

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4818 - IN

Loan Agreement

(Karnataka Municipal Reform Project)

between

INDIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 2, 2006

Public Disclosure Authorized



LOAN NUMBER 4818 - IN

LOAN AGREEMENT

AGREEMENT, dated May 2, 2006, between INDIA, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

(B) the Project will be carried out by the State of Karnataka (Karnataka) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Karnataka, as set forth in this Agreement; and

(C) Karnataka has issued Government Order UDD 56, PRJ 2005, dated September 13, 2005 (Karnataka Government Order UDD 56), giving its sanction for the Project and providing details of the legal and institutional framework governing its implementation;

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

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03(c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "BMA" means Bangalore Metropolitan Area, as defined in the Bangalore Water Supply and Sewerage Board Act, 1964, as amended, and the Karnataka Government Order No. UDD 27 MNI 2000, dated December 12, 2003, including Bommanahallil, Byatarayanpura, Dasarahalli, Krishnarajapuram, Mahadevapura, Rajarajeshwarinagar, Yelahanka, and Kengeri;

(b) "BMP" means Bangalore Mahanagara Palike, an urban local body constituted under the Karnataka Municipal Corporations Act, 1976, or any successor thereto;

(c) "BMP PIU" means the Bangalore Mahanagara Palike Project Implementation Unit referred to in paragraph 3 of Schedule 2 to the Project Agreement;

(d) "BWSSB" means the Bangalore Water Supply and Sewerage Board, a statutory board incorporated under the Bangalore Water Supply and Sewerage Act, 1964, as amended;

(e) "BWSSB PMU" means the Bangalore Water Supply and Sewerage Board Project Management Unit referred to in paragraph 4 of Schedule 2 to the Project Agreement;

(f) “CIP” means the Capital Investment Plan prepared by an urban local body, approved by Karnataka, and referred to in paragraph 8 of Schedule 2 to the Project Agreement;

(g) “DMA” or “Department of Municipal Administration” means the Department of Municipal Administration of Karnataka;

(h) “DTP” or “Directorate of Town Planning” means the Directorate of Town Planning of Karnataka;

(i) “EC” means the Empowered Committee referred to in paragraph 1(a) of Schedule 2 to the Project Agreement;

(j) “Eligible Categories” means categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(l) “Environmental Management Plan” means the environmental management plan adopted by each of the following: (i) an urban local body in carrying out its activities under Part B of the Project, and referred to in paragraph 17 of Schedule 2 to the Project Agreement; (ii) BMP in carrying out activities under Part C.1 of the Project, and referred to in paragraph 18 of Schedule 2 to the Project Agreement; and (iii) BWSSB in carrying out activities under Parts C.2 and C.3 of the Project and referred to in paragraph 19 of Schedule 2 to the Project Agreement; as each of the same may be revised from time to time with the prior approval of the Bank;

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

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

(o) “Karnataka Government Order UDD 56” means the Karnataka Government Order referred to in the Preamble to this Agreement, as the same may be amended from time to time, and such term includes all schedules to said Order;

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

(q) “KUIDFC” means Karnataka Urban Infrastructure Development and Finance Corporation, a state-owned corporation, established in 1993 and registered and operating under the Companies Act 1956, of the Borrower;

(r) “KMRP Cell” means the Karnataka Municipal Reform Project Cell referred to in paragraph 2(c) of Schedule 2 to the Project Agreement;

(s) “MOA” means the Memorandum of Agreement executed, or to be executed, as the case may be, between the Government of Karnataka, KUIDFC, and each ULB carrying out a Subproject, and referred to in paragraph 8(a) of Schedule 2 to the Project Agreement;

(t) “Municipal Reform Cell” means the cell established in the Directorate of Municipal Administration and referred to in paragraph 1(b) of Schedule 2 to the Project Agreement;

(u) “Operations Manual” means the Operations Manual, adopted by each of KUIDFC, BMP, and BWSSB, and referred to in paragraph 5 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and the term includes any schedules or annexes to the Operations Manual;

(v) “Procurement Plan” means the procurement plan of Karnataka, dated February 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

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

(x) “Project Implementation Plan” means the Project Implementation Plan that sets forth the operational guidelines and actions to be undertaken by BMP and BWSSB for the implementation, monitoring and supervision of the Project, and referred to in paragraph 6 of Schedule 2 to the Project Agreement;

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

(z) “Resettlement Action Plan” or “RAP” means the Resettlement Action Plan, adopted by each of the following: (i) an urban local body in carrying out activities under Part B of the Project and referred to in paragraph 17 of Schedule 2 to the Project Agreement; (ii) BMP in carrying out activities under Part C.1 of the Project and referred to in paragraph 18 of Schedule 2 to the Project Agreement; and (iii) BWSSB in carrying out activities under Parts C.2 and C.3 of the Project and referred to in paragraph 19 of Schedule 2 to the Project Agreement; as the same may be revised from time to time with the prior approval of the Bank, and the term includes any schedules or annexes to the said Plan;

(aa) “SEMF” means the Social and Environment Management Framework adopted by Karnataka on April 30, 2004, on behalf of each of KUIDFC, BMP, and BWSSB, as the same may be amended from time to time with the prior approval of the Bank, and the term includes any schedules or annexes to the said Framework;

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

(cc) “Subgrant” means a Subgrant made or proposed to be made available by Karnataka through KUIDFC out of the proceeds of the Loan to an eligible ULB for the carrying out of a Subproject under Part B of the Project;

(dd) “Subloan” means a Subloan made or proposed to be made available by Karnataka through KUIDFC out of the proceeds of the Loan to an eligible ULB for the carrying out of a Subproject under Part B of the Project;

(ee) “Subproject” means a Subproject meeting the criteria set forth in the Operations Manual and the Annex of Schedule 2 to the Project Agreement, and to be carried out by a ULB utilizing, *inter alia*, the proceeds of a Subgrant or Subloan, or a combination thereof;

(ff) “UDD” means the Urban Development Department of Karnataka; and

(gg) “ULB” means urban local body, an administrative subdivision of Karnataka, established pursuant to the Karnataka Municipal Corporations Act, 1976, and as set forth in the Karnataka Municipalities Act, 1964, as may be amended from time to time.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to two hundred sixteen million Dollars (\$216,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (a) amounts paid (or if the Bank shall so agree to be paid) by Karnataka through KUIDFC, on account of withdrawals made by KUIDFC under a Subloan or Subgrant, or a combination thereof, under Part B of the Project to meet the reasonable cost of goods, works and services required for a Subproject in respect of which withdrawal from the Loan Account is requested; and (b) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services, and incremental operating costs required for Parts A, C, and D of the Project and to be financed out of the proceeds of the Loan, and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be April 30, 2012, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

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

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

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London Interbank Offered Rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

Section 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

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

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports,

maintenance and land acquisition, respectively) shall be carried out by Karnataka pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

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

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a)(i) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such Fiscal Year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

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

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

(b) Karnataka Government Order UDD 56, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Karnataka to perform any of its obligations under the Project Agreement;

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

(d) Karnataka shall have failed to perform any of its obligations under the Project Agreement.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01(c) of the General Conditions, namely that the Project Agreement has been duly authorized or ratified by Karnataka, and is legally binding upon Karnataka in accordance with its terms.

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

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	953-31-66175 FINE IN	91-11-2309-2511 91-11-2309-2477 91-11-2309-3133

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD 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/ Madhusudan Prasad
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Michael F. Carter
Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Part A: General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods and services under Part A of the Project	22,740,000	80%
(2) Subloans and Subgrants under Part B of the Project	72,000,000	80%
(3) Works, goods, services training, and incremental operating costs under Part C.1, C.2(b), C.2(c) and C.3 of the Project	63,200,000	80%
(4) Works, goods, services, under Parts C.2(a) of the Project	48,520,000	80%
(5) Goods, services, training, and incremental operating costs under Parts A.1, A.3, A.4, B, and D.1 of the Project	9,000,000	80%
(6) Front End Fee	540,000	Amount due under Section 2.04 of this Agreement
TOTAL	<u>216,000,000</u>	

2. For the purposes of this Schedule, the term “incremental operating costs” means the incremental costs of: maintenance of buildings, equipment and vehicles; office rental and expenses; hiring of vehicles; salaries of Project staff other than public officials; and travel and other allowances, incurred by: (a) DMA through the DMA Cell in carrying out Parts A.1, A.3, and A.4 of the Project; (b) BWSSB, in carrying out Part C.2 of the Project; or (c) KUIDFC, in carrying out Parts B and D.1 of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding \$10,000,000 may be made in respect of categories (1), (2), (3), (4), and (5) of the table in paragraph 1 of this Part on account of payments made for expenditures before that date but after December 1, 2003.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than \$500,000 equivalent per contract; (b) consultants’ services under contracts costing less than \$200,000 equivalent per contract, in the case of consulting firms, and \$100,000 equivalent per contract, in the case of individual consultants; (c) Subloans or Subgrants under Part B of the Project; (d) incremental operating costs; and (e) training; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

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

Part B: Special Account

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

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

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

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.3.

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

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

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

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

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

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

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

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

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 5 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

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

For the purposes of this Annex:

1. The term “Authorized Allocation” means an amount of \$20,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$10,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$40,000,000.

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

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

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

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Special Account’s Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify

by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Karnataka in improving the delivery of urban services through enhancing the quality of urban infrastructure, and strengthening the ULB- and state-level institutional and financial frameworks for the delivery of urban services.

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

Part A: Institutional Development

Strengthening of the institutional capacity of the UDD and Departments of Municipal Administration and Town Planning to undertake basic urban planning and management functions, including:

1. Improving the management capacity of, and information flow to, about 170 ULBs, through:

(a) the computerization of core municipal functions, including property tax management, budgeting, accounting and auditing functions, grievance redressal procedures, and birth and death registration; and

(b) the strengthening of tax assessment and recovery, performance monitoring, and reporting systems;

through the provision of technical advisory services and acquisition of computer hardware and software.

2. Improving land management functions in the DTP relating to decentralized planning and management, including:

(a) development of up-to-date, geo-referenced, and large-scale (1:2000) mapping for selected urban areas in Karnataka using aerial photography and photogrammetry; establishment of about 2,300 Survey Control Points, through the provision of equipment and technical advisory services;

(b) support to the DTP, including capacity building activities, and the carrying out of studies on: (i) rationalizing and the devolution of the planning and management of urban development; and (ii) capacity building in the context of decentralized planning, through the provision of equipment and technical advisory services.

3. Development and implementation of new budgeting and accounting systems to support double-entry, accrual-based accounting systems in about 170 ULBs, including staff training related thereto, and the carrying out of external audits of said systems, through the provision of technical advisory services, and computer hardware and software, and the financing for said external audits.

4. Carrying out of capacity building activities for ULBs relating to their service delivery and financial management functions, including the carrying out of a Capacity Enhancement Needs Assessment to identify knowledge and skills for the design and implementation of the urban reform agenda of Karnataka and ULBs, through the provision of technical advisory services, training, and workshops.

5. Provision of technical advisory services and capacity building activities, including workshops and training, for staff of the UDD, KUIDFC, and DMA, and the carrying out of studies on: (a) a state urban finance framework; (b) a KUIDFC business model; and (c) the development of operational manuals for municipal functions.

Part B: ULB Investment Support

Financing of Subprojects by Karnataka to improve the delivery of urban services through the provision of Subloans or Subgrants, or a combination thereof, to eligible ULBs.

Part C: Bangalore Development

1. Rehabilitation of, and traffic management improvements to, about 140 kilometers of selected portions of the BMP city road network, including:

- (a) pavement strengthening;
- (b) footpath and drainage works;
- (c) upgrading or installation of street lighting, traffic signage and markings, and road fixtures;
- (d) improvements to intersections and public transport terminals; and
- (e) utility relocation;

through the provision of: civil works; technical advisory assistance for project preparation; training; project management; construction supervision, system development and implementation; logistical support, social rehabilitation and environmental mitigation or enhancement measures; and the acquisition of equipment.

2. Carrying out of an underground drainage program for the BMA, including:
 - (a) the construction of a sanitary sewerage system for the BMA, including the construction of: about 1,750 kilometers of main and trunk sewers; branch sewers and laterals; about 1,200,000 sewer house connections; three pumping stations located in Dasarahalli, Mahadevpura, and Yelahanka; and five sewage treatment plants, located in Yelahanka, Kengeri, and Krishnarajapura, and the provision of related sewer maintenance equipment;
 - (b) the restoration of about 2,000 km of urban roads in the BMA that are impacted by the physical works carried out under Part C.2(a) of the Project; and
 - (c) the enhancement of the institutional capacity of BWSSB through the provision of technical advisory assistance, and financing for the incremental operating costs incurred by BWSSB attributed to the carrying out of Parts C.2(a) and C.2(b) of the Project.
3. Carrying out of a program aimed at providing access to sanitation facilities by poor communities in the BMA through the construction of about 10,000 individual household and community latrines, and the provision of technical assistance involving, *inter alia*, the participation of community-based and non-governmental organizations and other strategies designed to increase the urban poor population's awareness of, and access to, water and sanitation facilities.

Part D: Project Management

1. Establishment and operationalization of a project development advisory facility within KUIDFC for the purposes of:
 - (a) providing Subproject preparation technical assistance to ULBs, including: the carrying out of: (i) CIP studies; and (ii) technical, financial, economic, environmental and social assessments; all for the preparation by ULBs of Subprojects;
 - (b) providing public dissemination of, ULBs for activities carried out under Part B of the Project;
 - (c) the preparation of Subproject bid documents;
 - (d) support to ULBs for Subproject management and supervision; and
 - (e) support to improve ULB revenue and operational performance;through the provision of technical advisory services and workshops, and financing of the incremental operating costs of KUIDFC.

2. Project implementation support to Project management teams through the provision of office equipment and the financing of incremental operating costs to: (a) KUIDFC, attributed to the carrying out of Parts B and D.1 of the Project; and (b) the Municipal Reform Cell, attributed to the carrying out of Parts A.1, A.3, and A.4 of the Project.

* * *

The Project is expected to be completed by October 31, 2011.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
October 15, 2011	5,265,000
April 15, 2012	5,375,000
October 15, 2012	5,485,000
April 15, 2013	5,600,000
October 15, 2013	5,715,000
April 15, 2014	5,835,000
October 15, 2014	5,955,000
April 15, 2015	6,080,000
October 15, 2015	6,205,000
April 15, 2016	6,335,000
October 15, 2016	6,465,000
April 15, 2017	6,600,000
October 15, 2017	6,735,000
April 15, 2018	6,875,000
October 15, 2018	7,015,000
April 15, 2019	7,160,000
October 15, 2019	7,310,000
April 15, 2020	7,460,000
October 15, 2020	7,615,000
April 15, 2021	7,775,000
October 15, 2021	7,935,000
April 15, 2022	8,100,000
October 15, 2022	8,265,000
April 15, 2023	8,435,000
October 15, 2023	8,610,000
April 15, 2024	8,790,000
October 15, 2024	8,970,000
April 15, 2025	9,155,000
October 15, 2025	9,345,000
April 15, 2026	9,535,000

*The figures in this column represent the amounts in dollars to be repaid, except as provided in Section 4.04(d) of the General Conditions.