

Public Disclosure Authorized

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**CREDIT NUMBER 4629-PK**

# **Project Agreement**

**(Additional Financing for the Sindh On-Farm Water Management Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**PROVINCE OF SINDH**

**Dated September 15, 2009**

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Public Disclosure Authorized

## **PROJECT AGREEMENT**

AGREEMENT dated September 15, 2009, entered into between the INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and the PROVINCE OF SINDH (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

### **ARTICLE II — PROJECT**

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Additional Activities, through Directorate General of Agricultural Engineering and Water Management (DGAEWM), in accordance with the applicable provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Additional Activities.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Additional Activities in accordance with the provisions of the Schedule to this Agreement.

### **ARTICLE III — TERMINATION**

- 3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

### **ARTICLE IV — REPRESENTATIVE; ADDRESSES**

- 4.01. The Project Implementing Entity’s Representative is the Additional Chief Secretary (Development), Government of Sindh, or such other persons he/she shall designate in writing, provided that the Association has received sufficient

evidence of the authority and designation and an authenticated specimen of signatures of each such person.

4.02. The Association's Address is:

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

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

4.03. The Project Implementing Entity's Address is:

Planning and Development Department  
Government of Sindh  
Tughlaq House  
Karachi, Pakistan

Facsimile:  
  
92-21-9211922

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Said N. Al Habsy  
Authorized Representative

PROVINCE OF SINDH

By

/s/ Agha Jan Akhtar  
Authorized Representative

## SCHEDULE

### Execution of the Additional Activities under the Project

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Project Implementing Entity shall maintain, throughout the period of implementation of the Project:
  - (a) a Project Steering Committee (PSC) and a Project Coordination Committee (PCC), each of them with terms of references, powers and functions, composition (membership), staffing and other resources in terms satisfactory to the Association;
  - (b) a Program Monitoring Unit (PMU) within its Office of the Chief Minister, with terms of reference, qualified staff and sufficient resources, in terms satisfactory to the Association, responsible for monitoring the implementation and physical progress of the civil works under Part D.1(a) of the Project;
  - (c) a Project Coordination Unit (PCU) within its Agriculture Department, with terms of reference, qualified staff and sufficient resources in terms satisfactory to the Association, responsible for coordinating the implementation of project activities with, and serving as liaison office among the different Project-related agencies of the Project Implementing Entity; and
  - (d) the Directorate General of Agricultural Engineering and Water Management within its Agriculture Department (DGAEWM), assigned with powers and functions, qualified staff and sufficient resources in terms satisfactory to the Association in order to: (i) liaise and coordinate the Additional Activities with other relevant agencies of the Project Implementing Entity; and (ii) carry out the day-to-day implementation of the Additional Activities, including, *inter alia*, the financial management, procurement, monitoring and evaluation, record keeping, auditing and reporting required under the Project.
2. The Project Implementing Entity shall carry out the Additional Activities under the Project in accordance with the Project Implementation Plan (PIP) and the Procurement Manual, and shall refrain from amending, waiving, terminating, suspending and/or abrogating the Project Implementation Plan and the Procurement Manual, whether in whole or in part, if, in the opinion of the Association, such waiver, amendment, termination, suspension, and/or abrogation

might materially or adversely compromise the successful implementation of the Additional Activities under the Project, or the achievement of objectives thereof.

3. Notwithstanding the provision of paragraph 2 above, the Project Implementing Entity shall:
  - (a) update the PIP, in manner and substance satisfactory to the Association, in order to incorporate the implementation arrangements (e.g. criteria and procedures for the selection of beneficiaries, standard contractual terms, minimum cost-sharing requirements, and reporting, monitoring and supervision arrangements) that shall be required for the carrying out of Part D.2(b) of the Project; and
  - (b) refrain from carrying out any activities under Part D.2(b) of the Project, until it has updated the PIP in accordance with subparagraph (a) above.

**B. Watercourse Improvement**

1. For purposes of carrying out Part D.1(a) of the Project, the Project Implementing Entity shall select WCAs in accordance with the eligibility criteria set forth in the PIP, such criteria to include that the WCAs:
  - (a) be fully functional and legally established and registered in accordance with the provisions of the Ordinance, or with the Community Development Department of the respective district government, if located in a canal command area;
  - (b) have established a management committee, a watercourse improvement committee, a verification committee and an operation and maintenance committee, with clear delimitation of roles and functions in terms acceptable to the Project Implementing Entity and the Association;
  - (c) have: (A) technical capacity to carry out the watercourse renovation works; and (B) sufficient financial resources to defray the full cost of the required skilled (masons) and unskilled labor and contribute up-front (deposit in a bank account) at least ten percent (10%) of the total cost of the respective watercourse improvement works;
  - (d) be willing and able to maintain all relevant records, documents and information in respect of the financing received, payments made and procurement carried out in connection with the watercourse renovation works (including a muster roll registering payments due and made for all skilled and unskilled labor employed), in form and manner satisfactory to the Project Implementing Entity and the Association;

- (e) be willing and able to submit regular monitoring reports to the Project Implementing Entity, and to submit to monitoring and evaluation by the Project Implementing Entity or by any third party appointed by the Project Implementing Entity for such purposes;
  - (f) be willing to commit to: (i) improve the entire earthen length of their respective watercourses; (ii) upgrade farm ditches and field outlets; and (iii) operate and properly maintain the watercourses so improved;
  - (g) be willing to submit to the DGAEWM the complete record of landholdings of their members; and
  - (h) administer watercourses which: (i) have not been included in any previous watercourse improvement schemes; (ii) are not direct outlet watercourses; and (iii) are not an unauthorized watercourses.
2. In the selection of eligible WCAs and watercourses for renovation, the Project Implementing Entity shall give priority to improvement schemes for watercourses: (i) located on the tail-end of distributary canals in saline areas; (ii) administered by WCAs with higher percentages of farmer participation; and (iii) serving higher numbers of small farmers.
3. Prior to the commencement of a watercourse renovation scheme by any selected WCA, the Project Implementing Entity, through DGAEWM, shall enter into a written performance-based Community Participation Agreement with such selected WCA, in terms and conditions acceptable to the Association, and, except as the Association shall otherwise agree, such agreement shall:
- (a) require that the WCA declare its commitment to the objective of the Project and to undertake to implement the watercourses renovation scheme with due diligence and efficiency, and in accordance with sound technical, financial, engineering, environmental and social standards acceptable to the Association;
  - (b) require that the WCA undertake to comply with the Environmental Guidelines and the Anti-Corruption Guidelines;
  - (c) provide that the contract price be defrayed in accordance with pre-agreed renovation milestones as certified by the Supervision Consultant;
  - (d) provide that, in consideration of the contract price, the WCA undertake to: (i) carry out the lining of up to thirty percent (30%) of the watercourse; (ii) improve the entire earthen length of the watercourse; (iii) upgrade farm ditches and field outlets; and (iv) thereafter operate and properly maintain the watercourse so improved;

- (e) require that the WCA deposit upfront, in a bank account notified to the DGAEWM, at least ten percent (10%) of the total estimated cost of the watercourse improvement works;
  - (f) require that the goods, works and services to be financed out of the proceeds of the Financing be procured by the WCA in accordance with the Simplified Procurement Procedures;
  - (g) require that the WCA maintain all relevant records, documents and information in respect of the financing received, payments made and procurement carried out in connection with the watercourse renovation scheme (including a muster roll registering payments due and made for all skilled and unskilled labor employed), all in term satisfactory to the Project Implementing Entity and the Association;
  - (h) provide that the WCA submit regular monitoring reports to the Project Implementing Entity on the progress achieved under the watercourse renovation schemes, and agree to submit to the monitoring and evaluation by the Project Implementing Entity, or any third party appointed by the Project Implementing Entity, in relation thereto;
  - (i) include the complete record of landholdings of the members of the WCA;
  - (j) set out the right of the Project Implementing Entity to suspend or terminate its financial obligations under the agreements upon failure by the WCAs to perform any of its obligations there under; and
  - (k) grant the Project Implementing Entity the right of restitution with respect to the WCA of any amounts paid to such WCA with respect to which fraud and corruption has occurred.
4. The Project Implementing Entity shall ensure, and cause the WCAs to ensure, that the watercourses improvement be carried out in accordance with design and construction criteria and specifications acceptable to the Association.
5. The Unit Cost per watercourse improvement scheme satisfactorily completed, as certified by the Supervision Consultant, shall be equal to one million three hundred eighty seven thousand five hundred Pakistani Rupees (PKR 1,387,500). Notwithstanding the foregoing, the Project Implementing Entity shall:
- (a) carry out surveys on a semiannual basis on the prevailing market prices of construction materials used for the watercourses renovation schemes;

- (b) by no later than December 31, 2010, review and adjust the aforementioned Unit Cost, to the satisfaction of the Association, taking in consideration the results of surveys carry out in accordance with subparagraph (a) above; provided that such adjustment shall be unnecessary if the Association is satisfied that said review reveals no significant changes in such costs;
- 6. In the event that the actual average cost of one watercourse improvement is considerably lower than the pre-agreed Unit Cost, on or about December 31, 2010:
  - (a) the Association will be entitled to adjust Standard Fixed Price for any watercourses completed thereafter in order to compensate any amounts paid in excess;
  - (b) in the event that the adjustments under subparagraph (a) above were not possible, or were insufficient to compensate the amounts paid in excess, the Project Implementing Entity undertakes to refund to the Association any amounts withdrawn under Category (2) in excess of said average cost of watercourse improvement; and
  - (c) after considering the Project Implementing Entity's preferences, the Association undertakes to either: (A) reallocate the amounts so refunded to any other Project activities and disbursement Categories; or (B) authorize the use of such savings for the financing of additional watercourse improvement schemes.
- 7. The Project Implementing Entity shall, by no later than November 30, 2009, select and hire a supervision consultant (the "Supervision Consultant") with terms of reference satisfactory to the Association, to be responsible for, *inter alia*:
  - (a) reviewing the technical adequacy of proposed construction criteria and standards;
  - (b) reviewing the plans and designs of the proposed watercourse renovation schemes in order to ensure compliance with: (i) the construction criteria and standards determined pursuant to paragraph 4 above, in Section I.B of this Schedule; and (ii) the Environmental Guidelines;
  - (c) certifying quantities and quality of completed watercourse works, including the carrying out of spot checks to verify and validate the completion of each of the milestones identified under the Community Participation Agreements for the release of price payments;



- (d) providing technical assistance to WCAs and/or recommend on site design modifications in order to facilitate timely completion of the watercourse improvement schemes; and
- (e) organizing seminars, workshops, awareness raising campaigns at district and *taluka* levels.

**C. Land Leveling Activities**

For purposes of carrying out Part D.2(a) of the Project, the Project Implementing Entity shall ensure that DGAEWM:

- (a) screen all farmers, FOs, WCAs or Community Organizations applying for PLL equipment (Laser Leveler) applying the eligibility criteria set forth in the PIP. In the event that there were more applicants than PLL equipment to be distributed, the final selection of beneficiary farmers, FOs, WCAs, or Community Organizations will be done by means of a public draw among all such pre-qualified farmers, FOs, WCAs or Community Organizations, in a form and manners satisfactory to the Association; and
- (b) enter into written Cost Sharing Agreements with each farmer, FO, WCA, or Community Organization selected pursuant to sub-paragraph (a) above, in terms and conditions satisfactory to the Association, for purposes of financing the acquisition of land leveler equipment, whereby the selected farmer, FO, WCA or Community Organization shall:
  - (i) be required to pay at least fifty percent (50%) of the cost of the PLL equipment prior to taking possession thereof;
  - (ii) gradually acquire full ownership of the PLL equipment upon the achievement of physical targets specified in the agreement; and
  - (iii) undertake to properly operate and maintain the PLL equipment so awarded.

**D. Annual Plans**

The Project Implementing Entity shall:

- (a) prepare, by no later than March 31 in each year, commencing on March 31, 2010, and furnish to Association for review and concurrence, a draft annual Implementation plan of Project activities, for the next following fiscal year, which plan shall identify Project activities by

component and sub-component, and their related expenditures and financing sources;

- (b) promptly thereafter, by no later than May 31 next following, finalize such annual plans on the basis of the drafts discussed agreed with the Association, and
- (c) thereafter, implement the Project activities during the respective fiscal year covered by each such annual plan, in accordance with the so finalized plan.

**E. Safeguards**

1. The Project Implementing Entity shall:

- (a) ensure that all activities under the Project will be implemented in accordance with the Integrated Social and Environmental Assessment, the Environmental Guidelines and the Pest Management Plan, and in conformity with the objectives, policies and procedures thereof, and the social and environmental mitigation measures and requirements provided therein;
- (b) ensure that no activity involving land taking will be carried out under the Project without the prior approval of the Association. In the event that any land acquisition be required for the Project, the Project Implementing Entity shall, in consultation with the Association, ensure that such land be obtained on a willing-buyer-willing-seller base, or as a voluntary donation or bequest;
- (c) ensure that no activities under the Project give rise to Displaced Persons; and
- (d) refrain from amending, waiving, terminating, suspending and/or abrogating the aforementioned Integrated Social and Environmental Assessment, the Environmental Guidelines and the Pest Management Plan, whether in whole or in part, without the prior concurrence of the Association, if in the opinion of the Association, such amendment, waiver, termination, suspension and/or abrogation might materially or adversely compromise the successful implementation of the Additional Activities under the Project, or the achievement of the objectives thereof.

2. As part of the environmental mitigation measures under the Project, the Project Implementing Entity shall have:

- (a) identified, by no later than October 31, 2009, suitable public locations for the implementation of cluster tree plantations, and notified such location to the Association; and
- (b) by no later than June 30, 2010, planted approximately forty-five (45) thousand trees in the aforementioned locations.

**F. Anti-Corruption**

The Project Implementing Entity shall ensure that the Additional Activities under the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

- 1. The Project Implementing Entity shall monitor and evaluate the progress of the Additional Activities under 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 such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Recipient and the Association not later than forty-five (45) days after the end of the period covered by such report.
- 2. Notwithstanding the reporting requirements set forth in paragraph (1) above, the Project Implementing Entity shall:
  - (a) by December 31, 2010, prepare and furnish to the Association a mid-term report, under term of reference satisfactory to the Association: (i) integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) above, on the progress achieved in the carrying out of the Additional Activities during the period preceding the date of said mid-term report; and (ii) setting out the measure and recommended to ensure the efficient carrying out of the Additional Activities and the achievement of the objectives thereof during the period following such date; and
  - (b) by January 31, 2011, or such later date as the Association shall request, review with the Association said mid-term report 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 mid-term report, and the Association's views on the matter.

3. The Project Implementing Entity shall prepare and furnish to the Association not later than six (6) months after the Closing Date the report in scope and detail referred to in Section 4.08(c) of the General Conditions, as well as all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

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

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Additional Activities under the Project.
2. The Project Implementing Entity shall prepare and furnish to the Recipient and the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Additional Activities under the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Project Implementing Entity shall have the financial statements referred to above (covering the operations, resources and expenditure related to the Additional Activities under the Project) audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

**Section III. Procurement**

1. All goods, works and services required for the Additional Activities under the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.
2. The Project Implementing Entity shall maintain throughout the implementation period of the Project, a second-tier complaint redressal mechanism to review/resolve all procurement complaints under the Project, which mechanism shall be adequately disseminated among potential bidders and other stakeholders, and shall set out clear procedural guidelines and reasonable timeframes for the settlement/resolution of each such complaint.

3. The Project Implementing Entity shall maintain throughout the period of implementation of the Project, a procurement documentation and record keeping system, including a publicly accessible website, in a format agreed with the Association, showing, *inter alia*, the Project Procurement Plans and official estimates (unit prices based on market values), the status of procurement of various contracts (the summary of proposals/bid evaluations and awards) and a list of procurement complaints and status thereof.
4. The Project Implementing Entity shall:
  - (a) prepare simplified procurement procedures (the “Simplified Procurement Procedures”) consistent with the Procurement Guidelines and the Consultants Guidelines, and in a manner and substance satisfactory to the Association, setting out the policy guidelines and procedural steps for the efficient, transparent and competitive procurement of goods, works and services by WCAs which have entered into Community Participation Agreements;
  - (b) promptly thereafter, disseminate the Simplified Procurement Procedures among all WCAs, including those which have not entered into Community Participation Agreements; and
  - (c) ensure that each WCA which has entered into a Community Participation Agreement, carries out its procurement activities under such agreement in conformity with such Simplified Procurement Procedures.