disbursements

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
SCHEDULE 2

Description of the Project

The objectives of the Project are to launch Karnataka’s UWS reform process based on the state urban water policy, improve UWS services in Participating ULBs and demonstrate the sustainability of efficient and commercially-oriented UWS service provision.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A: Sector Development and Technical Assistance

1. Provision of technical advisory services and training, and acquisition of equipment, to support design and implementation of initial stages of UWS reforms at State-level, including:

   (a) establishment and operationalization of a Karnataka State Urban Water Supply Council to be responsible for policy definition and implementation, planning and programming, technical assistance, development of sector information system, norms, and certain regulatory functions;

   (b) capacity building activities to strengthen service delivery in the ULBs, including analysis of institutional options for service provision, development of a technical assistance strategy and action plan to facilitate UWS reform at the ULB level, development of revenue collection action plan, and implementation of a public awareness and communication strategy;

   (c) development of the state water and sanitation information system;

   (d) development of UWS investment and tariff frameworks;

   (e) design of a legal and regulatory framework and implementation of the initial stages thereof; and

   (f) review of existing legislation governing UWS in view of proposals for modernization of the legal framework.

2. Provision of technical advisory services and training, and acquisition of equipment, to strengthen service delivery and support preparation of follow-on projects in Participating ULBs, including:
(a) carrying out of city-wide engineering feasibility studies and master plans, and development of business plans for Participating ULBs, including analysis of alternative institutional models available for service provision, development of proposals for the selection of the appropriate model of PPP, detailed design of the selected partnership model and preparation of bidding documents for the selection of future operators based on the selected partnership model;

(b) development of transition plans designed to ensure a smooth transition from the Operator Consultant to subsequent operators recruited pursuant to subparagraph (a) of this paragraph, including improvements in commercial and accounting systems, basic training and dissemination of lessons learned, and delineation of roles and functions in the ULBs;

(c) carrying out of related studies pertaining to PPP preparation, including asset evaluation, communications strategy and legal studies, as well as identification studies and development of a strategy to scale up reforms to other cities of Karnataka; and

(d) development of a strategy to scale up this project to other cities in Karnataka, including engineering feasibility studies, development of business plans, and other studies required to define institutional modalities for service delivery in about four or five medium-sized cities in Karnataka.

Part B: Physical Investments

1. Implementation of priority physical works in Participating ULBs in order to increase bulk supply to the ULBs and enhance bulk supply operations, including replacement and rehabilitation of pipes, extension and augmentation of transmission mains, and feeder mains to reservoirs, replacement of pumps, provision of bulk flow meters at critical points on the transmission system, and other investments designed to reduce leakages from transmission mains, increase bulk supply capability and remove supply bottlenecks.

2. Based on the results of city-wide engineering studies referred to under Part A.2 (a) of the Project, identification of water supply bottlenecks in areas of ULBs falling outside the Demonstration Zones, and design and implementation of works in city distribution networks designed to address such bottlenecks and, in so doing, achieve initial water supply improvements for the benefit of households located outside the Demonstration Zones.

3. Establishment of Demonstration Zones to demonstrate the feasibility of 24-hour continuous pressurized supply and showcase the benefits thereof, including: (a) design of works needed to isolate the Demonstration Zones from the rest of the distribution system, upgrade them to permit continuous pressurized supply, identify supply bottlenecks, introduce improvements and provide comprehensive water supply coverage; (b) procurement, construction and supervision of works; (c) day-to-day management and
operation of the distribution system in the Demonstration Zones; and (d) implementation of a communications strategy and social intermediation activities.

**Part C: Project Implementation**

Strengthening of the capacity of implementing agencies and institutions to manage and monitor implementation of the Project, including establishment of a financial management information system, development of monitoring and evaluation systems, and carrying out of studies, through provision of technical advisory services and training, and financing of the incremental operating costs of KUIDFC.

* * *

The Project is expected to be completed by June 30, 2008.
## SCHEDULE 3

**Amortization Schedule**

<table>
<thead>
<tr>
<th>Date</th>
<th>Payment Due</th>
<th>Payment of Principal</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 15, 2009</td>
<td></td>
<td>1,165,000</td>
</tr>
<tr>
<td>June 15, 2010</td>
<td></td>
<td>1,175,000</td>
</tr>
<tr>
<td>December 15, 2010</td>
<td></td>
<td>1,185,000</td>
</tr>
<tr>
<td>June 15, 2011</td>
<td></td>
<td>1,195,000</td>
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