

CONFORMED COPY

LOAN NUMBER 3965 PAK

Project Agreement

(Ghazi-Barotha Hydropower Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

WATER AND POWER DEVELOPMENT AUTHORITY OF PAKISTAN

Dated March 7, 1996

LOAN NUMBER 3965 PAK

PROJECT AGREEMENT

AGREEMENT, dated March 7, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and WATER AND POWER DEVELOPMENT AUTHORITY OF PAKISTAN (WAPDA).

WHEREAS (A) by the Loan Agreement of even date herewith between the Islamic Republic of Pakistan (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to three hundred fifty million dollars (\$350,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that WAPDA agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and WAPDA (the Subsidiary Loan Agreement), the proceeds of the loan provided for under the Loan Agreement will be made available to WAPDA on the terms and conditions set forth in the Subsidiary Loan Agreement; and

WHEREAS WAPDA, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) WAPDA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, ecological, resettlement, engineering and power utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and WAPDA shall otherwise agree, WAPDA shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 this Agreement.

Section 2.03. WAPDA shall carry out 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) in respect of the Project Agreement and the Project.

Section 2.04. WAPDA shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, WAPDA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) WAPDA shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) WAPDA shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by WAPDA of its obligations under this Agreement and under the Subsidiary Loan Agreement.

## ARTICLE III

### Management and Operations of WAPDA

Section 3.01. WAPDA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and power utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. WAPDA shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and power utility practices.

Section 3.03. WAPDA shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. Except in the ordinary course of its business, WAPDA shall not, without the prior consent of the Bank, sell, lease, transfer, distribute or otherwise dispose of any of its property or assets which shall be required for the efficient conduct of its power operations.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) WAPDA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) WAPDA shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) 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, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, WAPDA shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the

report of such audit contains 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.

Section 4.02. (a) Except as the Bank shall otherwise agree, WAPDA shall produce, for each of its fiscal years, funds from internal sources related to electricity operations equivalent to not less than 40% of the annual average of WAPDA's capital expenditures incurred, or expected to be incurred, for that fiscal year, the previous fiscal year and the next following fiscal year.

(b) Before April 15 in each of its fiscal years, WAPDA shall, on the basis of forecasts prepared by WAPDA and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that WAPDA would not meet the requirements set forth in paragraph (a) of this Section for WAPDA's fiscal years covered by such review, WAPDA shall promptly take all necessary measures (including, without limitation, adjustments of the structure and levels of its electricity tariff) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources related to electricity operations" means the difference between:

(A) the sum of gross revenues from all sources related to electricity operations, consumer deposits, cash contributions from consumers in aid of construction, and net non-operating income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to electricity operations of operation, maintenance and administration (excluding depreciation and other non-cash operating charges), interest and other charges on debt (including interest and other charges on debt charged to construction irrespective of whether they constitute cash or non-cash expenses) repayment of loans (including sinking fund payments, if any), all taxes or payments in lieu of taxes, all cash dividends and other cash distribution of surplus, increase in working capital other than cash and any other cash outflows other than capital expenditures for electricity operations.

(ii) The term "net non-operating income" means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iii) The term "capital expenditures" shall include all investments related to WAPDA's

electricity operations. Interest and other charges charged to construction shall be excluded.

- (iv) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (v) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.
- (vi) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

Section 4.03. (a) Except as the Bank shall otherwise agree, WAPDA shall not incur any debt unless a reasonable forecast of the revenues and expenditures of WAPDA shows that the estimated net revenues of WAPDA for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of WAPDA in such year on all debt of WAPDA, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of WAPDA maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
  - (A) the sum of revenues from all sources related to operations and net non-operating income; and
  - (B) the sum of all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
  - (A) revenues from all sources other than those related to operations; and
  - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation

of revenues in (A) above.

- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by WAPDA not earlier than twelve months prior to the incurrence of the debt in question, which the Bank and WAPDA accept as reasonable and as to which the Bank has notified WAPDA of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of WAPDA.
- (vii) Whenever for the purposes of this Section, it shall be necessary to value, in terms of the currency of WAPDA, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rates on the basis of a rate of exchange acceptable to the Bank.

Section 4.04. (a) WAPDA shall, in making future adjustments to the structure and levels of its electricity tariff to comply with its obligations under Sections 4.02 and 4.03 of this Agreement, ensure that any such adjustments made by it are higher, in percentage terms, in the case of those consumer categories for whom the average electricity tariff rates are below the overall average electricity tariff rates than in the case of those consumer categories for whom the average electricity tariff rates are above the overall average electricity tariff rates.

(b) For the purposes of this Section:

- (i) The term "the average electricity tariff rates", with reference to a given consumer category, means the estimated total revenues from electricity sales to such consumer category, divided by the estimated total consumption of electricity by such consumer category.
- (ii) The term "the overall average electricity tariff rates" means the estimated total revenues from electricity sales to all of WAPDA's consumers, divided by the estimated total consumption of electricity by all such consumers.
- (iii) The term "total revenues" means revenues from base electricity tariff, hydel or any other charge or surcharge, additional surcharge and fuel adjustment surcharge, but excludes other operating revenues.
- (iv) The term "base electricity tariff" means WAPDA's fixed charges and energy charges for electricity sales to consumers.
- (v) The terms "hydel or any other charge or surcharge" and "additional surcharge" mean WAPDA's charges for electricity sales to consumers in addition to the base electricity

tariff, but excluding late payment surcharges and the fuel adjustment surcharge.

- (vi) The term "fuel adjustment surcharge" means WAPDA's charge for electricity sales to consumers in addition to the base electricity tariff and all other surcharges, to recover WAPDA's fuel costs.
- (vii) The term "other operating revenues" means revenues from transfer or replacement of meters, application fees, reconnection of services and late payment surcharges.

Section 4.05. WAPDA shall, with respect to the profits payable to the Provinces on the bulk generation of hydroelectric power:

- (a) from time to time, adjust its electricity tariff to ensure full recovery of such profits; and
- (b) pay out as such profits only those amounts as shall have been collected for payment of such profits.

Section 4.06. WAPDA shall:

- (a) not later than September 30 in each year, carry out a comprehensive aging analysis of its accounts receivable; and
- (b) thereafter but not later than December 31 in each year, adjust the accounts receivable on its balance sheet to reflect only those receivables which are overdue for less than three years and which are determined by such analysis to be collectible.

Section 4.07. WAPDA shall, to the satisfaction of the Bank and not later than December 31, 1998, establish a subsidiary corporate entity to assume responsibility for transmission and dispatch of power.

Section 4.08. WAPDA shall, with respect to the Borrower's ongoing domestic resource mobilization (DRM) study insofar as it relates to WAPDA: a) review the recommendations of the study with the Bank by June 30, 1996; and (b) implement such recommendations, as agreed with the Bank, by December 31, 1996.

Section 4.09. WAPDA shall, not later than September 30, 1996, appoint management consultants, with relevant international power utility experience and under terms of reference satisfactory to the Bank, to assist WAPDA in designing and implementing a set of managerial, financial and technical efficiency objectives by which to measure and improve the operational, managerial and financial performance of WAPDA's power operations.

Section 4.10. WAPDA shall, under Part D.4 of the Project and not later than June 30, 1996, appoint a reputable private auditing firm, in consultation with the Auditor General of the Borrower, to develop, by December 31, 1996, a detailed audit plan satisfactory to the Bank, and to conduct, beginning FY99 and in accordance with such plan, the audit of its accounts and those of its parts which shall have been corporatized.

#### ARTICLE V

Effective Date; Termination;  
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of WAPDA thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify WAPDA thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this 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 or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's 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 the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

For WAPDA:

Water and Power Development  
Authority of Pakistan  
WAPDA House  
Lahore, Pakistan

Cable address:

WAPDA  
Lahore

Telex:

44869  
WAPDA PAK

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of WAPDA, or by WAPDA on behalf of the Borrower under the Loan Agreement, may be taken or executed by the Chairman of WAPDA or such other person or persons as the Chairman of WAPDA shall designate in writing, and the Chairman of WAPDA shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR



RECONSTRUCTION AND DEVELOPMENT

By /s/ D. Joseph Wood

Regional Vice President  
South Asia

WATER AND POWER DEVELOPMENT AUTHORITY  
OF PAKISTAN

By /s/ Mansoor Elahi

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for contracts for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(c) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

Part C: Other Procurement Procedures

1. International or National Shopping

Specialized instruments and control equipment for environmental monitoring, up to an aggregate amount not to exceed \$4,000,000 equivalent: (a) if estimated to cost less than \$400,000 per contract, may be procured under contracts

awarded on the basis of international shopping procedures; and (b) if estimated to cost less than \$200,000 per contract, may be procured under contracts awarded on the basis of national shopping procedures, all in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 2

Implementation Program

1. WAPDA shall, with respect to the demand side management (DSM) study to be carried out under Part D.2 (b) of the Project: (a) complete the study by March 31, 1997; (b) review and agree with the Bank on the recommendations of the study by September 30, 1997; and (c) implement the recommendations so

agreed in accordance with a plan satisfactory to the Bank.

2. WAPDA shall, to the satisfaction of the Bank and not later than December 31, 1998, establish the Project entity referred to in Part D.1(a) of Schedule 2 to the Loan Agreement, to assume responsibility for operating the power generation facilities built under Part A of the Project.

3. WAPDA shall, with respect to the actuarial study to be carried out under Part D. 2 (d) of the Project (a) not later than December 31, 1996, appoint the consultants required for the study pursuant to Section II of the Schedule 1 to this Agreement; (b) complete the study by December 31, 1997; (c) review and agree with the Bank on the recommendations of the study by March 31, 1998; and (d) implement the recommendations so agreed with effect from October 1, 1998.

4. During project implementation, WAPDA shall, taking into account the recommendations of POE and ERP and in consultation with the Bank, make all such changes from time to time as may be considered appropriate to the design of, and implementation arrangements for, the Project.

5. WAPDA shall: (a) ensure that (i) all land required for purposes of the Project will be acquired, and (ii) all persons affected by the acquisition of such land under the Project will be compensated, resettled and rehabilitated, all in accordance with the RAPs to the satisfaction of the Bank; and (b) to that end: (i) prepare RAP II, incorporating the principles of RAP I and other requirements of the Bank, and furnish the same to the Bank for its review and agreement not later than December 31, 1996, and (ii) ensure that, unless and until RAP II has been so agreed with the Bank, none of the works will be started under Part B of the Project.

6. WAPDA shall ensure that: (a) a contractual framework, satisfactory to the Bank, will be established not later than June 30, 1996, to apply to persons whose land has legally been acquired under the Project but who have been left in possession of it for the time being owing to the exigencies of the Project; and (b) a set of the standard form contract documents developed as part of such framework, setting forth the terms and conditions of such continuing possession, will be promptly furnished to the Bank for concurrence.

7. WAPDA shall furnish the Integrated Regional Development Plan to the Bank not later than December 31, 1996.

8. WAPDA shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 1998, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

