

CONFORMED COPY

CREDIT NUMBER 1888 PAK

(Second Irrigation Systems Rehabilitation Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 9, 1988

CREDIT NUMBER 1888 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 9, 1988, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project;

(B) the United States Agency for International Development (USAID) intends to make funds available (the USAID Funding) to the Borrower in an aggregate principal amount of ninety-five million three hundred thousand dollars (\$95,300,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the USAID Agreement) to be entered into between the Borrower and USAID;

(C) the Netherlands intends to make funds available (the Dutch Funding) to the Borrower in an aggregate principal amount of

seventeen million dutch guilders (Dfl 17,000,000) to assist in financing the Project on the terms and conditions included in the arrangement (the Dutch Arrangement) to be entered into between the Borrower and the Netherlands;

(D) the Project will be carried out by the Province of Punjab (Punjab), the Province of Sind (Sind), the North West Frontier Province (NWFP) and the Province of Baluchistan (Baluchistan) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Punjab, Sind, NWFP and Baluchistan the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and Punjab, Sind, NWFP and Baluchistan;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "Punjab" means the Province of Punjab, a political subdivision of the Borrower, or any successor thereto;

(b) "Sind" means the Province of Sind, a political subdivision of the Borrower, or any successor thereto;

(c) "NWFP" means the North West Frontier Province, a political subdivision of the Borrower, or any successor thereto;

(d) "Baluchistan" means the Province of Baluchistan, a political subdivision of the Borrower, or any successor thereto;

(e) "Provinces" mean Punjab, Sind, NWFP and Baluchistan collectively, and "Province" means each or any one of the Provinces;

(f) "Project Agreement" means the agreement between the Association and the Provinces 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;

(g) "Rupees" and "Rs" mean rupees in the Borrower's currency;

(h) "FY" and "Fiscal Year" mean the Borrower's or a Province's fiscal year, as the case may be, covering the period July 1 through June 30;

(i) "O&M cost" means the operation and maintenance cost of the facilities concerned;

(j) "SCARP" means a salinity control and reclamation project of the Borrower;

(k) "FCC" means the Federal Coordination Cell in the office of the Chief Engineering Adviser in the Borrower's Ministry of

Water and Power; and

(1) "PID" means any of the Provincial Irrigation Departments of the Provinces.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifty-eight million two hundred thousand Special Drawing Rights (SDR 58,200,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing August 1, 1998 and ending February 1, 2023. Each installment to and including the installment payable on February 1, 2008 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu

of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. The Chairman, Planning and Development Board, Punjab, the Additional Chief Secretary (Development), Planning and Development Department, Sind, the Additional Chief Secretary, Planning and Development Department, NWFP, and the Additional Chief Secretary, Planning and Development Department, Baluchistan are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions, in respect of the parts of the Project for which they are respectively responsible.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Provinces to perform in accordance with the provisions of the Project Agreement all the obligations of the Provinces therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Provinces to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall, and shall cause the Provinces to, carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make a portion of the proceeds of the Credit available to the Provinces under procedures and terms and conditions which shall be mutually satisfactory to the Borrower and the Association.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 the Provinces pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and 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 year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(c) The Borrower shall:

- (i) have the records and accounts referred to in paragraphs (a) and (b) (i) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. The Borrower shall:

- (a) by March 31, 1989, carry out and complete, in association with the Provinces, and under terms of reference satisfactory to the Bank, a study on improvement of water and drainage charges assessment and collection procedures;
- (b) by May 31, 1989, in consultation with the Bank, review the findings of such study and prepare an implementation plan therefor; and
- (c) cause the Provinces to adopt such implementation plan and to improve their water and drainage charges assessment and collection procedures in accordance therewith.

Section 4.03. (a) The Borrower shall cause Punjab and Sind to

achieve, in accordance with a phased timetable satisfactory to the Association, full recovery of the O&M costs of their surface irrigation and subsurface saline drainage facilities through water and/or drainage charges.

(b) To that end, if by July 1, 1992, Punjab and Sind shall have been unable to achieve full O&M cost recovery despite the improvements in their water and drainage charges assessment and collection procedures made pursuant to Section 4.02 of this Agreement, the Borrower shall cause Punjab and Sind:

- (i) if the shortfall is expected to be less than 25%, to adjust their water and/or drainage charges so as to make up the shortfall and achieve full O&M cost recovery by July 1, 1993;
- (ii) if the shortfall is expected to be 25% or more but less than 40%, to adjust their water and/or drainage charges, through periodic increases satisfactory to the Association, so as to make up the shortfall and achieve full O&M cost recovery by July 1, 1995; and
- (iii) if the shortfall is expected to be 40% or more, to adjust their water and/or drainage charges, through periodic increases satisfactory to the Association, so as to make up the shortfall and achieve full O&M cost recovery by July 1, 1997.

(c) The Borrower shall thereafter cause Punjab and Sind to maintain such full O&M cost recovery and, to that end, to continue to adjust their respective water and/or drainage charges as necessary.

(d) The Borrower shall cause NWFP and Baluchistan to automatically adjust their respective water and/or drainage charges to the levels, if any, to which Punjab and Sind, respectively, shall have adjusted their water and/or drainage charges under paragraphs (b) and (c) of this Section; provided, however, that in no case shall such adjustments result in water and/or drainage charges at levels below those assessed in FY88.

(e) The provisions of paragraphs (a), (b), (c) and (d) of this Section shall be modified in their application to any new subsurface saline drainage facilities to be completed in the future, to the extent that with respect to such facilities the Provinces shall begin O&M cost recovery only at the end of a three-year development period commencing from the completion of such facilities.

(f) The provisions of paragraphs (a), (b) and (c) of this Section shall not apply to the subsurface saline drainage facilities constructed under the Association-financed Left Bank Outfall Drain-Phase I Project (Credit No. 1532-PAK), with respect to which Sind shall achieve and maintain full O&M cost recovery in accordance with the arrangements agreed for this purpose between the Association and Sind under that Project.

Section 4.04. (a) The Borrower shall cause the Provinces to phase out all public tubewells in fresh groundwater areas (other than those in the South Rohri and Ghotki areas in Sind), in accordance with a program mutually satisfactory to the Borrower and the Association.

(b) To that end, the Borrower shall cause:

- (i) the Provinces not to undertake any future investments in new or replacement tubewells for public operation in such fresh groundwater areas; and
- (ii) Punjab and Sind to privatize existing public

tubewells in such fresh groundwater areas as follows:

- (A) under a second SCARP transition project in the SCARP I area in Punjab, to be completed by June 30, 1994;
- (B) under a pilot SCARP transition project in the North Rohri area in Sind, to be completed by June 30, 1994; and
- (C) under other SCARP transition projects both in Punjab and Sind, to be initiated by July 1, 1994, and completed by June 30, 1998.

(c) The Borrower shall ensure that Punjab and Sind will complete and furnish to the Association the necessary feasibility studies:

- (i) for the SCARP transition projects referred to in paragraphs (b) (ii) (A) and (b) (ii) (B) of this Section, by June 30, 1989; and
- (ii) for the other SCARP transition projects referred to in paragraph (b) (ii) (C) of this Section, by March 31, 1993.

ARTICLE V

Remedies of the Association

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

(a) The Provinces shall have failed to perform any of their obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Provinces will be able to perform their obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph:

- (A) The right of the Borrower to withdraw the proceeds of any grant or loan (including the USAID Funding and the Dutch Funding) made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of

this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (c) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Executive Committee of the National Economic Council has approved the PC-1 document with respect to the Project;

(b) the supervisory consultants required under Part E.2 of the Project have been appointed;

(c) proposals for consultants' services for preparing feasibility studies for the SCARP transition projects referred to in paragraphs (b) (ii) (A) and (b) (ii) (B) of Section 4.04 of this Agreement have been invited; and

(d) all conditions precedent to the effectiveness of the USAID Agreement and the Dutch Arrangement, other than the effectiveness of this Agreement, have been fulfilled.

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

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary, or Section Officer in that Division 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:

Economic Affairs Division
Islamabad
Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

ECDIV-05-634

For the Association:

International Development Association

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ C. M. Afzal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ H. E. Kûpp

Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	49,000,000	80%
(2) Consultants' services	4,000,000	90%
(3) Monitoring and evaluation	1,500,000	90%
(4) Unallocated	3,700,000	
TOTAL	<hr/> 58,200,000	

2. 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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) increase agricultural production through the provision of more reliable water supply and improved surface drainage; (b) provide a more equitable system of water supply through increase of deliveries to water-deficient commanded areas; and (c) strengthen the operation and maintenance (O & M) capabilities of the Provincial Irrigation Departments (PIDs).

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

Part A: Rehabilitation of Systems

Rehabilitation of selected systems or subsystems of canals, surface drains and related structures, including lining of channels as appropriate, silt removal and redesign of selected channels and outlets, both within and outside of the Indus system.

Part B: Upgrading of PID Facilities

1. Provision of construction, surveying, office (including computers), and telecommunication equipment and related spare parts.
2. Improvement of workshops and warehouse facilities, including major improvements at Lahore and Bhalwal (in Punjab) and at Jamshoro (in Sind).
3. Rehabilitation and expansion of office buildings and construction of staff housing.

Part C: International Irrigation Management Institute Facilities

Construction of branch facilities for the International Irrigation Management Institute (Pakistan Branch) at Lahore.

Part D: Project Management

Provision of incremental staff to assist (i) FCC and (ii) PIDs in carrying out and supervising the Project.

Part E: Technical Assistance and Training

1. Provision of consultants' services to assist: (a) PIDs in strengthening their design, construction and inspection, and O & M capabilities; and (b) FCC in developing, implementing and monitoring an organizational development and management program for PIDs.
2. Provision of consultants' services to assist (a) FCC and (b) PIDs in carrying out the Project.
3. Provision of local institutional services to assist in monitoring and evaluating the Project.
4. Provision of consultants' services to assist FCC in preparing future projects.
5. Provision of foreign study tours, and in-country and on-the-job training for FCC and PID staff.

* * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Procurement and Consultants' Services

Section I: Procurement of Works

Part A: Procurement Procedures

1. Except as provided in paragraph 2 below, civil works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Civil works, involving substantial quantities of earthwork with long leads, underwater excavation, or repair and replacement of hydraulic structures, may be carried out by force account.

Part B: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (b) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

3. For the purposes of these provisions, the term "Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985.

Section II: Employment of Consultants

In order to assist the Borrower and the Provinces in carrying out the Project, the Borrower and the Provinces shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

A. Implementation Arrangements

1. Responsibility for coordinating Project activities shall be assigned:

(a) for the Project overall, to FCC; and

(b) within each PID, to a Project Director or Project Coordinator.

2. Specific responsibility for implementation of the Project shall be assigned as follows:

(a) for Parts C, D (i) and E of the Project, to FCC; and

(b) for Parts A, B and D (ii) of the Project, to PIDs.

B. Other Matters

3. Annual Work Plans. FCC and PIDs shall, in respect of the parts of the Project for which they are responsible, furnish to the Association an Annual Work Plan, including an Annual O & M Work Program, not later than September 30 of the Fiscal Year to which such Plan relates.

4. Selection Criteria and Designs. (a) In selecting the canals to be rehabilitated under Part A of the Project, the Provinces shall apply criteria satisfactory to the Association.

(b) In carrying out the rehabilitation works under Part A of the Project, the Provinces shall follow specifications satisfactory to the Association.

5. Evaluation Institutions. FCC shall, not later than September 30, 1988, appoint suitable local institutions, under terms of reference and other terms and conditions satisfactory to the Association, to carry out monitoring and evaluation of the Project in the Provinces.

6. Progress Reports. FCC shall, within sixty (60) days of each reporting period, submit to the Association consolidated quarterly and annual progress reports on the Project, prepared on the basis of quarterly and annual progress reports received from PIDs.

7. Other Funded Works and Equipment. Works and equipment to be procured for the purposes of the Project and to be financed from the USAID Funding or the Dutch Funding shall comply with specifications satisfactory to the Association.

8. Other Funded Consultants. Consultants to be employed for the purposes of the Project and to be financed from the USAID Funding or the Dutch Funding shall have qualifications and experience and terms of reference satisfactory to the Association.

