

CONFORMED COPY

CREDIT NUMBER 3516 PAK

Development Credit Agreement

(NWFP On-Farm Water Management Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 28, 2001

CREDIT NUMBER 3516 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 28, 2001, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the North West Frontier Province (NWFP) and the Federally Administered Tribal Areas Development Corporation (FATADC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to NWFP and FATADC the proceeds of the Credit as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through

October 6, 1999), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Eligible Categories" means, in respect of the NWFP Special Account, Categories (1)(a), (2)(a)(i), (2)(b)(i), (3)(a) and (4)(a) set forth in the table in Part A.1 of Schedule 1 to this Agreement; and, in respect of the FATADC Special Account, Categories (1)(b), (2)(a)(ii), (2)(b)(ii), (3)(b) and (4)(b) set forth in said table;

(b) "Eligible Expenditures" means, in respect of the NWFP Special Account, the expenditures for goods and services referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Categories; and, in respect of the FATADC Special Account, the expenditures for goods and services referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Categories;

(c) "FATA" means the Federally Administered Tribal Areas of the Borrower;

(d) "FATADC" means the FATA Development Corporation, established and existing under the Borrower's Federally Administered Tribal Areas Development Corporation Regulation, 1970;

(e) "FATADC Special Account" means the Special Account which the Borrower shall open and maintain for FATADC pursuant to Part B.1 of Schedule 1 to this Agreement;

(f) "FIDA" means the NWFP Frontier Irrigation and Drainage Authority;

(g) "Fiscal Year" or "FY" means the Borrower's fiscal year, covering the period July 1 through June 30;

(h) "FO" means a Farmers' Organization formed or to be formed for the rehabilitation, improvement and operation and maintenance of a distributary/minor canal located within a pilot AWB area;

(i) "FWUA" means a Federation of Water Users Associations or a Distributary Association, as the case may be, formed or to be formed at the level of a distributary/minor canal or a local minor irrigation scheme;

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

(k) "NWFP Special Account" means the Special Account which the Borrower shall open and maintain pursuant to Part B.1 of Schedule 1 to this Agreement;

(l) "O&M" means Operation and Maintenance;

- (m) "OFWM" means On-Farm Water Management;
- (n) "OFWM Directorate" means the On-Farm Water Management Directorate of NWFP;
- (o) "Pilot AWB Area" means an area where an Area Water Board has been, or is to be, formed on a pilot basis for carrying out irrigation and drainage management;
- (p) "PLL" means precision land leveling;
- (q) "PPC" means the Provincial Policy Committee of NWFP, to be constituted and maintained pursuant to paragraph 1 of Schedule 2 to the Project Agreement, and in which FATADC shall be represented;
- (r) "Project Agreement" means the agreement among the Association, NWFP and FATADC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (s) "Project Management Report" or "PMR" means each report prepared in accordance with Section 3.02 of the Project Agreement;
- (t) "Rs" or "rupees" means the Borrower's currency;
- (u) "scheme" means any scheme for improving irrigation facilities under Part B of the Project, incorporating the entire process from formation of FOs/WUAs to physical investment, and "schemes" means all such schemes collectively;
- (v) "Special Accounts" means the accounts referred to in Part B of Schedule 1 to this Agreement; and
- (w) "WUA" means a Water Users Association formed or to be formed at the level of a watercourse or a water storage tank.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixteen million six hundred thousand Special Drawing Rights (SDR 16,600,000).

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

Section 2.03. The Closing Date shall be June 30, 2006 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15, commencing June 15, 2011 and ending December 15, 2035. Each installment to and including the installment payable on December 15, 2020 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the abovementioned repayment modification.

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

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

ARTICLE III

Execution of the Project

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

(b) The Borrower shall make available to NWFP and FATADC in accordance with its standard budgetary procedures the proceeds of the Credit allocated from time to time, in respect of NWFP, to Categories (1)(a), (2)(a)(i), (2)(b)(i), (3)(a) and (4)(a) of the table set forth in Part A.1 of Schedule 1 to this Agreement, and, in respect of FATADC, to Categories (1)(b), (2)(a)(ii), (2)(b)(ii), (3)(b) and (4)(b), of said table, for the purposes of their respective activities under the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to

the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the activities of NWFP and FATADC under the Project shall be carried out by NWFP and FATADC, respectively, pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01 (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
 - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
 - (iii) enable the Association's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
 - (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) NWFP or FATADC shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that NWFP or FATADC will be able to perform its obligations under the Project Agreement.
- (c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of FATADC or for the suspension of its operations.

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by NWFP and FATADC, and is legally binding upon NWFP and FATADC in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. The obligations of the Borrower under the provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

The Secretary to the Government of Pakistan
Economic Affairs Division
Islamabad
Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

ECDIV-05-634

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Nawid Ahsan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Abid Hasan

Acting Country Director, Pakistan

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works:		
(a) NWFP		
(i) Local minor irrigation schemes	4,800,000	60%
(ii) Distributary/ minor canals	2,100,000	70%
(iii) Main/ branch canals	1,000,000	80%
(b) FATADC		
(i) Local minor irrigation schemes	600,000	60%
(ii) Distributary/ minor canals	200,000	70%
(2) Goods:		
(a) Construction materials for water courses, water storage tanks, and on-farm improvements:	0	65%
(i) NWFP	2,9700,000	
(ii) FATADC	100,000	
(b) Equipment, vehicles, and office furniture:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 50% of local expenditures for other items

procured locally

	(i) NWFP	450,000
	(ii) FATADC	50,000
(3)	Consultant services and training:	100%
	(a) NWFP	1,500,000
	(b) FATADC	300,000
(4)	Incremental administrative and operating costs:	90%
	(a) NWFP	1,800,000
	(b) FATADC	200,000
(5)	Unallocated	8,600,000
	TOTAL	16,600,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental administrative and operating costs" means the salaries and allowances and other emoluments of staff of NWFP's Irrigation Department and/or FIDA, OFWM Directorate and FATADC, appointed to posts created after December 31, 2000 and recruited in accordance with a project staffing plan acceptable to the Association for purposes of the Project, and the operating and maintenance costs of vehicles, equipment and offices acquired under and/or used in carrying out the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts not exceeding \$200,000 equivalent; (b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, respectively; (c) training and fellowships; (d) construction materials procured under community participation procedures; and (e) incremental administrative and operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Accounts

1. The Borrower shall open and maintain in dollars two (2) separate special deposit accounts, one each for NWFP and FATADC, in the National Bank of Pakistan, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association shall have received evidence satisfactory to them that a Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into said Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first each of the Project Management Reports referred to in Section 3.02 (b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of Project Management Reports pursuant to Section 3.02 (b) of the Project Agreement, accompanied by a request from the Borrower

for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of each Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 3.02 of the Project Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01(b)(ii) of this Agreement or Section 3.01(b)(ii) of the Project Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for any Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions Applicable to Development Credit Agreements. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of their determination.

6. (a) If the Association determine at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determine at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in any Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement, including the General Conditions.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means: (i) in respect of the NWFP Special Account, an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, said Authorized

Allocation shall be limited to an amount equivalent to \$180,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR1,500,000; and (ii) in respect of the FATADC Special Account, an amount equivalent to \$200,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$70,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR400,000.

2. Withdrawals of a Special Account's Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of said Special Account's Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into said Special Account of an amount or amounts which in the aggregate do not exceed said Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit and deposit into said Special Account such amount as the Borrower shall have requested.

(b) For replenishment of said Special Account, the Borrower shall furnish to the Association requests for deposit into said Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit and deposit into said Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of said Special Account for Eligible Expenditures. Each such deposit into said Special Account shall be withdrawn by the Association from the Credit Account under one or more of said Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into a Special Account, once the total unwithdrawn amount of the Credit to said Special Account's Eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of said Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit to said Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Association from the Credit Account under one or more of said Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into a Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the

amount so requested; and (b) the amount which the Association have determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in said Special Account, shall not exceed the equivalent of \$3,000,000 in respect of the NWFP Special Account and \$300,000 in respect of the FATADC Special Account.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce rural poverty through increased agricultural production leading to increased farm incomes by: (i) improving the reliability, efficiency and equity of distribution of available irrigation water; (ii) increasing on-farm water use efficiency; and (iii) enhancing the long-term financial sustainability of the irrigation system by supporting the government's effort to foster self-sustaining farmer organizations (FOs).

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

Part A: Community Development and Support

Carrying out of a social mobilization and support program to help establish, train and technically support: (i) FOs at the distributary/minor canal levels within the pilot AWB areas; and (ii) FWUAs at the distributary/minor canal levels outside the pilot AWB areas.

Part B: Irrigation Facilities Improvement

1. Watercourses, Water Storage Tanks, and other On-Farm Improvements

(a) Renovation of watercourses, including the lining of selected sections, installation of permanent outlets (pucca nuccas), construction of culverts, a limited number of check/drop structures, buffalo baths and laundry-sites, and improvement of earthen sections.

(b) Carrying out of precision land leveling (PLL), including the provision of technical assistance needed therefor.

(c) Construction of water storage tanks and associated watercourses in non-canal command areas.

(d) Establishment of demonstration centers to demonstrate a full range of water management and irrigation agronomy techniques by adopting sustainable agricultural practices.

2. Distributary/Minor Canals

Improvement of distributary/minor canals, including: (a) the repair of distributary gates, rehabilitation of diversion structures, de-silting and improvement of critical canal sections (including lining) and other such adjustments, and installation of water measuring structures and gauges, additional water control structures and guide sections for de-silting; and (b) the construction of new and/or renovation of existing government buildings for FOs/FWUAs' use as offices.

3. Main/Branch Canals

Rehabilitation and improvement of main and branch canals supplying water to distributary/minor canals on which FOs/FWUAs have been formed, including rehabilitation of embankments, formation of berms, protection of structures, plantation of trees along banks, and provision of gates and their motorization, where needed, at the cross regulators.

4. Local/Minor Irrigation

Carrying out/improvement of local/minor irrigation schemes in NWFP and FATA, including: (a) for purposes of perennial irrigation, the installation/construction of open wells, tubewells, lift pumps, karezes, springs and small diversions/channels; and

(b) for purposes of flood plain (sailaba) irrigation, the redesigning and rehabilitation of temporary (katcha) diversion structures and off-taking channels and intermittent, non-perennial streams (nullahs/rod-kohis).

Part C: Project Management Capacity Building

Strengthening of OFWM Directorate and FATADC, for purposes of Project management and supervision, through the provision of office space, office and field equipment and vehicles, technical assistance and training.

Part D: Project Coordination, Monitoring and Evaluation, Studies and Training

1. Carrying out of Project coordination, monitoring and evaluation including activities relating to accounting and auditing, and, to that end, strengthening of the Monitoring and Evaluation Cell/CellWing of the Planning, Environment and Development Department of NWFP through the provision of incremental staff, equipment and vehicles, and technical assistance.

2. Carrying out of studies to facilitate the impact evaluation of the Project, particularly in terms of: (a) agricultural growth and crop diversification; (b) income and employment, including secondary effects on the regional economy; (c) water use and equitable distribution; (d) groundwater aquifers and water quality; (e) FO/FWUA performance, particularly with alternate institutional arrangements as different forms of Transfer Management and Participatory Irrigation Management models with attention given to water pricing; (f) O&M and sustainability of the system; and (g) public expenditures.

3. Provision of local training for Project staff in relevant fields, including water management, irrigation agronomy, social development and environment management, monitoring and evaluation, and procurement.

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The Project is expected to be completed by December 31, 2005.

