

CONFORMED COPY

CREDIT NUMBER 3905 PAK

Project Agreement

(Sindh On-Farm Water Management Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PROVINCE OF SINDH

Dated July 27, 2004

CREDIT NUMBER 3905 PAK

PROJECT AGREEMENT

AGREEMENT, dated July 27, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and PROVINCE OF SINDH, acting by its Governor Sindh (Sindh).

WHEREAS by the Development Credit Agreement of even date herewith between the Islamic Republic of Pakistan (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to forty-one million Special Drawing Rights (SDR 41,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Sindh agree to undertake such obligations toward the Association as are set forth in this Agreement; and

WHEREAS Sindh, in consideration of the Association's entering into the Development Credit 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

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

ARTICLE II

Execution of the Project

Section 2.01. (a) Sindh declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, irrigation and environmental 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 Association and Sindh shall otherwise agree, Sindh shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement, the PIP, the Environmental Guidelines and the PMP.

Section 2.02. 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 1 to this Agreement.

Section 2.03. (a) Sindh shall carry out 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) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, Sindh shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and Sindh, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with Sindh on said plan.

Section 2.04. (a) Sindh shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project and the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) Sindh shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by Sindh of its obligations under this Agreement.

ARTICLE III

Financial and Other Covenants

Section 3.01. (a) Sindh shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) Sindh shall:

- (i) have its financial statements (statements of income and expenses and related statements) for each fiscal year (or such other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 3.02. (a) Without limitation upon Sindh's reporting obligations set out in, paragraph 16 of Schedule 2 to this Agreement, Sindh shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

Section 3.03. Sindh shall, jointly with the Association, annually review its uniform policy on capital cost sharing for watercourse improvement adopted on December 20, 2003, and, thereafter, take all measures required to ensure the efficient implementation of the said policy and the achievement of the objectives thereof, based on the conclusions and recommendations of the said review and the Association's views on the matter.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of Sindh thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify Sindh of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. 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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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

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

For Sindh:

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

Cable address:

Facsimile:

DEVELOPMENT
Karachi
Pakistan

92-21-9211922

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Sindh may be taken or executed by the Additional Chief Secretary (Development), Government of Sindh, or such other person or persons he/she shall designate in writing, and he/she shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. 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 Islamabad, Pakistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Abid Hasan

Acting Country Director,
Pakistan

PROVINCE OF SINDH

By /S/ Sabhago Khan Jatoi

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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for Domestically Manufactured Goods

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost \$25,000 equivalent or more but less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost \$30,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of subparagraphs (a) and (b) of this paragraph 1:

(i) Grouping of Contracts

To the extent practicable, contracts shall be grouped in bid packages to attract national bidders.

(ii) Improvement of Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

- (aa) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;
- (bb) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (cc) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (dd) bidding shall not be restricted to pre-registered firms;
- (ee) qualification criteria shall be stated in the bidding documents;
- (ff) bids shall be opened in public, immediately after the deadline for submission of bids;
- (gg) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (hh) before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained;
- (ii) 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 (CSR);

- (jj) contracts shall not be awarded on the basis of nationally negotiated rates;
- (kk) contracts shall be awarded to the lowest evaluated and qualified bidders; and
- (ll) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders.

2. International or National Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Works estimated to cost less than \$30,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded to the WCAs or FOs concerned. 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan of each implementing agency for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Such plan shall be updated every 3 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Procurement of all goods and works shall be undertaken in accordance with such procurement plan (as updated from time to time) as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first contract for works and goods awarded in accordance with the provisions of paragraph C.1 of this Section I by each implementing agency

irrespective of value, and each subsequent contract awarded by each such agency estimated to cost \$200,000 equivalent 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

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, for services estimated to cost less than \$500,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 3 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

With respect to the first contract awarded each to a consulting firm and an individual by each implementing agency irrespective of value, and each subsequent contract awarded by each such agency and estimated to cost \$100,000 equivalent or more in the case of a consulting firm, or \$50,000 equivalent or more in the case of an individual, the procedures set forth in paragraphs 1, 2, 3 and 5 of Appendix 1 to the Consultant 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 Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

1. Sindh shall, throughout Project implementation, maintain the PSC and the PCC, each with terms of reference, composition, staffing and other resources satisfactory to the Association.
2. Sindh shall ensure that Project staffing levels and responsibilities agreed with the Association for DGAEWM, OFWM Directorate, the Field and District Teams established to carry out social mobilization under the Project, SIDA and AWBs will be maintained throughout Project implementation.
3. For the purposes of Section 2.02 of this Agreement, Sindh shall ensure that, not later than September 30, 2004:
 - (a) procurement documentation and record keeping systems, all satisfactory to the Association, will be developed and adopted by DGAEWM, SIDA, AWBs and FOs, respectively; and
 - (b) key procurement staff of DGAEWM, SIDA and AWBs, respectively, will be identified, trained in the Association's procurement procedures and designated as focal points for procurement for the duration of the Project.
4. For the purposes of Section 3.01 of this Agreement, Sindh shall ensure that a financial management system, managed by suitable staff with qualifications and experience satisfactory to the Association, will be maintained for DGAEWM and SIDA for the duration of the Project.
5. Sindh shall: (a) not later than March 31 in each year, furnish to the Association, for its review and agreement a draft annual plan of Project activities, including a work program and proposed budget, for the next following Fiscal Year; and (b) not later than May 31 next following, finalize such plan based on the draft as so agreed by the Association.
6. Sindh shall, not later than July 31, 2004, furnish to the Association, for its review and agreement, a detailed work program, prepared jointly by DGAEWM and SIDA/AWBs, for capacity building and training to be carried out under the Project.
7. Sindh shall ensure: (a) that Project schemes will be carried out in accordance with design criteria and specifications satisfactory to the Association; and (b) that, in particular, each distributary/minor canal included in the Project will be improved to achieve sufficient capacity to deliver its full discharge entitlement determined on the

basis of its share of the diversions at the head of the main canal command system over the previous ten years.

8. Sindh shall ensure that:

(a) no assistance will be made available to farmers for a scheme for the renovation of a watercourse or construction of a water storage tank and associated works under Part B.1 of the Project, unless and until the farmers seeking such assistance have: (i) formed a fully functioning WCA at the level of such watercourse or water storage tank, and registered it in accordance with the provisions of the Ordinance if located in a canal command area, or any other relevant law if located in a *barani* (rain-fed) area; (ii) established that such WCA has the technical capacity to carry out the scheme; and (iii) acting through such WCA: (aa) furnished evidence to DGAEWM that the scheme satisfies all eligibility and prioritization criteria satisfactory to the Association set out in the PIP and applicable to such scheme, and (bb) reached agreement with DGAEWM, in form and substance satisfactory to the Association, for: (A) carrying out the scheme; (B) sharing the costs of the scheme in accordance with the provisions of paragraph 9 (a) of this Schedule; and (C) undertaking the O&M of the facilities on which the scheme is to be carried out;

(b) no assistance will be made available to farmers for a scheme for the improvement of a distributary/minor canal under Part B.2 of the Project, unless and until the farmers seeking such assistance have: (i) formed and registered an FO at the level of such distributary/minor canal in accordance with the Ordinance; (ii) established that such FO has the technical capacity to participate in the carrying out of the scheme; and (iii) acting through such FO, (aa) furnished evidence to SIDA/AWB that the scheme satisfies all eligibility and prioritization criteria satisfactory to the Association set out in the PIP and applicable to such scheme, (bb) reached agreement with SIDA/AWB, in form and substance satisfactory to the Association, for carrying out the scheme, and (cc) entered into an irrigation and drainage management transfer agreement with SIDA/AWB, in form and substance satisfactory to the Association, for the O&M of the facilities on which the scheme is to be carried out; and

(c) no PLL equipment will be made available to an FO under Part C.1 of the Project, unless and until the FO has: (i) furnished evidence to DGAEWM that the FO satisfies all eligibility criteria satisfactory to the Association set out in the PIP and applicable to such FO; and (ii) reached agreement with DGAEWM, in form and substance satisfactory to the Association, for: (aa) initially sharing the costs of the equipment in accordance with the provisions of paragraph 9(c) of this Schedule; (bb) gradually acquiring full ownership of the equipment upon the achievement of physical targets specified in the agreement; and (cc) undertaking the O&M of the equipment.

9. Sindh shall ensure that:

(a) in respect of any scheme for renovation of watercourses or construction of water storage tanks and associated watercourses carried out under Part B.1 of the Project, the farmers for whom such scheme is carried out will be required to contribute, up-front and through the relevant WCA, all skilled and unskilled labor, whether in cash or in kind, and 10% of the cost of materials required therefor;

(b) in respect of any scheme for PLL carried out under Part C.1 of the Project, the farmers for whom such scheme is carried out will be required to meet 100% of the cost thereof; and

(c) in respect of any PLL equipment procured for FOs under Part C.1 of the Project, the FOs for whom such equipment is procured will be required to pay 50% of the cost thereof prior to taking possession.

10. Sindh shall ensure that representatives of any FO participating in the carrying out of any scheme for the improvement of a distributary/minor canal under Part B.2 of the Project, and in the O&M of the facilities on which such scheme is to be carried out, will be invited to participate in the procedures for inviting and evaluating bids and awarding contracts for the procurement of civil works and materials for such Project scheme.

11. Sindh shall ensure that each WCA participating in the carrying out of any scheme for the renovation of watercourses or construction of water storage tanks under Part B.1 of the Project, or each FO participating in the carrying out of any scheme for the improvement of distributary/minor canals under Part B.2 of the Project, will be required to maintain labor muster rolls satisfactory to the Association to demonstrate that it has made due payments for all skilled and unskilled labor employed by it for such scheme.

12. Sindh shall cause surveys to be carried out every six months, to determine the prevailing market prices of construction materials used in the renovation of watercourses and construction of water storage tanks under Part B.1 of the Project.

13. Sindh shall ensure that no: (a) distributary/minor canals, water storage tank schemes, minor irrigation schemes, demonstration centers, offices for WCAs/FOs, canal service roads and any other activities involving land acquisition will be included in the Project without prior approval of the Association; and (b) such acquisition shall be carried out on a voluntary basis in accordance with such principles and procedures as shall have been agreed with the Association.

14. Sindh shall implement, in a manner satisfactory to the Association, the environmental mitigation, monitoring and other measures set forth in the Environmental Management Guidelines in accordance with the objectives, policies, procedures, time

schedule and other provisions set forth therein, and shall not take or permit to be taken any action which would prevent or interfere with such implementation.

15. Sindh shall implement, in a manner satisfactory to the Association, the measures to promote and support safe, effective, and environmentally sound pest management set forth in the PMP in accordance with the objectives, policies, procedures, time schedule and other provisions set forth therein, and shall not take or permit to be taken any action which would prevent or interfere with such implementation.

16. Sindh shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable them to monitor and evaluate on an ongoing basis, in accordance with a program agreed with the Association not later than July 31, 2004, and indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare or cause to be prepared, under terms of reference satisfactory to the Association, and furnish to the Association: (i) beginning September 30, 2004, quarterly and semi-annual reports; and (ii) by June 30, 2006, a mid-term report, all 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 reports 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 Association, by September 30, 2006, or such later date as the Association shall request, the mid-term report referred to in paragraph (b)(ii) 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 reports and the Association's views on the matter.