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**LOAN NUMBER 9324-IN**

# **Loan Agreement**

**(Additional Financing for the Karnataka Urban Water Supply Modernization Project)**

**between**

**INDIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

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## **LOAN AGREEMENT**

AGREEMENT dated as of the Signature Date between INDIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing an additional financing for the activities related to the Original Project (as defined in the Appendix to this Agreement).

NOW, THEREFORE, the Borrower and the Bank hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, the Original Loan Agreement (as defined in the Appendix to this Agreement) and/or in the Appendix to this Agreement.

### **ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower the amount of twenty four billion, sixty-nine million eight hundred thousand Yen (¥ 24,069,800,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement and the Project Agreement.



AGREED as of the Signature Date.

**INDIA**

By Manisha

**Authorized Representative**

**Name:** Manisha Sinha

**Title:** Additional Secretary

**Date:** 31-Jul-2024

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

By Nataliya Kulichenko

**Authorized Representative**

**Name:** Nataliya kulichenko

**Title:** Acting Country Director

**Date:** 29-Jul-2024

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to provide city-wide access to a continuous piped water supply in the Eligible Cities in the state of Karnataka, and to strengthen service delivery arrangements at the city level and in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

The Project consists of the following parts:

#### **Part A:        Capital Investment Program**

##### ***A.1        Capital Investment Program for Hubballi-Dharwad***

1. Investing in capital works to improve water-supply systems including in bulk capacity augmentation; pipeline rehabilitation/replacement; water meters for bulk supplies and consumer consumption; provision for replacement of house connections and new connections for low-income households.
2. Preparing service delivery improvement plan for (i) Hubballi-Dharwad; to deliver city-wide continuous piped water supply in a cost-effective manner.
3. Setting up systems and equipment for service delivery for the proposed water utility in Hubballi-Dharwad and support the implementation of the reform activities under the Urban Incentive Fund.

##### ***A.2        Capital Investment Program for Belagavi***

1. Investing in capital works to improve water-supply systems including in bulk capacity augmentation; pipeline rehabilitation/replacement; water meters for bulk supplies and consumer consumption; provision for replacement of house connections and new connections for low-income households.
2. Preparing service delivery improvement plan for Belagavi to deliver city-wide continuous piped water supply in a cost-effective manner.
3. Setting up systems and equipment for service delivery for the proposed water utility in Belagavi and support the implementation of the reform activities under the Urban Incentive Fund.

##### ***A.3        Capital Investment Program for Kalaburagi***

1. Investing in capital works to improve water-supply systems including in bulk capacity augmentation; pipeline rehabilitation/replacement; water meters for bulk supplies and consumer consumption; provision for replacement of house connections and new connections for low-income households.

2. Preparing service delivery improvement plan for Kalaburagi; to deliver city-wide continuous piped water supply in a cost-effective manner.
3. Setting up systems and equipment for service delivery for the proposed water utility in Kalaburagi and support the implementation of the reform activities under the Urban Incentive Fund.

**Part B: Institution Building**

1. Financing a percentage of the Operator Fees during the Design and Build Period.
2. Supporting the setting up and operationalization of a City Water Company responsible for water services in each Eligible City.
3. Supporting the consolidation and ringfencing of the ULB Water Supply and Sanitation (WSS) services and the development of a roadmap to integrate sanitation services within each City Water Company in a gradual manner.
4. Developing and instituting a climate and disaster informed strategy and supporting adaptation and mitigation measures.
5. Designing a gender-informed HR strategy for KUIDFC and the City Water Companies.

**Part C: Technical Assistance for Sector Development**

1. Carrying out Project impact evaluation to assess the impact of providing continuous water supplies at both the household level and the city level.
2. Improving social accountability in the sector through the creation of a functional grievance redress and consumer feedback systems.
3. Preparing and/or updating plans for dam operations and maintenance and dam emergency preparedness.

**Part D: Project Management**

Providing support for Project management including on its technical, fiduciary, safeguards management, communication, construction quality assurance and monitoring and evaluation aspects.

**Part E: Contingent Emergency Response Component**

Provision of immediate response to an Eligible Crisis or Emergency, as needed.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. On-lending Arrangements**

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity in accordance with the Borrower's standard arrangements for development assistance to the States of India.
2. Notwithstanding paragraph 1 above, in the event that any provision of this Agreement, including the instructions that the Bank shall have specified by notice to the Borrower pursuant to III.A of this Schedule 2, were to be found inconsistent with the Borrower's standard arrangements for development assistance to the states of India, the provisions of this Agreement and related instructions shall prevail.
3. The Borrower shall at all times protect its own interests and the interests of the Bank to accomplish the purposes of the Loan.

##### **B. Safeguards**

The Borrower shall ensure, and cause the Project Implementing Entity to ensure, that the Project is carried out with due regard to appropriate health, safety, social, and environmental standards and practices, and in accordance with the Safeguards Documents and the provisions of Section I.B of the Schedule to the Project Agreement.

#### **Section II. Project Monitoring Reporting and Evaluation**

The Borrower shall furnish to the Bank each Project Report not later than one (1) month after the end of each calendar semester, covering the calendar semester.

#### **Section III. Withdrawal of Loan Proceeds**

##### **A. General.**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and(ii) each Interest Rate Cap or Interest Rate Collar premium; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in YEN)</b>	<b>Percentage of Expenditures to be financed (inclusive of Taxes)</b>
(1) Works for Part A.1. of the Project (Hubbali Dharwad)	9,916,760,527	<b>75%</b>
(2) Works for Part A.2. of the Project (Belagavi)	6,081,634,870	<b>75%</b>
(3) Works for Part A.3. of the Project (Kalaburagi)	6,546,984,240	<b>75%</b>
(4) Operator Fees	876,140,538	<b>50%</b>
(5) Goods, non-consulting services, and consulting services, Incremental Operating Costs and Training for Part B, C, and D of the Project	491,826,145	<b>20%</b>
(6) Goods, Consultancy, non-Consultancy Incremental Operating Costs and Training for Part A.1 (3), A 2 (3), and A.3 (3) of the Project	96,279,180	<b>100%</b>
(7) Emergency Expenditures under Part E of the Project	0	<b>100%</b>
(8) Front-end Fee	60,174,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(9) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>24,069,800,000</b>	



**B. Withdrawal Conditions; Withdrawal Period.**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
  - (a) for payments made prior to the Signature Date; or
  - (b)
    - (i) under Category (1), until such date that the Bank has received documentary evidence in form and substance satisfactory to the Bank that the Hubballi-Dharwad ULB has incorporated its City Water Company and operationalized the City Water Company in accordance with the provisions of Section I.A2 (ii) of the Schedule to the Project Agreement;
    - (ii) under Category (2), until such date that the Bank has received documentary evidence in form and substance satisfactory to the Bank that the Belagavi ULB has incorporated its City Water Company and operationalized the City Water Company in accordance with the provisions of Section I.A2 (ii) of the Schedule to the Project Agreement;
    - (iii) under Category (3), until such date that the Bank has received documentary evidence in form and substance satisfactory to the Bank that the Kalaburagi ULB has incorporated its City Water Company and operationalized the City Water Company in accordance with the provisions of Section I.A2 (ii) of the Schedule to the Project Agreement.
  - (c) For Emergency Expenditures under Category (7), unless and until, all of the following conditions have been met in respect of said expenditures:
    - (i) (A) the Borrower and/or the Project Implementing Entity has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Bank a request to withdraw the Financing amounts under Category (7); and (B) the Bank has agreed with such determination, accepted said request and notified the Borrower and the Project Implementing Entity thereof; and
    - (ii) the Project Implementing Entity has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Bank.
2. The Closing Date is June 30, 2026.

### SCHEDULE 3

#### Commitment-Linked Amortization Repayment Schedule

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”).

#### Level Principal Repayments

<b>Principal Payment Date</b>	<b>Installment Share</b>
On each March 15 and September 15 Beginning March 15, 2026 Through September 15, 2036	4.35%
On March 15, 2037	4.30%

## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 6 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
2. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
3. “CERC Manual” means the manual referred to in Section I.E of the Schedule to the Project Agreement, as such manual may be updated from time to time with the agreement of the Bank, and which is an integral part of the Operations Manual.
4. “City Water Company” means the water utility to be incorporated under the Companies Act, 2013 by (i) Hubballi-Dharwad; (ii) Belagavi and (iii) Kalaburagi respectively and “City Water Companies” shall mean collectively all of them.
5. “Contingent Emergency Response Part” or “CER Component” means any activity or activities to be carried out under Part E of the Project to respond to an Eligible Crisis or Emergency.
6. “Dam Operations and Maintenance and Dam Emergency Preparedness Plans” means Karnataka’s plans, to be prepared in a manner and in accordance with a time frame satisfactory to the Bank, for the safe operation and maintenance of the existing dams on which the water supply systems under the Project will rely, which plans shall include (a) an emergency preparedness plan; and (b) an operation and maintenance plan, as each of such plans may be revised from time to time with the prior written agreement of the Bank.
7. “Design and Build Period” means the period following the commencement of the Operator Contract and prior to the ‘Sustaining Period’ as described in the Operator Contract.
8. “EHS Guidelines” means the World Bank Group Environmental, Health and Safety Guidelines published on [www.ifc.org/ehsguidelines](http://www.ifc.org/ehsguidelines), as said guidelines are updated from time to time.
9. “Eligible City” means any city or urban area in Karnataka that are found eligible by the Bank and Karnataka to participate in the Project in accordance with eligibility criteria set out in the Operations Manual.
10. “Eligible Crisis or Emergency” means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Borrower, associated with a natural or man-made crisis or disaster.
11. “Emergency Action Plan” means the plan referred to in Section I.E.1 of the Schedule to the Project Agreement, detailing the activities, budget, implementation plan, and monitoring and evaluation arrangements, to respond to the Eligible Crisis or Emergency.

12. “Emergency Expenditures” means any of the eligible expenditures set forth in the CERC Manual referred to in Section I.E.1 of the Schedule to the Project Agreement and required for the Contingent Emergency Response Part.
13. “Empowered Committee” means the committee established by Karnataka under government order to guide the Project with representation from key departments involved in the Project and chaired by the Additional Chief Secretary.
14. “Environmental and Social Assessment” means Karnataka/KUIDFC’s environmental and social assessment for Hubballi-Dharwad, Kalburgi And Belagavi, each initially disclosed on January 8, 2015, and updated for Hubballi-Dharwad and Kalaburgi on November 11,2021 and for Belagavi on November 4, 2021 respectively, setting forth the policy framework, principles, standards, processes and institutional arrangements to be applied to assess potential adverse environmental and social impacts associated with Project activities and the ways to avoid, minimize, mitigate or offset them, including public consultations, disclosure and reporting; as such assessment may be amended from time to time with prior concurrence of the Bank.
15. “Environmental Code” means the code of environmental practice that the Project Operator is required to observe under the Operator Contract to ensure proper environmental management of Project activities, as may be amended from time to time with the Bank’s prior written agreement.
16. “Environmental Management Plans” means Karnataka/KUIDFC’s environmental and social management plans, each disclosed on January 8, 2015, and updated together with the Environment and Social Assessment, prepared under the Project in accordance with respective Environmental and Social Assessment, Resettlement Policy Framework, the Environmental Code which details (a) the measures during the implementation and operation of the Project to avoid, minimize, mitigate or offset adverse environmental and social impacts, and protect community and cultural properties or to reduce them to acceptable levels, (b) the actions needed to implement these measures, together with adequate budget, institutional, monitoring and reporting arrangements, capable of ensuring proper implementation of, and regular feedback on compliance with, its terms; as each environmental/social management plan may be amended from time to time with prior concurrence of the Bank.
17. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Investment Project Financing”, dated December 14, 2018 (last revised on July 15, 2023).
18. “GRM” means the grievance redress mechanism to be established or strengthened by the Karnataka under the Project Agreement.
19. “Incremental Operating Costs” means the incremental costs incurred by Karnataka, KUIDFC, or any ULB’s City Water Company for carrying out the Project including salaries of contractual staff appointed and staff deputed to the Project, office rent and utilities, office and equipment maintenance and repair, vehicle operating and maintenance costs, communication and travel, and other incidental and necessary expenditures in connection with the Project.

20. “Karnataka” means the Borrower’s State of Karnataka or any successor(s) thereto.
21. “KUIDFC” means Karnataka Urban Infrastructure Development and Finance Corporation, a state-owned corporation registered and operating under the Borrower’s Companies Act, 2013.
22. “Operations Manual” or means the Project Implementing Entity’s manual for the Original Project dated February 26, 2016 and updated on December 31, 2020, with protocols, policies and procedures for carrying out the Project, as said manual may be amended from time to time with the prior concurrence of the Bank.
23. “Operator Contract” means the contract among KUIDFC, the relevant ULB, and the relevant Project Operator, in form and substance satisfactory to the Bank, for carrying out Parts A and B of the Project and including any amendments made to the contract with the Bank’s written agreement.
24. “Operator Fees” means a portion of the fees financed from the Loan proceeds payable to a Project Operator during the Period under the Operator Contract.
25. “Operator Fees” means a portion of the fees, being 50% of the amount payable to the Operator towards the eligible Fixed Fees and Performance Fees for Operation Services, financed from the Loan proceeds payable to a Project Operator during the Contract Period under the Operator Contract (capitalized terms used here as defined in the Operator Contract).
26. “Original Loan Agreement” means the agreement between the Borrower and the International Bank for Reconstruction and Development for the financing of the Original Project, dated May 24, 2016 (Loan No.8601-IN), as amended from time to time.
27. “Original Project” means the Project described in Schedule 1 to the Original Loan Agreement, as amended from time to time.
28. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated November 2020.
29. “Project Implementing Entity” means the State of Karnataka (also referred to as Karnataka).
30. “Project Operator” means a contractor appointed under an Operator Contract to carry out Project activities in accordance with the Operations Manual, and the term “Project Operators” means the plural thereof.
31. “Resettlement Policy Framework” means Karnataka/KUIDFC’s resettlement policy framework disclosed on January 8, 2015 and further updated on May 2020 to handle any potential resettlement and rehabilitation of Project affected persons, the processing of complaints and grievance redress and other related matters, as may be amended from time to time with the Bank’s prior written consent.

32. “Safeguards Assessment or Plan” means each additional assessment or plan or other ancillary document required to be prepared in accordance with the respective Environmental and Social Assessment, Resettlement Policy Framework, the Environmental Code, or any Environmental Management Plan, each such plan in form and substance satisfactory to the Bank, and defining details of measures to manage potential environmental and social risks and mitigate, reduce and/or offset adverse environmental and social impacts associated with the implementation of Project activities, and protect community and cultural properties, together with adequate budget, institutional, monitoring and reporting arrangements, capable of ensuring proper implementation of, and regular feedback on compliance with, its terms; as each Plan may be amended from time to time with prior concurrence of the Bank.
33. “Safeguards Documents” means, collectively, each Environmental and Social Assessment, Environmental Code, each Environmental Management Plan, the Resettlement Policy Framework, and each additional Safeguards Assessment or Plan required thereunder and each Dam Operations and Maintenance and Dam Emergency Preparedness Plan.
34. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.
35. “Training” means the reasonable costs of training activities under the Project attributable to seminars, workshops, and domestic and overseas study trips, along with travel and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.
36. “ULB” means an urban local body for an Eligible City established pursuant to the Karnataka Municipal Corporations Act, 1976.
37. “Urban Incentive Fund” or “UIF” means the incentive fund set -up by the Project Implementing Entity vide Empowered Committee on October 25, 2016 and administered by KUIDFC to support ULBs in the implementation of water supply and sanitation reforms.