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LOAN NUMBER 3836-IND

PROJECT AGREEMENT

(Karnataka Integrated and Sustainable Water Resources Management  
Investment Program – Project 2)

between

ASIAN DEVELOPMENT BANK

and

STATE OF KARNATAKA

KARNATAKA NEERAVARI NIGAM LIMITED

ADVANCED CENTRE FOR INTEGRATED WATER RESOURCES MANAGEMENT

DATED 18 NOVEMBER 2019

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IND 43253

## **PROJECT AGREEMENT**

PROJECT AGREEMENT dated 18 November 2019 between ASIAN DEVELOPMENT BANK ("ADB") on the one part, and the STATE OF KARNATAKA, acting by its Governor ("State"), the KARNATAKA NEERAVARI NIGAM LIMITED ("KNNL") and the ADVANCED CENTRE FOR INTEGRATED WATER RESOURCES MANAGEMENT ("ACIWRM") on the other part.

### **WHEREAS**

(A) by a Loan Agreement of even date herewith between India ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of ninety-one million Dollars (\$91,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the loan be made available to the State, and through the State to KNNL and ACIWRM, and that the State acting through KNNL and ACIWRM agrees to undertake certain obligations towards ADB set forth herein; and

(B) the State, KNNL, and ACIWRM in consideration of ADB entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

## **ARTICLE I**

### **Definitions**

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth, except that for purposes of this Project Agreement, the term "Project" means (a) Part A of the Project for ACIWRM, and (b) Part B and Part C of the Project for KNNL, as described in Schedule 1 to the Loan Agreement.

## **ARTICLE II**

### **Particular Covenants**

Section 2.01. (a) The State, KNNL, and ACIWRM shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, the State, KNNL, and ACIWRM shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to the State, KNNL and ACIWRM, respectively.

Section 2.02. The State, KNNL and ACIWRM shall make available, promptly as needed, and on terms and conditions mutually acceptable to ADB and the Borrower, the funds, facilities, services, land and other resources as required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, the State, KNNL, and ACIWRM, respectively, shall engage competent and qualified consultants and contractors, consistent with the Procurement Policy and the Procurement Regulations, to an extent and upon terms and conditions mutually satisfactory to ADB and the Borrower.

(b) Except as ADB and the Borrower may otherwise agree, the State, KNNL and ACIWRM shall procure all items of expenditures to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to the Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. The State, KNNL and ACIWRM shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods mutually acceptable to ADB and the Borrower. The State, KNNL and ACIWRM shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) The State, KNNL and ACIWRM, as appropriate, shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, the State, KNNL and ACIWRM, as appropriate, shall insure, or cause to be insured, the Goods to be procured, including imported for the Project against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.

Section 2.06. The State, KNNL and ACIWRM shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB, the State, KNNL and ACIWRM shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) The State, KNNL and ACIWRM shall promptly inform ADB through the Borrower of any condition which interferes with, or threatens to interfere with, the progress of

the Project, the performance of its obligations under this Project Agreement, or the Financing Arrangements, or the accomplishment of the purposes of the Loan.

(c) ADB, the State, KNNL and ACIWRM shall each from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, the State, KNNL, ACIWRM and the Loan.

Section 2.08. (a) In so far as it relates to the Project, the State, KNNL and ACIWRM shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations, financial status of the State, and financial condition of KNNL and ACIWRM; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, the State and/acting through KNNL and ACIWRM as applicable shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, the State, KNNL and ACIWRM shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by the State, KNNL and ACIWRM of their respective obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) The State as applicable, and KNNL and ACIWRM shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards prevalent in the country; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) In addition to annual audited financial statements referred to in subsection (a) hereinabove, each of KNNL and ACIWRM shall (i) provide its annual financial statements prepared in accordance with financing reporting standards acceptable to ADB;

(ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iii) as part of each such audit, have the auditors prepare the auditors' opinion(s) on the financial statements and compliance with the financial covenants of the Loan Agreement; and (iv) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements and auditors' opinion(s), all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(d) The State, KNNL, and ACIWRM shall enable ADB, upon ADB's request, to discuss the financial statements for the Project, KNNL, and ACIWRM and their respective financial affairs where they relate to the Project with the auditors appointed by the State, KNNL and ACIWRM respectively pursuant to subsections (a)(iii) and (c)(ii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the State, KNNL, and ACIWRM, as applicable, unless the State, KNNL, and ACIWRM, as applicable, shall otherwise agree.

Section 2.10. The State, KNNL, and ACIWRM shall enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.

Section 2.11. (a) The State, KNNL and ACIWRM respectively, shall, promptly as required, take all action within its powers to maintain its constitutional (in case of State), and corporate existence (in case of KNNL and ACIWRM), to carry on its operations, and to acquire, maintain and renew all rights; properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.

(b) In relation to the Project, the State, KNNL and ACIWRM respectively shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.

(c) In relation to the Project, the State, KNNL and ACIWRM respectively shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.

Section 2.12. Except as ADB may otherwise agree, the State, KNNL and ACIWRM respectively shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, in relation to the Project, the State, KNNL and ACIWRM shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, the State shall duly perform all its obligations under the Financing Arrangements, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Financing Arrangements.

Section 2.15. The State, KNNL and ACIWRM shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of their respective constitutional documents, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. The State, KNNL and ACIWRM shall afford ADB an adequate opportunity to comment on such proposal in taking any affirmative action thereon.

### **ARTICLE III**

#### **Effective Date; Termination**

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement comes into force and effect. ADB shall promptly notify the State, KNNL, and ACIWRM of such date.

Section 3.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

### **ARTICLE IV**

#### **Miscellaneous**

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2391.

For the State of Karnataka

Principal Secretary  
Water Resources Department  
Government of Karnataka  
Vikas Soudha  
Bengaluru - 560001  
Karnataka  
India

Facsimile Number:

+91 80 2225-7064.

For KNNL

Managing Director  
Karnataka Neeravari Nigam Limited  
No. 1, 4<sup>th</sup> Floor  
Coffee Board Building  
Dr. Ambedkar Veedhi  
Bengaluru - 560001  
Karnataka  
India

Facsimile Number:

+91 80 2238-6015.

For ACIWRM

Director General  
ACIWRM  
Government of Karnataka  
Vikas Soudha  
Bengaluru - 560001  
Karnataka  
India

Facsimile Number:

+91 80 2225-7064.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of (i) the State may be taken or executed by its Principal Secretary, Water Resources Department, (ii) for KNNL by its Managing Director, and (iii) for ACIWRM by its Registrar & Chief Engineer, or by such other person or persons as he or she shall so designate in writing notified to ADB.

(b) The State, KNNL, and ACIWRM, respectively, shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

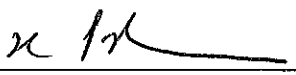
Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names as of the day and year first above written, and to be delivered at the principal office of ADB.


ASIAN DEVELOPMENT BANK

By   
KENICHI YOKOYAMA  
Country Director


STATE OF KARNATAKA

By   
N. LAKSHMAN RAO PESHVE  
Secretary  
Water Resources Department

KARNATAKA NEERAVARI NIGAM  
LIMITED

By   
MALLIKARJUN B. GUNGE  
Project Director, KISWRMIP  
& Managing Director, KNNL

ADVANCED CENTRE FOR  
INTEGRATED WATER RESOURCES  
MANAGEMENT

By   
GURUPADASWAMY B.G.  
Chief Engineer, AC-IWRM,  
Bengaluru