

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4768-IN

Financing Agreement

(Additional Financing for the Second Karnataka Rural
Water Supply and Sanitation Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 17, 2010

CREDIT NUMBER 4768-IN

FINANCING AGREEMENT

AGREEMENT dated July 17, 2010, entered into between INDIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project set forth in the Development Credit Agreement (all as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral 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 or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to ninety nine million three hundred thousand Special Drawing Rights (SDR 99,300,000) (variously, “Additional Credit” and “Additional Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Additional Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its continued commitment to the objectives of the Project. To this end, the Recipient shall: (a) continue to carry out the Project as set forth in the Development Credit Agreement; and (b) ensure that Karnataka and KRWSSA perform in accordance with the provisions of the Original Project Agreement (as so defined in the Appendix to this Agreement) all the obligations of Karnataka and KRWSSA therein set forth; and for purposes of this Additional Credit, carry out the Additional Parts of the Project as set forth in Schedule 1 to this Agreement, and ensure that Karnataka and KRWSSA perform in accordance with the provisions of the Project Agreement all the obligations of Karnataka and KRWSSA therein set forth, all in accordance with the provisions of Article V of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension and Cancellation set forth in Article IV, Sections 4.01 and 4.03 of the Development Credit Agreement are incorporated herein by reference and apply to this Agreement, *mutatis mutandis*, with the clarification that the term therein “Development Credit Agreement” and “Project Agreement” shall also include the Financing Agreement and Project Agreement for this Additional Financing.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient’s Representative is any of the following: Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Recipient.

6.02. The Recipient's Address is:

Secretary
Department of Economic Affairs
Ministry of Finance, Government of India
North Block
New Delhi 110001, India

Facsimile:

91-11-23092039

6.03. The Association's Address is:

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

Facsimile:

1-202-477-6391

AGREED at Bangalore, India, as of the day and year first above written.

INDIA

By /s/ Anup K. Pujari
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Benedictus Eijbergen
Authorized Representative

SCHEDULE 1

Project Description

The Project consists of the following Parts which: (a) maintain the Original Project's objectives to: (i) increase the rural community's access to improved and sustainable drinking water and sanitation services, and (ii) institutionalize decentralization of rural water supply and sanitation services; and (b) are selectively integrated in, or replace, for purposes of this Additional Credit, the Parts of the Original Project as follows:

Part A: Community Development and Infrastructure Building

“2. Infrastructure Building

- (a) Construction of new infrastructure and rehabilitation of about 925 schemes, including 312 surface source schemes, out of which 18 MVS with safe disposal of waste water;
- (c) Provision of about 400,000 smokeless Chullahs (stoves);
- (d) Construction of about 750 sullage/storm water drainage schemes; and
- (e) Engineering and construction of spot interventions of micro power generation facilities in about 150 villages.”

Part B: Institutional Building

“1. Operation of KRWSSA and the DSUs, including strengthening their capacity for Project Management, monitoring and evaluation, and the provision of equipment, materials and incremental operating costs.”

“2. Support to the state Total Sanitation Program, through the provision of coordinating staff in the DSU, workshops and training, and implementation of sector Information, Education and Communications (IEC) Program for water supply and sanitation; through the provision of consultants' and Support Agencies' services.”

Part C: Sector Strengthening Programs

“4. Piloting Innovations for water treatment measures, including de-fluoridation and water quality testing and monitoring and mitigation;”

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to Karnataka, in accordance with the Recipient's standard arrangements for development assistance to the States of India.
2. The Recipient shall protect the interests of the Association to accomplish the purposes of the Financing.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the GAAP.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

The Recipient shall monitor and evaluate the progress of the Project and shall ensure that Karnataka prepares Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the Key Performance Indicators. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain a financial management system and prepare financial statements ("Financial Statements") in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Project in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall ensure that KRWSSA prepares and furnishes to the Association, not later than forty-five (45) days after the end of each quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements and the records and accounts for the designated account(s) referred to in Section 2.04 of the General Conditions for each Fiscal Year audited in accordance with the provisions of Section 4.09(b) of the General Conditions. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Additional Credit shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Additional Credit shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding, subject to the additional provisions agreed upon from time to time between the Recipient and the Association.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method	
(a)	National Competitive Bidding subject to the additional provisions agreed to from time to time, between the Recipient and the Association
(b)	Shopping
(c)	Direct Contracting
(d)	Community Participation
(e)	Force Account

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Selection Based on Consultant's Qualifications
(b)	Quality Based Selection
(c)	Fixed Budget Selection
(d)	Least Cost Selection
(e)	Single Source Selection
(f)	Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Additional Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Civil Works, goods and services (including consultant and non-consultant services), training and incremental operating costs	99,300,000	85%
TOTAL AMOUNT	99,300,000	

3. For purposes of this Section IV:
 - (a) the term “training” means non-consultant expenditures incurred in connection with the provision of training and workshops (including community focus groups), including training institution fees, logistics, materials, and the reasonable cost of travel and per diem of trainers and trainees; and
 - (b) the term “incremental operating costs” means the incremental costs related to the Project, including: (i) office expenses, including office rent under the Project; (ii) operation, leasing and maintenance of vehicles; (iii) salaries of the PMU and Project related contractual staff; (vi) Project related travel, including per diem.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement. except that withdrawals up to an aggregate amount not to exceed SDR 18,000,000 equivalent may be made for payments made prior to this date but on or after July 1, 2010 for Eligible Expenditures.
2. The Closing Date is June 30, 2013.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Additional Credit repayable (expressed as a percentage)*
On each June 15 and December 15:	
commencing December 15, 2020 to and including June 15, 2030	1.25%
commencing December 15, 2030 to and including June 15, 2045	2.5%

* The percentages represent the percentage of the principal amount of the Additional Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 with the modifications set forth in Section III of this Appendix.
2. “Category” means the category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
4. “Development Credit Agreement” means the development credit agreement for the Second Karnataka Rural Water Supply and Sanitation Project entered into between the Recipient and the Association, dated March 8, 2002 (Credit No.3590-IN).
5. “Environmental Management Plan” and “EMP” mean Karnataka’s environmental management plan, dated November 6, 2001, governing all environmental aspects of Project implementation, including guidelines and mitigation and adaptive measures to offset, reduce to acceptable levels, or eliminate any adverse environmental impacts under the Project, as said plan may be updated from time to time by agreement between the Association and Recipient.
6. “Financial Year” means the financial year of the Recipient, commencing on April 1 and ending on March 31 of each year.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
8. “GAAP” means the Recipient’s Governance and Accountability Action Plan set forth as Annex 2 of the Project Implementation Plan, which identifies key governance issues and sets forth mitigation measures to address said issues in respect of the carrying out of Project activities, as said Plan may be amended from time to time with the concurrence of the Association.
9. “Key Performance Indicators” means the indicators for monitoring and evaluating progress towards the attainment of Project objectives agreed between the Recipient and the Association.

10. “Karnataka” means the Recipient’s State of Karnataka or any successor thereto.
11. “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.
12. “Original Project” means the Project described in Schedule 2 to the Development Credit Agreement.
13. “Original Project Agreement” means the project agreement for the Second Karnataka Rural Water Supply and Sanitation Project entered into among the Association, the State of Karnataka and the Karnataka Rural Water Supply and Sanitation Agency, dated March 8, 2002 (Credit No.3590-IN).
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006 and May 2010.
15. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 17, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
16. “Project Implementing Entities” means collectively the Recipient’s State of Karnataka, or any successor thereto, and KRWSSA, or any successor thereto, and “Project Implementing Entity” means either one of them.
17. “Project Implementation Plan” or “PIP” means Karnataka’s plan for the implementation of the Project, dated September 30, 2001 (as amended to the date of this Agreement), as said plan may be amended from time to time by agreement between the Recipient and the Association.
18. “Tribal Development Plan” means the tribal development plan (formerly referred to as Indigenous Peoples Development Plan), agreed with the Association, dated November 6, 2001, as amended to the date of this Agreement, and as the same may be amended from time to time with the prior approval of the Association.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Paragraph (l) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (l) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of: (i) a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Section III. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn15) that such Borrower, individual or entity has engaged in

corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”