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**CREDIT NUMBER 4387-PAK**

# **Financing Agreement**

**(Balochistan Small Scale Irrigation Project)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 25, 2008**

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**CREDIT NUMBER 4387 -PAK**

**FINANCING AGREEMENT**

AGREEMENT dated June 25, 2008, between ISLAMIC REPUBLIC OF PAKISTAN (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”). 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 the Financing 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 fifteen million eight hundred thousand Special Drawing Rights (SDR 15,800,000) (the “Credit”) 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 III 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with 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 commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by Balochistan (the Project Implementing Entity) in accordance with the provisions of Article IV 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 - EFFECTIVENESS; TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. 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 V - REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is the Secretary to the Government of Pakistan, Economic Affairs Division, Ministry of Economic Affairs and Statistics, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division.
- 5.02. The Recipient's Address is:

The Secretary to the Government of Pakistan  
Economic Affairs Division  
Ministry of Economic Affairs and Statistics  
Islamabad, Pakistan

5.03. The Association's Address is:

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

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

AGREED at Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

/s/ Junaid Iqbal Ch.  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Yusupha B. Crookes  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to assist the Province of Balochistan to improve the management of scarce water resources in the Pishin Lora Basin.

The Project consists of the following parts:

#### Part 1: Enhancement of Water Storage Capacity of the Bund Khushdil Khan Reservoir

Improving the hydrological balance in the Pishin Lora Basin through, among other things, raising the BKK water level, remodeling the BKK spillway, constructing a protective bund around encroached land in the reservoir area, repairing the head works and the outlet channel, and initiating on-farm water management activities in the BKK command area.

#### Part 2: Small Scale Irrigation Schemes

Strengthening the operation of about fifteen (15) small scale irrigation schemes in the Pishin Lora Basin through, among other things, improvement and rehabilitation of karezes, construction of perennial irrigation schemes, lining of irrigation channels, construction of storage ponds, rehabilitation of appurtenant structures in flood diversion schemes, carrying out of watershed and rangeland activities, initiating on-farm water management activities, and provision of training to farmers in small scale irrigation scheme operation and maintenance.

#### Part 3: Institutional Capacity Building

1. Enhancement of technical, administrative and managerial capacity of the Irrigation and Power Department, through the provision of technical assistance and training and the carrying out of appropriate study tours for the benefit of the Irrigation and Power Department's staff and other water management institutions in Balochistan.
2.
  - (a) Establishment and/or strengthening of Farmers' Organizations and Community Organizations through, among other things, community mobilization and training, in order to take up the responsibility for the administration, operation, maintenance and development of small scheme irrigation systems or the promotion, planning and implementation of sustainable range and watershed management, including proper management of natural vegetation and fauna, and soil conservation; and
  - (b) Identification of similar activities to be undertaken in other river basins.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Project Monitoring, Reporting, Evaluation**

##### **A. Project Reports**

1. The Recipient shall and shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

##### **B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system 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 or shall cause the Project Implementing Entity to prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall or shall cause the Project Implementing Entity to have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. 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 II. 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 Financing 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 Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing 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 Schedule.
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.
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: (A) National Competitive Bidding\*; (B) Shopping; and (C) Community Participation in Procurement\*\*.

\*The use of National Competitive Bidding shall be subject to the following additional procedures:

- (i) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for the submission of the bid;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) bidding shall not be restricted to pre-registered firms;

- (v) qualification criteria shall be stated in the bidding documents;
- (vi) bids shall be opened in public, immediately after the deadline for submission of bids;
- (vii) estimates shall be based on market rates, and bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (viii) before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained;
- (ix) bids shall be solicited and contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates;
- (x) contracts shall not be awarded on the basis of nationally negotiated rates;
- (xi) Single bids shall also be considered for evaluation;
- (xii) contracts shall be awarded to the lowest evaluated, responsive and qualified bidder; and
- (xiii) post-bid negotiations shall not be allowed with the lowest evaluated or any other bidders.

\*\*The use of Community Participation in Procurement shall be subject to the following additional procedures:

- (i) works estimated to cost less than US\$50,000 equivalent per contract may be procured under lump-sum, fixed-priced contracts awarded to the FOs or COs concerned; and
- (ii) the basic form of agreement acceptable to the Association to be executed for each such contract shall include a detailed description of the works, including basic specifications, the apportionment of costs, the execution of the work, the required completion date and relevant drawings, where applicable.

**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: (a) Selection Based on Consultants Qualification; (b) Quality Based Selection; (c) Least Cost Selection; (d) Fixed Budget Selection; (e) Single Source Selection; and (f) Selection of Individual Consultants.

**D. Review by the Bank of Procurement Decisions**

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods and works procured on the basis of international competitive bidding, regardless of value; (b) the first contract for works procured on the basis of Community Participation regardless of value; (c) the first contract for goods and works procured on the basis of National Competitive Bidding or Shopping regardless of value; (d) each contract for goods and works estimated to cost the equivalent of US\$500,000 or more per contract; (e) the first contract for consultants' services regardless of value; (f) each contract for consultants' services provided by a firm estimated to cost the equivalent of US\$100,000 or more per contract; (g) the first contract for consultants' services provided by an individual consultant regardless of value; and (h) each contract for consultants' services provided by an individual consultant estimated to cost the equivalent of US\$50,000 or more per contract. All other contracts shall be subject to Post Review by the Association.

**Section III. 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:

<b>Category</b>	<b>Amount of the Financing Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Civil Works, Goods, Consultants' services, Training, Resettlement Costs and Incremental Operating Costs	15,400,000	100%
(2) Refund of Project Preparation Advance	400,000	Amount payable pursuant to Section 2.07 of the General Conditions
<b>TOTAL AMOUNT</b>	<b>15,800,000</b>	

For the purposes of this paragraph, the terms “Resettlement Costs” and “Incremental Operating Costs” have the meaning ascribed below:

- (i) “Incremental Operating Costs” means incremental expenditures incurred by IPD for the operation and maintenance of facilities, vehicles and equipment used for the implementation of the Project, fuel, bank charges and costs of advertising, but excluding salaries of the Recipient’s civil servants; and
- (ii) “Resettlement Costs” means the compensations to be paid by IPD to Displaced Persons pursuant to the Resettlement Action Plan for the removal of trees from the BKK reservoir and the adjacencies of serving channels, and the removal of standing (seasonal) crops adjacent to the alignment of the peripheral bund of the BKK reservoir, but excluding the purchase/taking of land.

**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.
- 2. The Closing Date is June 30, 2013.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15:	
commencing March 15, 2018 to and including September 15, 2027	1.25%
commencing March 15, 2028 to and including September 15, 2042	2.50%

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

## APPENDIX

### Definitions

1. “Balochistan” means the Recipient’s Province of Balochistan.
2. “Bund Khushdil Khan” and the acronym “BKK” mean the Khushdil Khan Bund, a reservoir located on the Pishin Lora Basin.
3. “Category” means a category set forth in the table in Section III of Schedule 2 to this Agreement.
4. “Community Organization” and the acronym “CO” mean a Community Organization operating in Balochistan which is participating in the implementation of the Project.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004, as revised October 2006.
6. “Design and Supervision Consultant” and the acronym “DSC” mean the consulting firm to be hired and retained by the PIU pursuant to paragraph 4 of Section I.A. of the Schedule to the Project Agreement.
7. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such persons must move to another locations; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihoods of such persons.
8. “Dollars” and “\$” mean the currency of the United States of America.
9. “Environmental Management Plan” and the acronym “EMP” mean the Recipient’s Environmental Management Plan dated September 2005, satisfactory to the Association, including any amendment made to such document from time to time with the Association’s approval, that sets out measures to be taken to address any adverse environmental or social impact arising from carrying out the Project.
10. “Farmer’s Organization” and the acronym “FO” mean a Farmer’s Organization, registered and operating in Balochistan in accordance with the laws/regulations of the Recipient, which is participating in the implementation of the Project.

11. “Financial Management Manual” means the Project Implementation Entity’s manual, dated May 15, 2007, satisfactory to the Association, providing for, among other things, policies and procedures for funds and assets management, withdrawal applications and settlement of payments, accounting, maintenance of records, reporting, security protocols, and auditing requirements applicable to the Project.
12. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
13. “Irrigation and Power Department” and the acronym “IPD” mean the Irrigation and Power Department of the Province of Balochistan.
14. “Kareze” means an underground channel through which water flows from an aquifer within mountains to open fields.
15. “Pishin Lora Basin” means the river basin of Pishin Lora located in the northern part of the Province of Balochistan.
16. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, as revised in October 2006.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated December 18, 2007, 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.
18. “Project Implementation Manual” means the Project Implementing Entity’s manual, satisfactory and acceptable to the Association, which includes policies and guidelines for the strategic, operational and procurement management of the Project, and financial management and auditing arrangements for the Project, including any updates made from time to time with the Association’s approval.
19. “Project Implementing Entity” means the Recipient’s Province of Balochistan.
20. “Project Implementing Unit” and the acronym “PIU” mean the project implementing unit established and operating within IPD to handle the day-to-day implementation of the Project, and referred to in Section I paragraph 2 of the Schedule to the Project Agreement.
21. “Project Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on January 16, 2006, and on behalf of the Recipient on February 18, 2006.

22. "Project Steering Committee" means the committee established by the Project Implementing Entity to provide policy and strategic guidance for Project implementation, and referred to in Section I paragraph 3 of the Schedule to the Project Agreement.
23. "Resettlement Action Plan" and the acronym "RAP" mean the Recipient's resettlement action plan dated December 15, 2007, satisfactory to the Association, including any amendment made to such document from time to time with the Association's approval that sets out the procedures and mechanisms for the restoration of livelihoods that may be affected as a result of the implementation of the Project.
24. "Tora Shah" means the community of Tora Shah, situated in Pishin District, Balochistan.