

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 8022-IN

Project Agreement

(Second Karnataka State Highways Improvement Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF KARNATAKA

Dated May 30, 2011

PROJECT AGREEMENT

AGREEMENT dated May 30, 2011, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and STATE OF KARNATAKA (“Karnataka” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between India (“Borrower”) and the Bank. The Bank and Karnataka hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan 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 Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. Karnataka declares its commitment to the objective of the Project. To this end, Karnataka shall cause PWD and KRDCCL to carry out their Respective Parts of the Project, all in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Karnataka shall otherwise agree, Karnataka shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. Karnataka’s Representative is Chief Secretary, Government of Karnataka.
- 3.02. The Bank’s Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. Karnataka's Address is:

The Chief Secretary
Government of Karnataka
Vidhana Soudha
Bangalore-560001
Karnataka, India

Facsimile:

91-80-22258913

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hubert Nove-Josserand
Authorized Representative

STATE OF KARNATAKA

By /s/ Subash Chandra Khuntia
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

Institutional Arrangements

1. Karnataka shall maintain the following units and committees, throughout the period of implementation of the Project, with powers, functions, capacity, and resources appropriate to fulfill their functions under the Project:
 - (a) a Project Governing Board to be responsible for interdepartmental coordination and policy matters;
 - (b) a Project Steering Committee to be responsible for the overall coordination and oversight of implementation of the Project;
 - (c) the Project Implementation Unit (PIU) to be responsible for implementing PWD's Respective Parts of the Project;
 - (d) a district-level Grievance Redressal Committee to deal with grievances related to or arising out of the RAP; and
 - (e) a traffic and road safety cell at TD for effective implementation of Part C of the Project.
2. Karnataka shall cause PWD and KRDCCL, by not later than one hundred and twenty (120) days from the Effective Date, to appoint and thereafter maintain, until completion of the Project, an external auditor for KRDCCL and an internal auditor for the Project in accordance with terms of reference acceptable to the Bank. Karnataka shall cause PWD and KRDCCL to establish by September 30, 2011, and maintain until completion of the Project, an audit committee to review reports of said external and internal auditors.
3. Karnataka shall cause PWD and KRDCCL, by not later than one hundred and twenty (120) days from the Effective Date, to appoint, and thereafter maintain until completion of the Project, finance staff with qualifications acceptable to the Bank employed in accordance with the staffing plan agreed upon between Karnataka and the Bank.
4. Karnataka shall cause KRDCCL to designate and thereafter maintain a project coordinator for implementing Part B of the Project.

Anti-Corruption

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

Safeguards

6. Karnataka shall:
 - (a) cause PWD to carry out its Respective Parts of the Project in accordance with the provisions of the EMPs and the RAP;
 - (b) without limitations on the provisions of sub-paragraph (a) above, cause PWD and KRDCCL to ensure that:
 - (i) prior to issuance of any request for proposals under any sections of roads under Parts A.2 and B.2 of the Project, social and environmental screening reports, environmental management plans, and resettlement action plans, for mitigation of any environmental and social impacts under Parts A.2 and B.2 of the Project, shall have been prepared based on said screening report findings and in accordance with the policies and principles of the Resettlement Policy Framework and found acceptable to the Bank;
 - (ii) thereafter said environmental management plans and resettlement actions plans, as may be updated from time to time with the Bank's prior concurrence are implemented in carrying out Parts A.2 and B.2 of the Project; and
 - (iii) no stretches of roads or highways shall be handed over to contractors for construction activities under the Project unless such stretches shall be free of encumbrances, and all land acquisition and resettlement and rehabilitation-related impacts shall have been satisfactorily addressed along such stretches, all in accordance with the RAP and resettlement action plans referred to in sub-paragraphs (a) and (b)(i) above, including payment of compensation for loss of land and other assets, and other assistance to Displaced Persons; and
 - (c) cause PWD to carry out a mid-term impact study by June 30, 2013, and cause both PWD and KRDCCL to carry out another study within one hundred and twenty (120) days following the completion of the implementation of the RAP and resettlement action plans referred to in sub-paragraphs (a) and (b)(i) above, in accordance with terms of

reference satisfactory to the Bank, to assess the impact of the implementation of said RAP and resettlement action plans on changes in the living standard of Displaced Persons, and discuss the results of each such study with the Bank promptly after its completion and, taking into account the recommendations of the Bank, take appropriate measures satisfactory to the Bank.

Implementation Arrangements

7. In carrying out Part A.2 of the Project, Karnataka shall meet all annuity payments to fall due under annuity concession agreements in a timely manner in accordance with the terms of said agreements.
8. Karnataka shall, no later than April 1, 2012, commence undertaking comprehensive road safety interventions in the identified safe corridor demonstration program under Part C.1 of the Project.
9. Karnataka shall, no later than December 1, 2014, fully operationalize its road asset management system to provide inputs to prioritize its road investment and management program.
10. Karnataka shall, on an annual basis throughout the duration of the Project, cause KRDCCL to develop a consolidated investment and borrowing plan to improve selected corridors under the Core Road Network commencing December 31, 2013, and thereafter implement such plan taking into account the Bank's comments thereon.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

Karnataka shall cause PWD and KRDCCL to monitor and evaluate the progress of their Respective Parts of the Project and prepare Project Reports for their Respective Parts of the Project; all in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators agreed with the Bank. Each such Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Bank 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. Karnataka shall cause PWD and KRDCCL to maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect

the operations, resources and expenditures related to their Respective Parts of the Project.

2. Without limitation on the provisions of Part A of this Section, Karnataka shall cause PWD and KRDCCL, for their Respective Parts of the Project, to prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for their Respective Parts of the Project covering the quarter, in form and substance satisfactory to the Bank.
3. Karnataka shall cause PWD and KRDCCL to have their financial statements referred to above audited by independent auditors acceptable to the Bank, all in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) Fiscal Year of the Borrower. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of such period.
4. Karnataka shall cause PWD and KRDCCL to implement the Financial Management Manual in carrying out their respective Parts of the Project.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.