

**CONFORMED COPY**

**CREDIT NUMBER 3590 IN**

# **Development Credit Agreement**

**(Second Karnataka Rural Water Supply and Sanitation Project)**

**between**

**INDIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 8, 2002**

**CREDIT NUMBER 3590 IN**

## **DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated March 8, 2002, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of

the project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

(B) the Project will be carried out by the State of Karnataka (Karnataka) and the Karnataka Rural Water Supply and Sanitation Agency (KRWSSA) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to Karnataka, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and Karnataka and KRWSSA (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 of the General Conditions to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Act" means the Karnataka Panchayati Raj Act (Karnataka Act No. 14 of 1993);

(b) “DSU” means the District Support Unit established by KRWSSA for a Zilla Panchayat pursuant to the Memorandum of Association and Rules of the Karnataka Rural Water Supply and Sanitation Agency dated August 27, 2001;

(c) “Eligible Categories” means categories (1), (2), (3), and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(e) “Financial Management Manual” means the manual of policies and procedures for financial management of the Project agreed to between Karnataka and the Association;

(f) “Financial Management System” means the financial management system that KRWSSA shall establish and operate pursuant to Section 4.03 of the Project Agreement;

(g) “Fiscal Year” means the fiscal year of the Borrower, Karnataka and KRWSSA, starting April 1, and ending March 31;

(h) “Gram Panchayat” has the meaning assigned to such term in the Act;

(i) “Indigenous Peoples Development Plan” means the indigenous peoples development plan, agreed with the Association, and dated November 6, 2001, referred to in Part A.3 of Schedule 2 to this Agreement;

(j) “Karnataka” means the Borrower’s State of Karnataka, or any successor thereto;

(k) “KRWSSA” means Karnataka Rural Water Supply and Sanitation Agency, a society established and registered on August 27, 2001, under the Karnataka Societies Registration Act, 1960;

(l) “NGOs” means non-governmental organizations established and operating in the territory of the Borrower;

(m) “Pilot Batch” means first twenty Project Gram Panchayats in which implementation of the Project commenced in April 2001;

(n) “Project Agreement” means the agreement among the Association, Karnataka and KRWSSA 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;

(o) “Project Districts” means the districts of Bagalkot, Belgaum, Bidar, Bijapur, Dharwar, Gadag, Gulbarga, Haveri, Koppal, Raichur and Uttar Kannada in Karnataka, and any successor districts thereto;

(p) “Project Gram Panchayats” means Gram Panchayats of the Project Districts that have been selected to participate in the Project in accordance with paragraph 4 of Schedule 2 to the Project Agreement;

(q) “Project Implementation Plan” means the implementation plan for the Project dated September 30, 2001, including time-bound action plans, procedures and criteria agreed with the Association;

(r) “Project Management Report” means each Project Management Report prepared in accordance with Section 4.02 of the Project Agreement;

(s) “Project Settlement” means any settlement, habitation or other local entity that is selected for implementation of Parts A and B of the Project under an agreed Indigenous Peoples Development Plan;

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

(u) “Subsequent Batches” means the first, second, third, fourth and any subsequent batches of Project Gram Panchayats and Project Settlements in which implementation of Parts A and B of the Project shall take place, and the term “Batch” refers to any of those batches or the Pilot Batch;

(v) “Support Agency” means any non-governmental agency including consultant, voluntary or community-based organization selected by KRWSSA to provide necessary community development and engineering support and services to the Project Gram Panchayats, VWSCs, Project Settlements and User Groups;

(w) “User Group” means any group of persons within the Project District and deriving water supply and sanitation benefits from the Project;

(x) “VWSC” means a Village Water and Sanitation Committee of a Gram Panchayat, which is a committee of the Gram Panchayat pursuant to Section 61-A of the Act;

(y) “Zilla Panchayat” has the meaning assigned to such term in the Act; and

(z) “ZPED” means the Zilla Panchayat Engineering Division for each Zilla Panchayat.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred and nineteen million Special Drawing Rights (SDR 119,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association 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 Credit.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing June 15, 2012 and ending December 15, 2036. Each installment to and including the installment payable on December 15, 2021 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in

paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Karnataka and KRWSSA to perform in accordance with the provisions of the Project Agreement all the obligations of Karnataka and KRWSSA therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Karnataka and KRWSSA 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 Credit available to Karnataka in accordance with the Borrower's standard agreements for developmental assistance to the states of India.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 and KRWSSA 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 Credit Account were made on the basis of Project Management Reports or 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association'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 Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

- (a) Karnataka or KRWSSA shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Development

Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Karnataka or KRWSSA will be able to perform its obligations under the Project Agreement.

(c) Any change shall have been made to the Memorandum of Association of KRWSSA so as to materially and adversely affect the ability of KRWSSA to perform any of its obligations under the Project Agreement.

(d) The Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Karnataka or KRWSSA to perform any of their respective obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) 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 Association to the Borrower.

(b) The event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

(c) The event specified in paragraph (d) of Section 5.01 of this Agreement shall occur.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.02 (b) of the General Conditions to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by Karnataka and KRWSSA, and is legally binding upon Karnataka, KRWSSA, and any successors thereto, in accordance with its terms.

Section 6.02. 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.

Section 6.03. The provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date 20 years after the date of this Agreement, whichever shall be the earlier.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance or successor thereto of the Borrower are each 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  
Government of India  
New Delhi 110 001  
India

Cable address:	Telex:	Facsimile:
ECOFAIRS953-31-66175 FINE IN New Delhi	953-31-66175 FINE IN	91-11-3016075

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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/ Adarsh Kishore

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin R. Lim

Country Director, India

## SCHEDULE 1

### Withdrawal of the Proceeds of the Credit

#### A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works	89,100,000	80%
(2) Goods	2,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' Services and Training	17,900,000	100%
(4) Incremental Operating Costs	1,100,000	80% until March 31, 2004 60% until March 31, 2005 and 25% thereafter
(5) Unallocated	8,900,000	
TOTAL	119,000,000	

2. For the purposes of this Schedule:

(a) the term "consultants' services and training" means services of consultants, NGOs, Support Agencies and community organizations, training programs, workshops and study tours;

(b) 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;

(c) the term "incremental operating costs" means salaries and the benefits and travel costs of individuals engaged as Project staff on a contract basis in KRWSSA and DSUs for the

purposes of carrying out the Project.

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

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 the equivalent of \$1,000,000 may be made in respect of Categories 1, 2, 3 and 4 on account of payments made for expenditures before that date but after January 1, 2001.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and services: (a) in the case of works under contracts costing less than \$300,000 equivalent each; (b) in the case of goods under contracts costing less than \$300,000 equivalent each; (c) in the case of consultants’ firms under contracts costing less than \$100,000 equivalent each; (d) in the case of individuals under contracts costing less than \$50,000 equivalent each; (e) training, workshops and study tours; and (f) incremental operating costs each under such terms and conditions as the Association shall specify by notice to the Borrower.

#### B. Special Account

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

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

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02(b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of the Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of the Project

Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association 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 Association 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 made on the basis of Project Management Reports.

5. The Association 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 Association 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 Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

**Annex A**  
**to**  
**SCHEDULE 1**

**Operation of Special Account**  
**When Withdrawals Are Not Made**  
**On the Basis of Project Management Reports**

For the purposes of this Annex:

1. The term “Authorized Allocation” means an amount of \$8,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$4,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 20,000,000.

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 Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the said Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Made**  
**On the Basis of Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all

withdrawals from the Credit Account shall be deposited by the Association 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 Association from the Credit Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$16,000,000.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to assist Karnataka in: (i) increasing rural communities' access to improved and sustainable drinking water supply and sanitation services; and (ii) institutionalizing decentralization of rural water supply and sanitation service delivery to Gram Panchayats and User Groups.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives.

#### **Part A: Community Development and Infrastructure Building**

##### **1. Community Development**

(a) Provision of social, technical and management support to Gram Panchayats, VWSCs and User Groups through provision of Support Agencies' services and assistance for community mobilization, capacity building, engineering designs, procurement, construction supervision and in operation and maintenance.

(b) Mobilizing women, including the formation of self-help groups, and building their skills to participate in the Project through provision of consultants' and Support Agencies' services, training and equipment.

##### **2. Infrastructure Building**

(a) Construction of about 2,100 new drinking water supply schemes, including augmentation of existing schemes;

(b) Implementation of associated ground water recharge activities, including check dams, water harvesting structures, percolation tanks and dykes;

(c) Construction of about 210,000 household latrines, and provision of about 210,000 smokeless chullahs (stoves);

(d) Construction of about 2,100 sullage/storm water drainage schemes, including safe disposal of wastewater, construction of about 700 institutional and about 700 pay and use type community latrines and about 700 compost yards; and

(e) Rehabilitation of existing water supply schemes in about 700 Project Gram Panchayats.



### 3. Indigenous People's Development Plan

Carrying out an Indigenous People's Development Plan targeted for about 400 Project Settlements with indigenous people in the Project Districts, including through the provision of civil works, equipment, consultants' and NGOs' services and training.

#### Part B: Institution Building

1. Establishment and operation of KRWSSA and the DSUs, including strengthening their capacity for Project management, monitoring and evaluation, through the provision of consultants' and Support Agencies' services, equipment and materials and incremental operating costs.
2. Development and implementation of sanitation and hygiene promotion strategic plan through the provision of consultants' and Support Agencies' services, training, workshops, and carrying out of baseline surveys.
3. Building capacity of state level administrators, policy makers, and staff of KRWSSA, DSUs, ZPEDs, Support Agencies, Gram Panchayats and VWSCs and User Groups through provision of consultants' and Support Agencies' services, training and workshops.
4. Strengthening of Gram Panchayats through the provision of civil works, equipment, training and incremental operating costs.

#### Part C: Sector Strengthening Programs

1. Strengthening of the sector program, *inter alia*, through the carrying out of advocacy workshops, exposure visits, mass media campaigns, and procurement of goods and equipment.
2. Developing and implementing a rural water supply and sanitation sector information management system in Karnataka through provision of consultants' services, training and equipment.
3. Carrying out of other sector related special studies, including studies on water quality assessments and health impact studies, sustainability monitoring, alternative technology options and institutional studies.

\* \* \*

The Project is expected to be completed by June 30, 2007.

