

CONFORMED COPY

CREDIT NUMBER 2901 PAK

Project Agreement

(Punjab Private Sector Groundwater Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PROVINCE OF PUNJAB

Dated September 19, 1996

CREDIT NUMBER 2901 PAK

PROJECT AGREEMENT

AGREEMENT, dated September 19, 1996, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and PROVINCE OF PUNJAB, acting by its Governor (Punjab).

WHEREAS (A) by the Development Credit Agreement of even date herewith between 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 thirty-eight million five hundred thousand Special Drawing Rights (SDR 38,500,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Punjab agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) the proceeds of the credit provided for under the Development Credit Agreement will be made available to Punjab; and

WHEREAS Punjab, 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

### Definitions

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) Punjab 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 and irrigation 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 Punjab shall otherwise agree, Punjab 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 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) Punjab 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 9.07 of the General Conditions and without limitation thereto, Punjab 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 Punjab, a plan designed to ensure the continued achievement of the Project's objective; and
- (ii) afford the Association a reasonable opportunity to exchange views with Punjab on said plan.

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

(b) Punjab 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 Punjab of its obligations under this Agreement.

(c) Punjab shall, by July 1, 1998, or such later date as the Association may agree, initiate pilot projects, which will include the provision of technical assistance and social mobilization, to decentralize the management at the canal command level and enhance beneficiary participation in the operation and management of the irrigation systems at the distributory/minor level.

## ARTICLE III

### Financial Covenants

Section 3.01. (a) Punjab shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resource and expenditures in respect of the Project of the departments and agencies of Punjab responsible for carrying out the Project or any part thereof.

(b) Punjab shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association and provide the records and accounts to the auditors within three months after each Fiscal Year;
- (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: (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 Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

#### 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 Punjab 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 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 Punjab 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, 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 Association:

International Development Association

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

Cable address:                    Telex:  
  
                    INDEVAS                    197688 (TRT),  
                    Washington, D.C.            248423 (RCA),  
    64145 (WUI) or  
    82987 (FTCC)

For Province of Punjab:

The Chairman  
Planning and Development Board  
Government of Punjab  
Lahore, Pakistan

Cable address:                    Telex:  
  
                    DEVELOPMENT                82-04-4868  
                    Lahore                             Punjab  
                    Secretariat  
                    Pakistan Lahore,  
                    Pakistan

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 Punjab, or by Punjab on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Chairman, Planning and Development Board, or such other person or persons as Punjab shall designate in writing, and Punjab 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Meiko Nishimizu  
  
    Acting Regional Vice President  
    South Asia

PROVINCE OF PUNJAB

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 and revised in January 1996 (the Guidelines) and the following provisions of this Schedule, as applicable.

Part B: International Competitive Bidding

Works under Part G (2) of the Project set forth in Schedule 2 to the Development Credit Agreement and all contracts for equipment (including office furniture) and vehicles other than those referred to in Part C of this Schedule shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

- (a) 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 the domestic contractors.

- (b) Notification and Advertising

The invitation to bid for contracts estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Contracts for works under Parts E, F, G (1) and G (3) of the Project set forth in Schedule 2 to the Development Credit Agreement, equipment and construction materials may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Office, survey and flow measuring equipment and furniture estimated to cost \$1,000 equivalent or less per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan 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. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for equipment, vehicles, and works estimated to cost the equivalent of \$200,000 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. In order to assist the Borrower in carrying out the Project, the Borrower 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Association, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association 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 individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association 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 Association, (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. Punjab shall:

(a) close all government-owned irrigation tubewells by June 30, 1998;

(b) in areas supplied by canal water, complete phase out of its program for subsidizing individually-owned private tubewells by September 30, 1996; and

(c) in areas not supplied by canal water and where private tubewells are the sole source of irrigation water, initiate a study for the preparation of a plan to phase out subsidies to individually-owned private tubewells and implement such plan by December 31, 1997.

2. Punjab shall, not later than December 31, 1996:

(a) in consultation with the staff affected by the disinvestment of SCARP tubewells, finalize a training program and severance package for staff working on the management and operation of SCARP tubewells who are not eligible for retirement; and

(b) ensure that:

(i) there are adequate funds in Punjab's budget to fund such severance packages; and

(ii) all staff who benefit from the severance packages will not be hired by Punjab within a period of seven years from the date they cease to be employed by Punjab.

3. In carrying out the Project, Punjab shall ensure that proper specifications and design criteria are observed to ensure and control the quality of construction works done.

4. Punjab shall:

(a) not later than March 31 each year, furnish to the Association for its review and approval a draft annual plan, including a work program and a proposed budgetary allocation for the following Fiscal Year, cleared by the Provincial Policy Committee of Punjab; and

(b) not later than February 15 each year, discuss with the Association the level of funding required for the operation and maintenance of the irrigation and drainage systems in Punjab for the following Fiscal Year and, thereafter, provide adequate budgetary allocations for the funding levels agreed with the Association.

5. Punjab 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 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, by December 31, 1998, reports 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 Association, by March 31, 1999, or such later dates as the Association shall request, the reports 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 Association's views on the matter.

6. Punjab shall ensure that PMU and the existing Provincial Policy Committee and the Project Coordination Committee will be maintained with their composition and terms of reference acceptable to the Association until Project completion. Without limitation to the foregoing, Punjab shall ensure that:

(a) the PMU, which will be responsible for overall project management and coordination, has a minimal staff, including a full time Project Director, two ex-officio members, one each from the Punjab Irrigation Department and the Directorate General of Water Management, and three Directors, who will be supported by a multi-disciplinary consultant team;

(b) the existing Provincial Policy Committee provides policy guidance and steers project implementation through inter-agency coordination at the highest level; and

(c) the existing Project Coordination Committee provides the coordination among various agencies and facilities project implementation.

7. Punjab shall:

(a) charge farmers 10,000 rupees for each SCARP tubewell transferred to the farmers for operation as a community tubewell;

(b) in its discretion provide a one-time financial assistance to farmers, not to exceed 30,000 rupees, for the installation of new community tubewells and, not to exceed 20,000 rupees, for the modification of existing SCARP tubewells into community tubewells;

(c) for watercourse improvements under Parts E and G (3) of the

Project, ensure that farmers contribute upfront, skilled and unskilled labor and, at minimum, 30 percent of material costs for the improvements; and

(d) for canal lining, ensure that farmers pay upfront, at minimum, 5 percent of the cost of the lining.

8. Punjab shall recover the following costs from individual farmers:

(a) 45 percent of the material costs of the watercourse improvement for which Punjab provided financing to the farmers, through six installments spread over a three-year period.

(b) 50 percent of the capital cost of canal lining improvement for which Punjab provided financing to the farmers, through repayments over an eight-year period.

9. Punjab shall furnish for the Association's prior review and approval, proposals for training staff overseas and domestically.

10. Punjab's Planning and Development Board shall hire, independently of PMU, services of specialists in various fields to carry out detailed supervision of the Project on behalf of Punjab on an average twice a year.

11. Punjab shall provide assistance to Farmers Organizations for establishing community tubewells only if they meet the following criteria:

(a) the Farmers Organization is registered under the Punjab Water Users Association Ordinance of 1981 as a water users association or its subgroup; and

(b) the membership of the Farmers Organization comprises at least one-third of the farmers within the command of a watercourse.

